Module 12 · Risks in financial markets P14 · 12.1–12.4

SM pp. 465–473 (exercise 474–478). **MCQ (ix) only** (expected 1.2): J23 not a part of market risk (downgrade risk) · D25 downgrade risk · J26 responses to risk (avoidance, transfer). No sums.

- **Risk v uncertainty**: not synonymous — risk = several possible outcomes with known probabilities. [SM 465]
- **Types (CIMA 2005)**: operational, financial, country, environmental (PESTEL), reputational, strategic; by diversification: **systematic** (non-diversifiable, macroeconomic) and **unsystematic** (firm-specific, avoidable). [SM 466]
- **Risk-management process**: setting objectives → identification → measurement and prioritisation → development of strategy → implementation → monitoring. [SM 467–468]
- **Strategies (J26 MCQ)**: **avoidance** (halt the activity), **reduction** (internal controls), **sharing or transfer** (insurance, outsourcing, hedging), **acceptance** (no action). [SM 468]
- **Market risk**: equity, interest-rate, inflation-rate, commodities, currency risk. [SM 469–470]
- **Credit risk**: **default** risk, **credit spread** risk, **downgrade** risk (rating lowered) — downgrade is credit risk, **not** market risk (J23, D25 MCQs); also concentration risk and country risk (transfer / conversion, sovereign). [SM 471]
- **Liquidity risk**: funding and market liquidity risk, and their links with other risks. [SM 472]

Practise these: MCQs J23 Q1(x), D25 Q1(ix), J26 Q1(ix) · MQP / PTP Q1(ix) · SM solved case (SM 473), exercise (SM 474–478) · MCQ bank (Module 12 set).