

01	☐ A	☐ B	☐ C	☐ D	☐ E
02	☐ A	☐ B	☒ C	☐ D	☐ E
03	☐ A	☐ B	☒ C	☐ D	☐ E
04	☒ A	☐ B	☐ C	☐ D	☐ E
05	☒ A	☐ B	☐ C	☐ D	☐ E
06	☐ A	☐ B	☐ C	☐ D	☒ E
07	☐ A	☐ B	☒ C	☐ D	☐ E
08	☒ A	☐ B	☐ C	☐ D	☐ E
09	☒ A	☐ B	☐ C	☐ D	☐ E
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11	☒ A	☐ B	☐ C	☐ D	☐ E
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13	☐ A	☒ B	☐ C	☐ D	☐ E

14	☐ A	☐ B	☐ C	☒ D	☐ E
15	☐ A	☐ B	☒ C	☐ D	☐ E
16	☐ A	☐ B	☒ C	☐ D	☐ E
17	☒ A	☐ B	☐ C	☐ D	☐ E
18	☐ A	☐ B	☐ C	☒ D	☐ E
19	☒ A	☐ B	☐ C	☐ D	☐ E
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22	☐ A	☐ B	☒ C	☐ D	☐ E
23	☒ A	☐ B	☐ C	☐ D	☐ E
24	☐ A	☒ B	☐ C	☐ D	☐ E
25	☒ A	☐ B	☐ C	☐ D	☐ E
26	☐ A	☐ B	☒ C	☐ D	☐ E

27	☐ A	☐ B	☒ C	☐ D	☐ E
28	☐ A	☐ B	☒ C	☐ D	☐ E
29	☐ A	☐ B	☐ C	☐ D	☒ E
30	☐ A	☒ B	☐ C	☐ D	☐ E
31	☐ A	☐ B	☐ C	☐ D	☒ E
32	☐ A	☒ B	☐ C	☐ D	☐ E
33	☐ A	☒ B	☐ C	☐ D	☐ E
34	☐ A	☐ B	☒ C	☐ D	☐ E
35	☐ A	☒ B	☐ C	☐ D	☐ E
36	☐ A	☐ B	☐ C	☐ D	☒ E
37	☒ A	☐ B	☐ C	☐ D	☐ E
38	☐ A	☒ B	☐ C	☐ D	☐ E
39	☐ A	☐ B	☒ C	☐ D	☐ E

PRACTICE QUESTIONS

Fitch Learning (formerly Moody's Analytics)

CDMSE

CDMS Certification Exam

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

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9 practice questions for Fitch Learning (formerly Moody's Analytics) CDMSE , each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, CDMSE
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

Which statement best describes a primary purpose of collateral management in financial markets?

- ☐ A To guarantee that every transaction settles regardless of counterparty performance
- ☒ B To mitigate counterparty credit exposure by transferring assets or other forms of collateral between parties
- ☐ C To determine the legal ownership of securities held in a central securities depository
- ☐ D To replace all margin calculations with a fixed percentage for every transaction

ANSWER B

WHY Collateral management mitigates counterparty credit risk by securing exposure with eligible assets, cash, or other agreed collateral. It supports, but does not replace, exposure measurement, eligibility, valuation, margining, and settlement processes.

QUESTION 2

SINGLE CHOICE

In counterparty credit risk management, what does the term current exposure generally represent?

- ☒ A The replacement cost of a derivatives transaction at the current market value
- ☐ B The total notional amount of all outstanding transactions with a counterparty
- ☐ C The maximum amount a counterparty is contractually permitted to owe
- ☐ D The amount of collateral that has been posted without considering market value

ANSWER A

WHY Current exposure is commonly measured as the replacement cost of the transaction or portfolio, reflecting its current market value. It is distinct from notional exposure and contractual limits.

QUESTION 3

MULTIPLE CHOICE

Which two arrangements are commonly used to govern the exchange of collateral between counterparties? (Choose two.)

- ☒ **A** Credit support annex
- ☒ **B** Master repurchase agreement
- ☐ **C** Central counterparty default waterfall
- ☐ **D** Exchange-traded fund prospectus

ANSWER A • B

WHY A credit support annex supplements an ISDA master agreement and sets out collateral arrangements for derivatives. A master repurchase agreement governs securities repurchase transactions. The other items are not collateral agreements.

QUESTION 4

SINGLE CHOICE

What is the main function of variation margin in a collateralized derivatives portfolio?

- ☐ **A** To cover potential future increases in exposure over the margin period of risk
- ☒ **B** To transfer gains or losses resulting from changes in the portfolio's market value
- ☐ **C** To replace the need for a legally enforceable netting agreement
- ☐ **D** To cover only the counterparty's default costs rather than market movements

ANSWER B

WHY Variation margin is exchanged as the market value of a derivatives portfolio changes, transferring the resulting gain or loss. Initial margin addresses potential future exposure, while variation margin addresses changes since the last exchange.

QUESTION 5

SINGLE CHOICE

Which collateral characteristic is most directly associated with initial margin?

- ☐ A It is exchanged to reflect current changes in the market value of a derivatives portfolio.
- ☒ B It is intended to cover potential future exposure arising from a counterparty default.
- ☐ C It is always equal to the amount of variation margin already posted.
- ☐ D It is calculated only after a default has occurred.

ANSWER B

WHY Initial margin is posted to cover potential future exposure over a specified margin period of risk. Variation margin, by contrast, reflects current changes in the portfolio's market value.

QUESTION 6

SINGLE CHOICE

What does the margin period of risk refer to in a collateralized derivatives context?

- ☒ A The period from the last margin exchange to the point at which positions can be closed after a counterparty default
- ☐ B The period during which collateral assets are valued for regulatory reporting
- ☐ C The period between two contractual payments under a derivative
- ☐ D The period over which a counterparty's credit rating is reviewed

ANSWER A

WHY The margin period of risk is the estimated time between the last successful margin exchange and the close-out or replacement of positions following a counterparty default. It is relevant to estimating potential future exposure and collateral requirements.

QUESTION 7

SINGLE CHOICE

Which factor generally increases the potential future exposure that collateral must cover during the margin period of risk?

- ☒ **A** Greater portfolio volatility
- ☐ **B** A shorter contractual settlement cycle with faster position close-out
- ☐ **C** Perfect daily collateral settlement with no delay
- ☐ **D** Lower transaction notionals

ANSWER A

WHY Greater portfolio volatility can produce larger adverse market moves before positions are closed or replaced, increasing potential future exposure. Faster close-out and lower notionals generally reduce the exposure.

QUESTION 8

MULTIPLE CHOICE

Which two factors are typically considered when applying a haircut to eligible collateral? (Choose two.)

- ☒ **A** Asset liquidity
- ☒ **B** Counterparty credit quality
- ☐ **C** The collateral agreement's dispute notification date
- ☐ **D** The collateral taker's office location

ANSWER A - B

WHY Haircuts reflect risks such as an asset's liquidity and price volatility, as well as other relevant risks including issuer and concentration considerations. Office location is not a standard haircut factor, and the dispute notification date does not determine the haircut.

QUESTION 9

SINGLE CHOICE

Why are haircuts applied to collateral in a margin calculation?

- ☒ **A** To recognize that collateral may be liquidated at less than its observed market value and to protect against market-price risk
- ☐ **B** To increase the amount of eligible collateral by adding a fixed percentage
- ☐ **C** To ensure that collateral is valued only at its contractual notional amount
- ☐ **D** To eliminate the need to monitor collateral disputes

ANSWER A

WHY A haircut reduces the recognized collateral value to account for potential valuation uncertainty, market-price movements, liquidity, and liquidation costs. It is not added to increase collateral value and does not eliminate dispute monitoring.