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Canadian Investment
Regulatory
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Organisme canadien
de réglementation
des investissements

Director and Executive Exam

Practice Exam – Questions

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ITEM ID: DREX_E_000034

1. Why might an Investment Dealer consider offering negotiated flat fees instead of commission-based structures?
 - A. Flat fees increase revenue per transaction with lower operational complexity, leading to higher profitability
 - B. Flat fees eliminate transaction-based conflicts of interest and provide greater pricing transparency
 - C. Flat fees reduce regulatory oversight due to simplicity and facilitate greater flexibility to clients
 - D. Flat-fee structures require significantly lower operational costs than commission-based structures

ITEM ID: DREX_E_000041

2. Which right allows existing shareholders the opportunity to purchase additional shares before the company offers them to new investors?
 - A. Right to vote on company resolutions
 - B. Right to declared dividends
 - C. Right to attend and speak at meetings
 - D. Right to preemption

ITEM ID: DREX_E_000045

3. An Investment Dealer faces legal charges for a wrongful act committed by one of its employees during their employment. What charge is the Investment Dealer facing?
 - A. Breach of contract
 - B. Negligence
 - C. Vicarious liability
 - D. Misrepresentation



ITEM ID: DREX_E_000052

4. Why are well-calibrated risk limits critical within an Investment Dealer's risk management framework, particularly in high-volatility market conditions?
- A. They establish the Investment Dealer's enterprise-wide risk appetite and act as a proxy for its capital adequacy under stress
 - B. They identify risk exposures qualitatively and defer the setting of specific thresholds to line managers
 - C. They operationalize the Investment Dealer's risk appetite by quantifying the maximum acceptable exposure across specific business lines, products, or counterparties
 - D. They act as high-level guidelines that support the drafting of risk policy documentation but are not enforced operationally

ITEM ID: DREX_E_000059

5. How does integrating risk assessments into strategic decision-making contribute to value creation in Investment Dealers?
- A. By properly characterizing risky investments for the Dealer
 - B. By focusing on value creation for the Dealer above other factors
 - C. By ensuring clients understand that higher risk leads to higher returns
 - D. By assessing the potential cost of value creation to the Dealer

ITEM ID: DREX_E_000068

6. Which of the following best reflects an effective, proactive method for minimizing the risk of post-trade settlement failures in an accelerated t+1 settlement cycle?
- A. Delaying settlement instructions to ensure all trade details are fully reconciled and validated prior to initiating transfer instructions with the clearing agency
 - B. Implementing a centralized trade matching and exception management framework that enables same-day reconciliation, automated break detection and escalation
 - C. Developing an independent post-settlement remediation unit to conduct root-cause analysis on failed trades and retroactively adjust counterparty exposure thresholds
 - D. Executing ISDA Master Agreements with institutional clients to govern legal enforceability and collateral terms across equity and debt securities



An Investment Dealer is considering becoming an underwriter for an Initial Public Offering (IPO) for a large, family-owned, supermarket chain. The chain has confidentially disclosed to the Investment Dealer that they are eager to raise capital because they are seeking to make a significant acquisition of a publicly traded pharmaceutical retailer.

During the Investment Dealer's initial due diligence, an analyst alerts the Executive in charge of the deal to a potential discrepancy in the supermarket chain's projected revenue figures. In the meantime, the supermarket chain is asking the Investment Dealer to verbally agree to a share price of \$10 per share and 10 million shares among other non-pricing terms.

The Executive has two factors to consider:

1. To decide whether to take the role of lead underwriter or syndicate member.
2. To avoid making a firm underwriting commitment at this point.

Due to the confidential nature of the transaction, the Executive requests that an internal risk review be conducted. Following the investigation, the Executive is provided a report with four perceived risks to the confidentiality of non-public information relating to the supermarket's takeover plans.

The risks are:

An analyst on the deal team shared a research report with a friend. It contained information about potential acquisition sectors that had been discussed in a public conference call, but had not yet been formally released through a press release.

A senior executive who oversees the deal team has discussed the potential acquisition with a colleague during an internal meeting; this information is later found to be circulating among a small group of employees within the same department.

An employee, not part of the deal team and working remotely, used a personal device to access confidential documents related to the potential IPO, without the Investment Dealer's knowledge or authorization, but did not trade or act on the information.

A Trader in the Investment Dealer executed a large block trade based on information from a reputable financial news source about a potential acquisition of a pharmaceutical retailer, which turned out to be a different target, but caused a market fluctuation.

ITEM ID: DREX_E_000070

7. Taking into consideration the Executive's view on making a firm underwriting commitment, which of the following should they consider?
- A. Verbally agree to issue terms, but avoid making a formal written agreement until due diligence is complete
 - B. Not agree on a price per share and number of shares because this would constitute an underwriting commitment
 - C. Agree on two of three pricing terms (price, number of shares, issue commitment), as long as all three are not agreed upon
 - D. Make a conditional commitment, subject to due diligence with the formal commitment upon written agreement



ITEM ID: DREX_E_000071

8. What are the different underwriting responsibilities that the Executive should consider when deciding on the role of the Investment Dealer?
- A. As the lead underwriter, the Investment Dealer would be responsible for conducting the primary due diligence and summarizing findings for syndicate members, who then perform confirmatory due diligence on a selected sample of key areas
 - B. As the lead underwriter, the Investment Dealer would assume responsibility for conducting and supervising the due diligence investigation and is ultimately responsible for any misrepresentation under securities legislation
 - C. While the lead underwriter would be responsible for conducting and supervising the due diligence, the Investment Dealer would delegate responsibilities for different aspects of due diligence to syndicate members as appropriate
 - D. While the lead underwriter would be responsible for overall due diligence, syndicate members must conduct their own reasonable independent due diligence on all material aspects of the offering

ITEM ID: DREX_E_000072

9. Who represents the most significant risk regarding non-public information relating to the takeover?
- A. The analyst
 - B. The Executive
 - C. The employee
 - D. The Trader

ITEM ID: DREX_E_000073

10. What is the best way for the Investment Dealer's Executive to ensure strict adherence to policies and guidelines related to the information they acquire during the underwriting activity?
- A. Immediately implement its material non-public information (MNPI) policies and procedures, placing the security on a restricted list to ensure the information is not disclosed
 - B. Immediately implement its material non-public information (MNPI) policies and procedures, except for placing the security on a restricted list because it signals an upcoming transaction
 - C. Implement its material non-public information (MNPI) policies and procedures once a firm underwriting commitment has been entered, as defined under securities laws
 - D. Implement its material non-public information (MNPI) policies and procedures once the prospectus has been certified by the Investment Dealer and relevant regulator, as defined under securities laws



ITEM ID: DREX_E_000074

- 11.** During the pre-closing period, a significant regulatory change occurs that substantially increases the supermarket chain's operating costs but does not immediately impact its current financial statements. The Investment Dealer's Executive is considering its options to terminate the agreement. Which of the following is true?
- A. They can terminate the agreement immediately as the regulatory change constitutes a material adverse change, regardless of its immediate impact on the supermarket chain
 - B. They can only terminate the agreement if the regulatory change has already resulted in a demonstrable decline or impact on the supermarket chain's reported revenue or profits
 - C. They can terminate the agreement if the regulatory change is likely to have a material adverse effect on supermarket chain's future financial condition or prospects
 - D. They cannot terminate the agreement due to regulatory changes as these are considered a normal business risk and, therefore, not grounds for a termination of the agreement

ITEM ID: DREX_E_000112

- 12.** A publicly traded Investment Dealer is evaluating a potential acquisition of an international competitor to expand its market presence. After a preliminary review of the competitor and the global industry landscape, the Investment Dealer highlights the following findings for further analysis:
- The international competitor would create immediate access to three foreign markets, currently inaccessible to the Investment Dealer, with estimated organic growth opportunities each 25% higher than the Canadian market. The markets are all equal in size to the Canadian market, which is the only market the Investment Dealer currently operates in.
- The Investment Dealer estimates the acquisition could be made at the same price via stock, cash, or a debt offering. The acquisition target trades at similar multiples to the Investment Dealer.
- Given this strategic evaluation, which of the following insights about the acquisition is valid?
- A. If the present value of strengths and opportunities outweigh the weaknesses and threats, the Investment Dealer should pursue the transaction cautiously, by offering cash, as opposed to stock
 - B. As the Investment Dealer can acquire organic revenue growth 25% higher than their current market, the any threats or weaknesses can be ignored and the acquisition multiple becomes irrelevant
 - C. If the present value of the costs of integration and total risks of the transaction outweigh the potential revenue growth and total benefits, the transaction should not be pursued
 - D. As the target company has higher growth opportunities in foreign markets but has similar valuation multiples it looks to be overvalued and the transaction should not be pursued



ITEM ID: DREX_E_000124

- 13.** An Investment Dealer's risk team has escalated and brought the following to the attention of the Ultimate Designated Person (UDP):

The Investment Dealer's risk-adjusted capital has fallen below the 0% threshold for liquidity testing purposes.

What is the most likely result of this event for the Investment Dealer?

- A. They must notify CICO immediately of their insolvency and provide a resolution plan
- B. They must maintain two consecutive months without a net loss, or risk regulatory findings
- C. They have triggered an early warning level 1 designation and must file monthly reports
- D. No action is required for liquidity, as long as total capital stays above 0% of total assets

ITEM ID: DREX_E_000126

- 14.** When reviewing the procedures of an Investment Dealer, which of the following actions best meets FINTRAC requirements for preventing money laundering and terrorist financing when dealing with a foreign politically exposed person from a high-risk jurisdiction?

- A. Implementing enhanced due diligence (EDD) protocols at onboarding, reviewing publicly available information and the client's self-declaration, and conducting periodic reviews of the client's transaction history for unusual activity
- B. Using ongoing EDD, including enhanced monitoring of all transactions, independent verification of the client's source of wealth and funds, and senior management approval before the account is opened for the client
- C. Conducting risk-based due diligence assessment at onboarding, using automated transaction monitoring and transaction flagging to detect potential anomalies, while relying on pre-defined risk profiles to guide ongoing monitoring
- D. Enforcing standard transaction monitoring protocols and focusing on building and maintaining a strong know-your-client (KYC) to identify any anomalies, while relying on annual reviews to identify any potential shifts in risk profiles



ITEM ID: DREX_E_000128

- 15.** An Investment Dealer has been affected by a sudden and significant increase in market volatility, leading to a rapid decline in the market value of its proprietary trading portfolio and a corresponding reduction in its adjusted working capital. Which of the following actions best demonstrates the Investment Dealer's most effective and compliant approach to mitigating the risks associated with falling below minimum capital levels?
- A. Immediately implement a controlled liquidation of its proprietary trading portfolio, while simultaneously exploring potential short-term financing options to supplement its capital position
 - B. Initiate a temporary suspension of non-essential trading and client transactions, while conducting a review of its risk management policies and procedures to identify and address root causes
 - C. Develop a detailed capital restoration plan that includes a combination of asset sales, expense reductions and capital injections from shareholders, and submit the plan to CISO
 - D. Adjust asset classifications on portfolios to reflect current market valuations and risk profiles, while also engaging in strategic off-balance sheet transactions to manage its risk exposures

ITEM ID: DREX_E_000130

- 16.** An Investment Dealer has discovered a significant discrepancy in its recently filed regulatory financial report, potentially indicating a material misstatement of its adjusted working capital. What is the Investment Dealer's most appropriate and compliant response to mitigate the risks associated with this filing discrepancy?
- A. Immediately issue a public statement acknowledging the filing discrepancy and announcing a restatement of its financial reports, while simultaneously initiating an internal investigation to identify the causes
 - B. Promptly notify CISO of the filing discrepancy, conduct a thorough internal investigation to determine the root causes, develop a detailed remediation plan and submit a corrected financial report for review and approval
 - C. Address the filing discrepancy through subsequent reporting adjustments to minimize regulatory disruption and rectify the error within the next scheduled reporting cycle, while conducting an internal review of the related processes
 - D. Engage external specialists to conduct a comprehensive review of its financial records and prepare a revised financial report, while exploring potential avenues for addressing any internal procedural or risk management weaknesses



ITEM ID: DREX_E_000133

- 17.** An Investment Dealer has been under an early warning level 2 designation. What is the most important step the Investment Dealer must take to have the designation removed?
- A. Obtain a formal letter from their external auditors confirming the implementation of all required corrective actions noted in the warning and submit this to CIRO
 - B. Demonstrate to CIRO that the specific conditions that caused the designation have been rectified and that the Investment Dealer is sustaining compliance
 - C. Implement a revised risk management framework protocol, document its effectiveness through internal testing, and submit the results to CIRO
 - D. Achieve a specific threshold of improved financial ratios over a consecutive period, as stipulated by internal compliance, and report these results to CIRO

ITEM ID: DREX_E_000138

- 18.** What is the primary purpose of the information gathered through the annual risk questionnaires?
- A. To create industry-wide risk benchmarks, enabling Investment Dealers to strategically position themselves in the market, with the aim of attracting risk-conscious investors
 - B. To enable CIRO to conduct more efficient and targeted compliance risk assessments and examination planning, minimizing redundant information requests
 - C. To allow Investment Dealers to proactively self-report any compliance violations, facilitating a more transparent and collaborative regulatory relationship
 - D. To standardize Investment Dealer risk management practices across the industry by providing benchmarking for all Investment Dealers to review and compare



A mid-sized Investment Dealer is facing a lawsuit from a group of investors who allege they were misled about the risk profile of a proprietary structured investment product.

The plaintiffs claim that the Dealer's investment disclosures stated the product was a low-risk alternative to traditional fixed-income investments, while internal documents suggest the Investment Dealer's own risk models showed significant exposure to market downturns.

As the case unfolds, internal emails emerge showing that some Board members had raised concerns about the accuracy of the risk disclosures but ultimately relied on management's assurances that the product met regulatory and suitability standards.

Now, with both legal and regulatory scrutiny mounting, the Board must assess its potential liability, determine whether it fulfilled its duty of diligence in overseeing the product's approval and marketing, and explore possible defences under corporate law.

ITEM ID: DREX_E_000139

- 19.** What is the most appropriate interpretation of the Board's duty of diligence in this situation under CRO expectations?
- A. Independently verify that offering documents accurately disclose investment risks
 - B. Ensure the Investment Dealer documents its compliance process thoroughly in Board minutes
 - C. Confirm that standard risk disclaimers are included in all marketing materials
 - D. Delegate risk oversight to the Chief Risk Officer (CRO) and Chief Compliance Officer (CCO)

ITEM ID: DREX_E_000140

- 20.** What is the strongest legal defence available to the Board under corporate governance principles?
- A. They used business judgment in good faith, relying on management's expertise
 - B. They included risk disclaimers in the company's disclosure materials
 - C. They were not directly involved in the drafting of materials
 - D. They relied on an external legal opinion certifying regulatory compliance

ITEM ID: DREX_E_000141

- 21.** What lesson should the Board learn to improve strategic oversight of future product launches?
- A. Rely on external legal opinions to confirm regulatory compliance
 - B. Delegate risk evaluation to the Chief Risk Officer and committees
 - C. Prioritize revenue potential as the Board's main duty is maximizing shareholder returns
 - D. Require formal stress testing and scenario analysis for new proprietary products before approval



ITEM ID: DREX_E_000142

- 22.** How can the Board fulfil its governance obligations in relation to risk disclosures?
- A. Require independent third-party verification of all risk disclosures in marketing materials
 - B. Assume that management and the legal department have the final say on marketing disclosures
 - C. Mandate that all product-related risk concerns raised by Directors be formally escalated to the Board for discussion
 - D. Hold quarterly reviews of marketing materials but avoid interfering with management's ability to make risk disclosures

ITEM ID: DREX_E_000143

- 23.** What is the most appropriate approach for the Board to take in managing its regulatory risk?
- A. Assign the legal and compliance teams to handle regulatory discussions independently
 - B. Limit engagement with regulators until a formal inquiry is issued
 - C. Focus on defending the Investment Dealer's position publicly, emphasizing that investors were informed of all risks
 - D. Proactively engage with regulators by conducting an internal compliance review



A boutique Investment Dealer specializing in alternative assets is evaluating a proposal to expand into margin lending for clients. Several Board members have raised concerns about the Investment Dealer's ability to effectively assess borrower creditworthiness, the potential volatility and liquidity of the underlying investments and ensure compliance with CRO's risk-management requirements.

The Ultimate Designated Person (UDP) and Risk Committee have been tasked with conducting a formal risk assessment to determine whether the expansion aligns with the Investment Dealer's defined risk appetite and whether additional capital buffers or liquidity management policies are needed to mitigate potential downside risk. They must also evaluate the adequacy of the Investment Dealer's underwriting controls, portfolio monitoring processes and default management strategies. The Board is concerned that risk reporting may not capture emerging risks not yet reflected in historical data.

The Board expects the UDP to provide recommendations on whether the Investment Dealer has the appropriate governance structure, reporting mechanisms and internal expertise to proceed with the expansion. Here are the options they are considering:

- 1) Centralize credit risk oversight and adjust controls based on stress test results.
- 2) Require a third-party risk assessment for all clients following account approval.
- 3) Limit margin lending to institutional clients.
- 4) Increase capital reserves while reducing risk monitoring to streamline operations.

ITEM ID: DREX_E_000154

- 24.** Which option best mitigates the Board's concerns about liquidity?
- A. Flag only financially material risks to the Investment Dealer to reduce reporting burdens
 - B. Rely on historical risk data as the best predictor of future exposure
 - C. Implement forward-looking indicators and scenario analysis to assess potential risks
 - D. Focus on regulatory compliance assessments, as emerging risks are outside the Investment Dealer's control

ITEM ID: DREX_E_000155

- 25.** How can the Investment Dealer ensure margin lending supports long-term value while controlling defaults?
- A. Establish continuous credit monitoring of securities in the client account
 - B. Use a fixed-risk model based on initial evaluations
 - C. Ensure each business unit tracks its own credit exposure
 - D. Dedicate portfolio-monitoring managers to the largest borrowers



ITEM ID: DREX_E_000156

26. What is the most effective way to evaluate whether the expansion is an appropriate strategic move?
- A. Conduct scenario analysis and stress testing to model potential downside risks
 - B. Compare expected returns from private credit lending with historical default rates
 - C. Consult external investment banks and investors for market sentiment
 - D. Proceed with a limited trial, granting initial loans and monitoring defaults before fully committing capital

ITEM ID: DREX_E_000157

27. Regarding the Board's discussion on controls, which option is most effective?
- A. Option 1
 - B. Option 2
 - C. Option 3
 - D. Option 4

ITEM ID: DREX_E_000158

28. What is the most effective strategy to ensure that risk oversight remains aligned with the Investment Dealer's overall risk framework?
- A. Implement cross-division reviews to share best practices and align with Dealer-wide policies
 - B. Have each unit manage risk separately, submitting independent reports to the Board
 - C. Centralize all risk management under the Chief Risk Officer (CRO)
 - D. Establish an independent oversight function reporting to the Board

ITEM ID: DREX_E_000188

29. Which of the following best describes the primary function of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)?
- A. Supervising financial institutions to ensure their financial solvency and stability
 - B. Investigating and prosecuting financial crimes, including fraud and insider trading
 - C. Disclosing financial intelligence related to money laundering and terrorist financing
 - D. Regulating Investment Dealers and ensuring compliance with capital markets regulations



ITEM ID: DREX_E_000193

- 30.** An Investment Dealer plans to enter an exclusive partnership with a financial technology (fintech) company that provides automated trading services. The agreement would prevent the fintech company from working with other Dealers for five years. Legal counsel warns that the exclusivity clause may violate the Competition Act. What is the most appropriate next step for the Investment Dealer?
- A. Provide a public announcement from the fintech company stating compliance with competition laws
 - B. Consult the Competition Bureau to assess the potential risk of anti-competitive concerns
 - C. Adjust the agreement to allow other partnerships to develop after an initial exclusivity period
 - D. Remove the exclusivity clause entirely to ensure compliance with the Competition Act

ITEM ID: DREX_E_000195

- 31.** Which of the following reflects the purpose of the Canada Business Corporations Act?
- A. Ensure stability and integrity, protect consumers and promote competition
 - B. Define corporate structure and governance and protect stakeholders
 - C. Promote fair competition, protect consumers and facilitate economic growth
 - D. Protect propriety information and facilitate business relationships

ITEM ID: DREX_E_000199

- 32.** A junior compliance officer at an Investment Dealer uncovers evidence that a senior Executive has been overriding internal risk controls to approve high-risk client trades. Concerned about potential retaliation, the officer must decide how to act while ensuring regulatory compliance and ethical integrity. What is the most appropriate course of action?
- A. File a report through the Investment Dealer's escalation process and report to CIRO if needed
 - B. Challenge the Executive on their inappropriate behaviour and inform them that this must stop
 - C. Gather evidence from other employees on the Executive's activities before making a report
 - D. Seek independent external legal advice on the activities before deciding how to proceed



ITEM ID: DREX_E_000205

- 33.** The Chief Compliance Officer (CCO) of an Investment Dealer provides their annual report to the Board of Directors. The Board reviews the report that sets out the CCO's recommendations to remedy the compliance deficiencies that were identified. Some time after this, the Investment Dealer is sanctioned for failure to remedy the compliance deficiencies. What governance failure most likely exposes the Board to liability?
- A. Failing to provide oversight of implementation of remedial actions
 - B. Relying on the CCO's assurances without independent verification
 - C. Delegating compliance responsibilities without active monitoring
 - D. Assuming that financial auditors would detect compliance deficiencies

ITEM ID: DREX_E_000207

- 34.** An Investment Dealer has expanded into multiple business lines, including proprietary trading and wealth management. The Board is evaluating its risk oversight structure to ensure it matches the Investment Dealer's complexity. What is the most critical factor in establishing an adequate risk framework?
- A. Prioritizing regulatory compliance over operational risk considerations
 - B. Ensuring the appropriate Executive performs risk oversight of the new business lines
 - C. Enabling the new departments to manage their own risks independently
 - D. Assigning an Executive to any new or expanded significant area of risk

ITEM ID: DREX_E_000217

- 35.** A client's margin account at an Investment Dealer has exceeded its loan value limit, and a margin call has been issued. However, the client requests an extension to meet the margin call, citing temporary cash flow issues. What is the most appropriate course of action for the Dealer?
- A. Grant the extension if the client has a strong credit history with the Investment Dealer
 - B. Increase the client's loan value limit temporarily to accommodate the request
 - C. Allow the client to use other marginable securities as collateral without review
 - D. Request the client to deposit additional funds or liquidate securities if necessary



ITEM ID: DREX_E_000226

- 36.** An Investment Dealer is under regulatory review relating to a client's written complaint. The complaint relates to multiple trades that have been executed using the Investment Dealer's sales and trading desk and the subsequent settlement.

The Ultimate Designated Person (UDP) and Compliance team are reassessing the Investment Dealer's reporting obligations to CIRO. Which failure poses the greatest regulatory risk?

- A. Failing to report the complaint along with any supplementary information to CIRO
- B. Verbally agreeing to the client's resolution before providing proper documentation
- C. Assigning the settlement and compensation decisions to an external third party
- D. Failing to review internal policies and procedures to mitigate future risks

ITEM ID: DREX_E_000232

- 37.** An Investment Dealer has triggered an early warning designation. The Ultimate Designated Person (UDP) is informed that further financial deterioration could lead to negative risk-adjusted capital. The Chief Financial Officer (CFO) argues that the issue is temporary and will resolve itself once certain market conditions improve. The UDP is most likely to require which of the following actions?

- A. Monitor the potential negative risk-adjusted capital and report the early warning test failure to CIRO
- B. Avert the projected negative risk-adjusted capital and report the early warning failure to CIRO
- C. Report the potential negative risk-adjusted capital and remedy the early warning test failure to CIRO
- D. Report the projected negative risk-adjusted capital and the early warning test failure to CIRO

ITEM ID: DREX_E_000235

- 38.** During a CIRO Financial and Operations examination, regulators find that an Investment Dealer's capital adequacy calculations fail to account for off-balance-sheet exposure. Which of the following actions is most critical for the Ultimate Designated Person (UDP) to do?

- A. Ensure that current and future capital calculations are corrected
- B. Request a temporary liquidity exemption from CIRO
- C. Review all accounting policies regarding off-balance sheet exposure
- D. Adopt the phased approach to capital corrections



Last year, Apex Securities, a mid-sized Investment Dealer, expanded its derivatives trading services to include over-the-counter (OTC) derivatives. The Investment Dealer's leadership saw an opportunity to increase revenue through OTC derivatives, particularly among high-net-worth and institutional clients seeking tailored risk-management strategies.

At a recent Board meeting, the Chief Compliance Officer (CCO) presented a review of compliance concerns raised by regulators. They noted that some Investment Dealers had been penalized for failing to disclose leverage risks adequately. They warned that Apex must ensure all clients receive and acknowledge the required Derivatives Risk Disclosure Statement before making any trades.

The Product Development Committee debated how to refine Apex's product due diligence framework to comply with CRO's evolving expectations. Some members argued that third-party research reports were sufficient, while others insisted that internal risk assessments were necessary to evaluate product risks on an ongoing basis. The committee also examined whether to adjust leverage limits for certain clients based on risk profiles.

Meanwhile, the Board discussed conflicts of interest in Apex's research division. Concerns were raised about biased reports influenced by investment banking ties and insufficient disclosure controls. Executives debated whether to enhance analyst independence measures or limit research coverage to non-underwritten sectors.

As Apex refines its derivatives strategy, the Investment Dealer must balance regulatory obligations with business objectives while ensuring that clients understand the risks involved. Apex leadership needs a strategy that maintains profitability while satisfying CRO's compliance expectations, preventing reputational risk and ensuring that clients can effectively engage in derivative transactions with appropriate safeguards.

ITEM ID: DREX_E_000272

- 39.** What step should Apex take to avoid compliance risks when offering OTC derivatives to clients?
- A. Restrict the OTC derivative trades to clients with a minimum of five years of trading experience
 - B. Require clients to acknowledge receipt of the Derivatives Risk Disclosure Statement before trading
 - C. Implement a formalized suitability exemption for qualifying institutional investors
 - D. Ensure that clients waive regulatory disclosure requirements in writing before trading

ITEM ID: DREX_E_000273

- 40.** Why is it important for Apex to enhance its internal product due diligence process for derivatives?
- A. To expedite approval rates and increase product availability in competitive markets
 - B. To ensure targeted clients can access the range of derivatives, regardless of risk appetite
 - C. To assess risk profiles on an ongoing basis rather than relying solely on third-party research
 - D. To prioritize products based on known historical returns rather than regulatory concerns



ITEM ID: DREX_E_000274

- 41.** What is the best approach for Apex to mitigate conflicts of interest within its research division?
- A. Prohibit communication between research analysts and investment banking teams
 - B. Ensure analysts review investment banking activities to provide deeper insights
 - C. Establish a rotating coverage system to prevent analysts from developing biases
 - D. Restrict negative research opinions to maintain strong corporate relationships

ITEM ID: DREX_E_000275

- 42.** Given the concerns raised in the Board meeting, how should Apex adjust its derivatives risk management approach?
- A. Pivot to external research reports to ensure Investment Dealer compliance with regulatory expectations
 - B. Allow high-net-worth clients to set their own derivative leverage limits based on market expectations
 - C. Require pre-approval from Compliance Officers or relevant Supervisors for all derivative transactions
 - D. Establish an internal review process to evaluate derivative leverage limits for different client risk profiles

ITEM ID: DREX_E_000276

- 43.** Which approach would best allow Apex to balance regulatory compliance with business growth in its derivatives strategy?
- A. Expand derivatives access to more clients while using a standardized risk assessment model for all products
 - B. Strengthen compliance procedures while refining risk assessments to improve market competitiveness
 - C. Implement a structured oversight framework with periodic reviews while maintaining flexibility for qualified clients
 - D. Apply conservative leverage limits across all client segments to prevent excessive risk exposure



ITEM ID: DREX_E_000287

- 44.** The Canadian Securities Administrators (CSA) functions as a coordinating body for securities regulators across Canada. What is its most significant role in the regulatory framework?
- A. Standardize securities regulation, policies and practices to establish a single national regulator
 - B. Develop a national system of harmonized securities regulation, policies and practices
 - C. Monitor financial institutions to ensure compliance with industry regulation, policies and practices
 - D. Develop federal laws that override conflicting provincial and territorial securities policies and practices

ITEM ID: DREX_E_000289

- 45.** An Investment Dealer is facing financial instability and has triggered an early warning failure. The Investment Dealer holds client assets in nominee accounts, some with leveraged derivatives positions. Which of the following best describes the regulatory and investor protection response?
- A. Canadian Investor Protection Fund (CIPF) will impose temporary trading restrictions on client accounts if insolvency appears imminent
 - B. CIRO will notify the Investment Dealer that they must operate under financial restrictions
 - C. CIPF will compensate all client losses, including leveraged positions and derivatives accounts, without restriction
 - D. The CSA will take over the Investment Dealer's client assets and distribute them on a pro-rata basis among all investors, regardless of account type

ITEM ID: DREX_E_000293

- 46.** The Universal Market Integrity Rules (UMIR), enforced by CIRO, set regulatory standards for trading activities in Canada. Which statement best describes how UMIR affects market participants?
- A. It establishes uniform compliance requirements for Dealers engaging in public offerings
 - B. It enforces transparency in market transactions by restricting manipulative trading practices
 - C. It defines financial disclosure standards that issuers must follow before listing securities
 - D. It regulates order execution procedures to ensure standardized pricing for all investors

ITEM ID: DREX_E_000303

- 47.** An Investment Dealer is expanding its institutional client services by offering direct electronic access (DEA) to trading platforms. Which measure best mitigates trading risk in DEA trading?
- A. Ensuring clients meet financial thresholds before using DEA services
 - B. Imposing pre-trade risk controls to prevent excessive order activity
 - C. Providing real-time execution at the lowest available market price
 - D. Requiring all DEA clients to execute trades through proprietary systems



ITEM ID: DREX_E_000307

- 48.** A Director is asking a Registered Representative (RR) about the requirements for conducting business with institutional clients as opposed to retail clients. The RR states that as part of the onboarding, they will identify and disclose any conflicts of interest that could arise in the relationship with the institutional client, if the identified conflicts could not be managed. They mention that the best execution obligations are the same as for retail clients, but the know-your-client obligations are different. The RR adds that a key difference is that the suitability determination is not required for institutional investors. Where do the risks in the RR's explanations lie?
- A. Conflicts of interest, as they must not be disclosed to institutional clients
 - B. Best execution, as institutional clients do not require this protection
 - C. Know-your-client, as institutional clients require equal assessments as retail clients
 - D. Suitability, as the sophistication of institutional clients must be assessed

ITEM ID: DREX_E_000314

- 49.** A Investment Dealer is offering a structured product that includes leveraged exposure to equity markets. Which factor represents the most significant risk that must be disclosed to investors?
- A. The possibility of early redemption leading to lower-than-expected returns
 - B. The impact of compounding on performance in volatile market conditions
 - C. The correlation between structured product performance and benchmark indices
 - D. The liquidity limitations that prevent frequent rebalancing of holdings

ITEM ID: DREX_E_000317

- 50.** A Investment Dealer's Director discovers that key financial risks were omitted in the disclosures on an offering document of a recent security issuance. The Investment Dealer was part of an underwriting syndicate for the security issuance. What is the most appropriate first step and response from the Director?
- A. Request a Board review of all relevant disclosure practices and internal policies
 - B. Escalate to the Board and consult legal counsel to assess relevant impact
 - C. Limit future risk disclosure to information that is specifically mandated by regulations
 - D. Prioritize future dissemination to stakeholders most impacted by the current omission



ITEM ID: DREX_E_000322

51. A Investment Dealer is under regulatory scrutiny for failing to adequately supervise its trading activity. Regulators cite deficient compliance oversight, gaps in electronic record-keeping and potential violations of anti-money laundering (AML) regulations. The Investment Dealer's Board is now evaluating risk exposure, reputational damage and regulatory expectations.

What is the most effective governance response to mitigate these risks while restoring regulatory confidence?

- A. Restrict trading activities while enhancing internal compliance training
- B. Challenge regulatory claims and delay enforcement actions through legal channels
- C. Mandate a compliance overhaul, appoint external auditors and report findings
- D. Replace compliance leadership and commit to enhanced policies moving forward

ITEM ID: DREX_E_000377

52. How does an exchange differ from an alternative trading service (ATS)?

- A. It provides a venue for buyers and sellers of securities and/or derivatives
- B. It takes all reasonable steps to ensure a fair and orderly market
- C. It facilitates capital raising for companies on the primary markets
- D. It ensures buyers and sellers adhere to the Universal Market Integrity Rules

ITEM ID: DREX_E_000381

53. A retail investor has a non-registered cash account with an Investment Dealer. What is the maximum coverage that could be extended to the client by Canadian Investor Protection Fund (CIPF) in the event that the Investment Dealer faces insolvency?

- A. \$1 million
- B. \$5 million
- C. \$3 million
- D. \$0

ITEM ID: DREX_E_000385

54. Which of the following is true of the role of Designated Person for anti-money laundering (AML) compliance officer, when the Investment Dealer maintains enterprise AML departments across itself and its affiliates?

- A. The role must be taken on by the Investment Dealer's Chief Compliance Officer
- B. The enterprise designates the officer and responsibility lies with the enterprise
- C. The designated officer may report to the Investment Dealer and the enterprise group
- D. The Investment Dealer must keep the activities of group member officers separate



ITEM ID: DREX_E_000393

- 55.** To whom ultimately is a company director liable?
- A. The company itself
 - B. Shareholders
 - C. Officers
 - D. Employees

ITEM ID: DREX_E_000400

- 56.** Which of these is an example of a detective control?
- A. The existence of information barriers
 - B. The availability of a securities vault
 - C. The use of trade monitoring
 - D. The creation of a grey list

ITEM ID: DREX_E_000407

- 57.** An Executive of an Investment Dealer is part of a team of risk-management specialists. Their task is to ensure that the appropriate independent risk-management procedures are in place. What is the Executive's role in this team?
- A. To monitor the compliance of the Investment Dealer and its employees with the policies and procedures currently in place
 - B. To ensure the Investment Dealer maintains policies and procedures that identify and address the material risk on non-compliance
 - C. To identify any breaches or potential breaches of compliance against the policies and procedures currently in place
 - D. To approve detailed written records of policies and procedures that identify and address the material risk of non-compliance



ITEM ID: DREX_E_000413

- 58.** An Investment Dealer holds a full range of positions in securities, derivatives and precious metals. In reviewing the Investment Dealer's policies and procedures that cover the pricing internal controls, a Director notices the following:
- Both long and short positions for securities and derivatives are marked to market daily, but only long positions for precious metal bullion
 - They not only address consistency in pricing but also verification of pricing
 - They specifically address appropriate pricing records for the regulatory capital position and segregation
 - They do not address pricing records for inventory profit and loss as these are covered by other existing policies

What should the Director identify from this review?

- A. The daily mark-to-market procedure for short positions in securities and derivatives can be removed
- B. A daily mark-to-market procedure for short positions in precious metal bullion must be established
- C. Consistency in pricing is a regulatory requirement, but the verification of pricing is a non-essential formality
- D. Specific reference to pricing records for inventory profit and loss must be established

ITEM ID: DREX_E_000416

- 59.** Following a significant business disruption, when must an Investment Dealer be able to provide clients with access to their assets?
- A. Promptly
 - B. One business day
 - C. Five business days
 - D. Ten business days

ITEM ID: DREX_E_000420

- 60.** In a medium-size Investment Dealer, who may be designated as the Ultimate Designated Person (UDP)?
- A. The highest-ranking Executive who is responsible for credit risk
 - B. An experienced consultant hired to help promote the culture of compliance
 - C. The Chief Executive Officer of the Investment Dealer
 - D. The Executive with oversight of the most departments



ITEM ID: DREX_E_000429

- 61.** An Executive is reviewing the policies and procedures for the supervision of retail client accounts. The policies and procedures do the following:
- Address daily and monthly supervision of trading activity in retail client accounts
 - Make specific reference to the detection of activities, including unsuitable trading, account number changes and insider trading
 - Make equal provisions for the supervision of fee-based accounts and commission-based accounts
 - Specifically designate non-client, discretionary, managed, registered and restricted accounts

What risks should the Executive identify?

- A. Daily supervision of trading activity is too onerous and not required
- B. The inclusion of insider trading is duplicative and potentially confusing
- C. Provisions for fee-based accounts should be specifically addressed
- D. Retail client accounts should not be designated as non-client accounts

ITEM ID: DREX_E_000435

- 62.** Which of the following best explains the regulatory requirement when a Investment Dealer distributes its own securities and underwrites more than 25% of the issue?
- A. The Investment Dealer must obtain a fairness opinion from an independent auditor
 - B. The Investment Dealer must obtain two separate and independent valuations of the securities
 - C. The Investment Dealer must suspend all proprietary trading during the offering period
 - D. The Investment Dealer must file a supplementary short-form prospectus within 30 days of pricing the issue

ITEM ID: DREX_E_000443

- 63.** Which of the following investors would most likely qualify under a commonly used prospectus exemption for private placements?
- A. An individual with net assets of \$100,000 and a casual relationship with the issuer's CEO
 - B. A small investment club that meets quarterly and pools capital under \$1 million
 - C. A registered Portfolio Manager investing on behalf of clients in the ordinary course of business
 - D. A first-time retail investor purchasing securities via a third-party crowdfunding platform



ITEM ID: DREX_E_000446

- 64.** Which of the following Board governance practices would most likely undermine the effectiveness of oversight in a small Investment Dealer?
- A. Establishing a Board with diverse skill sets, including finance, compliance and legal expertise
 - B. Delegating authority to a compliance committee with a formal mandate and reporting framework
 - C. Allowing executives to serve as the sole members of the audit and risk oversight committees
 - D. Separating the roles of Chair of the Board and Chief Executive Officer

ITEM ID: DREX_E_000451

- 65.** How can a corporation's by-laws be used to remove a Director from the Board?
- A. By-laws may grant shareholders the right to remove a Director only with unanimous consent
 - B. By-laws can define procedures for removal, but cannot override statutory shareholder rights
 - C. By-laws automatically extend a Director's term if no formal removal resolution is passed
 - D. By-laws can prevent removal if the Director holds a controlling interest in the corporation

ITEM ID: DREX_E_000453

- 66.** Which of the following best illustrates that the Board of an Investment Dealer has a strategic commitment to Environmental and Social Governance (ESG)?
- A. Publishing a corporate social responsibility report each year on their website
 - B. Adopting Board-level key performance indicators (KPIs) tied to ESG targets
 - C. Sponsoring community programs in response to public-relations concerns
 - D. Requiring ESG awareness training for new client-facing employees

ITEM ID: DREX_E_000455

- 67.** A Director learns that an investment banking employee at the Investment Dealer has accepted an expensive gift from a client during an active underwriting mandate. What action would best demonstrate adherence to CRO standards and ethical governance?
- A. Advise the employee to return the gift to the client and document the incident informally
 - B. Accept the situation, as it is acceptable practice in activities such as underwriting
 - C. Instruct the employee to return the gift and report the incident for compliance review
 - D. Issue a verbal warning to the employee, remove the gift and log the matter internally



ITEM ID: DREX_E_000459

- 68.** Which of the following situations would most likely indicate that a UDP is failing to properly oversee risk management by Executives?
- A. The CFO reports a temporary decline in excess capital due to seasonal volatility in client deposits and the UDP does not seek rectification
 - B. The CCO informs the UDP of a suspected material policy breach, but the UDP chooses not to follow up or initiate an internal review
 - C. The CFO proposes new accounting software and receives immediate approval from the UDP without consulting the Executive team
 - D. The UDP relies on internal audit to independently identify compliance deficiencies without requesting updates from the CCO

ITEM ID: DREX_E_000469

- 69.** Which of the following is a mandatory action the Ultimate Designated Person (UDP) must take when an Investment Dealer has triggered an early warning test failure under CIRO rules?
- A. Notify the finance department regarding the capital position and revised financial forecast
 - B. Submit a written letter to CIRO identifying the cause of the failure and proposed corrective actions
 - C. Review the CFO's recent submissions and hold them accountable over the failure
 - D. Return the capital levels to required levels within five business days

ITEM ID: DREX_E_000476

- 70.** Which of the following best reflects the Ultimate Designated Person's (UDP's) next steps after receiving a Business Conduct Compliance (BCC) examination report identifying regulatory deficiencies?
- A. Implement remedial action addressing the report's findings
 - B. Attend a tribunal hearing to assess the impact of the report's findings
 - C. Oversee the implementation of remedial actions addressing the report's findings
 - D. Delegate the responsibility for corrective action to the Chief Compliance Officer



Mia Alvi was recently appointed as a Director and Chair of the Compliance and Risk Committee at Spruce Capital Marks (SCM), an Investment Dealer. On appointment, she held a 12% equity stake in the Investment Dealer. SCM filed the necessary disclosure with CIRO within two weeks of her appointment. Shortly after joining, Mia recommended Brent Geller as Executive Vice President (EVP) of Emerging Risk. The Board approved his appointment without documenting or confirming his qualifications. Brent was verbally assigned oversight of SCM's digital asset risk function but was not given updated compliance policies. During a Board meeting, internal control deficiencies and unresolved client complaints were raised; Mia downplayed the issues and no formal actions were taken.

ITEM ID: DREX_E_000498

- 71.** Which of the following most accurately identifies the primary governance failure related to Brent Geller's appointment?
- A. The Investment Dealer failed to submit Brent's registration documents to CIRO within ten business days as required
 - B. The Board did not ensure Brent's responsibilities were supported by written policies and formally documented oversight
 - C. The Board failed to document Brent's assignment to the role before he took up the position
 - D. The Investment Dealer failed to conduct an external background check as required for all Executive appointments

ITEM ID: DREX_E_000499

- 72.** Which of the following aspects of Mia Alvi's appointment most clearly demonstrates the Investment Dealers non-compliance with CIRO requirements?
- A. Mia was appointed Chair of the Compliance and Risk Committee, despite lacking direct regulatory experience
 - B. The Investment Dealer failed to gain CIRO approval of Mia's appointment and 12% equity stake
 - C. Mia's dual role as Director and equity holder created an automatic conflict of interest under CIRO rules
 - D. The Board failed to disclose Mia's appointment in the Investment Dealer's annual audited financial statements



ITEM ID: DREX_E_000500

- 73.** What is the most likely regulatory concern arising from the Board's failure to act on the unresolved client complaints discussed during its meeting?
- A. The Board improperly delegated complaint resolution to the EVP of Emerging Risk
 - B. Failure to act on known issues indicates non-compliance with required control and supervision systems
 - C. The Board's decision not to report the complaints to the shareholders breached continuous disclosure obligations
 - D. The Investment Dealer failed to submit Form 1 amendments within ten days of identifying a material operational deficiency

ITEM ID: DREX_E_000501

- 74.** Which of the following best explains why CIRO may question Mia Alvi's fitness to serve as a Director?
- A. She failed to recuse herself from discussions involving Brent Geller's experience during his appointment
 - B. She dismissed known compliance issues and failed to uphold the Investment Dealer's supervisory obligations
 - C. She was responsible for the failure to document and confirm Brent Geller's experience during his appointment
 - D. She has a conflict of interest serving on the Board as she owns a 12% equity stake in the Investment Dealer

ITEM ID: DREX_E_000502

- 75.** Which of the following governance practices would have most effectively mitigated the compliance failures identified during CIRO's audit of Spruce Capital Markets Ltd.?
- A. Delegating the Board's supervisory responsibilities to senior operational staff with specialized knowledge
 - B. Adopting a formal process for assigning and documenting Executive responsibility for each significant area of risk
 - C. Replacing internal compliance policies with guidance notes published and approved by CIRO to ensure compliance
 - D. Appointing a Director with no equity interest to lead the Compliance and Risk Committee to avoid perception of bias



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1.

ITEM ID: DREX_E_000034

KEY: B

2.

ITEM ID: DREX_E_000041

KEY: D

3.

ITEM ID: DREX_E_000045

KEY: C

4.

ITEM ID: DREX_E_000052

KEY: C

5.

ITEM ID: DREX_E_000059

KEY: D

6.

ITEM ID: DREX_E_000068

KEY: B



7.

ITEM ID: DREX_E_000070

KEY: B

8.

ITEM ID: DREX_E_000071

KEY: D

9.

ITEM ID: DREX_E_000072

KEY: C

10.

ITEM ID: DREX_E_000073

KEY: A

11.

ITEM ID: DREX_E_000074

KEY: C

12.

ITEM ID: DREX_E_000112

KEY: C



13.

ITEM ID: DREX_E_000124

KEY: C

14.

ITEM ID: DREX_E_000126

KEY: B

15.

ITEM ID: DREX_E_000128

KEY: C

16.

ITEM ID: DREX_E_000130

KEY: B

17.

ITEM ID: DREX_E_000133

KEY: B

18.

ITEM ID: DREX_E_000138

KEY: B



19.

ITEM ID: DREX_E_000139

KEY: A

20.

ITEM ID: DREX_E_000140

KEY: A

21.

ITEM ID: DREX_E_000141

KEY: D

22.

ITEM ID: DREX_E_000142

KEY: C

23.

ITEM ID: DREX_E_000143

KEY: D

24.

ITEM ID: DREX_E_000154

KEY: B



25.

ITEM ID: DREX_E_000155

KEY: A

26.

ITEM ID: DREX_E_000156

KEY: A

27.

ITEM ID: DREX_E_000157

KEY: A

28.

ITEM ID: DREX_E_000158

KEY: D

29.

ITEM ID: DREX_E_000188

KEY: C

30.

ITEM ID: DREX_E_000193

KEY: B



31.

ITEM ID: DREX_E_000195

KEY: B

32.

ITEM ID: DREX_E_000199

KEY: A

33.

ITEM ID: DREX_E_000205

KEY: A

34.

ITEM ID: DREX_E_000207

KEY: B

35.

ITEM ID: DREX_E_000217

KEY: D

36.

ITEM ID: DREX_E_000226

KEY: A



37.

ITEM ID: DREX_E_000232

KEY: B

38.

ITEM ID: DREX_E_000235

KEY: A

39.

ITEM ID: DREX_E_000272

KEY: B

40.

ITEM ID: DREX_E_000273

KEY: C

41.

ITEM ID: DREX_E_000274

KEY: A

42.

ITEM ID: DREX_E_000275

KEY: D



43.

ITEM ID: DREX_E_000276

KEY: C

44.

ITEM ID: DREX_E_000287

KEY: B

45.

ITEM ID: DREX_E_000289

KEY: B

46.

ITEM ID: DREX_E_000293

KEY: B

47.

ITEM ID: DREX_E_000303

KEY: B

48.

ITEM ID: DREX_E_000307

KEY: D



49.

ITEM ID: DREX_E_000314

KEY: B

50.

ITEM ID: DREX_E_000317

KEY: B

51.

ITEM ID: DREX_E_000322

KEY: C

52.

ITEM ID: DREX_E_000377

KEY: C

53.

ITEM ID: DREX_E_000381

KEY: A

54.

ITEM ID: DREX_E_000385

KEY: C



55.

ITEM ID: DREX_E_000393

KEY: A

56.

ITEM ID: DREX_E_000400

KEY: C

57.

ITEM ID: DREX_E_000407

KEY: B

58.

ITEM ID: DREX_E_000413

KEY: B

59.

ITEM ID: DREX_E_000416

KEY: A

60.

ITEM ID: DREX_E_000420

KEY: C



61.

ITEM ID: DREX_E_000429

KEY: C

62.

ITEM ID: DREX_E_000435

KEY: B

63.

ITEM ID: DREX_E_000443

KEY: C

64.

ITEM ID: DREX_E_000446

KEY: C

65.

ITEM ID: DREX_E_000451

KEY: B

66.

ITEM ID: DREX_E_000453

KEY: B



67.

ITEM ID: DREX_E_000455

KEY: C

68.

ITEM ID: DREX_E_000459

KEY: B

69.

ITEM ID: DREX_E_000469

KEY: B

70.

ITEM ID: DREX_E_000476

KEY: C

71.

ITEM ID: DREX_E_000498

KEY: B

72.

ITEM ID: DREX_E_000499

KEY: B



73.

ITEM ID: DREX_E_000500

KEY: B

74.

ITEM ID: DREX_E_000501

KEY: B

75.

ITEM ID: DREX_E_000502

KEY: B
