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# Retail Securities Exam

Practice Exam – Questions

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**ITEM ID:** RSEC\_E\_000153

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1. An investor is considering investing in a mutual fund and wants to understand the roles of the participants involved. Which of the following statements correctly describes the role of the trustee in a mutual fund structure?
- A. They are responsible for managing the fund's investment portfolio to achieve its objectives
  - B. They safeguard the fund's assets and ensure proper settlement of transactions
  - C. They market the fund to potential investors and facilitates the sale of fund units
  - D. They oversee the fund's operations and ensure compliance with regulatory requirements

**ITEM ID:** RSEC\_E\_000239

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2. A company has an interest coverage ratio of 2.0 for the period. Its revenues and interest expense for the same period are \$20 million and \$2 million, respectively. What is the operating margin of the company for the current period?
- A. 20.0%
  - B. 25.0%
  - C. 27.5%
  - D. 30.0%

**ITEM ID:** RSEC\_E\_000329

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3. Which of the following statements is true about variance of a portfolio?
- A. It is always equal to the weighted sum of the variances of the individual assets in the portfolio
  - B. It decreases as the correlation between the assets in the portfolio increases
  - C. It can be reduced by combining assets that are not perfectly positively correlated
  - D. It is independent of the weights assigned to the individual assets in the portfolio

**ITEM ID:** RSEC\_E\_000692

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4. What would be the primary purpose of a company's statement of changes in equity?
- A. To detail the changes in the company's cash position over time
  - B. To provide a breakdown of the company's liabilities
  - C. To report the changes in the ownership interest of the company
  - D. To analyze the company's stock price volatility



**ITEM ID: RSEC\_E\_000702**

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5. What type of transaction would appear under “cash flows from financing activities” in the statement of cash flows?
- A. Cash paid for the purchase of inventory
  - B. Payment of dividends to shareholders
  - C. Proceeds from the sale of property
  - D. Cash paid for operating expenses

**ITEM ID: RSEC\_E\_000900**

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6. As a Registered Representative offering recommendations to clients in retirement, what concern is most important when considering the liquidation of some of their investments?
- A. Ensuring the client receives their redemption requests promptly to meet their investment needs
  - B. Ensuring that redemptions do not lead to depleting the investment portfolio too quickly
  - C. Making sure the client is always informed about the tax implications of their redemptions
  - D. Focusing on the market timing and active strategies to maximize investment returns

**ITEM ID: RSEC\_E\_000990**

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7. Your client plans to save \$5,000 within two years for a vacation. They will make equal annual deposits at the start of each year into a savings account that offers a fixed interest rate of 4% p.a. What is the minimum annual deposit to meet the target, rounded to the nearest dollar?
- A. \$2,273
  - B. \$2,357
  - C. \$2,428
  - D. \$2,500

**ITEM ID: RSEC\_E\_000006**

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8. A Registered Representative is evaluating a complex structured note for a client. What is their primary know-your-product (KYP) obligation?
- A. Ensuring the client fully understands the product’s risks and features
  - B. Verifying compliance with the Investment Dealer’s marketing strategy
  - C. Assessing the product’s liquidity and trading volume
  - D. Reviewing the product’s existing market share among clients



**ITEM ID:** RSEC\_E\_000017

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9. What is the best approach to ensure all know-your-product (KYP) elements are considered for a mutual fund?
- A. Assess the structure, benefits and assets under management and commission, and justify the costs
  - B. Review the objectives, exposure, risk capacity and fees, and assume a risk offset
  - C. Check allocation, strategy, risks and performance, and assess the impact of costs
  - D. Analyze assets under management, objectives, concentration and fees, and consider low risk

**ITEM ID:** RSEC\_E\_000028

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10. An elderly client indicates a strong aversion to risk but requests exposure to cryptocurrency for its return potential. What is the most appropriate action for the Registered Representative to take?
- A. Educate the client on cryptocurrency, provide the necessary risk warning and receive a returned signed risk-disclosure document
  - B. Inform the client that it is not suitable, recommend a suitable product and receive recorded confirmation of any instruction to act
  - C. Discuss the choice with the client, review the existing assets in the portfolio and assess how the portfolio will be affected by the action
  - D. Challenge the risk aversion given the client request, ask if they want a new risk assessment and follow up with regular meetings

**ITEM ID:** RSEC\_E\_000031

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11. A retiree requiring a fixed income demands a leveraged exchange-traded fund (ETF) trade. Which option shows the most appropriate response of the Registered Representative (RR) given their obligations under suitability determination?
- A. RR explains the mismatch and notes its unsolicited nature
  - B. RR follows the instruction after confirming funds
  - C. RR emphasizes the risks before proceeding
  - D. RR suggests safer options but executes if insisted



ITEM ID: RSEC\_E\_000035

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12. An investor with a tech stock portfolio, tax-loss goals and a long investment horizon seeks advice. The tech market has recently suffered a significant downturn and the investor's portfolio has fallen by 20%. Based on this information alone, and assuming the investor wishes to maintain exposure to the tech market, what is the best recommendation?
- A. Sell the stock to realize the loss and purchase a tech exchange-traded fund for exposure
  - B. Hold the tech stock portfolio to offset the current losses with potential future gains
  - C. Exchange the tech stock portfolio for a growth fund to diversify without tax action
  - D. Transfer the tech stock portfolio to a registered account to realize the capital loss

ITEM ID: RSEC\_E\_000043

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13. What is a key consideration when selling securities in a margin account?
- A. The proceeds may first be applied to outstanding margin debt before withdrawal
  - B. The investor must wait for settlement before using the proceeds for new investments
  - C. The investor is required to repay the full margin loan balance immediately
  - D. The securities must be fully paid for before they can be sold

ITEM ID: RSEC\_E\_000045

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14. Two new Registered Representatives (RRs) are discussing the difference between account appropriateness and the suitability determination.
- RR1 states: "The account appropriateness obligation is a single upfront assessment of how the account meets the client's needs. The suitability determination is an ongoing requirement for RRs to ensure that each investment action is based on the know-your-client profile and puts the client's interest first."
- RR2 states: "Although account appropriateness needs to be assessed before account opening, there is an ongoing responsibility to assess whether the account remains appropriate. The suitability determination focuses on the client objectives and requires an RR to ensure that the investment actions meet those objectives."
- Which of the following is true?
- A. RR1 gives a more accurate explanation of both account appropriateness and suitability determination
  - B. RR1 gives a more accurate explanation of account appropriateness and RR2 gives a more accurate explanation of suitability determination
  - C. RR1 gives a more accurate explanation of suitability determination and RR2 gives a more accurate explanation of account appropriateness
  - D. RR2 gives a more accurate explanation of both account appropriateness and suitability determination



**ITEM ID:** RSEC\_E\_000053

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- 15.** Which of the following actions in debt markets would likely be considered a violation of Canadian securities regulations?
- A. Delaying the announcement of a new debt issue currently under discussion
  - B. Downplaying risks associated with a debt security in client communications
  - C. Filing a debt prospectus to the regulator with unqualified financial statements
  - D. Restricting the offering of debt securities to accredited investors only

**ITEM ID:** RSEC\_E\_000062

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- 16.** Which statement best reflects a key distinguishing feature of a Nova Scotia municipal bond with a 3% annual coupon, considering its role in the fixed-income market?
- A. It is backed by federal government guarantees to ensure stability
  - B. It finances provincial infrastructure projects, impacting credit dynamics
  - C. It maintains a fixed yield regardless of municipal financial shifts
  - D. It adjusts interest payments to offset market rate fluctuations

**ITEM ID:** RSEC\_E\_000067

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- 17.** An investor acquires a bond with a par value of \$1,000 and a 5% annual coupon paid semi-annually. It is currently trading at \$950 and matures in seven years' time. How much will the bond be redeemed for at maturity, excluding coupon payments?
- A. \$950, reflecting the initial investment adjusted
  - B. \$975, averaging purchase price and par value
  - C. \$1,000, the bond's principal repaid at maturity
  - D. \$1,025, factoring in a residual interest adjustment

**ITEM ID:** RSEC\_E\_000091

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- 18.** An investor is evaluating Canadian common shares and American Depositary Receipts (ADRs) for international diversification amid a strengthening United States dollar and volatile Toronto Stock Exchange (TSX). Which difference should they consider as most impactful on their portfolio's risk-adjusted returns, and why?
- A. Currency denomination, because it drives exposure to foreign-exchange swings
  - B. Trading venue access, because it alters relevant liquidity and cost dynamics
  - C. Underlying issuer origin, because it shifts the investor's geographic risk profiles
  - D. Regulatory oversight scope, because it affects compliance burdens



**ITEM ID:** RSEC\_E\_000100

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- 19.** A Canadian tech company issues Class B non-voting common shares to diversify funding. This causes a 10% dilution amid rising market volatility and weakening investor demand. Which trade-off should an investor consider as most significant to the issuer's ability to attract capital and maintain market positioning, and why?
- A. Non-voting share structure, because non-voting shares preserve existing control but reduce investor appeal
  - B. Share issuance costs, because issuance costs secure funding but increase financial expenses
  - C. Increase share liquidity, because new shares enhance trading volume but may depress share prices
  - D. Dilution of ownership, because share issuance raises capital but reduces existing shareholders' influence

**ITEM ID:** RSEC\_E\_000109

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- 20.** Which statement best reflects the immediate effect of a one-for-five stock consolidation on 400 shares of a Canadian steel company?
- A. 80 shares, increasing total value and providing capital growth
  - B. 80 shares, with price rising five-fold but risking investor unease
  - C. 2,000 shares, reducing total value but increasing market appeal
  - D. 2,000 shares, boosting liquidity but diluting per-share worth

**ITEM ID:** RSEC\_E\_000111

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- 21.** An investor invests in a Canadian food company. How is its stock valuation likely classified?
- A. Technology sector
  - B. Consumer products sector
  - C. Manufacturing sector
  - D. Service sector



**ITEM ID:** RSEC\_E\_000118

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- 22.** A Registered Representative evaluates Canadian telecom stocks for an investor. Interest rates are at 2% and are declining. There is rising consumer demand for data services. What is the most likely interpretation of the expected stock-price change over the next year?
- A. Neutral, as the lower borrowing costs may increase the price but the higher demand may reduce the price
  - B. Neutral, as the lower borrowing costs may reduce the price but the higher demand may increase the price
  - C. Positive, as both the lower borrowing costs and the higher demand may increase the price
  - D. Negative, as both the lower borrowing costs and the higher demand may decrease the price

**ITEM ID:** RSEC\_E\_000125

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- 23.** An investor is evaluating how macroeconomic conditions might shift stock valuations over the next year. If inflation rises significantly, which effect on interest rates would most likely influence expectations for declining stock prices?
- A. Rates adjust downward to stimulate growth
  - B. Rates increase to curb rising prices
  - C. Rates hold steady, despite price pressures
  - D. Rates rise gradually due to productivity gains

**ITEM ID:** RSEC\_E\_000136

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- 24.** Which product provides an investor with a single investment that gives them a diversified exposure to assets and investment vehicles?
- A. Money market instrument
  - B. Fund of funds
  - C. Cryptocurrency
  - D. Income trust



**ITEM ID:** RSEC\_E\_000144

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- 25.** A conservative investor, who retired two years ago, is seeking to invest in a mutual fund exposed to the technology sector. However, they also want their investment to have an ethical focus. The investor prioritizes simplicity and downside protection when investing. What advantages and disadvantages of these technology mutual funds could a Registered Representative discuss, given the client's information?
- A. They simplify investing for clients, but may limit their upside exposure to tech growth
  - B. They can align with the client's values, but expose them to potential loss
  - C. They offer downside protection for the client, but reduce geographic flexibility
  - D. They provide for the client's exposure requirements, but are complex to buy and hold

**ITEM ID:** RSEC\_E\_000160

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- 26.** An investor has never invested in any product other than a savings account. They are evaluating a passive mutual fund as they have heard that they "spread the risk" of investment and can give potentially higher returns than a savings account. The investor is cautious about taking on risk but can commit to a medium investment horizon. Which of the following factors is critical to determine if the mutual fund aligns with their needs and risk profile?
- A. The fund's redemption policy, as delays in accessing funds could limit liquidity, especially during market hours
  - B. The fund's correlation with markets, as high correlation would increase the client's exposure to systematic risk
  - C. The fund's fee structure, as the high fees would erode returns over time, despite strong performance
  - D. The fund's reliance on market interaction, as it may lead to higher volatility compared to other strategies

**ITEM ID:** RSEC\_E\_000165

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- 27.** An investor, after discussion with their Registered Representative, selects a passive exchange-traded fund (ETF) with 3x exposure to the market. Which client objectives best explain why this ETF might be suitable?
- A. A requirement for an investment to adapt to changing markets without the need for client interaction
  - B. A requirement for something to aggressively follow the market and an acceptance of magnified returns
  - C. A requirement for a buy-and-hold investment and a need for predictable returns in the long term
  - D. A requirement for something with low entry thresholds and returns that track the market



**ITEM ID:** RSEC\_E\_000171

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- 28.** A client who has a low risk tolerance and is interested in capital preservation, has previously held a single equity growth fund. They have been unhappy with the fund's fluctuation in value over time. How might a Registered Representative explain the relationship between the fund and the client's objectives?
- A. The underperformance reflects market conditions and the product matches client's objectives
  - B. The fund aligns with the client's capital preservation goals, but exceeds risk tolerance, causing underperformance
  - C. The growth fund mismatches the client's goals and risk tolerance, so will not give the expected performance
  - D. The fund meets the client's risk tolerance, but capital preservation is causing the underperformance

**ITEM ID:** RSEC\_E\_000175

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- 29.** A client is discussing their investment portfolio with a Registered Representative. The current portfolio is well diversified and meets the client's balanced risk profile. The portfolio is focused on the client's medium-term investment horizon and desire to mitigate tax liabilities as much as possible. The client now wishes to transfer the components of their portfolio to investments that are strictly focused on tight environmental, social and governance (ESG) criteria. Beyond the actual assets they own, what impact is the client's decision most likely to have on their current portfolio?
- A. Improve the ability to mitigate tax liabilities significantly due to ESG tax breaks, but the typically smaller ESG companies will increase the risk exposure
  - B. Maintain the medium-term investment horizon as there is a good variety of ESG asset classes, but the strict ESG criteria may limit diversification
  - C. Maintain the tax exposure due to the largely similar asset classes, but the typically smaller ESG companies will increase investment horizon
  - D. Improve the diversification by adding a new element to the objectives, but the volatile nature of ESG companies will increase the risk

**ITEM ID:** RSEC\_E\_000179

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- 30.** A retiree sells a stock after seeing a fall in the market price. They have not looked into the reason for the fall in stock price, but they fear it might suffer further declines. Which behavioural bias is most evident?
- A. Herd mentality
  - B. Framing
  - C. Mental accounting
  - D. Loss aversion



**ITEM ID:** RSEC\_E\_000197

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- 31.** An Investment Dealer primarily offers proprietary mutual funds through its Registered Representatives (RRs) to its clients. The funds cover a wide range of sectors, geographical locations and objectives. How does this impact the RR's relationship with the client?
- A. The RR must inform clients that external mutual funds may be suitable even if they are not available
  - B. There is sufficient coverage from the proprietary funds to have no impact on the RR's duty to the client
  - C. Suitability determination will not apply to these funds if the client initiates the investment action
  - D. This is a conflict of interest that must be managed by a change in the Investment Dealer's policies

**ITEM ID:** RSEC\_E\_000204

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- 32.** Which of the following is correct with respect to the various bonds used to build a yield curve?
- A. They have different credit quality, but the same maturities
  - B. They have the same credit quality and the same maturities
  - C. They have the same credit quality, but different maturities
  - D. They have different credit quality and different maturities

**ITEM ID:** RSEC\_E\_000216

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- 33.** An investor holds a portfolio of fixed-income securities, including corporate bonds with varying maturities. Recently, the central bank announced an increase in interest rates to combat inflation, which is expected to rise further. How is this likely to impact the prices of the fixed-income securities in the investor's portfolio?
- A. The prices of all fixed-income securities will increase, as higher interest rates lead to greater demand for bonds
  - B. The prices of longer-duration bonds will decrease more than shorter-duration bonds, being more sensitive to rate changes
  - C. The prices of fixed-income securities will remain stable, as changes in interest rates do not affect bond prices significantly
  - D. The prices of all fixed-income securities will decrease uniformly, regardless of their duration or credit quality



ITEM ID: RSEC\_E\_000222

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34. A \$100 par, 6% annual coupon bond with two years to maturity is trading at \$94.72. It has a yield-to-maturity (YTM) of 9% and a modified duration of 1.34. If the YTM of the bond falls by 0.3% and all other things remain equal, what is the new market price closest to?
- A. \$93.65
  - B. \$94.34
  - C. \$95.10
  - D. \$95.75

ITEM ID: RSEC\_E\_000229

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35. A 7%, \$1000 semi-annual bond has four years remaining until maturity. The yield on new four-year bonds of comparable quality is 6%. Calculate the present value of the bond.
- A. \$1,035.1
  - B. \$1,065.5
  - C. \$1,073.1
  - D. \$1,106.5

ITEM ID: RSEC\_E\_000253

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36. An analyst is reviewing the latest annual earnings of XYZ Corporation. The report provides the total net income at \$25 million, preferred dividends at \$5 million and shareholders' equity at \$100 million. If the total number of common shares outstanding is 10 million, what is the basic earnings per share (EPS) for the company?
- A. 0.5
  - B. 1.3
  - C. 2.0
  - D. 2.5

ITEM ID: RSEC\_E\_000260

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37. An investment in equity stock has gone up in price from the original purchase price. In what scenario will the investment result in realized capital gains and an immediate tax liability?
- A. The stock is then held and benefits from further gains
  - B. The stock is transferred into a registered retirement savings plan
  - C. The stock is sold within a registered retirement savings plan
  - D. The stock is transferred into a holding company



**ITEM ID:** RSEC\_E\_000271

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- 38.** A mutual fund has a turnover ratio of 150%. How should this be interpreted in terms of investment strategy?
- A. The fund actively manages its investments by frequently changing its holdings
  - B. The fund generates a profit 1.5 times that of assets under management
  - C. The fund sees a 50% larger change in investors than the peer-group average
  - D. The fund is a leveraged fund giving greater positive and negative returns

**ITEM ID:** RSEC\_E\_000279

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- 39.** Which of the following statements best describes the considerations an investor should keep in mind when investing in leveraged exchange-traded funds (ETFs)?
- A. They are suitable for long-term buy-and-hold strategies as they are designed to deliver consistent returns over extended periods, regardless of market conditions
  - B. They require frequent monitoring and may not perform as expected over time, especially in choppy or sideways markets due to the effects of daily rebalancing
  - C. They provide predictable returns that are a fixed multiple of the underlying index, making them a low-risk investment option for aggressive investors
  - D. They generally invest in a diversified portfolio of underlying securities to minimize potential downside risk to the investors, similar to traditional ETFs

**ITEM ID:** RSEC\_E\_000283

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- 40.** Which statement accurately reflects the tax efficiency of some exchange-traded funds (ETFs) compared to mutual funds?
- A. ETFs typically generate higher capital-gains distributions due to active management
  - B. ETFs do not incur any tax liabilities as they are a tax-free investment vehicle
  - C. ETFs are less tax efficient than mutual funds because they are secondary-market traded
  - D. ETFs allows for in-kind redemptions, which can minimize capital-gains distributions

**ITEM ID:** RSEC\_E\_000290

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- 41.** What is a common criticism of active management, specifically in the context of fund performance?
- A. Active managers rely on benchmarks to construct their portfolio, limiting flexibility
  - B. Active management strategies are varied and the managers are typically less transparent
  - C. Active management can rarely guarantee a positive return on the investor's money
  - D. Active managers returns can be significantly eroded after fees and expenses



**ITEM ID:** RSEC\_E\_000299

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- 42.** What is the primary purpose of comparing a fund's returns to a benchmark?
- A. To determine the absolute performance of the fund, irrespective of market conditions
  - B. To assess the fund's volatility and risk exposure compared to the benchmark
  - C. To evaluate the fund manager's skill in generating returns relative to the market
  - D. To fix the fees and expenses associated with the fund, relative to the market

**ITEM ID:** RSEC\_E\_000302

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- 43.** A client notices that a fund has returned 12% over the past five years, while its peer-group average return is 10%. What conclusion can be drawn from this?
- A. The fund is performing within expectation, as the return should be higher than the average
  - B. The fund's return is misleading and suffers greater variation than the average
  - C. The fund is actively managed against a passively managed peer group
  - D. The fund has outperformed its peer group, indicating relatively strong performance

**ITEM ID:** RSEC\_E\_000309

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- 44.** A mutual fund has total assets of \$8,000,000 and total liabilities of \$2,000,000. If there are 600,000 shares outstanding, what is the net asset value per share (NAVPS)?
- A. \$3.33
  - B. \$10.00
  - C. \$13.33
  - D. \$16.66

**ITEM ID:** RSEC\_E\_000321

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- 45.** Which of the following scenarios most accurately represents financial crime risk as it pertains to investment decisions?
- A. An investor focuses on real-estate investment in a region experiencing high inflation, which may affect property values over time
  - B. An investor is considering purchasing shares of a well-established company that has recently been subject to a lawsuit for patent infringement
  - C. An investor holds a portfolio that includes bonds from a corporation undergoing restructuring, which poses a risk of default due to financial instability
  - D. An investor invests in a startup company whose auditors have shared a qualified opinion based on misrepresentation of financial statements



**ITEM ID:** RSEC\_E\_000347

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46. What happens to a client's ability to conduct transactions in any account with the Investment Dealer if their cash account has an overdue money balance for 20 business days or more?
- A. The client can continue to enter into any type of transaction, just like at any other time
  - B. The client is restricted from entering into any transactions except for liquidating transactions
  - C. The client is allowed to make unlimited transactions but must pay fees to be able to execute them
  - D. The client's account will be automatically closed and all assets will be frozen indefinitely

**ITEM ID:** RSEC\_E\_000355

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47. An existing client approaches their Registered Representative (RR) wanting to open a margin account. As part of the account appropriateness assessment, the client uses the four statements below to show their understanding of the risks and benefits associated with trading on margin. Which statement most clearly shows the client is not considering the wider implications of trading on margin?
- A. It allows me to control a larger position
  - B. It amplifies my gains by borrowing funds
  - C. It facilitates short selling
  - D. It allows me to allocate my capital more strategically

**ITEM ID:** RSEC\_E\_000358

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48. The rules on records and communications require an Investment Dealer to send out a trade confirmation to a client. What is the key purpose of this requirement?
- A. It fulfills fundamental regulatory requirements to ensure client interests are always put first
  - B. It assists market participants in their price-discovery process by creating transparent markets
  - C. It confirms key details, including the type of security, quantity, price and any fees or commissions
  - D. It allows clients to verify the accuracy of the trade and ensure it aligns with their instructions

**ITEM ID:** RSEC\_E\_000370

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49. A Registered Representative (RR) notices that a stock in the client's portfolio has recently experienced high volatility due to economic uncertainty. What should the RR do next in respect of their client's portfolios?
- A. Recommend selling their holding in the stock at the current prices to mitigate further risk
  - B. Review the portfolio's asset allocation and ensure it still aligns with the client's risk profile
  - C. Ignore these market movements and continue with the original investment strategy
  - D. Increase investment in the stock to capitalize on the larger market swings



**ITEM ID:** RSEC\_E\_000381

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50. When determining comparative performance, which of the following is crucial to ensure a fair analysis?
- A. Comparing the fund's performance against other funds from a range of categories
  - B. Assessing the fund's performance against a carefully selected timeframe
  - C. Benchmarking against an index that reflects the fund's investment-stated mandate
  - D. Evaluating performance based on evidence collected from investors

**ITEM ID:** RSEC\_E\_000388

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51. Why is the total return a useful measure for a Registered Representative to share with investors when showing the performance of investments?
- A. It provides a simplified view of returns that is easily understood
  - B. It considers a risk-adjusted return that is more meaningful in the long term
  - C. It gives an absolute return that reflects both return on capital and income
  - D. It represents the dividend reinvestment return of a portfolio

**ITEM ID:** RSEC\_E\_000395

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52. When describing a mutual fund, what does an alpha of 5% indicate?
- A. The return is 5% more sensitive than the benchmark
  - B. The volatility over a set period is 5% on average
  - C. The performance is 5% greater than the benchmark
  - D. The ongoing charge over a set period is 5% on average

**ITEM ID:** RSEC\_E\_000404

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53. Which of the following best describes one of the key areas of focus in the client relationship model (CRM)?
- A. Providing legal arbitration for clients in relation to investment disputes
  - B. Encouraging clients to consult an independent Registered Representative before investing
  - C. Ensuring investment recommendations align with client risk and objectives
  - D. Setting protocols for Investment Dealers to deal with clients



**ITEM ID:** RSEC\_E\_000410

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- 54.** A client of an Investment Dealer is moving to the United States of America (USA) to fulfil a three-year contract for their company. During this time they will be resident in the USA. They are discussing with their Registered Representative the impact of this on their relationship with the Investment Dealer and the investment portfolio itself. Which of the following best reflects the most likely impact of this change in residence on the client?
- A. The client can either keep the investments with their existing Investment Dealer, but they would not be able to contribute additional funds, or transfer their investments to an investment institution in the USA, where further contributions could be made
  - B. The client would need to check with their RR whether the Investment Dealer has an appropriate license to deal with US residents and, if they do, assess what the US regulations and tax implications would be on their investments
  - C. The client would be able to use their current Investment Dealer with no material difference whilst they are in the USA, and the Investment Dealer would ensure that additional requirements are identified and disclosed
  - D. The client would need to move their assets to a cross-border custodian, who can hold and administer the assets in both countries, and use an investment institution from the USA to act as agent between the client and their existing Investment Dealer

**ITEM ID:** RSEC\_E\_000422

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- 55.** What is the primary role of a Registered Representative?
- A. To ensure a client's long-term provision has been considered
  - B. To provide return opportunities that meet their client's objectives
  - C. To act as a gatekeeper for illicit funds that could enter the system
  - D. To align a client's objectives with their risk profile

**ITEM ID:** RSEC\_E\_000436

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- 56.** Which action is prohibited under know-your-client (KYC) obligations?
- A. Consulting with the internal compliance department for advice
  - B. Significantly updating KYC information during client meetings
  - C. Delegating KYC responsibilities to an Investment Representative
  - D. Using standardized risk-assessment forms for data collection



**ITEM ID:** RSEC\_E\_000445

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57. A client shows signs of diminished mental capacity. What is the correct course of action for a Registered Representative?
- A. Place the account on immediate temporary hold
  - B. Contact the Power of Attorney
  - C. Contact the Trusted Contact Person
  - D. Request formal diagnosis and medical confirmation

**ITEM ID:** RSEC\_E\_000456

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58. A Registered Representative might request a meeting with the client to update the know-your-client (KYC) information. In which of the following situations would it be inappropriate to do this?
- A. The client becomes a director of a company they are invested in
  - B. The client's income changes significantly due to employment changes
  - C. The client retires and seeks to consolidate their investment assets
  - D. The client's portfolio shifts away from the current risk profile

**ITEM ID:** RSEC\_E\_000465

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59. What is a benefit of owning preferred shares instead of common shares?
- A. Exclusive voting rights on special resolutions
  - B. Priority in payments for company dividends
  - C. Claim on company assets before bondholders
  - D. Greater potential for capital appreciation

**ITEM ID:** RSEC\_E\_000472

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60. A stock is currently trading at \$35 and its dividend growth rate is 5%. If the expected dividend next year (D1) is \$2.10, what is the required rate of return?
- A. 10.35%
  - B. 10.95%
  - C. 11.00%
  - D. 11.05%



**ITEM ID:** RSEC\_E\_000479

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- 61.** Which of the following best describes the transferability of most preferred shares in Canada?
- A. They can be freely traded on stock exchanges unless issued with restrictions
  - B. They can only be transferred with the issuer's approval in most cases
  - C. They are usually non-transferable and must be held until maturity
  - D. They are limited to institutional investors and accredited investors

**ITEM ID:** RSEC\_E\_000493

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- 62.** How does the tax treatment of preferred shares differ from those of bonds in a taxable investment account?
- A. Preferred shares are taxed as eligible dividends, which benefit from a dividend tax credit, while bond interest is taxed as ordinary income
  - B. Both preferred shares and bonds are taxed as ordinary income, so there is no tax advantage for either investment in a taxable account
  - C. Bonds are taxed more favourably than preferred shares due to capital-gains treatment, making them a better option for taxable investors
  - D. Preferred shares are always tax-free, making them a superior investment compared to bonds in all circumstances

**ITEM ID:** RSEC\_E\_000497

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- 63.** An investor is considering two types of preferred shares:
- Company A's preferred shares offer a higher yield but come with low liquidity and high transaction costs.
- Company B's preferred shares offer a lower yield but are highly liquid and have minimal transaction costs.
- Given these characteristics, which of the following is the most reasonable conclusion for the investor when selecting between the two?
- A. Company A's preferred shares may be a good long-term investment, but the high costs could reduce net returns if sold early
  - B. Company B's preferred shares are the better option since lower transaction costs ensure higher net returns for any investors
  - C. The liquidity of Company A's preferred shares means the investor is exposed to greater price volatility in the short term
  - D. The yield of Company B's preferred shares shows lines of resistance are set below the rolling average standard deviation



**ITEM ID:** RSEC\_E\_000501

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- 64.** A Portfolio Manager is comparing the use of fundamental analysis and quantitative analysis. Which of the following best explains when fundamental analysis may be more useful than quantitative analysis?
- A. When evaluating companies in industries with stable cash flows and predictable earnings
  - B. When analyzing stocks with limited historical data for statistical modelling
  - C. When comparing a stock's historical price movements and trading volume
  - D. When assessing the impact of investor sentiment on stock-price trends

**ITEM ID:** RSEC\_E\_000516

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- 65.** How does the aggregated trading data provided by equity exchanges assist investors in their decision-making process?
- A. It offers insights into market liquidity and price trends
  - B. It provides access to historical performance reports
  - C. It allows investors to track institutional trading patterns
  - D. It supports pricing accuracy by reducing inefficiencies

**ITEM ID:** RSEC\_E\_000525

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- 66.** Which of the following best describes when an investor should use a total return index instead of a price return index?
- A. When focusing specifically on the stock-price movement of a market
  - B. When excluding capital gains and losses from the analysis
  - C. When tracking an index with no dividend-paying stocks
  - D. When considering both price changes and reinvested dividends

**ITEM ID:** RSEC\_E\_000537

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- 67.** An investor asks a Registered Representative which of four funds would have the weakest correlation with the market. Which is the most appropriate response?
- A. Tracker fund
  - B. Leveraged fund
  - C. Inverse fund
  - D. Absolute return fund



**ITEM ID:** RSEC\_E\_000544

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- 68.** What is the primary objective of the immunization strategy in fixed-income portfolio management?
- A. To actively trade bonds to mitigate short-term price movements
  - B. To align asset duration with liabilities to reduce interest-rate risk
  - C. To select credit-worthy bonds to minimize default risk
  - D. To accurately replicate a bond index and prevent tracking error

**ITEM ID:** RSEC\_E\_000549

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- 69.** A Registered Representative is evaluating two investment strategies:
- Strategy A: First assess economic indicators and industry performance before selecting individual stocks and considering margin issues.
- Strategy B: Focus on issuer-specific financial metrics, such as revenue growth and profitability, without considering broader market conditions.
- Which of the following best describes a key difference between these strategies?
- A. Strategy A reflects fundamental analysis of companies, while Strategy B reflects technical analysis
  - B. Strategy A indicates a bottom-up approach to investing, while Strategy B indicates a top-down approach
  - C. Strategy A prioritizes macroeconomic trends, while Strategy B focuses on company fundamentals first
  - D. Strategy A follows a passive investment approach, while Strategy B aims to actively manage the portfolio

**ITEM ID:** RSEC\_E\_000560

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- 70.** An investor has investments generating \$10,000 in interest income and \$8,000 in eligible dividends this year. Their marginal tax rate is 30%, the gross-up rate on eligible dividends is 38% and the dividend tax credit is 15%. Calculate the investor's total tax payable on these two sources of income.
- A. \$3,000
  - B. \$4,656
  - C. \$5,112
  - D. \$5,815



ITEM ID: RSEC\_E\_000570

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71. Which of the following is considered an acceptable practice in complaint handling?
- A. Omitting service complaints from the report relating to client complaints sent to CIRO
  - B. Delaying responses to complaints until they are formally escalated by the client in writing
  - C. Handling complaints internally without notifying clients of their right to escalate concerns
  - D. Responding only when multiple complaints about the same issue have been received

ITEM ID: RSEC\_E\_000573

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72. A Registered Representative is assessing the risk-adjusted return of four portfolios. Which performed best if the risk-free rate is 2%?
- A. Portfolio A with a return of 8% and standard deviation of 5%
  - B. Portfolio B with a return of 10% and standard deviation of 12%
  - C. Portfolio C with a return of 7% and standard deviation of 4%
  - D. Portfolio D with a return of 9% and standard deviation of 6%

ITEM ID: RSEC\_E\_000585

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73. An Investment Dealer communicates marketing material to the public relating to a managed product. In the communication, they present:
- the performance of an investment fund over a five-year continuous period
  - information about the nature of funds in general and the specific objective this particular fund seeks to achieve
  - a selection of Registered Representatives, Investment Representatives, Associate Portfolio Managers and Portfolio Managers with their photographs under the title “Who will provide your investment recommendations?”
  - a section stating hypothetical client returns over carefully selected historic time intervals

Which of the following would be considered a violation under regulatory guidelines?

- A. The presentation of historic performance
- B. The list of those who provide recommendations
- C. The information about meeting specific objectives
- D. The statement of hypothetical returns



**ITEM ID:** RSEC\_E\_000596

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- 74.** What is an essential requirement for maintaining records under the know-your-product (KYP) obligation?
- A. Record the product's risk profile and explain how it aligns with the client's financial objectives
  - B. Record the products reviewed and detail reasons why they were rejected by clients
  - C. Maintain records of client preferences but exclude detailed information about product risks
  - D. Document both the product's historical performance and its relevance to client investment goals

**ITEM ID:** RSEC\_E\_000597

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- 75.** A client loses their well-paid job and will need to access their savings for the short term. What step should the Registered Representative take?
- A. Update the client's records held by the Investment Dealer
  - B. Confirm that the portfolio still meets the client's long-term goals
  - C. Reassess the financial circumstances of the client
  - D. Put the client's investment contributions on hold

**ITEM ID:** RSEC\_E\_000609

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- 76.** A Registered Representative (RR) has a long-standing client who has a conservative investment approach and a portfolio worth \$150,000 that has always met suitability requirements. Recently, the client received a large inheritance of \$1,000,000. They have now approached the RR expressing an interest in private market stocks. How should the RR proceed after updating the know-your-client information?
- A. Explain to the client that private market investments are not suitable, given the risk profile
  - B. Assess whether the changes have had an impact on the client's objectives and risk profile
  - C. Introduce the client to private market investments as they are now an accredited investor
  - D. Ensure the client understands the nature of private market investments before proceeding

**ITEM ID:** RSEC\_E\_000614

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- 77.** The central bank announces a significant change in interest rates. When is this most likely to affect the suitability determination for a client?
- A. This will always affect the suitability determination
  - B. If the change affects the risk of the portfolio
  - C. If the change affects the value of the portfolio
  - D. If the change affects the opinion of the client



**ITEM ID:** RSEC\_E\_000619

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- 78.** A country has recently been exposed to high inflation and trade tariffs. When are the repercussions of these events most likely to impact suitability determinations for a clients' portfolio?
- A. If they affect the price of the assets in the portfolio
  - B. If they affect the client's employment status
  - C. If they affect the costs associated with investing
  - D. If they affect the client's investment opinion

**ITEM ID:** RSEC\_E\_000625

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- 79.** A Registered Representative (RR) has a financial interest in a company they are recommending to clients. What is the first step an RR must take to ensure this is not a breach of the conflict-of-interests rules?
- A. They have obtained prior approval from the Investment Dealer
  - B. They have notified CIRO of the outside interest
  - C. They have disclosed the outside interest to the client
  - D. They have attested to ensuring a continuous service to clients

**ITEM ID:** RSEC\_E\_000633

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- 80.** A Registered Representative (RR) has an undisclosed outside activity selling financial-planning services. They have not been asked by their Investment Dealer to disclose outside interests and they are aware that other RRs also have similar undisclosed outside interests. What should the RR do?
- A. Ensure that firewalls are set up between the two roles to avoid conflicts of interest
  - B. Assess whether the interest interferes with their primary role and disclose if this is the case
  - C. Disclose to the Investment Dealer for approval as this is a potential conflict of interest
  - D. Continue acting without disclosure as no policy to disclose has been communicated

**ITEM ID:** RSEC\_E\_000637

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- 81.** A Registered Representative is offered a commission for referring clients to an external Registered Representative. What should they do?
- A. Decline unless their Investment Dealer approves the arrangement and discloses it to clients
  - B. Accept the commission if the external Registered Representative compliance has approved it
  - C. Proceed with referrals and ensure that each payment is disclosed
  - D. Accept the commission as long as the client is an accredited investor



**ITEM ID:** RSEC\_E\_000639

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- 82.** What is the primary purpose of an Investment Dealer's policies and procedures on conflicts of interest?
- A. To disclose, avoid or manage conflicts of interest in a manner that protects clients' best interests
  - B. To identify and address conflicts of interest that may adversely impact the Investment Dealer's operations
  - C. To eliminate all potential conflicts of interest, regardless of the impact on business operations
  - D. To require clients to sign agreements acknowledging and accepting potential conflicts

**ITEM ID:** RSEC\_E\_000644

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- 83.** A Registered Representative prioritizes selling proprietary products over independent funds, despite suitability concerns. What standard is being violated?
- A. Know-your-product requirements
  - B. Putting client's interests first
  - C. Know-your-client requirements
  - D. Personal financial dealings

**ITEM ID:** RSEC\_E\_000651

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- 84.** A bondholder is concerned about the impact of rising interest rates on the value of their bond holdings. Which of the following scenarios best illustrates the most likely outcome of this situation?
- A. The bondholder may see the market value of their bonds increase as interest rates rise
  - B. The bondholder may see the market value of their bonds decrease as interest rates rise
  - C. The bondholder's bonds will become more liquid, allowing for easier trading in the market
  - D. The bondholder's bonds will experience a higher risk of default due to the rising interest rates

**ITEM ID:** RSEC\_E\_000668

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- 85.** Which of the following best describes the effect of a bond's call provision on its risk-return profile?
- A. It allows the bondholder to redeem the bond early, benefiting from a rising interest-rate environment
  - B. It guarantees that the bond will not be redeemed before maturity, increasing the bondholder's return
  - C. It ensures that the bond's interest rate remains unchanged for its entire term, providing stability but not protection from early redemption
  - D. It allows the issuer to redeem the bond early, which limits the bondholder's potential returns in a declining interest-rate environment



**ITEM ID:** RSEC\_E\_000675

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**86.** An investor is comparing two bonds with similar maturity and credit rating:

Bond X with a 5% coupon rate

Bond Y with a 6% coupon rate.

If interest rates rise, how will the price of each bond be affected, all other things being equal?

- A. Bond X's price will rise more than Bond Y's price because it has a lower coupon rate
- B. Bond Y's price will fall less than Bond X's price because it offers a higher coupon rate
- C. Both bonds will fall by the same amount, as interest rates affect all bonds equally
- D. Bond prices will increase by the same amount, as interest rates affect all bonds equally

**ITEM ID:** RSEC\_E\_000696

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**87.** Which financial statement best indicates a company's ability to generate a return from its operations?

- A. Statement of financial position
- B. Statement of cash flows
- C. Statement of profit and loss
- D. Notes to the financial statements

**ITEM ID:** RSEC\_E\_000703

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**88.** Which of the following is an example of a non-cash activity that should be disclosed in the statement of cash flows?

- A. Issuance of shares to acquire an asset
- B. Payment of dividends to shareholders
- C. Purchase of equipment using a loan
- D. Sale of an investment asset for cash



**ITEM ID:** RSEC\_E\_000710

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- 89.** A client approaches a Registered Representative for information on investment fund strategies. They want to know how sector rotation differs from a bottom-up investment approach. What should the Registered Representative say?
- A. Sector rotation focuses on economic movements through peaks and troughs, while bottom-up analysis looks at company fundamentals
  - B. Sector rotation uses historical data to look for repeating patterns, whereas bottom-up analysis relies on economic forecasting
  - C. Sector rotation adjusts sector allocations based on microeconomic factors, while bottom-up analysis focuses on asset allocation
  - D. Sector rotation anticipates the impact of government intervention, while bottom-up analysis initially assumes no government intervention

**ITEM ID:** RSEC\_E\_000726

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- 90.** An investor sells the short-dated bonds in their portfolio and uses the proceeds to buy long-dated bonds in anticipation of a decrease in interest rates. Which of the following is true?
- A. They have increased the sensitivity of the portfolio
  - B. They have immunized their portfolio
  - C. They have taken advantage of sector rotation
  - D. They have cash-matched their liabilities

**ITEM ID:** RSEC\_E\_000732

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- 91.** An asset has a beta of 1.2, the risk-free rate is 3% and the market return is 8%. Using the capital asset pricing model, what is the expected return of the asset?
- A. 8.6%
  - B. 9.0%
  - C. 9.6%
  - D. 10.2%

**ITEM ID:** RSEC\_E\_000737

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- 92.** When considering modern portfolio theory, how does the efficient frontier help investors in the construction of their portfolio?
- A. It negates the need for portfolio diversification across asset classes
  - B. It ensures steady investment gains regardless of market volatility
  - C. It forecasts by how much the portfolio may outperform the market
  - D. It identifies the highest possible return for each level of portfolio risk



**ITEM ID:** RSEC\_E\_000745

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- 93.** A client has a short-term goal of purchasing a home in three years. Which of the following investment strategies best aligns with their objective?
- A. Investing in a laddered portfolio of five-to-ten-year government bonds
  - B. Allocating funds to a balanced mutual fund with exposure to both equities and fixed income
  - C. Maintaining a significant allocation to cash equivalents and short-term Guaranteed Investment Certificates (GICs)
  - D. Investing in a diversified portfolio of real-estate investment trusts (REITs) and preferred shares

**ITEM ID:** RSEC\_E\_000748

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- 94.** A new client of an Investment Dealer wants to open an account separate from one held elsewhere. They have \$250,000 annual income and \$750,000 in assets with another Investment Dealer. They want investment recommendations but are unsure of their objectives. After providing the relationship disclosure, what should the Registered Representative do next?
- A. Recommend a model portfolio based on the client's annual income and assets
  - B. As the client is an accredited investor, encourage them to make their own decisions
  - C. Begin a know-your-client process to understand the client's goals and circumstances
  - D. Assess the client's sophistication in order to fulfil the suitability determination

**ITEM ID:** RSEC\_E\_000755

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- 95.** A client is worried that inflation will reduce the value of their money over time. They have an annual income of \$320,000 and no need to use their investments soon. Their money is currently all in cash. Their main goal is to keep their money's purchasing power for the long term.
- Which investment option best fits their needs?
- A. Long-term government and corporate bonds
  - B. High-interest-bearing savings account
  - C. Stocks with consideration to risk tolerance
  - D. Precious metal bullion



**ITEM ID:** RSEC\_E\_000756

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- 96.** A client's portfolio largely consists of liquid large-cap North American equities held in a cash account and they have historically followed a buy-and-hold philosophy. They are approached by their Registered Representative to switch from commission to a fee-based account. What circumstances would need to be considered to decide if this is in the client's best interests?
- A. Whether the client plans to actively trade the portfolio or retain their buy-and-hold approach
  - B. Whether the client intends to invest in less-liquid assets or remain invested in liquid assets
  - C. Whether the client plans to transfer to a Tax-Free Savings Account or remain in a cash account
  - D. Whether the client intends to invest in assets of different currencies or stay invested in Canadian dollars

**ITEM ID:** RSEC\_E\_000758

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- 97.** A 55-year-old client is concerned about market volatility and asks their Registered Representative whether selling equity to buy fixed income would be a good strategy. They do not want to eliminate all opportunities to increase value in the future.
- What key factor should the Registered Representative consider before responding, apart from reviewing the client's know-your-client information?
- A. The expected direction of near-dated interest-rate decisions
  - B. The existing asset allocation versus their target asset allocation
  - C. The potential impact of inflation on the portfolio's purchasing power
  - D. The client's overall time horizon and long-term need for portfolio growth

**ITEM ID:** RSEC\_E\_000771

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- 98.** A team of Registered Representatives (RRs) recommend and place orders for their clients. Each RR often shares the details of large deals with team members, who will then buy the same security in their personal accounts or their spouse's account to gain a price advantage over the client. What inappropriate activity are they engaging in?
- A. Artificial pricing
  - B. Layering
  - C. Front running
  - D. Insider dealing



**ITEM ID:** RSEC\_E\_000784

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- 99.** A reporting issuer is about to make an announcement to the public. Market expectation is that it will be bad news and the price of the issuer's shares has fallen accordingly. A client, designated as an insider of the issuer, places an order with a Registered Representative (RR) at an Investment Dealer to buy securities in the issuer before the announcement. What should the RR do?
- A. Execute the trade, as the market has already moved in response to the expected announcement
  - B. Ask if the client is trading on inside information, execute the trade and mark the trade as by an insider
  - C. Delay the execution of the trade until after the announcement to ensure the trade is fair and equitable
  - D. Report the trade as suspicious because it appears the client may be trading on inside information

**ITEM ID:** RSEC\_E\_000786

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- 100.** A client wants to sell a set number of shares. However, they want the order delayed until the market reaches a specific price. Which of the following orders should they place?
- A. Market order
  - B. Fill-or-kill order
  - C. Stop order
  - D. Immediate or cancel order

**ITEM ID:** RSEC\_E\_000794

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- 101.** A client wants to buy into a specific stock immediately. They are indifferent towards the price other than stating it should be the best available price. Which of the following orders should be placed?
- A. Limit order
  - B. Market order
  - C. Stop order
  - D. Immediate or cancel



**ITEM ID:** RSEC\_E\_000800

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- 102.** Which of the following best describes the primary purpose of an Investment Dealer's relationship disclosure statement?
- A. To describe the products and services offered, the nature of the account and the manner in which the account will operate
  - B. To identify to the client any conflicts of interest that affect their interests
  - C. To outline the relationship between the Investment Dealer and the financial services entity sharing its premises
  - D. To disclose the Investment Dealer's financial position to the client to enable them to assess the Investment Dealer's creditworthiness

**ITEM ID:** RSEC\_E\_000803

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- 103.** How would a Registered Representative explain the importance of grey and restricted lists?
- A. They serve to prevent conflicts of interest by monitoring and controlling the trading of certain securities
  - B. They enhance marketing efforts by allowing targeted approaches to clients with specific investment objectives
  - C. They ensure compliance with requirements by limiting the investments made available within the client's risk profile
  - D. They support an Investment Dealer in identifying client behavioural biases and reducing inappropriate decisions

**ITEM ID:** RSEC\_E\_000815

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- 104.** What is the purpose of a dealer's complaint-handling policies and procedures?
- A. To address dealing effectively, fairly and expeditiously with complaints
  - B. To resolve complaints to the client's satisfaction within 90 days
  - C. To acknowledge complaints with the client within five business days
  - D. To ensure complaints are handled in a manner that is fair, clear and not misleading



**ITEM ID:** RSEC\_E\_000841

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- 105.** When applying the suitability determination in relation to investments, which of the following recommendation scenarios is most appropriate for a client with low-risk tolerance?
- A. Start-up companies
  - B. Diversified index funds
  - C. Alternative investment funds
  - D. Leveraged exchange-traded funds

**ITEM ID:** RSEC\_E\_000849

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- 106.** A Registered Representative is collecting know-your-client information from a client. What is the most important reason for assessing the client's risk profile?
- A. To illustrate how much money the client is willing and able to lose
  - B. To inform the investment actions used to meet the client's needs
  - C. To ensure the portfolio's risk does not exceed the portfolio return
  - D. To instruct the client on the risk it takes to meet their objectives

**ITEM ID:** RSEC\_E\_000857

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- 107.** What is a key risk of a sole-proprietor business structure?
- A. Unlimited personal liability
  - B. Requirement to operate in multiple locations
  - C. Inability to hire employees
  - D. Separation of personal and business finances

**ITEM ID:** RSEC\_E\_000877

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- 108.** What is an advantage of common shares over preferred shares?
- A. Higher priority during liquidation
  - B. Priority in dividend payments
  - C. Greater potential for capital gains
  - D. Fixed value on dissolution



**ITEM ID:** RSEC\_E\_000881

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- 109.** An investor wishes to purchase shares that can be sold to the public, including the issuing company, and give the opportunity for long-term growth in value. What type of shares would be most appropriate for this client?
- A. Preferred shares with voting rights
  - B. Common shares traded on exchanges
  - C. Restricted shares with limitations on transferability
  - D. Treasury shares repurchased by the company

**ITEM ID:** RSEC\_E\_000882

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- 110.** What are the key features of a Canadian Depositary Receipt (CDR)?
- A. CDRs are issued by the Canadian government and provide a fixed interest rate with maturity terms of less than one year
  - B. CDRs allow investors to buy shares in Canadian companies on overseas stock exchanges without needing direct access to Canadian markets
  - C. CDRs, which represent foreign shares, allow Canadians to invest in international companies on Canadian exchanges
  - D. CDRs are tax-efficient investment vehicles specifically available to Canadian residents, providing exclusive access to Canadian companies

**ITEM ID:** RSEC\_E\_000910

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- 111.** A Registered Representative (RR) is reviewing the past activity of a new client. Historically, the client has traded individual stocks for their own account, but as this has resulted in losses, they now want advice. The RR notices that the client had a relatively high frequency of trading activity. They had also tended to focus on specific sectors. The portfolio is relatively modest in size, \$11,000, but the client agrees with the RR to make regular investments of \$300 each month. They also agree to limit redemptions, which will be discussed at their review meetings. What is the most likely reason the RR would recommend a managed product over individual stocks?
- A. They can offer real-time market access that fulfils the need to buy when the monthly payment comes in
  - B. They can offer sector-specific exposure but benefit from diversification across that sector
  - C. They can protect the portfolio from the losses that the client has historically suffered
  - D. They can lock the client into the product, preventing them from selling before the review meeting



ITEM ID: RSEC\_E\_000917

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- 112.** Why might an investor choose to include private equity funds in their portfolios?
- A. They are perceived to give higher potential returns
  - B. They allow for market access with lower fees
  - C. They provide greater liquidity and transparency
  - D. They are considered to be conservative investments

ITEM ID: RSEC\_E\_000923

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- 113.** A 32-year-old client with a low net worth intends to invest \$100 each month. They are interested in the stock market and the returns it can offer and they also want to reinvest any income to maximize return. Their risk profile indicates a medium risk tolerance.

Which of the following investments would be most suitable using only the information given?

- A. Growth stocks
- B. Alternative strategy funds
- C. International bonds
- D. Exchange-traded fund

ITEM ID: RSEC\_E\_000935

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- 114.** How does an investor use the risk-free rate?
- A. To calculate the potential profit of a stock
  - B. As a return on assets with zero volatility
  - C. As a baseline for assessing investment return
  - D. To calculate the time value of money

ITEM ID: RSEC\_E\_000937

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- 115.** A client cash account has a net-positive total loan value. The client has a debit cash balance greater than the positive loan value. Which of the following is true?
- A. The account is in good standing as it has a net-positive loan value
  - B. The account is in good standing as it has greater cash debits
  - C. The account is not in good standing and cash needs to be deposited
  - D. The account is not in good standing and assets need to be sold



**ITEM ID:** RSEC\_E\_000939

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- 116.** How does modern portfolio theory assist with portfolio recommendations?
- A. It focuses on timing the market and predicting short-term price movements
  - B. It emphasizes that asset prices reflect all available information
  - C. It aims to create efficient portfolios based on risk and return of assets
  - D. It provides analysis of portfolio performance relative to the risk taken

**ITEM ID:** RSEC\_E\_000948

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- 117.** Which of the following is a key disadvantage of using the Capital Asset Pricing Model (CAPM) in relation to modern portfolio theory?
- A. It can only be used for diversified portfolios
  - B. It uses beta as a measure of systematic risk
  - C. It assumes the risk-free rate is the same for all
  - D. It assumes a correlation between risk and return

**ITEM ID:** RSEC\_E\_000957

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- 118.** Which choice best describes how the Capital Asset Pricing Model (CAPM) is used in investment decision-making?
- A. CAPM is used to determine the expected return on an investment based on its risk relative to the market as a whole, which aids in the allocation of assets in a portfolio
  - B. CAPM measures the total risk of an investment, incorporating both systematic and unsystematic risks to guide portfolio managers in selecting assets with adequate returns
  - C. CAPM focuses on the diversifiable risk of an investment, helping portfolio managers minimize unsystematic risk through proper asset allocation
  - D. CAPM considers only the market risk of an investment, providing portfolio managers with insights on how to build a diversified portfolio to achieve optimal returns

**ITEM ID:** RSEC\_E\_000966

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- 119.** Which of the following investment strategies is most likely to defer capital gains tax for a client in Canada?
- A. Reinvest dividends into a Tax-Free Savings Account (TFSA)
  - B. Utilize a corporate structure to hold investments
  - C. Hold investments in a registered retirement savings plan (RRSP)
  - D. Invest in long-term government bonds to spread tax over multiple years



ITEM ID: RSEC\_E\_000997

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- 120.** A client's order execution-only (OEO) account includes derivatives such as exchange-traded options, with minimal Investment Dealer oversight demanded. Which statement best addresses the Investment Dealer's responsibility to track these holdings' risk profiles?
- A. Self-directed status removes the Investment Dealer's duty to consider product suitability or monitor any trade details
  - B. Due to the complex nature of the investment, a dedicated Supervisor must be appointed to approve each trade
  - C. A Registered Representative must be on hand to assist the client in their investment choices and risk exposure
  - D. The Investment Dealer must keep enough data to gauge margin or liquidity risk, even when the client leads trades



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# Retail Securities Exam

Practice Exam – Answers

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1.

**ITEM ID:** RSEC\_E\_000153

**KEY:** D

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2.

**ITEM ID:** RSEC\_E\_000239

**KEY:** A

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3.

**ITEM ID:** RSEC\_E\_000329

**KEY:** C

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4.

**ITEM ID:** RSEC\_E\_000692

**KEY:** C

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5.

**ITEM ID:** RSEC\_E\_000702

**KEY:** B

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6.

**ITEM ID:** RSEC\_E\_000900

**KEY:** B

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7.

ITEM ID: RSEC\_E\_000990

KEY: B

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8.

ITEM ID: RSEC\_E\_000006

KEY: A

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9.

ITEM ID: RSEC\_E\_000017

KEY: C

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10.

ITEM ID: RSEC\_E\_000028

KEY: B

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11.

ITEM ID: RSEC\_E\_000031

KEY: A

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12.

ITEM ID: RSEC\_E\_000035

KEY: A

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**13.**

**ITEM ID:** RSEC\_E\_000043

**KEY:** A

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**14.**

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27.

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29.

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30.

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**31.**

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**36.**

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37.

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38.

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39.

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40.

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41.

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42.

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43.

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44.

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45.

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46.

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47.

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48.

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**49.**

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**54.**

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**55.**

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**56.**

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**57.**

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**66.**

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**67.**

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**68.**

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**69.**

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**70.**

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**72.**

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**79.**

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**85.**

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**87.**

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**120.**

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