Investment Funds in Canada () Exam

CSI IFC

Version Demo

Total Demo Questions: 51

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QUESTION NO: 1

Which money market fund yield is calculated as the most recent seven-day yield?

A. Current

B. Nominal

C. Duration

D. Effective

ANSWER: A

Explanation:

Current is correct. Money market funds seek to maintain a stable net asset value per security, so their return is commonly communicated through standardized yield measures rather than through changes in unit price. The current yield is based on the income earned during the most recent seven-day period, converted to an annual rate without assuming that distributions are reinvested. It is therefore a timely snapshot of the income rate that the fund's portfolio has recently generated.

This convention is particularly useful for money market funds because their holdings are short-term debt instruments and their portfolio income can adjust relatively quickly as prevailing interest rates change. Annualizing the latest seven days gives investors a comparable percentage yield while still reflecting recent market conditions. Canadian money market fund disclosure is governed by the mutual-fund framework in National Instrument 81-102, available from the Ontario Securities Commission. The Canadian Securities Institute's Investment Funds in Canada course covers the fund structures, product characteristics, and performance concepts underlying this calculation.

QUESTION NO: 2

An investor owns equity mutual funds and is concerned about overall fund expenses. She prefers investment options that have lower management expense ratios, along with the opportunity for higher returns. What is the most appropriate fund type for this investor?

A. Exchange-traded funds

B. Segregated funds

C. Hedge funds

D. Liquid alternative funds

ANSWER: A

Explanation:

Exchange-traded funds are the most appropriate choice because they commonly offer a cost-efficient way to obtain diversified equity-market exposure. Many ETFs are designed to track an index rather than rely on continual discretionary security selection. This passive approach, together with their operating structure, can result in management expense ratios that are lower than those of many actively managed equity mutual funds. Lower ongoing expenses matter because MERs are deducted from fund assets and therefore reduce an investor's net return over time. A lower MER does not guarantee a higher investment return, since returns remain dependent on the performance of the ETF's underlying holdings and market conditions. However, when two investments provide comparable market exposure and performance before fees, the lower-cost investment leaves more of the gross return for the investor. ETFs also trade on an exchange throughout the day, giving investors a flexible means of buying and selling units at market prices. The investor should review the ETF's Fund Facts or ETF Facts document, including its MER, objective, holdings, risks, and trading costs, to ensure the selected product suits her objectives. See the Ontario Securities Commission's ETF overview and discussion of ETF fees and expenses.

QUESTION NO: 3

One of your clients, Fernando, is approaching 71 years of age and has a few questions regarding life income funds (LIFs).

Which of the following statements about LIFs is TRUE?

A. Fernando may make contributions to his LIF if he continues working.

B. Fernando is free to withdraw any amount from his LIF above the minimum amount.

C. Fernando can transfer money from his registered retirement savings plan (RRSP) to a LIF.

D. Fernando can transfer money from his locked-in retirement account (LIRA) to a LIF.

ANSWER: D

Explanation:

Fernando can transfer money from his locked-in retirement account (LIRA) to a LIF. A LIF is a prescribed retirement-income vehicle designed specifically to receive locked-in pension money when the holder begins drawing retirement income. Pension assets are locked in because they originated in a registered pension plan and must generally remain dedicated to providing retirement income. Accordingly, a LIRA is a standard source of funds for establishing or funding a LIF.

Once transferred, the funds remain subject to the applicable pension jurisdiction's locking-in rules. The LIF holder must withdraw at least the annual minimum amount required for a registered retirement income fund, while the jurisdiction generally also imposes an annual maximum withdrawal amount. These rules preserve the retirement-income purpose of the locked-in pension assets. At age 71, Fernando must mature any RRSP by the end of that year, but locked-in assets held in a LIRA can be transferred to a LIF so that retirement-income payments can commence in accordance with the governing rules. Details, including withdrawal limits and permitted transfers, vary somewhat by federal or provincial pension jurisdiction. See the Financial Services Regulatory Authority of Ontario's Life Income Funds (LIFs) guidance and the Government of Canada's RRSP-to-RRIF conversion information.

QUESTION NO: 4

A client says she is comfortable with a fund's "medium" risk rating and wants to invest all of her emergency savings in the fund. The dealing representative knows that the client may need the money within six months.

What is the most appropriate response?

A. Proceed because the client has accepted the fund's published risk rating.

B. Proceed because a medium-risk fund is suitable for any investment horizon shorter than one year.

C. Assess the proposed investment against the client's liquidity needs and short time horizon before making a recommendation.

D. Recommend the fund because emergency savings do not form part of the client's KYC information.

ANSWER: C

Explanation:

The dealing representative must assess whether the investment is suitable in light of the client's liquidity needs, time horizon, objectives, financial circumstances, and risk profile. A fund's published risk rating is useful product information, but it does not determine whether the fund is suitable for a particular client. A medium-risk fund may still decline in value at the time the client requires the emergency savings.

Accepting the client's statement about the risk rating without assessing the intended use of the money would not satisfy the suitability obligation. The representative should explain the risk of investing short-term emergency funds in a market-based fund and consider alternatives that better address the client's need for liquidity and capital preservation.

QUESTION NO: 5

Which newspaper article would be likely to result in foreign capital moving out of a country?

A. Corporate Taxes Reduced

B. New Taxes on Foreign Direct Investment

C. Government Re-elected for a Fourth Consecutive Term

D. International Ranking of Domestic Level of Education Rises Significantly

ANSWER: B

Explanation:

“New Taxes on Foreign Direct Investment” is the article most likely to lead to foreign capital leaving a country. Foreign direct investment involves investors committing capital to businesses or productive assets in another country, generally with a long-term interest and some degree of influence or control. New taxes specifically directed at such investment reduce expected after-tax returns and raise the cost of establishing, operating, or maintaining investments in that jurisdiction. This makes the country comparatively less attractive relative to alternatives with lower tax burdens or more favourable investment conditions.

Capital flows respond to expected return as well as risk. When a government increases taxes on foreign investment, investors may reassess projected cash flows, required rates of return, and country-risk exposure. Existing investors may reduce planned investment, repatriate capital where feasible, or redirect future capital to other markets. The CSI curriculum identifies taxation and government policy among factors that influence the investment environment and international capital movements. The Bank of Canada also explains that foreign direct investment reflects cross-border ownership and investment decisions, which are affected by economic conditions and policy incentives. See CSI’s Investment Funds in Canada course overview and the Bank of Canada’s foreign direct investment information.

QUESTION NO: 6

Which form of investment income is taxed at an investorâ€™s marginal tax rate?

A. Capital gains

B. Capital losses

C. Canadian dividend income

D. Foreign dividend income

ANSWER: D

Explanation:

Foreign dividend income is taxed at an investor’s marginal tax rate because it is generally included in the investor’s taxable income as ordinary income for Canadian tax purposes. Unlike dividends paid by taxable Canadian corporations, foreign dividends do not qualify for Canada’s dividend gross-up and dividend tax credit system. Consequently, the full amount of the foreign dividend, converted to Canadian dollars where necessary, is added to the investor’s income and taxed using the marginal rates that apply to that individual.

A foreign government may withhold tax before the dividend is received. Where applicable, the investor may be able to claim a foreign tax credit on their Canadian return, subject to the Income Tax Act’s rules and limits. This credit is intended to reduce double taxation; it does not change the fundamental characterization of the foreign dividend as income taxed at marginal rates. The Canada Revenue Agency’s guidance on investment income confirms that foreign investment income must be reported, while its guidance on foreign tax credits explains the potential relief for qualifying foreign taxes paid. See the CRA’s investment-income reporting guidance and the CRA’s federal foreign tax credit guidance.

QUESTION NO: 7

Which of the following statements regarding mutual fund fees is correct?

A. Redemptions are made from units held by investors to pay trailer fees.

B. Trailer fees are only paid to mutual fund dealers when a purchase is made.

C. The mutual fund dealer receives trailer fees based on the value of assets under management.

D. Trading commissions are paid from the management fee.

ANSWER: C

Explanation:

The mutual fund dealer receives trailer fees based on the value of assets under management. Trailer fees, also called trailing commissions, are ongoing payments that a mutual fund manager may make to the dealer whose client continues to own units of the fund. The payment is generally calculated as an annual percentage of the market value of the client's holdings, then accrued and paid periodically. Thus, as the value of the applicable client assets rises or falls, the dollar amount of the trailer fee generally changes as well.

These payments compensate the dealer for continuing dealer services associated with the client relationship, such as account servicing, statements, and access to advice where applicable. They are normally funded from the fund's management fee and form part of the information investors should review when assessing a fund's total cost. Canadian Fund Facts documents disclose management expense ratios and, where relevant, trailing commission information so that investors can understand the compensation and ongoing costs connected to a mutual fund investment. The Ontario Securities Commission discusses fund fees and compensation in its guide to understanding mutual fund fees. Further investor guidance on mutual fund fees and commissions is available from GetSmarterAboutMoney.

QUESTION NO: 8

You wish to sell a perpetual preferred share with a par value of $25.00, which pays a quarterly dividend of $0.25. If other preferred shares of similar quality are currently yielding 3.5%, what price should you expect to receive for your share?

A. $30.35

B. $25.00

C. $28.57

D. $14.29

ANSWER: C

Explanation:

$28.57 is the expected price because a perpetual preferred share is valued as a perpetuity: its value equals the annual dividend divided by the required market yield for securities of comparable quality. The share pays $0.25 each quarter, so its annual dividend is $1.00 ($0.25 × 4). Applying the comparable preferred-share yield of 3.5% gives a value of $28.5714, calculated as $1.00 ÷ 0.035. Rounded to the nearest cent, the expected selling price is therefore $28.57.

The $25.00 par value identifies the stated value of the share and is useful for expressing the dividend rate: a $1.00 annual dividend on $25.00 par is a 4% stated dividend rate. However, market value is determined by the yield investors currently require, not necessarily by par value. Since the stated 4% dividend rate exceeds the 3.5% market yield, investors would be willing to pay a premium to receive that fixed dividend stream, producing a price above par. This follows the standard inverse relationship between required yield and the price of a fixed-income-like security. See the U.S. SEC investor bulletin on preferred stock and the Ontario Securities Commission investor education resources.

QUESTION NO: 9

Which statement best describes what a rational investor will do when comparing the risk and return of two investments?

A. He will select the one that maximizes risk and maximizes return

B. He will select the one with the lower risk because all investors are risk averse

C. He will select the one that minimizes risk and maximizes return

D. He will select the one with the higher expected risk because that is the only way to earn a higher return

ANSWER: C

Explanation:

“He will select the one that minimizes risk and maximizes return” is the best description of rational investment choice because investors evaluate return in relation to the uncertainty required to earn it. A rational investor prefers the investment that offers a higher expected return for the same level of risk, or, equivalently, the lower-risk investment when expected returns are equal. This is the risk-return trade-off underlying modern portfolio analysis: an investor seeks the most favourable attainable combination of expected return and risk rather than seeking risk for its own sake. In practice, this principle is represented by the efficient frontier. Portfolios on that frontier provide the greatest expected return available for a given degree of risk, or the least risk necessary for a given expected return. The appropriate selection still depends on the individual’s objectives, constraints, time horizon, and tolerance for risk, but the rational preference remains to avoid uncompensated risk while pursuing return. This approach is consistent with the investor-education guidance from the Ontario Securities Commission on understanding investment risk and the curriculum focus of the Canadian Securities Institute Investment Funds in Canada course.

QUESTION NO: 10

Which term describes the tendency of a mutual fund manager to move away from the **original stated investment objectives** by investing in classes of securities different from those named in the fund’s prospectus?

A. Momentum investing

B. Sector rotation

C. Style drift

D. Market timing

ANSWER: C

Explanation:

Style drift is the term for a portfolio manager’s movement away from the investment style, asset mix, or mandate that investors reasonably associate with a fund’s disclosed investment objectives. For example, a fund positioned in its prospectus as investing in a particular class of securities may gradually acquire materially different types of securities, altering the fund’s exposure and risk characteristics. The key feature is the departure from the original stated mandate rather than an isolated security-selection decision.

This matters because a mutual fund’s investment objectives are central to an investor’s understanding of what the fund is intended to do and the risks it is expected to assume. They also form an important part of the suitability process: an investor may select a fund specifically to obtain a defined equity, fixed-income, geographic, capitalization, or other style exposure. Style drift can therefore cause the actual portfolio to no longer match that expectation.

Canadian mutual-fund regulation treats a change to fundamental investment objectives as significant. National Instrument 81-102 requires unitholder approval before a mutual fund changes its fundamental investment objectives, reinforcing the importance of maintaining fidelity to the disclosed mandate. See the Canadian Securities Administrators’ National Instrument 81-102 Investment Funds and the OSC’s prospectus disclosure framework.

QUESTION NO: 11

Which of the following is a rationale for a portfolio manager to use a passive portfolio management strategy?

A. The manager does not believe in using benchmarks.

B. The manager wishes to create c apital gains in the mutual fund by frequently buying and selling stocks

C. The manager believes he or she can outperform the market with his or her stock picking skills.

D. The manager believes that as the markets are fairly priced, it would be futile to look for mis-priced securities.

ANSWER: D

Explanation:

The manager believes that as the markets are fairly priced, it would be futile to look for mis-priced securities. Passive management is grounded in the view that securities markets are sufficiently efficient that available information is already reflected in security prices. Under this rationale, consistently identifying undervalued securities to buy or overvalued securities to sell is unlikely to produce reliable excess returns after accounting for management fees, trading commissions, bid-ask spreads, and taxes. Rather than attempting to select individual winners or time market movements, a passive portfolio manager seeks to obtain the return of a specified market or benchmark index by holding the index's securities, or a representative sample of them, in approximately the same proportions. This approach generally emphasizes broad diversification, limited portfolio turnover, lower implementation costs, and close tracking of the selected benchmark. The rationale does not require a claim of superior stock-selection ability; it specifically reflects the belief that searching for pricing errors is not expected to add value consistently. The CFA Institute describes market efficiency as the extent to which market prices reflect available information, a principle that supports index-oriented investment approaches: CFA Institute: Market Efficiency and Its Three Forms. The Canadian Securities Administrators also explains that mutual funds provide investors with professionally managed and diversified portfolios: Canadian Securities Administrators: Mutual Funds.

QUESTION NO: 12

In which province must registered dealing representatives notify their securities administrator of a **personal bankruptcy**?

A. Saskatchewan

B. Nova Scotia

C. Ontario

D. British Columbia

ANSWER: A

Explanation:

Saskatchewan is correct. Saskatchewan imposes a specific obligation on a registered dealing representative to notify the securities administrator when the representative becomes bankrupt. This is an important registration-status disclosure because bankruptcy can be relevant to the regulator's assessment of an individual's proficiency, integrity, solvency, and ongoing suitability to deal with investors. The notice enables the Saskatchewan securities administrator to consider whether any further regulatory review, terms and conditions, or other action is appropriate to protect investors and confidence in the capital markets.

This provincial requirement should be understood alongside the broader national registration-information framework. National Instrument 33-109 requires registered individuals and their sponsoring firms to keep registration information current, including information that may affect an individual's suitability for registration. Saskatchewan's requirement expressly identifies personal bankruptcy as a matter requiring notification to the securities administrator. The current Saskatchewan securities regulations can be reviewed through CanLII's Saskatchewan Securities Regulations. The national reporting framework is available from the Ontario Securities Commission's NI 33-109 materials.

QUESTION NO: 13

Seth's brother Keith manages a successful private equity fund. Seth is an investment advisor and has thoroughly evaluated Keith's fund. He believes it would be an excellent investment for some of his clients. If Seth does not disclose his relation to Keith prior to recommending this investment, what value does he stand to breach with his client?

A. Integrity

B. Confidentiality

C. Compliance

D. Duty of care

ANSWER: A

Explanation:

Integrity is the value Seth stands to breach. In the client–advisor relationship, integrity means acting honestly, fairly, and in good faith, including being open about personal interests that could affect, or reasonably be perceived to affect, professional judgment. Seth may genuinely believe that the private equity fund is appropriate and may have conducted sound research; however, his family relationship with the fund manager creates a potential conflict of interest. A reasonable client would consider that relationship relevant when assessing whether the recommendation is objective.

Disclosure enables the client to understand the advisor's circumstances and to make an informed decision about the recommendation. By withholding that material relationship, Seth fails to provide the transparency expected of an advisor who places client interests first. This is fundamentally an integrity issue because the concern is the honesty and completeness of the advisor's dealings with the client, rather than the quality of the investment analysis itself. Canadian securities registrants must identify and address material conflicts of interest in the client's best interest; disclosure is an important part of meeting that obligation. See the Canadian Securities Administrators' conflicts-of-interest amendments to National Instrument 31-103 and the Canadian Securities Course overview.

QUESTION NO: 14

David is reviewing a simplified prospectus and is particularly interested in one of the funds. The investment objective stated for this fund is to provide dividend income, capital preservation, and some potential for capital gains. What fund is David interested in?

A. Mortgage fund

B. Preferred dividend fund

C. Equity growth fund

D. Bond fund

ANSWER: B

Explanation:

Preferred dividend fund is correct because preferred shares are designed principally to provide investors with dividend income, typically at a stated rate or according to a defined formula. They also generally have priority over common shares for dividend payments and, if a company is wound up, for claims on assets after creditors. Those characteristics can make a portfolio of preferred shares more oriented toward income and capital preservation than a portfolio focused on common-equity growth. At the same time, preferred-share prices can rise when interest rates decline, credit quality improves, or market demand increases, which creates the possibility of capital gains in addition to dividend income. A fund investing primarily in preferred shares can therefore reasonably state an objective combining dividend income, preservation of capital, and some capital-appreciation potential. The simplified prospectus is the key disclosure document for confirming this mandate, since it sets out each mutual fund's investment objectives, strategies, and risks. The Canadian Securities Administrators describe the prospectus disclosure framework for investment funds at National Instrument 81-101 Mutual Fund Prospectus Disclosure. For an overview of preferred shares and their income-focused features, see the TSX preferred shares resource.

QUESTION NO: 15

Who is responsible for the explicit costs of operating a mutual fund?

A. Investor

B. Manager

C. Sponsor

D. Distributor

ANSWER: A

Explanation:

Investor is correct because the ongoing, explicit expenses of a mutual fund are paid from the fund's assets. Since investors collectively own those assets, they ultimately bear these costs through a reduction in the fund's net asset value and investment return. Such expenses can include management fees and operating costs, such as administration, recordkeeping, custody, audit, legal, and regulatory costs. The management expense ratio expresses the annual cost of managing and operating the fund as a percentage of its average net assets. It is not normally billed separately to an investor; rather, it is accrued by the fund and reflected in the unit value. Consequently, an investor's realized return is net of these expenses. Canadian mutual funds must disclose management fees and operating expenses in their continuous-disclosure documents, including the Management Report of Fund Performance, under National Instrument 81-106. Fund Facts also presents the fund's management expense ratio so that investors can assess the ongoing cost associated with holding the fund. See the Canadian Securities Administrators' National Instrument 81-106 and the Ontario Securities Commission's overview of mutual-fund fees and expenses.

QUESTION NO: 16

Which of the following statements is TRUE about the movement of business cycles in the Canadian economy?

A. A period of economic expansion is followed by a period of economic contraction.

B. A period of economic expansion is of the same length in every cycle.

C. A period of economic expansion is always of the same length as a period of economic contraction.

D. A period of at least 3 consecutive months of contraction is called a recession.

ANSWER: A

Explanation:

"A period of economic expansion is followed by a period of economic contraction." is true because a business cycle describes recurring broad movements in aggregate economic activity around the economy's longer-run growth path. During an expansion, output, incomes, employment, spending, and business activity generally rise. Expansion continues from a trough until activity reaches a peak. After the peak, economic activity moves into a contraction, in which the pace of activity declines; a sufficiently pronounced and broad contraction is commonly described as a recession. The contraction ultimately reaches a trough, which provides the starting point for the next expansion. Thus, the phases follow a directional sequence: recovery and expansion lead to a peak, and the peak is followed by contraction. This cyclical framework is useful to Canadian investors because economic conditions can affect corporate earnings, interest rates, inflation expectations, credit conditions, and the relative performance of asset classes. Although the timing and severity of each phase vary materially from one cycle to another, the fundamental movement from expansion to peak and then contraction remains the standard description of the business-cycle process. The Bank of Canada's discussion of economic developments and monetary-policy decisions reflects its ongoing assessment of these economy-wide conditions. See the Bank of Canada's monetary policy overview and the NBER's business-cycle dating information.

QUESTION NO: 17

Which type of fixed income fund has a short duration, with the objectives of preserving capital and generating better current income than a money market fund?

A. Preferred dividend fund

B. Mortgage fund

C. Short-term bond fund

D. T-bill fund

ANSWER: C

Explanation:

Short-term bond fund is correct because it occupies the space between a money market fund and a conventional bond fund. Its portfolio generally holds high-quality debt securities with relatively near-term maturities, producing a short duration. Short duration limits the sensitivity of the fund's value to changes in interest rates and supports the objective of capital preservation, although it does not eliminate investment risk or guarantee principal. At the same time, the fund can invest in short-term bonds and other debt instruments that normally offer yields above those available on the very short-term instruments held by money market funds. This enables it to seek better current income while maintaining a more conservative interest-rate profile than longer-term fixed-income funds. Capital gains may occur, but they are not the principal objective because the short duration constrains the potential price movement arising from changing yields. The fund category is therefore specifically designed for investors seeking modestly higher income than money market investments without taking the level of interest-rate exposure typical of medium- or long-term bond portfolios. The Canadian Securities Institute describes fund types and fixed-income investing concepts in its Investment Funds in Canada course; additional information on how duration measures interest-rate sensitivity is available from the U.S. SEC Investor Bulletin on bonds.

QUESTION NO: 18

Which person would be categorized as a vulnerable client?

A. Nafissa, who has no savings to address an immediate financial emergency.

B. Ginger, who has reached retirement age and is easily confused.

C. Aldous, who has become recently unemployed but still has a mortgage to pay.

D. Peter, who is 65 years old but cannot afford to retire.

ANSWER: B

Explanation:

Ginger, who has reached retirement age and is easily confused, is appropriately categorized as a vulnerable client. In the Canadian securities regulatory framework, vulnerability is not determined by age alone. It arises where an illness, impairment, disability, or limitation associated with the aging process may place a client at risk of financial exploitation. Easily becoming confused is a relevant cognitive limitation because it can affect a person's ability to understand financial information, assess recommendations, communicate informed instructions, or recognize pressure from another person.

For a registrant, recognizing this circumstance is important to meeting obligations to deal fairly, honestly, and in good faith with clients. It calls for communications and service that account for the client's needs—for example, taking sufficient time to explain material information clearly, checking the client's understanding, and remaining alert to warning signs of possible financial exploitation. Retirement age provides relevant context, while the confusion is the key fact indicating an aging-process limitation that can increase the risk of harm in financial dealings. The Canadian Securities Administrators' older-client and vulnerable-client reforms describe this protective framework: CSA—Final amendments to protect older and vulnerable clients. Further guidance on registrants' ongoing conduct obligations is available in Companion Policy to National Instrument 31-103.

QUESTION NO: 19

As a measurement of risk, which of the following statements about beta is TRUE?

A. A larger beta for a stock means it will outperform the market at any point in the business cycle.

B. It is a relative measure that compares how an investment reacts to movements in a specific index.

C. It is a ratio that compares a company's current rate of return to its average rate of return overtime.

D. It corresponds to a stock's riskiness in relation to the frequency of dividend payments over a certain period of time.

ANSWER: B

Explanation:

It is a relative measure that compares how an investment reacts to movements in a specific index. Beta measures systematic, or market, risk by estimating the sensitivity of an investment's returns to changes in the returns of a selected benchmark. The benchmark is commonly a broad market index, although the appropriate index depends on the investment being assessed. A beta of 1.0 indicates that the investment has historically tended to move by approximately the same percentage as its benchmark. A beta above 1.0 indicates greater sensitivity to benchmark movements: for example, an investment with a beta of 1.2 has historically tended to move about 1.2% for each 1% move in the index, in the same direction on average. A beta below 1.0 indicates lower sensitivity to the benchmark. Because beta is calculated relative to a benchmark, it is not an absolute measure of total investment risk; company-specific risk and the variability of returns that is unrelated to the market are not captured by beta. This interpretation is consistent with the risk-and-return concepts used in the capital asset pricing model. See the U.S. SEC Investor.gov overview of beta and CFA Institute's equity valuation resources.

QUESTION NO: 20

One of your clients, Harry, has heard that he can defer paying tax on capital gains. He wants to know if what he has heard is correct and if so, how to defer paying taxes on capital gains.

What would you tell Harry?

A. He should hold profitable investments as long as possible.

B. He should invest in mutual funds just before the dividend paying date to pick up the dividend.

C. Harry should buy and sell investments actively.

D. He should hold unprofitable investments as long as possible.

ANSWER: A

Explanation:

He should hold profitable investments as long as possible. In a non-registered account, a capital gain generally arises when an investment is disposed of for proceeds greater than its adjusted cost base and related selling costs. The gain is normally included in income for tax purposes only in the tax year in which the disposition occurs. Therefore, retaining an investment with an unrealized gain postpones the disposition and, consequently, defers the related capital-gains tax liability until a later year. This deferral can be valuable because the amount that would otherwise have been paid in tax remains invested and may itself earn returns over time. The approach is often described as tax deferral, rather than tax elimination: tax may become payable when the investment is eventually sold, gifted, redeemed, or otherwise disposed of. Investment suitability must still drive the decision to continue holding an asset; a client should not retain an investment that no longer meets their objectives, risk tolerance, diversification needs, or time horizon solely to defer tax. The Canada Revenue Agency explains that capital gains are generally reported when property is sold or otherwise disposed of, and it provides reporting guidance for securities dispositions. See the CRA's capital gains reporting guidance and the Ontario Securities Commission's overview of tax and investments.

QUESTION NO: 21

Tony, the investment manager of True North Canadian Equity Fund is deciding on some new investments. He has done an economic analysis of the various provinces and sectors of the Canadian economy and has determined that Nova Scotia and Alberta present the best prospects. He has also identified potential in the oil and gas sector. He narrows down his selection to an oil supply firm in Medicine Hat and a drilling company in Halifax.

What investment approach is Tony employing?

A. bottom-up

B. growth at a reasonable price (GARP)

C. value investing

D. top-down

ANSWER: D

Explanation:

top-down is correct because Tony's selection process begins with broad economic analysis and progressively narrows to more specific investment choices. He first evaluates the outlook for Canadian provinces, identifying Nova Scotia and Alberta as attractive regional opportunities. He then focuses on an industry expected to benefit from those conditions—the oil and gas sector—and finally identifies individual companies: an oil-supply firm and a drilling company. This sequence, from macroeconomic and regional considerations to sector analysis and then individual securities, is the defining feature of top-down investing.

A top-down manager uses expectations about economic activity, geographic markets, interest rates, inflation, and industry cycles to identify areas likely to offer favourable returns. Individual company selection occurs after those broader decisions have established where the portfolio manager wants exposure. In this scenario, the manager's choices are therefore driven by his economic and sector outlook rather than beginning with detailed company-specific characteristics. This approach is commonly contrasted with security-first analysis, because the investment universe is screened from the broadest level down to the particular issuers. See the CFA Institute's overview of equity valuation concepts and analysis and the Canadian Securities Institute's Investment Funds in Canada course.

QUESTION NO: 22

A mutual fund has the following investment objective: " This Fund invests in a diverse portfolio of equity securities that are judged to have fundamental growth opportunities. " What is this type of mutual fund?

A. Equity index

B. Equity growth

C. Target-date

D. Standard equity

ANSWER: B

Explanation:

Equity growth is correct because the stated objective explicitly focuses on equity securities selected for their fundamental growth opportunities. A growth-oriented equity fund seeks companies expected to increase earnings, revenues, cash flows, or market value at a relatively strong rate. Its portfolio manager commonly uses fundamental analysis to assess a company's business prospects, financial strength, competitive position, management, and valuation in identifying securities with above-average growth potential. The reference to a diverse portfolio indicates diversification across holdings, while the defining feature of the mandate remains the pursuit of growth through equity investments. This description fits the CSI classification of an equity growth fund: a fund whose primary objective is capital appreciation from investments in companies with favourable growth prospects. Growth investing may involve greater price volatility than some income-focused strategies because investors' expectations for future earnings can materially affect share prices. The fund's objective gives investors important information about its intended investment style and the type of return it is principally seeking—long-term capital growth rather than tracking a specified market index or following a pre-set retirement-date asset-allocation path. See the Canadian Securities Institute Investment Funds in Canada course and the U.S. Securities and Exchange Commission overview of mutual funds and ETFs.

QUESTION NO: 23

Which of the following best describes how a target date fund works?

A. Through the years, the asset allocation shifts from equities towards fixed income as the maturity date approaches.

B. Through the years, the asset allocation shifts from fixed income towards equities as the maturity date approaches.

C. The mutual fund is constantly rebalanced to maintain an even split between equities and fixed income through the life of the mutual fund.

D. In exchange for a lump-sum purchase the unitholder receives guaranteed monthly payments for life.

ANSWER: A

Explanation:

Through the years, the asset allocation shifts from equities towards fixed income as the maturity date approaches. Target date funds are intended to provide a diversified portfolio aligned with an investor's expected retirement date or other stated investment objective. Their defining feature is a predetermined asset-allocation path, commonly called a "glide path." When the target date is many years away, the fund normally emphasizes equities because the investor has a longer time horizon in which to pursue growth and potentially recover from market declines. As the target date draws nearer, the fund manager systematically reduces the equity weighting and raises the allocation to fixed-income securities and, in many cases, cash or other lower-volatility investments. This gradual change seeks to reduce the portfolio's expected volatility and limit the impact that a major equity-market decline could have immediately before the investor expects to use the money. The target date is therefore central to the fund's ongoing portfolio design, rather than merely being a label. Investors should still review the specific fund's prospectus or Fund Facts because glide paths, underlying holdings, and the allocation maintained after the target date differ among fund families. See the Ontario Securities Commission's overview of target date funds and the Canadian Securities Administrators' investment fund investor education.

QUESTION NO: 24

If the Consumer Price Index (CPI) was 140.6 last year and 146.9 this year, what was the inflation rate over the year?

A. 4.12%

B. 5.20%

C. 4.48%

D. 6.04%

ANSWER: C

Explanation:

The correct answer is **4.48%**. The annual inflation rate measures the percentage change in the Consumer Price Index over the stated period. Calculate it by subtracting the prior year's CPI from the current year's CPI, dividing that change by the prior year's CPI, and multiplying by 100: $((146.9 - 140.6) \div 140.6) \times 100$. The CPI increased by 6.3 index points. Dividing 6.3 by the starting CPI of 140.6 produces approximately 0.0448; expressed as a percentage, this equals 4.48%. The prior-year index is the appropriate denominator because the question asks how much prices increased relative to the overall price level at the beginning of the year. CPI is a widely used measure of the change in prices paid by consumers for a representative basket of goods and services, and its percentage change is used to state the inflation rate for a period. Statistics Canada provides CPI data and describes its role in measuring consumer-price changes at Statistics Canada's Consumer Price Index page. The Bank of Canada also explains inflation and its relationship to changes in consumer prices at the Bank of Canada inflation page.

QUESTION NO: 25

Michael had invested in several mutual funds, most of which have appreciated in value. He is not sure if he needs to report the gain as capital gains when he files his income tax return.

What would you tell Michael?

A. Capital gains are taxed when they are realized.

B. He has to report any unrealized capital gains each year.

C. Capital gains are taxed only on equity mutual funds.

D. Capital gains are not subject to tax.

ANSWER: A

Explanation:

Capital gains are taxed when they are realized. For a mutual fund investor holding units in a non-registered account, an increase in the market value of the units is generally an unrealized capital gain. Simply continuing to hold units that have appreciated does not, by itself, create a capital gain to report. A capital gain is generally realized when the investor disposes of units—for example, by selling, redeeming, switching, or otherwise transferring them. The gain is generally calculated by comparing the proceeds of disposition with the investor's adjusted cost base, after accounting for relevant selling costs. Canadian tax rules generally require only the taxable portion of a realized net capital gain to be included in income. Mutual fund investors should also retain records of purchases, reinvested distributions, redemptions, and any return of capital, because these items may affect the adjusted cost base used when a disposition occurs. Separately, a mutual fund may allocate taxable amounts to its unitholders during the year, even where units have not been sold; those allocations are reported on the applicable tax slip. The question concerns appreciation in the value of Michael's holdings, which becomes a capital gain when it is realized. See the CRA's taxable capital gains guidance and its Capital Gains guide.

QUESTION NO: 26

On January 3, John invests $500 in the Blue Sky U.S. Equity Fund. On July 1 of the same year, he invests another $500 into the same mutual fund. Information about the net asset value per unit (NAVPU) at the time of each transaction is provided below. Given this information, what will be the value of John ' s investment on December 31 of this year (please ignore transaction costs and distributions)?

A. $1,198

B. $1,216

C. $1,256

D. $1,332

ANSWER: C

Explanation:

$1,256 is the intended value of John's investment at December 31. A mutual-fund purchase buys a number of units determined by dividing the dollar amount invested by the NAVPU applicable on the purchase date. The January 3 and July 1 purchases must therefore be calculated separately because each purchase is made at its own NAVPU. The units acquired in both transactions are then added together. To find the investment's year-end market value, multiply the total units held by the December 31 NAVPU. No adjustment is required for transaction charges or distributions because the question specifically instructs that they be ignored. This approach reflects the core NAVPU principle: a fund investor owns units, and the dollar value of the holding changes as the NAVPU changes, while the unit count remains unchanged except for purchases, redemptions, or reinvested distributions. CSI's Investment Funds in Canada course covers mutual fund pricing and NAVPU concepts; see CSI: Investment Funds in Canada. General investor information on mutual funds and their valuation is also available from the Ontario Securities Commission.

QUESTION NO: 27

The demand for blue widgets increases sharply due to a newspaper report that using blue widgets improves recovery from influenza. What can be said about the law of supply?

A. Price decreases and production increases

B. Price increases and production decreases

C. Price and production both decrease

D. Price and production both increase

ANSWER: D

Explanation:

Price and production both increase is correct. The newspaper report changes consumers' preferences or expectations about the benefits of blue widgets, causing demand to increase. In a competitive market, this is represented by a rightward shift of the demand curve. At the original market price, the increased demand creates excess demand: consumers wish to buy more blue widgets than producers currently offer. Competitive pressure from buyers raises the market price until a new equilibrium is reached.

The law of supply describes the direct relationship between a product's price and the quantity producers are willing and able to supply, assuming other supply determinants remain unchanged. Therefore, the higher equilibrium price provides an incentive for firms to expand output, so the equilibrium quantity—described here as production—also rises. The market adjustment consequently produces both a higher price and a greater quantity of blue widgets supplied and sold. This result combines an increase in demand with the movement along the existing supply curve induced by the resulting price increase. For a discussion of supply, demand, and equilibrium adjustments, see OpenStax, Demand, Supply, and Equilibrium and the Bank of Canada's overview of how supply and demand affect prices.

QUESTION NO: 28

What is the time period during which an individual must complete a training program once she starts acting as a dealing representative?

A. 30 days

B. 90 days

C. 6 months

D. 3 months

ANSWER: B

Explanation:

90 days is the required completion period. A mutual fund dealing representative who begins acting in that capacity may do so while completing the prescribed training, but the training program must be finished within 90 days of the date the individual first starts acting as a dealing representative. This is a defined compliance deadline expressed in days, rather than a general approximation in calendar months. The rule supports an orderly transition into registrable activity by allowing a newly acting representative to gain practical experience while ensuring that the required education is completed promptly. During the initial period, the representative is also subject to close supervision for six months, which complements—but does not replace—the separate 90-day training-completion requirement. Firms must have procedures to monitor the individual's start date, enrollment and completion of the training program, and the required supervisory arrangements. These proficiency and supervision expectations are part of the Canadian registration framework administered by securities regulators and, for mutual fund dealer members, reflected in CIRO's dealer-member regulatory framework. See the Canadian Securities Administrators' registration resources and CIRO's dealer and advisor registration information.

QUESTION NO: 29

Your client earns $100,000 from employment and $10,000 from investments each year. Her bills total $95,000 annually. What is her discretionary income?

A. $5,000

B. $20,000

C. $15,000

D. $10,000

ANSWER: C

Explanation:

$15,000 is the client's discretionary income. In a personal cash-flow assessment, discretionary income is the amount remaining after all income received during the period is reduced by the expenses and obligations paid during that same period. It represents the funds potentially available for such goals as savings, investing, debt reduction beyond required payments, or other non-essential spending.

The client's annual income includes both employment earnings and investment income: $100,000 plus $10,000, for total annual cash inflow of $110,000. Her annual bills are $95,000. Subtracting annual bills from total annual income produces the available surplus: $110,000 − $95,000 = $15,000. Therefore, she has $15,000 of discretionary income per year, assuming the stated bills encompass her relevant annual cash outflows.

This cash-flow approach is consistent with the Financial Consumer Agency of Canada's guidance that a budget compares income with expenses and identifies the money remaining after expenses. See the FCAC budgeting guidance and its Budget Planner.

QUESTION NO: 30

The following data is available for an investment:

Purchase value

$125

End of the year value

$133

Quarterly dividend amount

$1

What is the annual return for this investment if held for one year?

A. 9.6%

B. 3.2%

C. 9.0%

D. 7.2%

ANSWER: A

Explanation:

9.6% is the annual holding-period return. Annual return for an investment held for one year includes both components of the investor's gain: income received during the holding period and the change in the investment's market value. The investment pays a quarterly dividend of $1, so total dividend income over four quarters is $4. Its value rises from $125 at purchase to $133 at year-end, producing a capital gain of $8. The total dollar return is therefore $12: $4 of dividend income plus $8 of capital appreciation. Dividing this total return by the original purchase value gives $12 ÷ $125 = 0.096, or 9.6%.

This is a one-year total-return calculation, so it appropriately combines cash distributions and the unrealized or realized change in value over the period. It assumes the stated quarterly dividends were received and does not assume that dividends were reinvested; a reinvestment assumption could slightly change the measured return. This approach aligns with the standard holding-period-return concept used to evaluate an investment's performance over a specified period. See the U.S. SEC Investor.gov overview of investment returns and the CFA Institute's return concepts reference.

QUESTION NO: 31

What risk type is prevalent regardless of the level of portfolio diversification or hedging?

A. Market

B. Default

C. Unique

D. Inflation

ANSWER: A

Explanation:

Market is correct because it describes systematic risk: the possibility that broad movements in the economy and financial markets will affect the value of many investments at the same time. Changes in interest rates, economic growth expectations, investor confidence, geopolitical conditions, and overall equity- or bond-market conditions can influence an entire portfolio, including one that holds securities from many issuers, industries, or regions. Diversification is valuable because it reduces the impact of issuer- or security-specific events, but it does not remove exposure to market-wide forces. Hedging can reduce a defined exposure for a period and under specified market conditions, yet it generally cannot eliminate all broad-market sensitivity. Hedges may be incomplete, imperfectly correlated with the portfolio, limited in duration, or subject to changing prices and liquidity. Therefore, an investor remains exposed to some degree of market risk even in a carefully diversified and hedged portfolio. This is the central distinction between systematic market risk and risks that arise from circumstances unique to an individual security or issuer. The Bank of Canada describes how monetary-policy decisions affect interest rates and financial conditions across the economy: Bank of Canada—Monetary Policy. For a Canadian investor-focused overview of investment risk, see the Ontario Securities Commission's Understanding Risk resource.

QUESTION NO: 32

Which of the following is a characteristic of a bond fund?

A. Income from a bond fund will primarily be interest but may also be capital gains

B. Bond funds are very low risk because they never go down in value.

C. If interest rates rise the value of a bond fund will also tend to rise.

D. Securities regulation specifies that bond funds must invest in investment grade bonds.

ANSWER: A

Explanation:

Income from a bond fund will primarily be interest but may also be capital gains is correct. A bond fund pools investors' money to invest mainly in debt securities, such as government and corporate bonds. Those underlying bonds generally make regular coupon-interest payments, so the fund's distributable income is ordinarily derived primarily from interest. The precise amount and timing of distributions are determined by the fund's holdings and distribution policy, and income is not guaranteed.

A bond fund can also realize capital gains. For example, when market interest rates decline, the market prices of existing bonds with comparatively higher coupons commonly increase. If the portfolio manager sells an appreciated bond, the fund realizes a capital gain, which may be included in distributions to unitholders or shareholders. Bond funds therefore provide investors with potential income and, depending on changing bond prices and trading activity within the portfolio, potential capital gains. The Canadian Securities Administrators' investor information describes mutual funds as investments that can distribute income, dividends, or capital gains, while the Government of Canada explains the inverse relationship generally observed between bond prices and interest rates. See the [Canadian Securities Administrators' mutual fund overview] and the [Financial Consumer Agency of Canada's bond guidance].

QUESTION NO: 33

Which exemplifies the tendency of mutual fund companies to shut down poor performing funds?

A. Standby underwriting

B. Survivorship bias

C. Short selling

D. Standard lot

ANSWER: B

Explanation:

Survivorship bias is the correct term for the distortion that arises when poorly performing mutual funds are closed, merged into other funds, or otherwise disappear from the set of funds used to calculate historical performance results. Once defunct funds are excluded, the remaining "surviving" funds can appear to have delivered stronger average returns, lower failure rates, or more consistent results than the full original group of funds actually experienced. This matters when reviewing fund rankings, category averages, or long-term track records: an investor should recognize that an apparently successful universe of funds may not include funds that performed badly enough to be discontinued. The concept is especially relevant to performance comparisons because the omitted results are not random; they often belong to funds with weak outcomes. CSI's mutual-fund material identifies survivorship bias as a limitation of performance-universe comparisons, since defunct portfolios drop out of subsequent rankings. The Ontario Securities Commission also emphasizes that mutual fund investors should assess performance alongside a fund's objectives, risks, costs, and disclosure rather than relying on performance alone. See [CSI's Investment Funds in Canada course] and the [Ontario Securities Commission's mutual fund information].

QUESTION NO: 34

A mutual fund sales representative receives a clientâ€™s purchase order for equity mutual funds and confirms that the order is appropriate based on the clientâ€™s recorded investment knowledge and risk tolerance. The client explains that she had inherited the funds from a family member. The client states her investment objective to be long term. The representative records this information and processes the order. What the representative doesnâ€™t know is that the client has recently lost her job and is living on unemployment insurance. What step did the representative need to take in order to uphold her duty of care?

A. The representative should have applied the test of suitability to the unsolicited order

B. The representative should have verified that the clientâ€™s KYC information was updated before applying the suitability test

C. The representative should have probed the clientâ€™s understanding of equity funds

D. The representative should have applied due diligence in matching the order to the clientâ€™s KYC information

ANSWER: B

Explanation:

The representative should have verified that the clientâ€™s KYC information was updated before applying the suitability test. A suitability determination is only reliable when it is based on current, complete client information. Know-your-client information includes financial circumstances, employment status, investment needs and objectives, risk profile, investment knowledge, and time horizon. A recent job loss and reliance on unemployment insurance are material changes in financial circumstances that may affect the client's capacity to assume investment risk, liquidity needs, and ability to withstand losses.

Duty of care requires more than matching an order to information already on file. Before accepting and processing the purchase, the representative needed to make reasonable inquiries to ensure the client profile remained current, particularly where the client had discussed the source of the money and her long-term objective. Updating the KYC record first would allow the representative to conduct a meaningful suitability assessment using the client's actual circumstances at the time of the trade. Canadian securities rules require registrants to take reasonable steps to obtain and keep current KYC information and to assess suitability when required. See National Instrument 31-103, including sections 13.2 and 13.3, at Ontario Securities Commission—NI 31-103, and the Canadian Securities Administrators' Client Focused Reforms.

QUESTION NO: 35

Which statement regarding the underwriting process and over-the-counter (OTC) markets is CORRECT?

A. Corporations must have their shares listed both on an exchange and the OTC market during the underwriting process.

B. During the underwriting process investment bankers raise investment capital from investors on behalf of corporations and governments issuing securities.

C. Many new stock issues that are underwritten by securities firms are first listed on a stock exchange before they are sold over-the-counter.

D. The disclosure standards for stock exchanges are not as stringent as those imposed by the OTC market.

ANSWER: B

Explanation:

During the underwriting process investment bankers raise investment capital from investors on behalf of corporations and governments issuing securities. This accurately describes the central function of an underwriting syndicate in a securities distribution. An issuer seeking to raise capital engages one or more investment dealers to structure the offering, assist with due diligence and disclosure, market the securities to prospective investors, and distribute the issue. In a firm-commitment underwriting, the underwriters generally agree to purchase the securities from the issuer and resell them to investors, assuming the associated distribution and market risk. The underwriting process therefore connects issuers that need financing with investors willing to supply capital, while investment dealers provide pricing, marketing, distribution expertise, and risk-bearing capacity. In Canada, a prospectus is a key disclosure document for a public distribution; it provides investors with material information about the issuer and the securities being offered. The Canadian Securities Administrators describes prospectus requirements and the role of the prospectus in securities offerings at CSA Prospectus Requirements. The Canadian Investment Regulatory Organization also explains the regulatory framework applicable to investment dealers at CIRO: Choosing an Investment Advisor.

QUESTION NO: 36

Which client has demonstrated the endowment behavioural bias?

A. Farida, who purchased shares in a real estate company based on the success of previous real estate company purchases

B. Kendra, who believed that funds managed by a certain fund management company must be good quality since she often sees the advertisements

C. Dave, who wants to sell his income property at a price that is higher than comparable properties in the area

D. Peter, who chose to hold his mutual fund shares despite the fact that the shares had lost value, the prospects for the fund were poor and believing there are stronger alternative investments available

ANSWER: C

Explanation:

Dave, who wants to sell his income property at a price that is higher than comparable properties in the area, has demonstrated the endowment bias. The endowment effect is the tendency to assign a higher value to something simply because one owns it. Ownership can create an emotional attachment and a sense that the asset is more valuable, more useful, or more distinctive than an objective buyer would conclude. In a real-estate transaction, comparable properties provide relevant market evidence of what similar properties are currently worth. If Dave expects a price above those comparable values because he owns the property, rather than because of specific, supportable features that justify a premium, his valuation is influenced by the endowment effect. This bias can lead investors to set unrealistic selling prices, delay appropriate portfolio changes, or evaluate assets using subjective ownership-based value instead of current market information. Recognizing the bias supports a more disciplined approach: assess the property as though it were not already owned, use current comparable sales and income data, and separate personal attachment from an evidence-based valuation. The endowment effect is a well-established behavioural-finance concept associated with ownership and willingness to sell. See BehavioralEconomics.com's endowment-effect overview and Encyclopaedia Britannica's explanation of the endowment effect.

QUESTION NO: 37

How is a $10,000 withdrawal from a registered retirement savings plan (RRSP) taxed?

A. As regular income

B. As a deduction against other income

C. At a set rate of 30%

D. Based on the type of investment income type

ANSWER: A

Explanation:

"As regular income" is correct because an RRSP withdrawal is included in the annuitant's income for the year in which it is received. The amount is not characterized according to the income earned inside the plan: interest, dividends, capital gains, and foreign income within an RRSP do not retain separate tax treatment when funds are withdrawn. Thus, a $10,000 withdrawal is reported as ordinary taxable income and is ultimately taxed at the individual's applicable marginal tax rate when their annual income tax return is calculated.

In practice, the RRSP issuer generally withholds income tax when it pays the withdrawal. For a $10,000 lump-sum withdrawal by a Canadian resident outside Quebec, the standard withholding rate is 20%, so $2,000 would normally be remitted as tax withheld. That withholding is a prepayment, not necessarily the final tax liability. The withdrawal is added to the person's other income, and the final amount owing or refundable depends on total income, deductions, credits, and the person's marginal tax brackets. The issuer reports the withdrawal and tax withheld on the appropriate tax slip for the holder's return. See the Canada Revenue Agency's RRSP withdrawal guidance and its withholding-tax rates for RRSP withdrawals.

QUESTION NO: 38

Which option is most appropriate for investors who prefer growth-oriented mutual fund trusts?

A. Fund C

B. Fund A

C. Fund B

D. Fund D

ANSWER: B

Explanation:

Fund A is the correct selection based on the answer key and accompanying premise supplied with this question. A growth-oriented mutual fund trust is intended primarily for investors seeking capital appreciation over time rather than current income. Its portfolio would typically emphasize companies expected to grow earnings, revenues, or market value faster than the broader market. This approach can produce meaningful long-term appreciation but also commonly involves greater price volatility, since valuations of growth companies are particularly sensitive to changes in earnings expectations, interest rates, and investor sentiment. Investors choosing a growth-oriented fund should therefore have an investment objective centred on growth, a sufficiently long time horizon, and the ability to accept fluctuations in value. These suitability considerations align with the general fund-selection framework used in Canadian investment-fund education: match the fund's stated investment objective and risk characteristics with the client's objectives, time horizon, and risk tolerance. CSI's Investment Funds in Canada course overview is available at CSI: Investment Funds in Canada. General Canadian investor guidance on considering investment objectives and risk is available from the Ontario Securities Commission's GetSmarterAboutMoney resource.

QUESTION NO: 39

What criteria does the independent review committee use to determine if a potential conflict of interest, such as interfund trading, should be approved?

A. Will the action achieve a fair and reasonable result for the fund?

B. Will the action contravene National Instrument 81-102?

C. Will the action contravene a unitholder's statutory rights?

D. Will the action require unitholder approval?

ANSWER: A

Explanation:

"Will the action achieve a fair and reasonable result for the fund?" is the required core criterion. Under National Instrument 81-107, an investment fund manager must refer conflict-of-interest matters to the fund's independent review committee (IRC). When the IRC is asked to approve a manager's proposed action, it must determine whether the proposed action will produce a fair and reasonable result for the investment fund. This standard keeps the IRC's focus on the interests of the fund and its securityholders, rather than on the interests of the manager, dealer, affiliate, or another fund participating in a transaction.

For an interfund trade, the IRC assesses the particular proposed transaction and the safeguards or conditions supporting it, such as the process used to establish an appropriate price and equitable treatment of the affected funds. An approval may also be subject to conditions that the manager must follow. The fair-and-reasonable-result test is therefore the substantive basis for the IRC's decision and is the central investor-protection requirement for conflict-of-interest actions under the instrument. See section 5.2 of National Instrument 81-107—Independent Review Committee for Investment Funds and the Canadian Securities Administrators' National Instruments resource page.

QUESTION NO: 40

Jasmine purchases a 1-year, $10,000 face value strip bond for $9,600. At maturity, when Jasmine receives $10,000, which of the following statements is CORRECT?

A. Jasmine realizes a capital dividend of S400.

B. Jasmine realizes a taxable dividend of $400.

C. Jasmine realizes a taxable capital gain of $400.

D. Jasmine realizes interest income of $400.

ANSWER: D

Explanation:

Jasmine realizes interest income of $400. A strip bond is created when the entitlement to a bond's principal repayment or its coupon payments is separated and sold independently. In this case, Jasmine has purchased the principal component, commonly called a zero-coupon bond. It has a $10,000 maturity value but was acquired for $9,600, and no periodic coupon is paid during its one-year term.

The $400 difference represents the return earned for allowing the issuer to use Jasmine's $9,600 for the year. For Canadian income-tax purposes, this return is treated as interest income rather than a disposition gain. Since the bond matures one year after purchase, the full $400 accrues over that year and is included in Jasmine's income for that taxation year. The fact that the amount is received as part of the $10,000 maturity payment does not change its character: $9,600 is the recovery of the amount invested, while $400 is the interest earned. The Canada Revenue Agency's archived guidance specifically addresses strip bonds and the requirement to report accrued interest, and the Income Tax Act includes rules for including interest in income. See the CRA's Strip Bonds guidance and Income Tax Act, section 12.

QUESTION NO: 41

Carol contributed $500 to her TFSA. $350 was invested in ABC Bank Canadian equity fund and $150 in the ZYX Global growth fund. The expected return for the funds is 8% and 9.8%, respectively. What is the expected return on her TFSA?

A. 17.8%

B. 8.9%

C. 9.3%

D. 8.5%

ANSWER: D

Explanation:

The expected return on Carol's TFSA is **8.5%**, using the weighted-average expected return of the two fund holdings. The Canadian equity fund represents $350 of the $500 total contribution, so its portfolio weight is 70%. The global growth fund represents $150 of the $500 total, giving it a 30% weight. Multiply each fund's expected return by its proportion of the total TFSA: 70% × 8.0% equals 5.60%, and 30% × 9.8% equals 2.94%. Adding these weighted expected returns produces 8.54%. Expressed to one decimal place, as the available responses require, this is 8.5%.

This calculation estimates the return for the TFSA as a whole, rather than adding the two quoted returns directly or treating each holding as though it represented the full account value. A portfolio's expected return is determined by the contribution of each investment to total account value and its corresponding expected return. The TFSA is the account type holding the investments; the portfolio-return calculation is based on the fund allocations within it. CSI's educational materials describe risk and return concepts for mutual funds and portfolio investing at CSI—Investment Funds in Canada. General Canadian information on TFSAs is available from the Canada Revenue Agency.

QUESTION NO: 42

Which statement about market risk is true?

A. Market risk is measured by the standard deviation

B. Market risk is cancelled out by diversification

C. Market risk is greater than the sum of the risks of all stocks

D. Market risk can result from changes in inflation and interest rates

ANSWER: D

Explanation:

Market risk can result from changes in inflation and interest rates because these economy-wide factors influence the value and expected return of many investments at the same time. Inflation affects investors' purchasing power and may alter expectations for corporate revenues, costs, and future cash flows. Interest-rate changes affect the discount rate used to value those cash flows and can therefore move prices across equity and fixed-income markets. For example, when market interest rates rise, newly issued bonds may offer higher yields, which can reduce the market value of outstanding bonds with lower coupon rates. Equity valuations can also be affected because higher rates can increase borrowing costs and change the present value of expected earnings. These broad forces are commonly described as systematic or non-diversifiable market influences: they arise from overall economic and financial conditions rather than circumstances unique to one issuer. The Bank of Canada explains that monetary policy seeks to keep inflation low and stable and is implemented through interest-rate policy, illustrating the close connection between inflation and rates in the Canadian financial environment. See the Bank of Canada's monetary policy overview and Investor.gov's overview of investment risk.

QUESTION NO: 43

An investor seeks an equity investment that will mirror the performance of the energy sector in Canada. She desires a low-cost, flexible alternative that can quickly be bought or sold. Which product is most suited to her needs?

A. Energy-sector index mutual fund

B. Exchange-traded fund of energy sector stocks

C. Direct investment in energy sector stocks

D. Energy sector segregated fund

ANSWER: B

Explanation:

Exchange-traded fund of energy sector stocks is the most suitable product because an exchange-traded fund can be designed to hold a diversified basket of Canadian energy companies and track the return of a specified energy-sector index. This gives the investor sector exposure without requiring her to select, purchase, and monitor each individual energy issuer herself. The fund structure also helps make diversification within the sector more practical than building a comparable portfolio through separate securities transactions.

Most importantly, exchange-traded fund units trade on a stock exchange throughout the trading day. An investor can generally enter a buy or sell order through a dealer whenever the relevant market is open, providing the requested flexibility and liquidity. This trading feature is particularly aligned with the requirement for an investment that can be bought or sold quickly. Passive sector exchange-traded funds commonly seek to replicate an index rather than rely on active security selection, and their management costs may be comparatively low because of that index-tracking approach. The Canadian Securities Administrators explains that exchange-traded funds trade on an exchange in a manner similar to stocks and may track an index: Canadian Securities Administrators: Exchange-Traded Funds. CIRO also describes the role of investment dealers in facilitating exchange-listed trades: CIRO: Choosing an Investment Advisor.

QUESTION NO: 44

Which statement about a net capital loss incurred by a mutual fund trust is CORRECT?

A. A net capital loss is passed on to the unit holders by the mutual fund in the year it occurs.

B. A net capital loss is permitted to be carried forward by the mutual fund for up to 3 years.

C. A net capital loss is permitted to be carried forward indefinitely by the mutual fund.

D. A net capital loss is permitted to be carried back indefinitely by the mutual fund.

ANSWER: C

Explanation:

A net capital loss is the amount by which allowable capital losses exceed taxable capital gains for a taxation year. For a mutual fund trust, this loss remains at the trust level rather than being allocated to unitholders. The trust may retain the loss and apply it against taxable capital gains realized in later taxation years. Consequently, “A net capital loss is permitted to be carried forward indefinitely by the mutual fund” is correct. There is no fixed expiry period for carrying a net capital loss forward under the Income Tax Act. This treatment is important in fund taxation because capital losses can be used only against taxable capital gains, not against ordinary income such as interest, dividends, or other income earned by the trust. When the fund subsequently realizes capital gains, its accumulated net capital losses can reduce the gains subject to tax at the trust level. This can preserve more of the fund’s after-tax capital for investors and affect the amount of net realized capital gains available for distribution. The Canada Revenue Agency confirms that net capital losses may be carried forward indefinitely, subject to the rules governing their use against taxable capital gains. See the CRA’s capital gains and losses guidance and the Income Tax Act, section 111.

QUESTION NO: 45

Sandra presently participates in her employer-sponsored defined contribution pension plan (DCPP). As contributions continue to be made into her plan, what can she expect?

A. Retirement benefits will be based on a prescribed formula that can be referenced from the plan's terms and conditions.

B. The employer will solely make contributions to her DCPP based on a prescribed formula noted within her plan.

C. Her available registered retirement savings plan (RRSP) contribution room will be reduced by what is being contributed to her plan.

D. To ensure she has savings at retirement, the employer will choose stable investments to grow her retirement savings.

ANSWER: C

Explanation:

Her available registered retirement savings plan (RRSP) contribution room will be reduced by what is being contributed to her plan. This reflects the tax-integration rules that coordinate retirement saving through an employer pension plan with personal RRSP saving. In a defined contribution pension plan, contributions are credited to an individual member account and the eventual retirement income depends on the accumulated contributions and investment returns. For a money purchase pension provision such as a DCPP, the annual pension adjustment generally equals the total employer and employee contributions made for the member during the year. The pension adjustment is reported on the employee’s T4 and reduces the RRSP deduction limit available for the following year. This mechanism helps ensure that individuals receiving tax-deferred pension-plan contributions do not also receive the full RRSP contribution room intended for people without comparable workplace pension coverage. Sandra should therefore review her CRA Notice of Assessment or CRA account each year before making RRSP contributions, because the reported pension adjustment affects the amount she can deduct without creating an RRSP overcontribution. The Canada Revenue Agency explains pension adjustments and their effect on RRSP limits at CRA: Pension adjustment. The DCPP framework is also described by the Office of the Superintendent of Financial Institutions.

QUESTION NO: 46

BUG Inc. has a beta of 1.65. If the market drops by 18.48% over the next 12 months, by approximately how much could BUG Inc. shares fall over that time period?

A. 16.83%

B. 11.20%

C. 20.13%

D. 30.49%

ANSWER: D

Explanation:

30.49% is correct because beta estimates the sensitivity of a security's return to movements in the overall market. A beta of 1.65 indicates that, historically and as an approximation, BUG Inc.'s shares have tended to move 1.65% for every 1% movement in the market, in the same direction. The estimated effect of an 18.48% market decline is therefore calculated as 1.65 × 18.48% = 30.492%. Rounded to two decimal places, this is a decline of approximately 30.49%. Beta is a relative market-risk measure used in the capital asset pricing model and in evaluating a security's systematic risk; a beta greater than 1 signals that the security has greater expected volatility than the market. This calculation is an estimate rather than a guarantee of the actual return, since company-specific developments and changing market conditions can cause realized performance to differ from the beta-based estimate. See the CFA Institute's discussion of beta and systematic risk in its portfolio risk and return materials and the SEC's investor education overview of stock investing.

QUESTION NO: 47

Recently interest rates have gone up. Your customer, Mr. Corelli, has asked you how this will affect the value of his mortgage fund. What is the best response to give to Mr. Corelli?

A. The mortgage fund will not be affected because the rise in interest rates will affect only new mortgages

B. The value of the mortgage fund will go down because new mortgages will pay higher interest than those in the fund

C. The mortgage fund will not be affected because mortgages do not react to changes in interest rates the way bonds do

D. The value of the mortgage fund should go up because mortgages will now be earning higher interest

ANSWER: B

Explanation:

The value of the mortgage fund will go down because new mortgages will pay higher interest than those in the fund. A mortgage fund holds mortgage loans that generally provide fixed contractual interest payments. When prevailing mortgage rates rise, newly originated mortgages offer higher yields than the mortgages already held by the fund. Consequently, an investor considering the purchase of an existing lower-rate mortgage would require a discount to obtain a yield comparable with current market rates. This reduction in the market value of the fund's existing mortgage holdings is reflected in the fund's net asset value.

This is the standard inverse relationship between interest rates and the market value of fixed-income investments. The contractual payments on existing mortgages do not automatically reset merely because market rates rise; rather, the price investors are willing to pay for those established payment streams changes. The precise extent of the decline can vary with such factors as the terms to maturity, repayment and prepayment characteristics, credit quality, and the fund's portfolio composition. However, the appropriate general client response is that higher rates place downward pressure on the value of a mortgage fund's existing holdings. The Bank of Canada describes how changes in market interest rates affect bond prices and yields in its fixed-income market analysis; the same present-value principle applies to fixed-rate mortgage cash flows. See also the U.S. SEC Investor.gov overview of bonds.

QUESTION NO: 48

What type of asset allocation strategy rebalances asset classes to pre-defined corridors?

A. Model

B. Tactical

C. Expected

D. Strategic

ANSWER: D

Explanation:

Strategic is correct because strategic asset allocation establishes a long-term policy mix for the portfolio, based on factors such as the investor's objectives, time horizon, risk tolerance, and return requirements. Each asset class is assigned a target weight, often with an allowable range—commonly called a corridor, band, or rebalancing range—around that target. When market movements cause an asset class's actual portfolio weight to move outside its pre-defined corridor, the portfolio is rebalanced toward its strategic target allocation. This process maintains the intended long-term risk-and-return profile rather than allowing market performance alone to determine the portfolio's exposures. For example, if equities rise enough to exceed their permitted range, some equity holdings may be sold and the proceeds allocated to underweight asset classes. The approach is policy-driven and disciplined: the corridors provide practical flexibility by avoiding unnecessary trading for small deviations, while still requiring action when the portfolio's allocation meaningfully drifts. This use of target allocations and rebalancing bands is a core feature of strategic asset allocation, as distinguished from short-term positioning decisions. See the CFA Institute's asset-allocation refresher reading and the CSI Investment Funds in Canada course page.

QUESTION NO: 49

Marc asks his new client for copies of his mortgage documents. Which Know Your Client component is Marc researching?

A. Investment knowledge

B. Personal circumstances

C. Financial circumstances

D. Financial goals and objectives

ANSWER: C

Explanation:

Financial circumstances is correct because mortgage documents provide direct evidence of a client's liabilities, regular debt-servicing obligations, and overall balance-sheet position. In the KYC process, registrants must collect and maintain information that is necessary to assess whether an investment—and the associated level of risk, liquidity constraints, and contribution amount—is suitable for the client. A mortgage can materially affect the cash available for investment, the client's capacity to withstand investment losses, and the extent to which the client may need access to invested funds for housing-related expenses or refinancing needs.

Reviewing the mortgage documentation helps Marc establish accurate information about the amount of debt outstanding, payment obligations, interest-rate terms, and potentially the value and equity in the client's home. This information supports a realistic assessment of the client's financial situation rather than relying solely on a general statement of income or net worth. Canadian securities rules identify a client's financial circumstances as core KYC information that must be obtained when applicable to the suitability determination. See the Canadian Investment Regulatory Organization's KYC and suitability-determination guidance and the Canadian Securities Administrators' National Instrument 31-103.

QUESTION NO: 50

What is a requirement when holding an RRIF?

A. The RRIF must be fully managed as opposed to self-directed

B. The RRIF must be terminated at the end of the year in which the client turns age 71

C. The term must be based on the age of the holder of the RRIF

D. Minimum annual withdrawals must be made from the RRIF

ANSWER: D

Explanation:

Minimum annual withdrawals must be made from the RRIF. A registered retirement income fund is intended to provide retirement income after assets have accumulated in an RRSP or another eligible registered plan. Accordingly, once an RRIF is established, the carrier must pay the annuitant at least the prescribed minimum amount each calendar year, beginning in the calendar year after the fund is opened. The minimum is calculated under Income Tax Act rules using the fair market value of the RRIF at the beginning of the year and an age-based factor. Generally, the annuitant may elect to base this calculation on their spouse's or common-law partner's age when the RRIF is set up. There is no maximum withdrawal amount: amounts above the minimum may be withdrawn, although they are generally taxable income in the year received. The required minimum payment is a defining operating feature of an RRIF and helps ensure that registered retirement savings are gradually converted into retirement income. The Canada Revenue Agency explains RRIF minimum-payment requirements and calculation rules at CRA: Registered Retirement Income Funds. The applicable statutory framework is also set out in the Income Tax Act.

QUESTION NO: 51

A mutual fund manager proposes that one of its funds enter into a transaction with another investment fund managed by the same firm. The transaction could create a conflict between the manager's interests and those of the fund's investors.

Which body provides independent oversight of this conflict-of-interest matter?

A. Independent Review Committee

B. Custodian

C. Portfolio advisor

D. Securities administrator

ANSWER: A

Explanation:

The **Independent Review Committee** provides independent oversight of conflict-of-interest matters involving investment funds. The manager must identify conflicts and refer specified conflict matters to the Independent Review Committee for its review. The committee considers whether the manager's proposed action achieves a fair and reasonable result for the investment fund.

The custodian safeguards the fund's assets and settles authorized transactions, but does not provide this governance oversight. The portfolio advisor makes investment decisions within its mandate, while the securities administrator regulates compliance with securities law rather than reviewing each fund conflict transaction in this role.