

DUMPS ARENA

Canadian Securities Course Exam2

CSI CSC2

Version Demo

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Topic Break Down

Topic	No. of Questions
Topic 1, Fundamental and Technical Analysis	55
Topic 2, Company Analysis	19
Topic 3, Introduction to the Portfolio Approach	22
Topic 4, Portfolio Management Process	11
Topic 5, Mutual Funds	26
Topic 6, Exchange-Traded Funds	17
Topic 7, Other Managed and Structured Products	35
Topic 8, Taxation	24
Topic 9, Working with Retail Clients	25
Topic 10, Working with Institutional Clients	17
Topic 11, Mix Questions	3
Total	254

QUESTION NO: 1

For what type of company is the dividend discount model least applicable?

- A. One with changing dividend payments and a stable dividend growth rate.
- B. One with stable dividend payments and a stable dividend growth rate.
- C. One with stable dividend payments and a fluctuating dividend growth rate.
- D. One with changing dividend payments and a fluctuating dividend growth rate.

ANSWER: D

Explanation:

The dividend discount model is least applicable to *One with changing dividend payments and a fluctuating dividend growth rate*. The model values a share as the present value of expected future dividends. Its reliability therefore depends on being able to estimate both the timing and amount of future distributions with reasonable confidence. When the actual dividend amount changes and the rate at which dividends grow also fluctuates, forecasting a dependable stream of cash flows becomes highly uncertain. Small changes in assumed growth rates can have a substantial effect on the estimated intrinsic value, particularly where growth is expected to continue for many periods. In practice, an analyst would need unusually strong, supportable forecasts of the company's earnings, payout policy, financing needs, and management's intended distributions before applying a dividend-based valuation in this situation. The model is most informative when dividends represent a reasonably predictable measure of cash returned to shareholders; simultaneous instability in dividend amounts and growth removes that foundation. For background on dividend-based equity valuation and the sensitivity of value to dividend-growth assumptions, see Aswath Damodaran's [valuation resources](#) and the CFA Institute's [Equity Valuation: Concepts and Basic Tools](#).

QUESTION NO: 2

What does a fundamental analyst believe that is contrary to the beliefs of a technical analyst?

- A. History repeats itself.
- B. Fiscal policy, monetary policy and inflation may be analyzed.
- C. The movements in price movements must be studied.
- D. The profitability of the issuer is paramount.

ANSWER: D

Explanation:

The profitability of the issuer is paramount. Fundamental analysis seeks to estimate a security's intrinsic value by examining the economic and financial factors that drive the issuer's capacity to generate earnings and cash flow over time. Profitability is therefore central: measures such as revenue growth, operating margins, net income, return on equity, debt-servicing capacity, and the sustainability of earnings help an analyst assess the quality and value of the underlying business. A company with durable profitability may support dividends, reinvestment, and long-term growth, all of which can influence the value an investor assigns to its shares or bonds. This approach treats the issuer's financial condition and business prospects as essential inputs to an investment decision, rather than relying primarily on market-price patterns. Financial statements provide the core information used to evaluate an issuer's results and condition; the U.S. Securities and Exchange Commission explains the role of these disclosures in investor decision-making at [Investor.gov's financial-statement analysis guide](#). The Canadian Securities Institute's Canadian Securities Course also identifies fundamental and technical analysis as core investment-analysis topics: [Canadian Securities Course](#).

QUESTION NO: 3

The price of FMA common stock is set to break through its 200-day moving average line from below on heavy volume. How might a technical analyst interpret this information?

- A. A buy signal as FMA 's price is set to rise.
- B. A sell signal as FMA 's price is set to fall.
- C. The upward price trend is reversing.
- D. The declining price trend will continue.

ANSWER: A

Explanation:

A buy signal as FMA's price is set to rise. is the appropriate technical interpretation. A moving average smooths daily price fluctuations to help identify the underlying direction of a security's trend. The 200-day moving average is particularly important because it is widely followed as an indicator of the long-term trend. When a stock price moves upward through that average from below, technicians commonly view the event as a bullish crossover: it suggests that downside momentum has weakened and that demand may be becoming strong enough to establish a new upward trend.

The heavy trading volume strengthens that interpretation. Volume is used as confirmation in technical analysis because a price move accompanied by substantial market participation is generally considered more meaningful than a move occurring on light volume. In this case, strong volume indicates that many market participants are supporting the move through the long-term average, making the upward breakout more credible. Although technical signals indicate probabilities rather than guarantee a future price movement, the combination of an upward break above the 200-day moving average and heavy volume is conventionally treated as a bullish, or buy, signal. See CME Group's discussion of [moving averages](#) and FINRA's overview of [stock investing](#).

QUESTION NO: 4

What legal authority does the donee receive under the protection mandate in Quebec?

- A. The authority to get the will probated and take all the necessary steps for its execution.
- B. The authority to make decisions and to perform certain actions on behalf of the donor if they become incapacitated.
- C. The authority to make decisions and to perform certain action on behalf of the donor while they are capable.
- D. The authority to administrator and distribute the assets in the estate of a deceased after death.

ANSWER: B

Explanation:

The authority to make decisions and to perform certain actions on behalf of the donor if they become incapacitated is correct because a Quebec protection mandate, formally called a mandate in case of incapacity, is intended to take effect when the person who made it can no longer look after themselves or manage their property. The person appointed under the mandate is generally called the mandatary. Once the mandate has been homologated by the court, the mandatary has legal authority to represent the incapable person within the scope set out in the document. That authority may cover administration of property, such as paying bills and managing financial assets, and may also cover decisions concerning the person's well-being, depending on the terms of the mandate. The mandate is therefore a planning instrument that permits continuing representation during incapacity, while imposing a duty on the mandatary to act in the person's interests and respect their wishes as far as possible. Quebec's government explains both the purpose of a protection mandate and the required homologation process before it can be used: [Québec.ca: Being a mandatary under a protection mandate](#). The governing principles are found in the Civil Code of Québec provisions on protection mandates: [Civil Code of Québec](#).

QUESTION NO: 5

Which factor would deter an investor from investing in a company's convertible preferred shares?

- A. Common stock outlook has been downgraded.
- B. Long life of the conversion privilege.
- C. High preferred dividend coverage ratio.
- D. The equity per preferred share decreased to three times the value of assets.

ANSWER: A

Explanation:

Common stock outlook has been downgraded. is the factor most likely to deter an investor because a convertible preferred share derives an important part of its value from the holder's right to exchange it for the issuer's common shares. Although preferred shares normally provide a stated dividend and rank ahead of common shares for dividends and assets on liquidation, the conversion privilege gives the investor potential participation in appreciation of the common shares. That potential is especially relevant when assessing whether the security offers an attractive combination of income and capital-growth opportunity.

A downgraded outlook signals that the expected prospects for the issuer's common equity have weakened. As a result, the likelihood that the market price of the common shares will rise sufficiently to make conversion attractive is reduced. The conversion feature may then have little incremental value, leaving the investor with a security whose expected return no longer justifies its price, credit exposure, or other investment risks. Convertible preferred-share analysis therefore requires consideration of both the preferred-share characteristics and the outlook for the underlying common shares. CSI's Canadian Securities Course covers the relationship between corporate securities and investor return considerations: [Canadian Securities Course](#). General investor information on preferred stock and its features is also available from the U.S. Securities and Exchange Commission: [SEC Investor.gov—Stocks](#).

QUESTION NO: 6

If the manager believes the market is efficient, what investment strategy should they employ for a portfolio?

- A. Momentum investing
- B. Sector rotation
- C. Growth investing
- D. Buy-and-hold strategy

ANSWER: D

Explanation:

Buy-and-hold strategy is the appropriate approach when a portfolio manager believes markets are efficient. The efficient-market view holds that security prices rapidly incorporate available, relevant information. Consequently, consistently identifying undervalued securities, anticipating short-term price movements, or shifting among industries based on publicly available signals is not expected to generate persistent risk-adjusted excess returns after trading costs, fees, and taxes. A buy-and-hold approach is consistent with this belief because it emphasizes long-term participation in the market rather than frequent attempts to exploit perceived pricing errors. In practice, this is commonly implemented through a diversified, low-turnover portfolio, often using broad-market index funds or exchange-traded funds matched to the client's objectives, risk tolerance, time horizon, and constraints. Limiting unnecessary turnover can also reduce transaction costs and potential taxable distributions, helping preserve the portfolio's net return. The approach does not mean ignoring the portfolio indefinitely: the manager should still monitor suitability and rebalance periodically when allocations materially depart from the investor's target weights. The central distinction is that rebalancing maintains the intended risk profile; it is not an effort to forecast which securities or sectors will outperform. For background on market efficiency and passive investing, see [CFA Institute: Market Efficiency](#) and [Investor.gov: Index Funds](#).

QUESTION NO: 7

What client's characteristics and investment priorities would lead an advisor to recognize that liquid alternatives are unsuitable for this client?

- A. Short-term time horizon.
- B. Focused on specific outcomes.
- C. Good understanding of portfolio theory.
- D. Short-term liquidity needs.

ANSWER: A

Explanation:

Short-term time horizon is the characteristic that indicates liquid alternatives may be unsuitable. Although liquid alternative mutual funds and exchange-traded funds generally provide more frequent redemption access than traditional hedge funds, the underlying strategies can involve derivatives, short selling, leverage, and non-traditional return sources. Their intended diversification or risk-management benefits may take time to emerge and can vary materially over shorter market periods. A client who expects to invest only briefly may be unable to allow sufficient time for the strategy's role in the portfolio to work through changing market conditions. Consequently, an advisor's suitability assessment should connect the client's investment time horizon to the product's objectives, risks, expected volatility, and intended portfolio function before recommending a liquid alternative. Canadian mutual-fund rules permit alternative mutual funds to use certain alternative strategies subject to prescribed limits, but permitted product features do not replace the advisor's obligation to determine whether the investment is suitable for the individual client. See the Canadian Securities Administrators' [National Instrument 81-102 Investment Funds](#) and the Canadian Investment Regulatory Organization's [Know Your Client guidance](#).

QUESTION NO: 8

The following information is available for REW Co:

What is the price of REW Co. if calculated using the dividend discount model?

- A. \$13.75.
- B. \$15.71.
- C. \$12.50.
- D. \$14.29.

ANSWER: D

Explanation:

\$14.29. is the dividend discount model value obtained from the REW Co. inputs. For a company expected to pay dividends that grow at a constant rate indefinitely, the Gordon growth form of the dividend discount model calculates intrinsic value as $P_0 = D_1 / (k - g)$, where D_1 is the dividend expected in the next period, k is the investor's required rate of return, and g is the sustainable dividend-growth rate. The current dividend must first be converted to the next expected dividend when the stated dividend is a current-period amount: $D_1 = D_0(1 + g)$. Applying REW Co.'s supplied dividend, required-return, and growth assumptions to this formula produces an estimated share value of \$14.29. This represents the present value of the stream of future dividends under the model's central assumptions: a stable long-term growth rate and a required return that remains greater than that growth rate. The dividend discount approach is especially relevant when dividends are the primary cash flows expected by shareholders. CSI's Canadian Securities Course materials cover equity valuation concepts, including dividend-based approaches, within its curriculum: [CSI Canadian Securities Course](#). For a formula-based overview of the constant-growth dividend model, see [Aswath Damodaran's valuation resources](#).

QUESTION NO: 9

Northstar Ltd. has cumulative preferred shares outstanding. The company did not declare preferred dividends for the previous two years. Before Northstar can declare a dividend on its common shares, what must occur?

- A. All unpaid preferred dividends must be paid.
- B. Preferred shares must be converted into common shares.
- C. Preferred shareholders must approve the common dividend.
- D. The company must redeem the preferred shares at par value.

ANSWER: A

Explanation:

All unpaid preferred dividends must be paid before a common dividend can be declared. Cumulative preferred shares carry forward dividends that were not declared in earlier periods. These unpaid amounts are called dividends in arrears.

Preferred shareholders do not normally have an unconditional right to force a corporation to declare a dividend. However, if the corporation elects to declare a dividend for common shareholders, it must first satisfy the accumulated preferred-dividend entitlement under the share terms.

QUESTION NO: 10

What responsibility falls on the buy-side portfolio manager?

- A. To buy securities in the market on demand to maintain liquidity in a security.
- B. To maintain constant contact with the investment dealer counterparties.
- C. To inform the trader about the market conditions and risks.
- D. To provide pertinent market information to the department heads of various asset classes.

ANSWER: C

Explanation:

To inform the trader about the market conditions and risks is a core buy-side portfolio-manager responsibility. The portfolio manager makes investment decisions within the client mandate and sets the trading objective, including the desired exposure, timing considerations, urgency, liquidity constraints, and any risk limits relevant to the order. Before an order is executed, the trader needs this investment rationale and market-sensitive context to select an appropriate execution approach and seek the best available outcome under the circumstances. Clear communication is especially important where a large order could affect the market price, where liquidity is limited, or where the portfolio manager has a specific view about price, volatility, or the risks of delaying execution. This division of responsibilities supports proper trade management: the portfolio manager remains accountable for the investment decision and its fit with the portfolio's objectives, while the trader carries out the execution process. Canadian market rules also frame best execution around achieving the most advantageous execution terms reasonably available, taking relevant order and market factors into account. See the [Canadian Securities Course overview](#) and [National Instrument 23-101—Trading Rules](#).

QUESTION NO: 11

What is the primary goal of a buy-side trader?

- A. To provide pertinent and timely information to the head of fixed-income and equity markets.
- B. To remain informed at all times of the portfolio manager ' s detailed investment strategy.
- C. To execute the portfolio manager ' s trades at the best prices available in the market at the time of the trade.
- D. To maintain good, professional relationships with sales and trading staff of dealers with whom the firm does business.

ANSWER: C

Explanation:

The primary goal of a buy-side trader is **to execute the portfolio manager's trades at the best prices available in the market at the time of the trade**. Buy-side traders act for institutional investment managers, such as pension funds, mutual funds, and other managed portfolios. Once a portfolio manager makes an investment decision, the trader is responsible for implementing that decision efficiently in the market. This requires seeking best execution: achieving the most favourable reasonably available result while considering not only price, but also execution speed, likelihood of completion, market liquidity, transaction costs, and the potential market impact of a large order. The trader must use judgment in selecting dealers, order types, trading venues, and execution timing, always acting in the client portfolio's interest. This execution role directly supports the portfolio manager's investment mandate because even a sound investment decision can produce poorer client outcomes if it is executed inefficiently. Canadian investment-industry conduct standards emphasize fair dealing and diligent execution for clients; the best-execution obligation is also addressed in IIROC's dealer-member rules and guidance. See [CIRI investor rights and responsibilities](#) and [Ontario Securities Commission market structure resources](#).

QUESTION NO: 12

Which type of ETF is also referred to as smart beta ETF?

- A. Rules-based
- B. Standard
- C. Synthetic
- D. Index-based

ANSWER: A

Explanation:

Rules-based is the correct answer because smart beta ETFs follow a transparent, predetermined methodology for selecting, screening, and weighting portfolio securities. Rather than simply weighting every constituent according to its market capitalization, the methodology applies defined investment factors or characteristics, such as value, quality, momentum, dividend yield, size, or low volatility. The rules are set in advance and are normally applied consistently at scheduled index reviews or rebalancing dates. This gives investors a systematic way to obtain exposure to targeted factors while retaining many ETF features, including diversification, transparency, and exchange trading. "Smart beta" is therefore commonly used to describe an approach that sits between conventional market-capitalization index tracking and fully discretionary active management: portfolio decisions follow published quantitative rules, but those rules seek factor exposures that may differ materially from the broad market. The CFA Institute describes smart beta as rules-based investing designed to capture specific factor premiums, while the Canadian Investment Regulatory Organization explains that ETF investors should understand the index or strategy an ETF tracks. See [CFA Institute's guide to smart beta investing](#) and [CIRI's ETF investor information](#).

QUESTION NO: 13

A client recently sold her holdings in JKL Equity Fund. The client's transactions in the fund are

Summarized below:

What is the client's capital gain from the sale of the fund in Year 4?

- A. \$1,839.00
- B. \$1,155.25
- C. \$1,168.37
- D. \$2,509.63

ANSWER: C

Explanation:

\$1,168.37 is the indicated capital gain from the Year 47 fund sale. For a mutual fund investment, the gain is determined by comparing the sale proceeds with the investor's adjusted cost base (ACB) of the units sold, after taking applicable selling costs into account. The ACB must reflect the client's complete transaction history: purchases increase total cost and units held; reinvested distributions generally increase ACB because they are taxable distributions used to acquire additional units; and return-of-capital distributions reduce ACB. The resulting average ACB per unit is then applied to the number of units redeemed in Year 47. The excess of net proceeds over that attributed ACB is the capital gain, yielding \$1,168.37. This is a capital gain rather than ordinary investment income because it arises on the disposition of the mutual fund units. The Canada Revenue Agency explains that capital gains result when proceeds of disposition exceed adjusted cost base and outlays or expenses incurred to dispose of property. See the CRA's guidance on [capital gains](#) and its explanation of [adjusted cost base](#).

QUESTION NO: 14

What information must be disclosed in ETF Facts documents that may be excluded from Fund Facts documents?

- A. The management fee
- B. The total value of all units within the fund
- C. The investment exposure.
- D. The market price and bid-ask spread.

ANSWER: D

Explanation:

The market price and bid-ask spread. ETF units trade throughout the day on a stock exchange, so an investor can buy or sell them at a market price that may differ from the ETF's net asset value per unit. The bid-ask spread is the difference between the highest current buying price and the lowest current selling price. It is a direct trading consideration because it can affect an investor's effective purchase or sale price, in addition to brokerage commissions.

ETF Facts therefore includes trading-related disclosure that helps investors understand how an ETF is priced and transacted in the secondary market. This information is particularly relevant to assessing liquidity and the potential cost of entering or exiting an ETF position. Conventional mutual fund securities are generally purchased from, and redeemed with, the fund at the applicable net asset value rather than traded between investors on an exchange. As a result, market-price and bid-ask-spread information is not a comparable core feature of Fund Facts disclosure.

The Canadian Securities Administrators prescribe ETF Facts requirements under National Instrument 41-101 and its related forms. See the [Canadian Securities Administrators' NI 41-101 materials](#) and the [Ontario Securities Commission's ETF information](#).

QUESTION NO: 15

What actions can a government take to lower a \$40 billion national deficit?

- A. Increase taxation
- B. Increase government spending.
- C. Decrease taxation
- D. Increase interest rates.

ANSWER: A

Explanation:

Increase taxation is correct because a national deficit is the amount by which government expenditures exceed government revenues during a fiscal period. Provided that spending and other revenue sources remain unchanged, higher tax rates or tax measures that broaden the tax base increase government revenue. That additional revenue directly narrows the gap between total revenues and total expenses, reducing the \$40 billion deficit. The size of the improvement depends on such factors as the tax base, taxpayer behaviour, economic activity, compliance, and the timing of collections, but the fiscal direction is clear: greater tax revenue improves the budget balance. In Canadian public-finance terminology, a deficit occurs when annual expenses exceed annual revenues, while fiscal policy uses government taxation and spending decisions to influence the economy and public finances. Raising taxes is therefore a fiscal-policy action available to the government for deficit reduction, especially when incorporated into a broader budget plan that aligns ongoing program costs with sustainable revenues. The Government of Canada provides an overview of federal fiscal planning and budgetary results at [Canada.ca: Federal Budget](#). The Bank of Canada also explains the role of fiscal policy, including government taxes and expenditures, at [Bank of Canada: Monetary Policy Report](#).

QUESTION NO: 16

Where would the description of a company's fixed assets normally be found?

- A. In the auditor report
- B. In the annual report
- C. In the notes to the financial statements
- D. In the statement of financial position.

ANSWER: C**Explanation:**

"In the notes to the financial statements" is correct because the primary financial statements generally present fixed assets—more commonly called property, plant and equipment—as summarized line items rather than providing a full description of the individual asset categories, accounting policies, and changes during the year. The accompanying notes supply the detailed disclosure needed to understand those reported balances. For property, plant and equipment, this normally includes the classes of assets held, the measurement basis used, depreciation methods and useful lives or rates, gross carrying amounts, accumulated depreciation, additions, disposals, impairment effects where applicable, and a reconciliation of opening to closing carrying amounts. This detail helps an investor assess the nature, age, investment level, and depreciation assumptions associated with a company's long-lived operating assets. Canadian publicly accountable enterprises generally apply IFRS Accounting Standards, under which IAS 16 specifies disclosure requirements for each class of property, plant and equipment, including reconciliations of carrying amounts and depreciation information. The IFRS Foundation's overview of [IAS 16 Property, Plant and Equipment](#) and CPA Canada's [IFRS Accounting Standards resources](#) provide supporting guidance on this reporting framework.

QUESTION NO: 17

TRU Fund portfolio manager decided to deviate from the portfolio long-term target asset mix in order to capitalize on investment opportunities in the domestic bond market. What type of asset allocation is the TRU Fund portfolio manager using?

- A. Strategic.
- B. Tactical.
- C. Timing.
- D. Dynamic.

ANSWER: B

Explanation:

Tactical. is correct because tactical asset allocation involves making deliberate, usually temporary, departures from a portfolio's strategic or long-term policy weights when the manager identifies an attractive market opportunity. Here, the portfolio has an established long-term target asset mix, but the manager chooses to alter that mix to pursue an anticipated opportunity specifically in domestic bonds. That is the defining use of a tactical allocation decision: retaining the strategic allocation as the portfolio's baseline while applying an active, shorter-term tilt to an asset class, market segment, or region expected to offer superior risk-adjusted returns.

The decision can involve increasing the bond allocation, changing the domestic-versus-foreign bond exposure, or otherwise repositioning fixed-income holdings relative to their policy benchmark. The essential facts are the intentional deviation from the long-term target and the expectation that current bond-market conditions provide an opportunity. Tactical allocation therefore combines a long-horizon policy framework with active short-horizon implementation judgments. Asset allocation is widely recognized as the process of dividing investments among asset categories in a manner consistent with objectives and risk tolerance; tactical allocation applies a temporary active adjustment around that policy allocation. See the CFA Institute's discussion of [asset allocation](#) and the SEC's Investor.gov overview of [asset allocation](#).

QUESTION NO: 18

The following financial information is available for fund SKE:

Total liabilities	\$100,000
Units outstanding	1,000,000
Book value of assets	\$10,000,000
Current market value of assets	\$12,000,000

What is SKE fund's net asset value per share?

- A. \$9,90
- B. \$11, 90
- C. \$12,00
- D. \$10, 00

ANSWER: B

Explanation:

\$11, 90 is the fund's net asset value per share. A mutual fund's net asset value is determined from the current market value of all portfolio assets, less the fund's liabilities. That net amount is then divided by the number of fund units outstanding. The financial information provided produces market-value assets of \$12.00 per unit before liabilities. After the stated liabilities are deducted, the net amount available to unitholders is \$11.90 for each outstanding unit. Thus, \$11.90 is the appropriate price per unit based on the fund's underlying net assets, rather than its gross asset value. This calculation is fundamental to open-end mutual funds because unit purchases and redemptions are generally processed at a value based on the fund's next calculated NAV. The Canadian Securities Institute's course catalogue identifies the Canadian Securities Course as covering investment products, including mutual funds and their operation: [CSI Canadian Securities Course](#). The Canadian Investment Regulatory Organization also provides investor information on mutual funds and the role of net asset value in fund pricing: [CIRO: Mutual funds](#).

QUESTION NO: 19

What must be included in the relationship disclosure information provided to the mutual fund client?

- A. A general explanation of how the investment performance of fund managers might be used against a benchmark.
- B. A definition of the various terms of Know Your Product information collection and how the information will be used.
- C. A description of the general impact on the client's return from management expense fees and other ongoing fees.

D. A description of any benefits received by the client related to the client's purchase or ownership of an investment through the dealer.

ANSWER: C

Explanation:

A description of the general impact on the client's return from management expense fees and other ongoing fees. is required because relationship disclosure must give a client meaningful information about the costs associated with the services and investments available through the dealer. For a mutual fund, management expense ratios and other ongoing fund expenses are not normally paid as a separate invoice; instead, they are charged to the fund and are reflected in the fund's net asset value and returns. Explaining their general effect helps the client understand that these costs reduce the return ultimately earned on the investment, including over longer holding periods.

Canadian securities rules require registered firms to provide relationship disclosure information describing charges and other costs that a client may pay in connection with the account, as well as the impact of those charges on investment returns. This disclosure supports informed investment decisions by connecting product costs to the client's actual investing outcome, rather than treating fees as merely an administrative detail. The requirement is part of the client-focused information dealers must provide at account opening and update when there is a significant change. See the Canadian Securities Administrators' [National Instrument 31-103](#), especially the relationship disclosure requirements, and the CSA's [Client Focused Reforms](#) resources.

QUESTION NO: 20

In March of this year, a client buys 1,000 PIL inc, common shares at \$16 per share and pays a commission of \$25 on the purchase. Several months later in the same year, the client sell the shares at \$12 per share and pays commission of \$50 on the sale. What is the client's allowable capital loss on the transaction?

- A. \$2,038
- B. \$2,025
- C. \$1,925
- D. \$2,013

ANSWER: A

Explanation:

\$2,038 is the allowable capital loss. The adjusted cost base of the 1,000 shares includes both the purchase price and the commission paid to acquire them: $(1,000 \times \$16) + \$25 = \$16,025$. Net proceeds of disposition are the sale proceeds less the commission paid to sell: $(1,000 \times \$12) - \$50 = \$11,950$. Therefore, the actual capital loss is $\$16,025 - \$11,950 = \$4,075$. For an individual, the allowable capital loss is the deductible portion of the capital loss, calculated using the 50% inclusion rate. Half of \$4,075 is \$2,037.50, which rounds to \$2,038. This amount may generally be applied against taxable capital gains, subject to the applicable Canadian tax rules. The transaction occurs within the same year, but that timing does not alter the calculation because the facts do not indicate a repurchase that would trigger the superficial-loss rules. CRA guidance confirms that outlays and expenses incurred to acquire or dispose of capital property are relevant in calculating a capital gain or loss, and that only the allowable portion of a capital loss is used for tax purposes. See the [CRA Capital Gains guide](#) and the [CRA guidance on capital losses](#).

QUESTION NO: 21

In which type of ETF does the portfolio manager select securities and their weighting to best match the performance of an index?

- A. Rules-based
- B. Synthetic.

- C. Sampling
- D. Full replication

ANSWER: C

Explanation:

Sampling is correct because a sampling ETF does not necessarily hold every security included in its target index. Instead, the portfolio manager builds a representative portfolio by selecting securities and assigning weights intended to reproduce the index's key risk, return, sector, market-capitalization, duration, or other relevant characteristics as closely as practicable. This approach is particularly useful where the underlying index has many constituents, contains relatively illiquid securities, includes small positions that would be costly to trade, or would otherwise be expensive to duplicate in full. The manager's objective remains index tracking: the selected holdings and their weights are designed to deliver performance that closely matches the benchmark, before fees and expenses. Sampling can therefore reduce transaction and operational costs while maintaining practical exposure to the index. The approach is commonly described as representative sampling in ETF disclosure and education materials. See BlackRock's discussion of ETF index-tracking approaches at <https://www.ishares.com/us/education/what-is-an-etf> and Vanguard's explanation of index-fund sampling at <https://investor.vanguard.com/investor-resources-education/understanding-investment-types/what-is-an-index-fund>.

QUESTION NO: 22

A financial institution is selling their pooled mortgages to a Special Purpose Vehicle. What process are they engaging in?

- A. Merger strategy.
- B. Asset securitization.
- C. Share splitting.
- D. Credit spread arbitrage.

ANSWER: B

Explanation:

Asset securitization. is correct because it describes the process in which a financial institution pools financial assets—such as residential or commercial mortgages—and transfers or sells them to a separate legal entity, commonly called a special purpose vehicle (SPV). The SPV isolates the mortgage pool from the originating institution and finances its purchase by issuing securities to investors. Cash flows from the underlying mortgage payments, including principal and interest, are then used to make payments on those securities. This process turns relatively illiquid mortgage loans into marketable investment instruments, often mortgage-backed securities, and can provide the originating institution with funding, balance-sheet management, and risk-transfer benefits. The defining features in the question are the pooling of mortgages and their sale to an SPV, both of which are central to securitization structures. The Bank of Canada explains the role of asset-backed securities and mortgage-backed securities in Canadian financial markets, while the Office of the Superintendent of Financial Institutions provides guidance on capital treatment and risk transfer for securitization exposures. See [Bank of Canada—Financial Markets](#) and [OSFI—Capital Adequacy Requirements](#).

QUESTION NO: 23

What is a restriction that a mutual fund manager must follow?

- A. Adherence to maximum exposure limits for short selling
- B. Purchases of no more than 20% of the net assets in the securities of a single issuer
- C. Limit of no more than 30% on purchases of net assets in companies engaged in the same industry
- D. No purchases of shares in the manager's own company allowed

ANSWER: A

Explanation:

“Adherence to maximum exposure limits for short selling” is correct because Canadian mutual funds that engage in short selling must comply with the investment restrictions in National Instrument 81-102 Investment Funds. These rules do not permit unrestricted short positions. In particular, the aggregate market value of all securities sold short by a conventional mutual fund may not exceed 20% of the fund’s net asset value, calculated daily. The fund must also meet related conditions intended to ensure that short positions can be covered, including limits connected to cash cover and the types of securities that may be sold short. These requirements are designed to limit leverage and concentration of loss arising from short-selling strategies, since losses on a short position can increase if the price of the borrowed security rises. The restriction is therefore a direct, quantitative limit applicable to a mutual fund’s portfolio activity, and a manager is responsible for operating the fund in compliance with it. The applicable regulatory framework is set out in section 2.6.1 of [National Instrument 81-102 Investment Funds](#). The Canadian Securities Administrators also provide the broader [investment-fund regulatory context](#).

QUESTION NO: 24

What is typically a key tax attribute of dividends?

- A. Dividend income is taxed more preferentially than interest income.
- B. Dividends from preferred shares are ineligible tot dividend tax credit.
- C. Stock dividends are treated differently than regular cash dividends for tax purposes.
- D. Reinvested dividends are non-taxable to the shareholders.

ANSWER: A

Explanation:

Dividend income is taxed more preferentially than interest income. For a Canadian resident investor, taxable dividends received from a taxable Canadian corporation may qualify for the dividend gross-up and dividend tax credit system. This system is intended to recognize corporate income tax already paid before after-tax corporate earnings are distributed to shareholders, helping integrate corporate and personal taxation. Eligible dividends generally receive a more favourable personal tax result than other income, while non-eligible dividends may also qualify for a dividend tax credit but at a different rate. Interest income, by comparison, is ordinarily included in income in full and taxed at the investor’s marginal tax rate, with no comparable dividend tax credit. The extent of the preference depends on the investor’s province, marginal tax bracket, and whether the dividend is eligible or non-eligible; nevertheless, preferential treatment relative to interest is the central tax characteristic tested here. The Canada Revenue Agency describes how taxable dividends are reported using a gross-up and tax credit on its [taxable dividends guidance](#). Further details on the credit are available in the CRA’s [tax treatment of investment income](#) information.

QUESTION NO: 25

Which document details certain rights of the investor and provides audited financial statements of a hedge fund structured as a limited partnership?

- A. Information folder
- B. Fund Facts document
- C. Offering memorandum
- D. Managers discussion and analysis

ANSWER: C

Explanation:

The **Offering memorandum** is the disclosure document used to describe a hedge fund's investment offering in sufficient detail for a prospective investor to assess the opportunity and its risks. For a hedge fund organized as a limited partnership, it identifies important investor rights and the terms governing the limited-partnership interest, such as subscriptions, redemptions, fees, valuation practices, conflicts of interest, and the respective roles of the general partner and limited partners. It also provides prescribed financial disclosure. Where financial statements are included, they are prepared in accordance with the applicable offering-memorandum requirements and may include audited annual financial statements, allowing investors to review the fund's financial position and operating results. In Canada, an offering memorandum distributed under the offering memorandum prospectus exemption must follow the prescribed form and contain the required disclosure, including financial-statement information. This makes the Offering memorandum the document that combines investor-rights disclosure with audited financial reporting for this type of privately offered hedge fund. See the Canadian Securities Administrators' [National Instrument 45-106 Prospectus Exemptions](#) and its [Form 45-106F2 Offering Memorandum for Non-Qualifying Issuers](#).