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Exam : **CSC1**

Title : Canadian Securities Course
Exam 1

Vendor : CSI

Version : DEMO

NO.1 Assume the Government of Canada issues new fixed-income securities with an original term to maturity six months that does not pay interest, which type of fixed-income securities were issued?

- A. Guaranteed bonds
- B. Commercial paper
- C. Treasury bills
- D. Term deposits

Answer: C

Explanation:

Treasury bills (T-bills) are short-term fixed-income securities issued by the Government of Canada with maturities of one year or less, including terms as short as six months or less. They do not pay interest in the conventional sense. Instead, they are sold at a discount to their face value, and investors receive the full face value upon maturity. The difference between the purchase price and the face value represents the investor's earnings.

* A. Guaranteed bonds: These are long-term securities that pay periodic interest (coupons) and do not fit the short-term, non-interest-paying description of T-bills.

* B. Commercial paper: Issued by corporations, not governments, and used to finance short-term liabilities.

* D. Term deposits: These are bank products, not government securities, and typically pay interest over their term.

NO.2 What term describes the requirement of registrants to collect extensive personal and financial information from individuals before making an investment recommendation?

- A. Suitability rule
- B. Know Your Client rule.
- C. Gatekeeper obligations.
- D. Fiduciary duty

Answer: B

Explanation:

The Know Your Client (KYC) rule requires registrants to gather detailed personal and financial information from clients before providing investment advice or making recommendations. This ensures that investment recommendations align with the client's financial goals, risk tolerance, and circumstances.

* This obligation is critical for ensuring suitability in investment products and maintaining regulatory compliance.

* Suitability rule (A) refers to matching investments to a client's needs but comes after gathering KYC information.

* Gatekeeper obligations (C) focus on preventing illegal activities like money laundering.

* Fiduciary duty (D) applies to acting in the best interest of the client but is broader in scope.

References: Volume 1, Chapter 3 ("Know Your Client Rule").

NO.3 Where does primary responsibility for gatekeeping in the securities industry reside?

- A. With OS FI
- B. With the market surveillance Division of CIRO.
- C. With the CIRO dealer members and all their employees
- D. With the provincial securities regulators.

Answer: C

Explanation:

The primary responsibility for gatekeeping in the securities industry resides with CIRO (Canadian Investment Regulatory Organization) dealer members and their employees. This gatekeeping role includes adhering to regulations, implementing Know Your Client (KYC) and Know Your Product (KYP) rules, and ensuring compliance with ethical standards and client-focused reforms.

Dealer members and their employees must ensure that the products and services offered are suitable for their clients and that any potential conflicts of interest are managed appropriately.

Study Document References:

* Volume 1, Chapter 3: The Gatekeeper Role in Securities Regulation, focusing on the responsibilities of CIRO dealer members.

NO.4 Brice purchased a \$10,000 real return bond. The bond has a 10-year term to maturity and an annual coupon of 5% paid semi-annually. If the Consumer Price index increases by 0.8% over the next six months, what is the amount of Brice's first coupon payment?

A. \$2920

B. \$252

C. \$250

D. \$254

Answer: B

Explanation:

To calculate the first coupon payment for Brice's real return bond, we follow these steps:

Step 1: Determine the adjusted principal.

The bond is a real return bond, meaning its principal is adjusted for inflation based on the Consumer Price Index (CPI). The initial principal is \$10,000, and CPI increases by 0.8% over six months.

$$\text{Adjusted Principal} = \text{Initial Principal} \times (1 + \text{Inflation Rate})$$

$$\text{Adjusted Principal} = 10,000 \times (1 + 0.008) = 10,080$$

Step 2: Calculate the semi-annual coupon payment.

The coupon rate is 5% annual, paid semi-annually, so each coupon payment is based on half the annual rate:

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$$\text{Semi-Annual Coupon Rate} = \frac{\text{Annual Coupon Rate}}{2} = \frac{5\%}{2} = 2.5\%$$

Using the adjusted principal, calculate the semi-annual coupon payment:

$$\text{Coupon Payment} = \text{Adjusted Principal} \times \text{Semi-Annual Coupon Rate}$$

$$\text{Coupon Payment} = 10,080 \times 0.025 = 252$$

Conclusion:

The first coupon payment Brice will receive is \$252.

References:

* Canadian Securities Course (CSC), Volume 1, Chapter 6: Fixed-Income Securities - Features and

Types. Discussion on real return bonds and their adjustment mechanism for inflation.

* Canadian Securities Course (CSC), Volume 1, Chapter 7: Fixed-Income Securities - Pricing and Trading. Calculation methodologies for bond payments.

NO.5 What is a characteristic of the FTSE Canada Universe Bond index?

- A.** US dollar bonds from Canadian issuers are included
- B.** Only bonds with a term to maturity of 30 days or more are eligible for inclusion.
- C.** It is a capitalization-weighted index.
- D.** Only government bonds are included

Answer: C

Explanation:

The FTSE Canada Universe Bond Index is a capitalization-weighted index, meaning that the weights of its components are based on their market value. It includes bonds from various issuers (both government and corporate) with terms to maturity of at least one year.

* A. US dollar bonds from Canadian issuers are included: Only bonds denominated in Canadian dollars are included.

* B. Only bonds with a term to maturity of 30 days or more are eligible for inclusion: Bonds must have a minimum term to maturity of one year, not 30 days.

* D. Only government bonds are included: The index includes both government and corporate bonds.

NO.6 Which type of bond allows the issuer to redeem at a specified premium prior to maturity?

- A.** Acronyms
- B.** Callable
- C.** Extendible
- D.** Convertible
- E.** Retractable

Answer: B

Explanation:

A callable bond gives the issuer the right to redeem the bond before its maturity date at a specified price, which often includes a call premium. The call premium is the additional amount over the bond's face value that the issuer pays to compensate the bondholder for the early redemption. Callable bonds are advantageous for issuers when interest rates drop, allowing them to refinance the debt at a lower cost.

Definitions of Other Bond Types:

* Acronyms (A): Not a bond type. This option is irrelevant.

* Extendible (C): These bonds allow the bondholder to extend the maturity date, not the issuer to redeem early.

* Convertible (D): These bonds allow bondholders to convert them into a specified number of common shares of the issuing company.

* Retractable (E): These allow the bondholder, not the issuer, to demand early redemption before the maturity date, usually at par.

Why Callable is Correct:

* A callable bond explicitly provides the issuer with the right to redeem the bond early, typically at a premium.

* This feature is included in the bond's terms and conditions and is typically accompanied by specific

call dates and premiums.

References:

* Canadian Securities Course (CSC), Volume 1, Chapter 6: Fixed-Income Securities - Features and Types. Explanation of callable bonds and their associated premiums.

* Discussion on the advantages and risks of callable bonds for issuers and investors.

NO.7 What obligation does an IA have when communicating information about a preliminary prospectus to prospective investors?

A. The IA must ensure 3 proxy is mailed to the investors to vote for approval or disapproval of the offering.

B. The IA must provide a greensheet

C. The IA must make a tombstone advertisement.

D. The IA must record the names and addresses of those who have requested and received a preliminary prospectus

Answer: D

Explanation:

Investment advisors (IAs) are required to record the names and addresses of all individuals who have requested and received a preliminary prospectus. This ensures compliance with securities regulations and provides a record for follow-ups and potential disclosures related to the offering.

* A. The IA must ensure a proxy is mailed: Proxy voting is related to shareholder meetings, not the prospectus distribution.

* B. The IA must provide a greensheet: A greensheet is used internally by investment firms, not distributed to clients.

* C. The IA must make a tombstone advertisement: Tombstone advertisements are created by the issuer, not the IA.

NO.8 Why does the federal government borrow from the capital markets?

A. To raise capital for streets, sewers and waterworks

B. To support the capital markets

C. To fund spending in excess of revenues

D. To support the expansion of corporations

Answer: C

Explanation:

The federal government borrows from the capital markets to cover budget deficits, which occur when government spending exceeds its revenues. Borrowing is done through the issuance of fixed-income securities such as Treasury bills, bonds, and notes. This process enables the government to fund public services, programs, and infrastructure projects without immediately raising taxes.

* A. To raise capital for streets, sewers, and waterworks: While such projects are funded by borrowing, they are typically under the purview of municipal or provincial governments rather than the federal government.

* B. To support the capital markets: This is an indirect result but not the primary reason for borrowing.

* D. To support the expansion of corporations: Corporate expansion is financed through private or corporate capital markets, not federal borrowing.

NO.9 What is one key feature of futures?

- A.** Parties are unable to offset the contract prior to expiration.
- B.** Both parties to the contract must participate in the future trade.
- C.** Can trade on an exchange or over-the-counter market.
- D.** The buyer must pay the seller a fee when the contract is entered into.

Answer: C

Explanation:

Futures contracts are standardized agreements to buy or sell an asset at a predetermined price on a future date.

They are unique because they can be traded on regulated exchanges, such as the Chicago Mercantile Exchange (CME), or over-the-counter (OTC), where counterparties negotiate terms directly.

This dual trading mechanism ensures flexibility and accessibility for market participants, differentiating futures from other derivatives like forwards, which are typically OTC-only.

Study Document References:

* Volume 1, Chapter 10: Derivatives and Features of Futures, including how they are traded.

NO.10 A politician promises to lower income taxes and increase government spending on social programs. But once selected her government's high debt level prevents her from doing so. Which challenge has this politician faced?

- A.** Co-ordination of federal, Provincial, and municipal policies
- B.** Unsynchronized fiscal and monetary policies.
- C.** Timing lags
- D.** Political business cycle

Answer: C

Explanation:

Timing lags refer to delays between the implementation of fiscal policy measures (such as tax cuts or increased government spending) and their impact on the economy. In this case, the politician's government was unable to implement the promised fiscal policies due to the high debt level, which delayed or negated the planned economic measures.

This reflects the challenge of timing lags in fiscal policy, where structural constraints (such as debt levels) prevent timely execution.

References:

* Volume 1, Chapter 5: Economic Policy under "Challenges of Government Policy" discusses timing lags in implementing fiscal measures (CSC Volume 1, Chapter 5).