



CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

LEVEL 3
CERTIFICATE IN INVESTMENT OPERATIONS

UNIT 1 INTRODUCTION TO SECURITIES AND INVESTMENT (VERSION 26)

TIME ALLOWED: 1 HOUR

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How to use this sample paper

These 50 questions should be answered in an hour in the real exam, so make sure you time yourself accurately.

Record your answer for each question by circling your selected answer.

When you have finished the test, you may check your answers against the **Answer Sheet** at the back of this paper.

The exam is scored as follows:

46-50	Pass with Merit
35-45	Pass
0-34	Fail

For those questions you answered incorrectly, the answer sheet will show you the corresponding syllabus element, sub element and learning objective against which the questions were written, so you can identify any syllabus areas where you may need to revise further.

1 A key reason for regulation of the financial services market is because it:

- A** increases public trust and confidence
- B** prevents over provision of products and services
- C** minimises the level of fees and charges
- D** facilitates the collection of taxation and duty

2 Investing in bonds provides which of the following?

- A** Regular income
- B** Tax-free growth
- C** Risk-free saving
- D** Inheritance tax protection

3 Criminals often acquire 'breeder documents' in order to:

- A** validate false identities
- B** impregnate computer firewalls
- C** bribe public officials
- D** manipulate financial markets

- 4** Why is it important for a financial institution to see a trust deed before accepting any instructions from trustees?
- A** To ensure the rights of the beneficiaries are protected
 - B** To confirm the trustees have the authority to act
 - C** To confirm the beneficiaries have the authority to act
 - D** To check the grant of probate bears the seal of the court
- 5** What is the Public Sector Borrowing Requirement (PSBR)?
- A** The difference between public expenditure and public income
 - B** The statement of public income and expenditure over a year
 - C** The method used by the government to influence spending
 - D** The difference between monetary policy and fiscal policy
- 6** What type of benefit is usually paid following a successful claim under a critical illness insurance policy?
- A** Short-term income
 - B** Lifetime annuity
 - C** A one-off lump sum
 - D** A series of interest-free loans

- 7 Upon what sort of profit is corporation tax charged?
- A Realised
 - B Adjusted
 - C Reported
 - D Net
- 8 A large company has recently undertaken an interest rate swap. What is likely to be the main purpose of this action?
- A To smooth investment returns
 - B To exploit market fluctuations
 - C To reduce debt
 - D To hedge exposure
- 9 Trades carried out using central counterparties achieve anonymity through the process of:
- A equalisation
 - B centralisation
 - C aggregation
 - D novation

- 10** Which of the following outlines the constitutional relationship of a company in a manner that is visible to external parties?
- A** Articles of Association
 - B** Memorandum of Association
 - C** Directors' Model Code
 - D** Listing Rules
- 11** Since April 2016, banks and building societies no longer automatically deduct 20% in income tax from the interest earned on interest - why is this?
- A** Because cash deposits are treated the same way as ISA savings
 - B** Due to a new personal savings allowance to remove tax on up to £1,000 of savings income for basic rate taxpayers, and up to £500 for higher rate taxpayers
 - C** Due to a new personal savings allowance to remove tax on up to £500 of savings income for basic rate taxpayers, and up to £1,000 for higher rate taxpayers
 - D** Any interest received on bank or building society deposits is not liable to income tax
- 12** Why does client age impact on the range of appropriate investments?
- A** As clients approach retirement their capacity for loss increases
 - B** Clients nearer to retirement will need to rely on a secure income
 - C** Younger clients have less investment experience
 - D** As clients approach retirement their family commitments are likely to rise

13 The Financial Conduct Authority (FCA) has responsibility for:

- A** setting commission levels
- B** overseeing HM Treasury
- C** the supervision of PRA regulated firms
- D** supervising trading infrastructures

14 The three stages of money laundering are commonly known as:

- A** placement, separation, integration
- B** integration, infiltration, separation
- C** layering, separation, integration
- D** placement, layering, integration

15 Safekeeping of securities is a function **best** described as that of a:

- A** Custodian
- B** Market maker
- C** Broker
- D** Investor

16 Which of the following arrangements **best** describes an ISA?

- A** Direct equity investment
- B** Long-term deposit
- C** Tax-efficient wrapper for investments
- D** Tax-free endowment policy

17 The settlor of a trust is the person who:

- A** Creates the trust
- B** Witnesses the trust
- C** Is entitled to the trust income
- D** Is entitled to the trust capital

18 A spot transaction in foreign exchange is one that settles:

- A** in two business days
- B** in five business days
- C** at a date to be agreed
- D** within two hours of confirmation

- 19** Which of the following is a characteristic of direct investment in property compared to other investments?
- A** It offers low volatility
 - B** It is easier to value
 - C** It offers liquidity
 - D** It is divisible allowing partial sales
- 20** A client is looking for an instrument with up to 5 years to maturity which will give him a return at the end of its life, but which is also negotiable. Which of the following instruments would fulfil these requirements?
- A** Commercial Paper
 - B** Certificate of Deposit
 - C** Bill of Exchange
 - D** Treasury Bill
- 21** Which of the following is a mandatory event?
- A** Dividend
 - B** Rights issue
 - C** Takeover
 - D** Scrip Dividend

- 22** Which of the following normally have voting rights attributed to them at the time of issue?
- A** Preference shares
 - B** Warrants
 - C** Ordinary shares
 - D** Eurobonds
- 23** The XETRA DAX index relates to stock market performance in which of the following countries?
- A** Italy
 - B** Germany
 - C** France
 - D** Spain
- 24** Which of the following indices contains only the largest companies, by capitalisation, listed on the London Stock Exchange?
- A** FTSE 100
 - B** FTSE 250
 - C** FTSE All Share
 - D** FTSE Techmark

- 25** A capitalisation issue would have which of the following effects on an investor's shareholding?
- A** The number of shares will change
 - B** The share price will remain the same
 - C** There will be partial payment of capital
 - D** The investor will be required to sell part of his holding
- 26** As a result of two recent derivative agreements, Paul agrees to pay £5,000 to James for Asset A in 3 months' time and Eric buys the right, but not the obligation, to purchase Asset B from Stuart in 6 months' time. Which of these traders is referred to as a 'holder'?
- A** Paul
 - B** James
 - C** Eric
 - D** Stuart
- 27** If the quoted interest rate on a loan is 20% per annum charged on a half yearly basis, what the effective annual rate?
- A** 20.5%
 - B** 21%
 - C** 21.5%
 - D** 22%

28 A client holds an 8% bond which matures in 2020. It is currently trading at £124. What is the flat yield?

- A** 1.80%
- B** 5.16%
- C** 6.45%
- D** 25.81%

29 Who is the legal owner of the unit trust assets?

- A** The depository
- B** The unitholders
- C** The manager
- D** The trustee

30 Which of the following best describes an offset mortgage?

- A** Income is used to offset the capital of a mortgage
- B** The size of mortgage interest payments increases to offset a decrease in a property's value
- C** Interest calculations on a mortgage are offset by increases in a property's value
- D** The balance in a savings account is used to offset interest charges in a mortgage account

31 When a firm issues a complainant with its final response, what must the firm's letter include?

- A** The name, address and telephone number of the firm's chief complaints' officer
- B** The name, firm address and contact telephone number of the firm's managing director
- C** Details of the Financial Ombudsman Service
- D** Details of the Financial Services Compensation Scheme

32 Compared to direct property investment, Real Estate Investment Trusts normally offer a reduced level of:

- A** liquidity risk
- B** institutional risk
- C** legal risk
- D** systemic risk

33 Which of the following financial activities is **most** likely to be carried out in the retail sector?

- A** Trading of options
- B** Corporate finance
- C** Financial planning
- D** Reinsurance

- 34** The published spread of a unit trust price is the difference between which of the following?
- A** The cancellation and selling prices of the units
 - B** The selling and buying prices of the units
 - C** The offer and creation prices of the units
 - D** The cancellation and creation prices of the units
- 35** A portfolio manager expects to receive a large incoming payment next month and intends purchasing a particular asset with it. What type of product can be used to offset the risk that this asset's price will rise before the purchase can be made?
- A** Certificate of Deposit
 - B** Commercial Paper
 - C** Exchange-Traded Fund
 - D** Forward
- 36** Which of the following statements regarding Exchange-Traded Funds in the UK is **true**? They are:
- A** priced at or near net asset value
 - B** private limited companies
 - C** traded through a market maker
 - D** subject to UK stamp duty

- 37** What fundamental factor usually dictates the price of goods and services within a market economy?
- A** Level of import tariffs
 - B** Foreign exchange controls
 - C** Supply and demand
 - D** Government policy
- 38** Which of the following investment vehicles is principally designed to protect the holder against a fall in the market?
- A** A hedge fund
 - B** A unit trust
 - C** An ISA
 - D** An index tracker fund
- 39** What does the seller of an option normally acquire?
- A** The right to buy an asset in the future
 - B** The right to sell an asset in the future
 - C** An immediate premium
 - D** A premium at a specific future date

- 40** What is the **prime** responsibility of the Bank of England's Monetary Policy Committee (MPC)?
- A** Determining interest rates in accordance with inflation targets
 - B** Intervening in the market to influence exchange rates
 - C** Organising the amount of notes and coins in circulation
 - D** Preparing economic statistics for the Government
- 41** Which of the following factors is most likely to influence whether an investment trust share price is above or below the net asset value of the share?
- A** Period since launch
 - B** Tax status of the trust
 - C** Supply and demand
 - D** Gilt yields
- 42** As well as making the selection of investments in accordance with a client's investment objectives, a robo-adviser can provide ongoing services for what purpose?
- A** Portfolio rebalancing
 - B** Asset servicing
 - C** Margin calculations
 - D** Wealth assessment

43 Within an OEIC who is responsible for the safekeeping of the scheme property?

- A** The trustee
- B** The authorised corporate director
- C** The depository
- D** The FCA

44 What is the name given to the FCA initiative that gives firms the opportunity to test FinTech related ideas with real customers in a controlled environment?

- A** Robo Box
- B** Sandbox
- C** The Green Challenge
- D** ESG regulation

45 The creation of credit normally results in an increase in:

- A** Public Sector Net Cash Requirement
- B** money supply
- C** base rates
- D** invisible trade

- 46** Which institution in the United States is normally considered to be the lender of last resort to the banking system?
- A** Federal Reserve
 - B** Federal Deposit Insurance Corporation
 - C** Federal Open Market Committee
 - D** Securities and Exchange Commission
- 47** Who has the power to appoint and remove directors of a company?
- A** The non-executive directors
 - B** The shareholders
 - C** A pension fund manager
 - D** The employees
- 48** What type of bond is issued at a discount to its par value and pays no interest?
- A** Zero coupon bond
 - B** Eurobond
 - C** Convertible bond
 - D** Fixed rate bond

49 Which of the following is exempt from UK inheritance tax?

- A** Transfers of assets made within 7 years of death
- B** Assets left to a deceased person's spouse
- C** Transfers into a discretionary trust
- D** Regular transfers made to dependant children

50 A UK gilt whose coupon payment is determined by the level of inflation is known as:

- A** a floating rate gilt
- B** an index-linked gilt
- C** a zero-coupon gilt
- D** a stripped-coupon gilt

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Question Number	Answer	Syllabus Reference
1	A	8.1.2
2	A	4.3.1
3	A	8.2.2
4	B	11.3.1
5	A	2.1.2
6	C	11.1.1
7	B	9.1.1
8	D	6.6.1
9	D	3.1.13
10	B	3.1.1
11	B	5.1.1
12	B	11.2.1
13	D	8.1.1
14	D	8.2.1
15	A	1.1.1
16	C	9.2.1
17	A	9.4.2
18	A	5.4.1
19	A	5.3.1
20	B	5.2.2
21	A	3.1.5
22	C	3.1.2
23	B	3.1.11
24	A	3.1.10
25	A	3.1.6
26	C	6.4.1
27	B	10.1.3
28	C	4.4.2
29	D	7.2.2
30	D	10.2.2
31	C	8.5.1
32	A	7.5.1
33	C	1.1.2
34	B	7.4.1
35	D	6.1.1
36	A	7.6.1
37	C	2.1.1
38	A	7.7.1
39	C	6.3.1
40	A	2.1.3
41	C	7.5.2
42	A	1.1.3

43	C	7.3.2
44	B	1.1.4
45	B	2.1.4
46	A	2.1.3
47	B	3.1.8
48	A	4.3.1
49	B	9.1.2
50	B	4.2.1

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