



CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

LEVEL 4

INVESTMENT ADVICE DIPLOMA

SECURITIES (VERSION 16)

TIME ALLOWED: 2 HOURS

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How to use this sample paper

These 80 questions should be answered in two hours 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:

56-80 Pass

0-55 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 Which of the following **best** explains why sterling floating rate notes (FRNs) add a margin above SONIA?
- A To account for inflation indexation
 - B To smooth coupon volatility
 - C To compensate for issuer default risk
 - D To guarantee a fixed minimum coupon
- 2 The equilibrium price of a futures contract can be determined by calculating its fair value, which takes into account:
- A total returns
 - B price weighting
 - C compound interest
 - D the actual free float
- 3 The primary goal of straight-through processing is to:
- A enable netting across all securities
 - B eliminate manual intervention
 - C minimise rehypothecation risk
 - D standardise international settlement

- 4 Which of the following statements most accurately describes the distribution of profits by a UK REIT?
- A It is required to withhold basic rate tax on the distribution of profits paid to investors. This satisfies the investor's liability to UK income tax in full
 - B It pays corporation tax only on profits it distributes to investors, who are then taxed as property income at the holder's marginal rate
 - C It is required to withhold basic rate tax on the distribution of profits paid to investors and distributions are taxed as property income at the holder's marginal rate
 - D It distributes profits gross to investors who must then declare the income for taxation at their marginal rates
- 5 This table shows financial details of four companies together with their respective share prices before and after having share buybacks:

Company	Earnings (£m)	Shares Before (m)	Shares After (m)	Price Before (£)	Price After (£)
1	90	90	60	9	12
2	100	100	70	12	22
3	120	120	80	15	23
4	150	150	85	18	24

Which company shows the highest price / earnings ratio after the buybacks?

- A Company 1
- B Company 2
- C Company 3
- D Company 4

6 Here are four model portfolios:

MP	Weightings
1	80% emerging market equities, 20% derivatives
2	70% government bonds, 30% cash deposits
3	50% equities, 30% bonds, 20% property
4	90% global equities, 10% growth funds

Which one is suitable for a client seeking immediate income with opportunity for capital growth in the future?

- A MP1
- B MP2
- C MP3
- D MP4

- 7 The following table shows four investors and their objectives:

Investor	Objective
1	Capital growth
2	Steady income
3	Tax-efficient gains
4	High income

Which statement is correct?

- A Investor 1 would be best suited for a zero dividend preference share
 - B Investor 2 would be best suited for an ordinary income share
 - C Investor 3 would be best suited for a zero dividend preference share
 - D Investor 4 would be best suited for a capital share
- 8 Issuers of convertible bonds typically pay a lower coupon than issuers of straight bonds because the:
- A issuer can convert them to equity to avoid debt obligations
 - B option to convert to equity provides additional value for investors
 - C bonds are always subordinated and rank behind senior creditors
 - D company can easily suspend coupon payments if income is low

- 9** The stated mission of the Investment Association implies that its:
- A** supervision protects policyholders and strengthens financial soundness
 - B** recognition powers determine which firms may list securities
 - C** oversight ensures equivalent treatment during company takeovers
 - D** activities are intended to benefit clients, companies, and the wider economy
- 10** Why would investors purchase index-linked debt?
- A** They expect interest rates to increase substantially over the life of the investment
 - B** They would like a regular income paid each month
 - C** They expect inflation to increase over the life of the investment
 - D** They would like to receive the same nominal value at maturity

- 11** A bank intends to submit competitive tenders at a weekly auction for UK Treasury Bills. An individual investor also tenders via a primary participant. The amounts are as follows:

Bid Number	Purchaser	Nominal amount
1	Bank	£650,000
2	Bank	£925,000
3	Individual	£450,000
4	Individual	£550,000

Based solely on this information, which one of the following statements is **true**?

- A** Only Bids 1 and 4 are for valid amounts
- B** Only Bid 2 is for a valid amount
- C** Bids 1 and 2 will automatically be given priority over Bids 3 and 4
- D** If successful, Bids 3 and 4 will automatically have longer maturities than Bids 1 and 2
- 12** Underwriters use a reverse greenshoe option to:
- A** meet excess demand
- B** purchase extra shares
- C** reduce their obligations
- D** support the secondary market

- 13** The ten-year US Treasury usually yields less than the swap rate because:
- A** the US government has a higher credit quality
 - B** the swap market is more liquid
 - C** US Treasury yields benefit from flight-to-quality
 - D** swaps include inflation protection
- 14** A UK company seeking an initial listing on the LSE for both its shares and a class of debt must have an aggregate minimum market capitalisation of:
- A** £500,000
 - B** £700,000
 - C** £900,000
 - D** £1,400,000
- 15** Two government bonds from different European countries are quoted in the market. Bond A has a yield of 3.50% and bond B has a yield of 12.50%. What is the **most** likely reason that this might have occurred?
- A** Bond A is denominated in a more attractive, safer currency
 - B** Bond B is a far less liquid issue than A
 - C** Bond A has an earlier redemption date
 - D** Bond B has a lower credit rating than A

- 16** What is the likely result when traders reach consensus over a share or bond valuation?
- A** The share or bond reaches its true value and the market is in harmony
 - B** Liquidity increases as the share or bond approaches its true value
 - C** Liquidity decreases, volatility increases and erratic price movements can be expected
 - D** Liquidity increases, volatility decreases and price movements become less erratic
- 17** Which of the following statements concerning stamp duty and SDRT is **true**?
- A** CREST will collect both UK stamp duty and SDRT
 - B** Both stamp duty and SDRT arise when the transfer settles
 - C** Stamp duty applies to paper-based transfers while SDRT applies to electronic transfers
 - D** Stamp duty liability arises on trade date, while SDRT liability arises on settlement date
- 18** An US investor might choose a non-competitive bid in a Treasury auction so that it:
- A** ensures their bid will be accepted
 - B** gives them the opportunity to specify their preferred rate
 - C** permits them to purchase a larger share of the total issue
 - D** provides an opportunity to specify acceptable rates

19 In a pooled nominee account, client holdings are:

- A** all held in the name of one nominee company
- B** individually designated under one nominee company
- C** all held in the name of one nominee company but are separately identifiable on the company's register
- D** held in the client's own name but designated by the nominee company

20 A company has:

Turnover	12,012,000
Annual operating cost	5,147,000
Assets	25,123,300
Profit before tax & interest	3,254,000
Profit after tax & interest	2,469,000

What is the Return on Capital Employed?

- A** 9.82%
- B** 12.95%
- C** 47.81%
- D** 63.22%

- 21** When a unit trust's fund manager moves the current market price to be on an 'offer' basis, it means that:
- A** sellers will receive a price at the lower end of the basic 5-7% spread
 - B** buyers are able to purchase fund units at the lower end of the basic price spread
 - C** the manager has reduced the basic price spread as a way to attract investors
 - D** the price has been shifted to the top of the range, increasing the price that buyers have to pay
- 22** In a report to your client, you have been asked to include analysis on how macroeconomic and financial developments over the past six months have affected risks to the UK financial system. Which of the following sources would you use to access this information?
- A** The Bank of England's Financial Stability Report
 - B** A security analyst's report on AIM shares
 - C** Desk research from another firm
 - D** Bloomberg's coverage on global bonds
- 23** What is a potential risk that investors could face if holding a capital guaranteed structured product?
- A** The product fails to generate the guaranteed profit that was expected
 - B** The issuer of the product defaults on their obligation to guarantee the capital
 - C** The issuer of the product needs to restructure the product before maturity
 - D** The product fails to return sufficient growth to protect the capital

- 24** A movement in a share price indicates that a head and shoulders pattern has developed. This would indicate that:
- A** a major reversal pattern has developed after an extended downtrend
 - B** a resistance level has been breached indicating an upward breakout
 - C** the trendline between the upper and lower resistance level is narrowing
 - D** a price resistance level has been breached indicating a sustained price fall
- 25** An investment adviser is most likely to recommend an Exchange-Traded Fund (ETF) to an individual investor as most ETFs:
- A** are an actively managed portfolio of fixed income assets, which are traded in small blocks that are geared towards retail investors
 - B** are closed-ended funds, which provide specific tax incentives
 - C** are low cost, tax efficient, equity-like investment vehicles
 - D** trade in offshore markets and therefore are not subject to regulations that limit the scope of their investments
- 26** Which of the following statements is **true** in describing the different role of collateral in stock lending versus a sales/repurchase agreement?
- A** In a stock lending transaction the lender pays a value-linked fee to the borrower, while in a repo agreement a set fee is agreed upfront
 - B** In a repo transaction the seller of stock pays interest, while in a stock lending transaction the borrower of stock pays a fee
 - C** In a stock lending transaction the borrower is able to generate extra cash by investing the collateral, while in a repo that is not possible
 - D** In a repo agreement the counterparty that lends the stock receives a percentage of the profits, while in a stock lending agreement that is not true

- 27** In an effort to identify income generating stocks for a client who requires a growing level of income, you are analysing four companies operating in the utilities sector.

	Net profit	Pays a dividend of	Shares in issue
Company A	£4.25m	25p	14m
Company B	£6.50m	45p	13m
Company C	£2.75m	20p	12m
Company D	£3.00m	25p	15m

Which stock would be **least** appropriate for inclusion in the client's portfolio?

- A** Company A
 - B** Company B
 - C** Company C
 - D** Company D
- 28** A UK resident currently pays tax at the higher rate but expects to fall to the basic rate after her retirement.
- If she is seeking a cash-based collective investment, what product best meets her need to reduce tax?
- A** Offshore global bond fund with non-distributor status
 - B** Onshore money market fund with capital protection
 - C** Offshore fixed interest fund with distributor status
 - D** Onshore absolute return fund in an ISA wrapper

- 29** How is fundamental analysis typically used to make a decision on buying or selling shares in a listed company?
- A** Analysis is performed only on qualitative factors and it is mostly used to determine short-term trading decisions
 - B** It only involves analysing quantitative factors and it is typically used to make long-term investment decisions
 - C** Analysis is performed only on company accounts and it takes either a long or short term approach to investment
 - D** It involves analysing both quantitative and qualitative factors and is used to make long-term investment decisions
- 30** How does a Central Counterparty provide anonymity between the buyer and seller of matched executed orders on SETS?
- A** By the netting of transactions
 - B** By assuming the role of counterparty to both parties
 - C** By passing the trades to CREST for settlement
 - D** By disintermediation of matched instructions

- 31** In classifying the seniority of debt instruments, which of the following **best** describes Mezzanine status?
- A** A mid-ranking instrument that is riskier than Senior Debt but above other lower ranking classifications
 - B** A high-ranking class of debt but is ranked after the equity in the event of liquidation
 - C** Debt with Investment Grade status and often traded by Hedge Funds and speculators
 - D** Riskier than the subordinated debt. It will rank below other forms of debt, but above the equity in a liquidation
- 32** Which of the following statements on Contracts for Difference (CFDs) and spread betting is **true**?
- A** Whilst both have the same tax treatment, CFDs are more tax efficient as their losses can be carried forward to reduce future taxes
 - B** CFDs usually attract a financing charge when held over time, while spread betting positions do not
 - C** Since spread bets are quoted directly by market makers, they are geared and attract more experienced day traders
 - D** Both are quoted using an order driven system, which matches buyers to sellers and keeps spreads tight

- 33** When selecting a benchmark against which a portfolio's performance can be judged, which of the following represents the best criteria when deciding whether that benchmark, if an index, is appropriate?
- A** Whether the portfolio can effectively track the index
 - B** The price currency of the index components should not be at variance from those in the portfolio
 - C** The benchmark should present a realistic investment alternative given the investment objectives of the portfolio
 - D** Ensuring that the rebalancing and realignment frequency of the index can be replicated within the portfolio
- 34** Which of the following **best** describes how a Managed Floating FX rate works?
- A** When central bank intervention is used to balance out market flows
 - B** When market flows and trades keep the spot rate within a set range
 - C** When a currency attracts investors due to its stable, proven track record
 - D** When market forces cause a major adjustment to the spot rate
- 35** Why is liquidity risk of importance to an asset manager when dealing in highly liquid markets?
- A** A company that the asset manager has invested in goes into liquidation
 - B** Due to the variability of returns in a market
 - C** As market risk cannot be diversified
 - D** A seizing up of bids leading to market crashes and plunging asset prices

- 36** As a debt instrument, one of the main differences between commercial paper and corporate bond issues is:
- A** Commercial paper can only be sold direct to investors, while bonds are first underwritten and then marketed to investors by investment brokers
 - B** The total commercial paper issue does not have to be brought to the market at once, unlike bonds, whose total is marketed when issued
 - C** Credit agencies only give public ratings for corporate bonds, given their longer maturity and their larger market
 - D** While bonds can be issued to fund a capital purchase and are therefore backed by specific assets, commercial paper is an unsecured promissory note
- 37** An investor seeks your opinion on a split capital trust. Their requirements are security of capital and capital growth. Which class of share would be most appropriate?
- A** Zero dividend preference shares
 - B** Annuity shares
 - C** Ordinary shares
 - D** Capital shares
- 38** Why might an investor stipulate that their buy instruction is carried out 'special-ex'?
- A** They are trading 'ex-dividend' and wish to receive the dividend
 - B** They are trading 'ex-dividend' and do not wish to receive the dividend
 - C** They are trading 'cum-dividend' and do not wish to receive the dividend
 - D** They are trading 'cum-dividend' and wish to receive the dividend

39 The purpose of Shelf Registration in the US is to enable:

- A** a single bond issue to be registered multiple times over the course of further capital raisings
- B** a single bond issue to be registered, but issued only when needed (on the shelf), for a period of three years
- C** a single registration to be used for a number of bond issues for up to two years
- D** a single registration to be used for a number of bond issues for up to five years

40 Which of the following is regarded as the main way that Prime Brokers assist Hedge Funds in providing leverage?

- A** By offering a full range of derivative products and devising tailor-made straddles including the writing of futures and options
- B** By providing margin accounts involving the pledging of collateral
- C** By allowing the hedge funds to benefit from the use of the Prime Broker's exemption from EU short selling restrictions by trading under the broker's umbrella
- D** By offering DMA facilities to key North American derivatives exchanges

41 Why are Eurobonds largely free of domestic National Regulation within the issuer's country?

- A** They are largely regarded as relatively risk-free debt investments
- B** They are issued internationally outside of most issuers' jurisdictions
- C** They are always issued in the issuer's domestic currency
- D** They are issued in euros and are therefore regulated by the ECB

- 42** From the issuing company's point of view, which of the following is a reason why it would issue warrants as part of its debt?
- A** It is one method to support its share price, as the larger the number of warrants, the more active will their holders be in supporting its shares
 - B** It receives a partial tax exemption on any funds it puts aside for potential dividend payments associated with the exercise of any warrants
 - C** Its associated debt will carry a lower coupon and lower initial debt costs, due to the equity kicker that bondholders receive from the warrants
 - D** It is a way to prevent any unwanted takeovers, as all warrants are automatically triggered on a takeover announcement
- 43** Which of the following is **most** likely to cause investors and traders to push the price of a security higher?
- A** A political announcement that a company has been involved in a major environmental accident
 - B** A bearish credit rating report on several of the company's competitors, based on lower sector growth
 - C** Expectations of the release of several research reports on the efficiency of a company's management
 - D** A Central Bank announcement that the rate of inflation has risen well above market expectations

44 In the US, the role of a Primary Dealer is to:

- A** offer US Treasury securities to other investors through a closed bidding process for 35% of the auction
- B** participate in the offering of US Treasury securities through competitive bidding of 50% of the auction
- C** maintain market liquidity, by making prices whenever requested in all forms of US Treasury debt
- D** purchase the majority of US Treasury securities and resell to other institutions and investors

45 Which of the following **best** describes how Alpha measures a portfolio's risk adjusted performance?

- A** It compares the portfolio's total returns to the market's risk-free returns and then makes a risk adjustment by taking into the account the range of securities in the portfolio
- B** It uses the cash flows into and from the portfolio over a specific time period, then adjusts the net return by a risk-free rate and then compares this to that of its benchmark index
- C** It measures the correlation between the portfolio's total return and that of its benchmark index and then makes a timed-based risk adjustment to get its final measure
- D** It measures the portfolio's performance, by taking into account its volatility and compares its risk adjusted performance to its benchmark index

- 46** An investment bank is advising an LSE listed company on a merger proposal. If the bank also has an equity trading division, what UK regulatory requirement must be followed?
- A** Chinese walls to prevent front running
 - B** The bank cannot trade in the stock
 - C** Chinese walls to prevent all trading
 - D** Trading halt on the London Stock Exchange
- 47** Why would a client choose a fund using smart indexing instead of a traditional index fund?
- A** They are seeking a passive investment strategy and lower market risk
 - B** The fund has lower costs and implements a widely used investment strategy
 - C** They are seeking an active investment strategy and enhanced returns
 - D** The fund has lower risk and weights stocks according to their market capitalisation
- 48** Which of the following statements **best** describes the role of GEMMs in the financial markets?
- A** They provide liquidity in the gilt market through their role as market makers, under DMO rules
 - B** They provide two-way prices in all offshore markets where gilts are traded, to attract foreign investors
 - C** They provide liquidity in the gilt market through their role as market makers, under the LSE's rules
 - D** They provide a central depository of gilts that ensures their safe keeping for their investors

49 In what way does the exercise of an equity Call Option differ from the exercise of an equity Warrant?

- A** A call option has a last day to exercise while a warrant expires only upon exercise
- B** A warrant exercise will result in the issue of the underlying shares while a call option exercise is settled in cash
- C** A call option exercise results in shares being delivered that are already in issue while for warrants, new shares are created
- D** Call options trade at a premium that includes time value while warrant premiums are just the intrinsic value

50 Some shares in a company were recently transferred to a new owner.

Why would no alteration to a share register be required?

- A** the transfer took place two days before the record date
- B** the transfer took place two days after the record date
- C** the shares involved were held in a discretionary trust
- D** the shares involved in the transaction were bearer shares

51 Why would the issuer of a callable bond, call the bond early?

- A** In order to change the maturity date of the bond
- B** Because interest rates have risen
- C** In order to convert the bond into ordinary shares
- D** Because interest rates have fallen

- 52** Why is it important that a company's statement of cash flows excludes amounts payable and receivable?
- A** It avoids the risk of double counting these items
 - B** It provides a more accurate picture of actual liquidity
 - C** It removes the impact of depreciation and amortisation
 - D** It facilitates reconciliation with other financial statements
- 53** In what way does the DMO, when issuing the government's bonds using the auction process, decide the price that successful purchasers will pay?
- A** The bonds are sold on the basis of highest bids first and sold at the level of the actual bids placed by GEMMs
 - B** The DMO draws up a list of bidders and allocates in descending order until the whole issue is allocated at the average price
 - C** An undisclosed reference price is set in advance and bonds are allocated to the highest bidders at the average of the bid price
 - D** Applicants bid at par or a higher price. Bonds are allocated to highest bidders at the price bid then par bidders receive any surplus
- 54** Why would a company seek a full listing on the London Stock Exchange?
- A** To ensure there is more control and governance in place
 - B** Raise its profile across the market
 - C** To comply with the Sarbanes-Oxley Act
 - D** To reduce running costs

- 55** The equity risk premium can **best** be described as:
- A** the difference between the risk free rate and the return on the stock
 - B** the difference between the company's bond coupon rate and the return on the stock
 - C** the beta of a stock as calculated by CAPM multiplied by the risk free rate
 - D** the alpha generated by a stock in excess of the expected return for the stock
- 56** Why do issuers find it difficult to raise new capital by issuing non-voting shares?
- A** They rank lower than voting shares for dividends
 - B** They are generally restricted from sale and transfer for an initial period
 - C** The shareholders cannot influence the operations of the company
 - D** They carry no nominal value
- 57** How are sovereign states presumed to be 'risk free' for credit purposes?
- A** A country cannot go bankrupt
 - B** A country that cannot pay its debts will have access to the IMF to continue to service their debt
 - C** Countries possess gold reserves against such an eventuality
 - D** Many countries simply print more of their money in order to repay the debt

- 58** How does an initial public offering (IPO) benefit the issuer when compared to a debt offering?
- A** An IPO doesn't encumber company assets
 - B** It is quicker to action
 - C** An IPO is always cheaper for the issuing company
 - D** An IPO is always fully subscribed
- 59** How does the cash flow statement allow investors to determine the quality of a company's earnings?
- A** By comparing cash from operating activities against net income
 - B** By highlighting the level of gearing within the company
 - C** It highlights the company's gross profit
 - D** By detailing the level of retained earnings
- 60** Why would a trader execute a rollover in the FX market?
- A** To avoid paying interest on the high-yielding currency they bought
 - B** In order to limit their potential loss
 - C** To avoid taking delivery of the currency they bought
 - D** In order to benefit from leverage

- 61** What is meant by asset allocation by consensus?
- A** Allocations are made with reference to the peer group median asset allocation
 - B** Allocations are made in accordance with an Investment Committee's recommendations
 - C** Investments are selected based on the standard deviation of their returns parameters
 - D** Investments are selected based on the client's demands
- 62** The GBP / USD spot rate is 1.3155. UK interest rates are 6%, US rates are 4%. Inflation is currently 2.5%. Calculate the six-month forward exchange rate.
- A** 1.2907
 - B** 1.3027
 - C** 1.3284
 - D** 1.3408
- 63** Why does emerging market debt tend to have a higher yield than debt from a developed nation?
- A** Due to the lower demand for emerging market debt
 - B** Because inflation is higher in emerging markets
 - C** Because it has a lower credit rating
 - D** Due to the high demand for emerging market debt

- 64** How does the statement of cash flow allow investors to establish the level of gearing within a company?
- A** All of the financing debits and credits are present in one place
 - B** It records the level of cash available to repay loans
 - C** The level of cash generated can be compared to the level of short term debt
 - D** The statement of cash flow highlights the amount of cash available from quarter to quarter which is available to service debt
- 65** Which members of the Origination Team are responsible for the 'due diligence' for the prospectus and why?
- A** The original sponsor and corporate broker, to ensure that the company meets all of the suitability requirements for listing
 - B** The reporting accountant and legal advisers, to ensure that the company's accounts are in order to optimise investors' perception of the company
 - C** The reporting accountant and legal advisers, to ensure that the document is accurate and complies with all regulations
 - D** The original sponsor and corporate broker, to ensure that the document complies with all regulations and that there is a market for the shares

66 Which of the following companies is paying its dividend from retained earnings?

	Dividend Cover
Company A	2.5
Company B	1.6
Company C	0.7
Company D	1.1

- A** A
- B** B
- C** C
- D** D

67 Underwriters use a reverse greenshoe option to:

- A** meet excess demand
- B** purchase extra shares
- C** reduce their obligations
- D** support the secondary market

68 A portfolio manager is top of their group yet the performance of the fund is poor in absolute terms. Why would this be?

- A** The performance has been benchmarked against a peer group
- B** The underlying market has been volatile
- C** The wrong benchmark was used
- D** Divergence limits were too high

69 The table below provides the number of shares, share price, and free-float factor for four companies.

Company	Number of Shares	Share Price	Free-float Factor
1	2,000,000	£100	60%
2	3,000,000	£50	70%
3	4,000,000	£45	35%
4	5,000,000	£44	30%

Which company has the lowest free-float capitalisation?

- A** Company 1
- B** Company 2
- C** Company 3
- D** Company 4

- 70** The following figures have been extracted from a company's Statement of Financial Position:

Turnover	7.1m	Share capital	1.2m
Reserves	0.3m	Loans	1.0m
Fixed assets	1.4m	Current assets	1.0m
Inventory	0.5m	Profit before tax	0.56m

What is its equity multiplier?

- A** 1.26
- B** 1.55
- C** 1.86
- D** 1.92
- 71** A fund manager is using a major credit agency to determine if they should invest in a FTSE 100 company. Why should they be cautious with the data provided?
- A** There is too much influence from a small number of large agencies
- B** Country credit ratings are incorporated into a company's credit rating
- C** There is limited credit rating information available for FTSE 100 companies
- D** Companies often do not provide accurate information to credit rating firms

72 Which of the following parts of the Takeover Code seeks to protect the target company?

- A** An offeree company must not be hindered in the conduct of its affairs for longer than is reasonable by a bid for its securities
- B** The holders of voting rights of an offeree company must have the right to pre approve any information disseminated by the offeror to enable them to reach a properly informed decision on the bid
- C** The offeree company must act in the best interests of the board and must consult all shareholders on all major company decisions during the offer period
- D** The holders of the securities of an offeree company must not be unduly influenced by the board of that company by any communication method within 30 days of the closing date of the said offer

73 Why does the inclusion of emerging market bonds in a portfolio help to improve diversification?

- A** They tend to have lower volatility than developed markets
- B** They tend to have a lower correlation with developed markets
- C** There is a greater spread of maturities available than in developed markets
- D** The yield on emerging market bonds is higher than on bonds from developed markets

74 In relation to raising additional capital, how does the structure of an Investment Trust compare to that of a Unit Trust?

- A** As all investment trusts are open-ended, they can issue new shares more quickly
- B** The fact that investment trusts hold only listed companies, gives it great leverage to borrow
- C** The corporate structure of an investment trust makes it easier to borrow money
- D** A unit trust would be reluctant to add significant debt due to the negative effect on the NAV

75 When analysing similar companies in different countries for investment purposes, which of the following is generally regarded as a key difference to be aware of?

- A** Foreign exchange fluctuations
- B** Tax treatment of foreign investors
- C** Different accounting policies
- D** Standards of corporate governance

76 The price of a bond moves from £102 to £106.

Which of the following is the most likely explanation?

- A** Expectations of the future level of Inflation go up, the company's credit rating goes down
- B** The company's credit rating goes up, expectations of the future level of interest rates go down
- C** Income and Corporation Tax goes up, expectations of the future level of Inflation go down
- D** Expectations of the future level of interest rates go up, Income and Corporation tax go down

77 The returns from two assets have a correlation coefficient of 0.85.

What does this mean?

- A** The two assets' returns are closely related and would not be a good choice for a diversified portfolio
- B** The returns from these assets react very differently to the same market events and therefore are a good choice for a diversified portfolio
- C** The return of one asset is dependent on the return of the other, so they could be used to hedge one another
- D** The returns on both assets are just below their market benchmark and therefore are overvalued

78 Which of the following has the shortest standard settlement date?

- A** US government fixed income bonds in the USA
- B** Equities in Germany
- C** Japanese government fixed income bonds in Japan
- D** Equities in the UK

79 The Global Financial Crisis 2007-2008 identified flaws in the credit rating agencies. What factors should investors take into consideration when using them?

- A** Perceived conflict of interest
- B** Limited number of rating grades
- C** Overly cautious ratings assigned
- D** Limited influence on the market

80 Why might a US investor acquire an ADR rather than invest directly in the shares of an overseas company?

- A** To avoid or reduce taxation
- B** To diversify their portfolio
- C** To reduce the risk of loss
- D** To trade in their local currency

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Question Number	Answer	Syllabus Reference
1	C	2.1.1
2	C	3.3.8
3	B	5.1.2
4	C	4.1.1
5	B	3.4.3
6	C	8.1.2
7	A	4.3.1
8	B	2.3.2
9	D	3.2.2
10	C	2.2.3
11	A	1.1.2
12	D	3.2.5
13	A	2.5.2
14	C	3.2.3
15	D	2.6.5
16	C	3.3.7
17	C	5.1.3
18	A	2.6.1
19	A	5.1.6
20	B	6.1.2
21	D	4.1.1
22	A	7.1.1
23	B	4.2.1
24	D	7.1.2
25	C	4.1.1
26	B	5.2.1
27	D	6.1.2
28	A	4.3.1
29	D	7.1.2
30	B	5.1.1
31	D	2.7.1
32	B	3.5.2
33	C	8.2.2
34	A	1.2.2
35	D	7.2.1
36	B	1.1.3
37	A	4.3.1
38	C	3.3.5
39	C	2.5.3
40	B	5.2.2

41	B	2.4.1
42	C	3.5.1
43	C	7.1.3
44	D	2.6.1
45	D	7.2.5
46	A	3.3.1
47	C	7.2.4
48	C	2.5.1
49	C	3.5.1
50	D	5.1.5
51	D	2.7.5
52	B	6.1.1
53	A	2.5.1
54	B	3.2.1
55	A	2.6.4
56	C	3.1.1
57	D	2.1.2
58	A	3.2.6
59	A	6.1.1
60	C	1.2.1
61	A	7.2.3
62	B	1.2.3
63	C	2.6.2
64	A	6.1.1
65	C	3.2.5
66	C	6.1.2
67	D	3.2.5
68	A	8.2.1
69	C	3.3.8
70	B	6.1.2
71	A	2.7.2
72	A	3.2.2
73	B	2.6.2
74	C	4.1.1
75	C	6.1.3
76	B	2.7.3
77	A	7.2.2
78	A	3.3.6
79	A	2.7.2
80	D	3.1.2