

Canadian Securities Course (CSC) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

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- 1. What is the primary characteristic of common stock?**
 - A. Guaranteed dividends**
 - B. No voting rights**
 - C. Voting rights and potential dividends**
 - D. Preferred in asset liquidation**
- 2. What does the pricing of options immediately reflect in the case of exchange-traded derivatives?**
 - A. Underlying asset value**
 - B. Issuer's credit rating**
 - C. Clearinghouse's assets**
 - D. Public prices**
- 3. What does 'liquidity' refer to in financial markets?**
 - A. The ability to buy shares without affecting the market price**
 - B. How quickly an asset can be converted into cash**
 - C. The amount of cash a company holds**
 - D. The market capitalization of an asset**
- 4. Which entity is responsible for compliance, accounting, audits, and legal functions in financial firms?**
 - A. Back office**
 - B. Integrated firms**
 - C. Schedule I banks**
 - D. Middle office**
- 5. What is the purpose of the National "Do not call" List (DNCL)?**
 - A. Encourage telemarketing calls**
 - B. Allow unlimited telemarketing calls**
 - C. Provide protection against unwanted telemarketing calls**
 - D. Regulate phone bills**

- 6. Who are typically described as Government Securities Distributors (GSD) in the financial context?**
- A. Authorized shares that have been sold by a corporation**
 - B. Investment dealers or banks authorized to bid at government bond auctions**
 - C. Individual investors in government securities**
 - D. Brokers negotiating on special features for new issues**
- 7. What is meant by a bond's coupon rate?**
- A. The inflation rate associated with the bond**
 - B. The interest rate paid to bondholders**
 - C. The face value of the bond**
 - D. The market interest rate**
- 8. What do you call preferred shares that the holder can force the company to buy back as market rates rise?**
- A. Confirmation**
 - B. Buy-in**
 - C. Retractable preferreds**
 - D. Delayed floater preferred**
- 9. Which of the following best represents the purpose of a Greensheet in the financial sector?**
- A. Guiding government regulations on stock trading**
 - B. Informing shareholders about corporate restructuring**
 - C. Providing information on new issues to salespeople**
 - D. Advising on international investment opportunities**
- 10. What is a financial statement?**
- A. A record of all transactions made by an individual**
 - B. A document that summarizes legal obligations of a company**
 - C. A formal record of the financial activities and position of an entity**
 - D. A summary of market indices and trends**

Answers

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1. C
2. D
3. B
4. D
5. C
6. B
7. B
8. C
9. C
10. C

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Explanations

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1. What is the primary characteristic of common stock?

- A. Guaranteed dividends
- B. No voting rights
- C. Voting rights and potential dividends**
- D. Preferred in asset liquidation

The primary characteristic of common stock is that it provides shareholders with voting rights and potential dividends. Common stockholders typically have the right to vote on important company matters, including the election of the board of directors and other significant corporate decisions. This feature gives investors a voice in the governance of the company, aligning their interests with the overall direction and policies of the business. Regarding dividends, while common stock does not guarantee dividends, shareholders may receive them based on the company's performance and the decision of the board. This potential for dividends, although variable and not assured, is an important aspect of investing in common stock, as it can contribute to the overall returns an investor may achieve. The other options highlight characteristics that are not associated with common stock. For instance, guaranteed dividends are more characteristic of preferred stock, which has a higher claim on dividends and often receives payments before common stockholders. No voting rights would typically apply to preferred shareholders rather than common stockholders, and preferred stock is also prioritized during asset liquidation, which is not a feature of common stock. Thus, the key attributes of common stock revolve around voting rights and the possibility of dividends, making the chosen answer the most accurate reflection of its primary characteristics.

2. What does the pricing of options immediately reflect in the case of exchange-traded derivatives?

- A. Underlying asset value
- B. Issuer's credit rating
- C. Clearinghouse's assets
- D. Public prices**

The pricing of options immediately reflects public prices in the case of exchange-traded derivatives because these prices are publically available and represent the current market value of the option. The other options, such as the underlying asset value, issuer's credit rating, and clearinghouse's assets may also play a role in the pricing of options, but they are not the immediate reflection as they may be subject to changes over time. Public prices, on the other hand, provide a real-time representation of the value of the option and are considered the most accurate and current factor in determining its price.

3. What does 'liquidity' refer to in financial markets?

- A. The ability to buy shares without affecting the market price
- B. How quickly an asset can be converted into cash**
- C. The amount of cash a company holds
- D. The market capitalization of an asset

Liquidity in financial markets primarily refers to how quickly an asset can be converted into cash without significantly affecting its market price. High liquidity indicates that there are many buyers and sellers in the market, enabling assets to be sold swiftly and with minimal price fluctuations. For example, cash itself is considered the most liquid asset, while real estate typically has lower liquidity due to the time and effort required to sell it. The other options do touch on different aspects of financial markets but do not encapsulate the full definition of liquidity. The ability to buy shares without affecting the market price relates more to market depth and order types. The amount of cash a company holds is a component of its liquidity but does not define the broader concept as it pertains to all types of assets. Market capitalization pertains to the overall value of a company in the stock market, and while it may relate to liquidity, it does not specifically define it either. Therefore, the reason option B is correct is that it accurately describes liquidity as the speed of conversion of assets into cash.

4. Which entity is responsible for compliance, accounting, audits, and legal functions in financial firms?

- A. Back office
- B. Integrated firms
- C. Schedule I banks
- D. Middle office**

The middle office is responsible for compliance, accounting, audits, and legal functions in financial firms. The back office mainly handles administrative and support tasks, while integrated firms refer to companies that offer both investment banking and commercial banking services. Schedule I banks are regulated by the government and have a higher capital adequacy requirement compared to other banks in Canada. Therefore, the middle office is the entity that is responsible for the mentioned functions in financial firms.

5. What is the purpose of the National "Do not call" List (DNCL)?

- A. Encourage telemarketing calls
- B. Allow unlimited telemarketing calls
- C. Provide protection against unwanted telemarketing calls**
- D. Regulate phone bills

The National "Do not call" List (DNCL) was created to provide protection against unwanted telemarketing calls for consumers who do not wish to be bothered by such calls. It is a list that consumers can sign up for to avoid receiving unsolicited calls from telemarketers. Options A and B are incorrect because they are the complete opposite of the purpose of the DNCL. Option D is also incorrect as regulating phone bills does not relate to the function of the DNCL.

6. Who are typically described as Government Securities Distributors (GSD) in the financial context?

- A. Authorized shares that have been sold by a corporation**
- B. Investment dealers or banks authorized to bid at government bond auctions**
- C. Individual investors in government securities**
- D. Brokers negotiating on special features for new issues**

Government Securities Distributors (GSD) are investment dealers or banks who are authorized to bid at government bond auctions. Option A is incorrect because authorized shares pertain to stocks, not government securities. Option C is incorrect because individual investors typically do not have the necessary authorization to bid at government bond auctions. Option D is incorrect because brokers are not typically involved in government bond auctions.

7. What is meant by a bond's coupon rate?

- A. The inflation rate associated with the bond**
- B. The interest rate paid to bondholders**
- C. The face value of the bond**
- D. The market interest rate**

A bond's coupon rate refers to the interest rate that the issuer of the bond agrees to pay the bondholders on the bond's face value. It is typically expressed as a percentage and represents the annual interest payment for holding the bond. This rate is important because it helps investors understand the return they can expect from the bond if held until maturity, provided the issuer does not default. When a bond is issued, the coupon rate is set based on various factors, including the prevailing interest rates, the creditworthiness of the issuer, and market conditions at the time of issuance. Bondholders receive this interest payment periodically, usually semi-annually, which can be a significant source of income, especially for investors seeking fixed-income securities. Understanding the coupon rate is essential for evaluating a bond's attractiveness as an investment, as it influences both the bond's price in the secondary market and the overall yield to maturity investors can expect. It is distinct from other related concepts such as the face value, which is the amount the bond will pay at maturity, or the market interest rate, which fluctuates based on broader economic conditions.

8. What do you call preferred shares that the holder can force the company to buy back as market rates rise?

A. Confirmation

B. Buy-in

C. Retractable preferreds

D. Delayed floater preferred

Retractable preferreds are a type of preferred shares that gives the holder the ability to force the company to buy back their shares as market rates rise. This means that if interest rates increase and the market value of the preferred shares falls, the holder can sell their shares back to the company at a predetermined price. This feature provides protection to the holder against potential losses in a rising interest rate environment. The other options, confirmation, buy-in, and delayed floater preferred, are not commonly used terms in finance and do not accurately describe the features of retractable preferreds.

9. Which of the following best represents the purpose of a Greensheet in the financial sector?

A. Guiding government regulations on stock trading

B. Informing shareholders about corporate restructuring

C. Providing information on new issues to salespeople

D. Advising on international investment opportunities

A Greensheet is a document that provides information on new issues to salespeople. This includes details on financial instruments such as stocks, bonds, and derivatives. It is not used for government regulations on stock trading (A), informing shareholders about corporate restructuring (B), or advising on international investment opportunities (D). Therefore, option C is the best representation of the purpose of a Greensheet in the financial sector.

10. What is a financial statement?

- A. A record of all transactions made by an individual
- B. A document that summarizes legal obligations of a company
- C. A formal record of the financial activities and position of an entity**
- D. A summary of market indices and trends

A financial statement serves as a formal record that outlines the financial activities and position of an entity, whether it be an individual, a business, or another organization. It typically includes key components such as the balance sheet, income statement, and cash flow statement. These documents provide vital information about an entity's assets, liabilities, revenues, and expenses, allowing stakeholders to assess its financial health, performance over a specific period, and its liquidity. This definition aligns with the purpose of financial statements, which is to deliver a structured portrayal of financial performance that informs decision-making by investors, management, and other stakeholders. Comprehensive understanding of financial statements is crucial, as they are widely used for analysis, reporting, and regulatory purposes, thus equipping users with the necessary data to gauge financial stability and operational results. In contrast, while records of transactions, legal obligations, and summaries of market indices can be informative, they do not capture the full essence of what constitutes a financial statement. Transaction records focus on individual activities without summarization, legal obligations pertain specifically to corporate responsibilities within the legal context, and market indices summarize broader economic trends rather than detailing the financial status of a specific entity.