

# Cannon Financial Institute CFIRS Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Table of Contents

<b>Copyright</b> .....	<b>1</b>
<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>How to Use This Guide</b> .....	<b>4</b>
<b>Questions</b> .....	<b>5</b>
<b>Answers</b> .....	<b>8</b>
<b>Explanations</b> .....	<b>10</b>
<b>Next Steps</b> .....	<b>16</b>

# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

- 1. According to fiduciary standards, bank trust departments are allowed to purchase what types of investments?**
  - A. Marketable securities**
  - B. Private equity investments**
  - C. Real estate properties**
  - D. All of the above**
- 2. What department is typically responsible for monitoring securities in a broker-dealer firm?**
  - A. Stock Record Department**
  - B. Dividend Department**
  - C. Proxy Department**
  - D. All of the above.**
- 3. A 52-week Treasury bill is offered every?**
  - A. week**
  - B. 4 weeks**
  - C. 13 weeks**
  - D. 12 months**
- 4. Which of the following is true regarding the contributions to a Roth IRA compared to a Traditional IRA?**
  - A. Contributions to a Roth IRA are not limited by income.**
  - B. Traditional IRA contributions are tax-free regardless of income level.**
  - C. Roth IRAs have required minimum distributions starting at age 70.**
  - D. Tax implications for contributions to both types of IRAs are identical.**
- 5. What must a bank do if it has a defaulted fixed income asset in its common trust fund?**
  - A. Write-off the asset immediately**
  - B. Buy the asset with board approval**
  - C. Purchase the asset with OCC approval**
  - D. Seek approval from all fund participants**

- 6. When making an encroachment for a beneficiary, the trustee should reference which document?**
- A. Directions of the beneficiary**
  - B. Trust instrument**
  - C. Concurrence of other beneficiaries**
  - D. Sufficient income to cover the encroachment**
- 7. The over the counter market (OTC) is used to describe trading securities that:**
- A. Do not take place on an exchange.**
  - B. Use a telecommunications network.**
  - C. Involve a negotiation process of bid and ask.**
  - D. All of the above.**
- 8. What is the main purpose of a convertible preferred stock?**
- A. To provide fixed dividends**
  - B. To allow conversion into common stock**
  - C. To provide priority in liquidation**
  - D. To ensure fixed payment obligations**
- 9. What is one of the specific duties of a fiduciary as dictated by ERISA?**
- A. To achieve the highest returns regardless of risk.**
  - B. To avoid any transactions that may be related to parties-in-interest.**
  - C. To keep plan participants informed of all potential investment options.**
  - D. To act solely in the interest of plan participants and beneficiaries.**
- 10. What does the efficient frontier illustrate, as introduced by CAPM?**
- A. The set of portfolios that maximizes risk**
  - B. The set of portfolios that minimizes return**
  - C. The set of portfolios that holds no risk**
  - D. The set of portfolios that maximize return for each level of risk**



## **Answers**

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

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## **Explanations**

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**1. According to fiduciary standards, bank trust departments are allowed to purchase what types of investments?**

- A. Marketable securities**
- B. Private equity investments**
- C. Real estate properties**
- D. All of the above**

The most appropriate answer is that fiduciary standards allow bank trust departments to purchase marketable securities. Fiduciaries have a responsibility to act in the best interests of their clients, and this primarily includes following prudent investment practices. Marketable securities, such as stocks and bonds, are generally viewed as liquid and easily tradable, making them suitable for trust investment strategies. They provide an opportunity for diversification, capital appreciation, and income generation, while aligning with the obligations a fiduciary has to balance risk and return for beneficiaries. Private equity investments and real estate properties, while they may also be permissible under certain circumstances, are typically subject to more rigorous scrutiny and may not fit within the traditional fiduciary framework due to their illiquid nature and higher risk profiles. They require careful consideration of the investment strategy and a clear alignment with the beneficiaries' best interests, which fiduciaries must prioritize. Hence, while fiduciaries can invest in various asset classes, the key focus tends to remain on more conventional, liquid investments like marketable securities.

**2. What department is typically responsible for monitoring securities in a broker-dealer firm?**

- A. Stock Record Department**
- B. Dividend Department**
- C. Proxy Department**
- D. All of the above.**

In a broker-dealer firm, the responsibility for monitoring securities encompasses a range of functions that can indeed involve multiple departments, making the choice of an all-encompassing answer appropriate. The Stock Record Department plays a critical role by maintaining accurate records of all securities transactions, ensuring compliance with regulatory requirements and managing the overall integrity of stock records. This department is essential for tracking ownership and any changes in positions due to trading activities. The Dividend Department is responsible for overseeing the distribution of dividends on behalf of the clients holding securities. This includes the monitoring of dividend declarations, ensuring timely payments, and maintaining records related to dividends—all vital aspects that contribute to the overall monitoring of securities. The Proxy Department facilitates corporate governance by managing proxies, which are documents that allow shareholders to vote without being physically present at meetings. This department monitors the issuance and collection of proxies as well as the votes cast, ensuring that security-holder rights are upheld. Thus, the involvement of various departments in monitoring different aspects of securities activity supports the idea that all of these functions collectively contribute to the oversight of securities within a broker-dealer environment, validating the choice of an inclusive option.

### 3. A 52-week Treasury bill is offered every?

- A. week
- B. 4 weeks**
- C. 13 weeks
- D. 12 months

The correct answer indicates that a 52-week Treasury bill is offered every 4 weeks. This aligns with the auction schedule of Treasury bills, which typically involves shorter-term bills being issued in a staggered fashion. Treasury bills, or T-bills, are short-term government debt securities that mature in one year or less. They are issued in various maturities, including 4-week, 13-week, 26-week, and 52-week terms. The U.S. Department of the Treasury regularly issues these bills through a bidding process. For the 52-week T-bill, this auction occurs approximately every 4 weeks, which allows for a consistent supply of new issues to meet market demand and provide liquidity. Scheduling the auctions on this timeframe helps investors who are looking for long-term investment options that still fall under the category of short-term securities. Consequently, the 4-week cycle allows the U.S. Treasury to continuously finance government operations and manage public debt effectively.

### 4. Which of the following is true regarding the contributions to a Roth IRA compared to a Traditional IRA?

- A. Contributions to a Roth IRA are not limited by income.**
- B. Traditional IRA contributions are tax-free regardless of income level.
- C. Roth IRAs have required minimum distributions starting at age 70.
- D. Tax implications for contributions to both types of IRAs are identical.

Contributions to a Roth IRA being not limited by income is indeed a true statement. Unlike Traditional IRAs, which have income limits that can restrict high earners from contributing directly, Roth IRAs allow individuals to contribute as long as they meet certain criteria, specifically regarding tax filing status and adjusted gross income. However, there are income thresholds at which the ability to contribute directly to a Roth IRA phases out, but high earners can still contribute through a backdoor Roth IRA even if their income exceeds these limits. This unique feature provides more flexible financial planning options for individuals who want to benefit from tax-free withdrawals in retirement. The other statements about Traditional IRAs and Roth IRAs contain inaccuracies that distinguish the two types of retirement accounts. For instance, Traditional IRA contributions are not universally tax-free and are subject to income limits based on eligibility criteria; contributions may be deductible depending on retirement plan participation. Similarly, Roth IRAs do not have required minimum distributions (RMDs) during the owner's lifetime, which is a key advantage, whereas Traditional IRAs begin requiring withdrawals at age 73 (as of current law). Lastly, the tax implications for contributions to the two types of IRAs differ significantly, with Traditional IRA contributions often being tax-deductible and

**5. What must a bank do if it has a defaulted fixed income asset in its common trust fund?**

- A. Write-off the asset immediately**
- B. Buy the asset with board approval**
- C. Purchase the asset with OCC approval**
- D. Seek approval from all fund participants**

When a bank has a defaulted fixed income asset in its common trust fund, it must seek to manage the situation effectively while adhering to regulatory guidelines. The correct choice reflects the need for the bank to obtain board approval to proceed with the acquisition of the defaulted asset. The rationale behind this process involves maintaining governance and oversight in financial decision-making. Board approval ensures that there is a collective agreement and formal acknowledgment of the implications associated with acquiring a defaulted asset, which may involve risks and financial considerations impacting the fund and its participants. Acquiring the defaulted asset can be a strategic decision aimed at stabilizing the common trust fund or retaining some potential value from the investment. However, doing so without appropriate authorization can lead to issues of accountability and mismanagement, which is why board approval is essential in this scenario. This procedure helps in safeguarding the interests of all stakeholders involved in the common trust fund, thus ensuring that financial decisions align with overarching fiduciary duties and regulatory standards.

**6. When making an encroachment for a beneficiary, the trustee should reference which document?**

- A. Directions of the beneficiary**
- B. Trust instrument**
- C. Concurrence of other beneficiaries**
- D. Sufficient income to cover the encroachment**

The trust instrument is fundamentally important when a trustee is considering an encroachment for a beneficiary. This document serves as the primary governing authority for the management of the trust and outlines the specific terms, conditions, and limitations regarding how trust assets can be utilized. In the context of encroachment, which typically involves the use of principal assets for the benefit of a beneficiary, the trust instrument will specify whether encroachments are permissible and under what circumstances. It defines the rights and interests of the beneficiaries, including any stipulations about how much can be withdrawn or used, and for what purposes. This careful oversight ensures that the trustee acts within the legal boundaries established by the trust and maintains the fiduciary duty to all beneficiaries involved. The trustee must adhere to the language and spirit of this instrument to avoid potential disputes among beneficiaries and to ensure that the interests of the trust are upheld. While other documents or considerations may hold value in specific circumstances, the trust instrument remains the definitive source that informs the trustee's actions regarding encroachments.

**7. The over the counter market (OTC) is used to describe trading securities that:**

- A. Do not take place on an exchange.**
- B. Use a telecommunications network.**
- C. Involve a negotiation process of bid and ask.**
- D. All of the above.**

The over the counter market (OTC) refers to a decentralized market where trading of financial instruments occurs directly between two parties, rather than on a centralized exchange. This market is characterized by several key features: - Securities traded in the OTC market do not take place on formal exchanges, allowing for a broader range of financial instruments, including stocks, commodities, and derivatives, to be bought and sold. - The OTC market utilizes a telecommunications network to facilitate transactions, enabling participants from various locations to connect and trade with one another. - The trading process often involves negotiations between buyers and sellers, where they rely on the bid and ask prices rather than a standardized order book found on exchanges. These attributes collectively define the OTC market, confirming that all aspects mentioned are integral to how it operates. Hence, the correct response encompasses the entirety of these characteristics, making it a comprehensive choice.

**8. What is the main purpose of a convertible preferred stock?**

- A. To provide fixed dividends**
- B. To allow conversion into common stock**
- C. To provide priority in liquidation**
- D. To ensure fixed payment obligations**

The primary purpose of convertible preferred stock is to allow the holder to convert their preferred shares into a specified number of common shares at some point in the future, often at the discretion of the shareholder. This feature provides investors with the potential for capital appreciation through conversion, as common stocks generally have greater upside potential than preferred stocks. With the conversion option, investors can benefit from the growth of the company if it performs well, while still enjoying the benefits of fixed dividends and higher claim priority in the event of liquidation while they hold the preferred shares. The appeal of this type of security lies in its hybrid nature, offering both the steady income characteristic of preferred stock and the growth potential typically associated with common stock. Investors are incentivized to invest in convertible preferred stock because it combines these features, making it an attractive option for those seeking both income and growth potential.

**9. What is one of the specific duties of a fiduciary as dictated by ERISA?**

- A. To achieve the highest returns regardless of risk.**
- B. To avoid any transactions that may be related to parties-in-interest.**
- C. To keep plan participants informed of all potential investment options.**
- D. To act solely in the interest of plan participants and beneficiaries.**

A fiduciary's primary responsibility under the Employee Retirement Income Security Act (ERISA) is to act solely in the interest of plan participants and beneficiaries. This duty is fundamental to the fiduciary's role because it ensures that decisions are made with the best interests of the participants at the forefront, emphasizing loyalty and prudence in the management of retirement plans. This duty encompasses the obligation to provide benefits to participants, manage plan assets wisely, and avoid conflicts of interest. Essentially, fiduciaries must prioritize the financial well-being of those they serve, which is critical for maintaining trust in retirement plan management. By doing so, they help ensure that participants receive the promised benefits without any adverse influence from personal interests or external pressures. The other choices, while touching on relevant aspects of fiduciary responsibility, do not encapsulate the core duty as comprehensively. For instance, achieving the highest returns regardless of risk undermines the principle of prudence. Avoiding transactions with parties-in-interest is one limited aspect of fiduciary duties, but it does not cover the overall ethical obligation to participants. Keeping plan participants informed of investment options is important, but again, it is part of the broader duty rather than the sole defining role of a fiduciary.

**10. What does the efficient frontier illustrate, as introduced by CAPM?**

- A. The set of portfolios that maximizes risk**
- B. The set of portfolios that minimizes return**
- C. The set of portfolios that holds no risk**
- D. The set of portfolios that maximize return for each level of risk**

The efficient frontier, as introduced by the Capital Asset Pricing Model (CAPM), represents a crucial concept in modern portfolio theory. It illustrates the set of optimal portfolios that offer the highest expected return for a given level of risk. Essentially, the efficient frontier provides investors with a clear visual representation of the trade-off between risk and return. When constructing a portfolio, an investor seeks to achieve the best possible returns while managing the associated risks. The portfolios that lie on the efficient frontier are those that have been optimized, meaning they provide the maximum expected return for each unit of risk taken. This means that any portfolio beneath the efficient frontier is considered suboptimal because it either offers lower returns for the same level of risk or entails higher risks for the same level of expected returns. In summary, the efficient frontier is a foundational framework that helps investors identify the most efficient portfolios, ensuring they make informed decisions about how to allocate their assets in relation to their individual risk tolerance and return expectations.



## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://cannoncfirs.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**