

Chartered Institute for Securities and Investment (CISI) Level 3 Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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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

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- 1. Dividend tax rate for higher rate taxpayers on dividends beyond the allowance?**
 - A. 8.75%**
 - B. 33.75%**
 - C. 0%**
 - D. 39.35%**

- 2. Which statement accurately describes the ETF sponsor?**
 - A. The custodian holds the underlying assets**
 - B. The market maker ensures liquidity**
 - C. The entity that creates and manages the ETF**
 - D. Authorized participants create or redeem ETF shares**

- 3. How often do gilts pay interest?**
 - A. Half-yearly**
 - B. Quarterly**
 - C. Monthly**
 - D. Annually**

- 4. Investment trusts are closed-ended funds that trade on the stock market. Which statement is true?**
 - A. They are closed-ended funds that trade at a discount or premium to NAV**
 - B. They are open-ended funds whose price equals NAV**
 - C. They have no board of directors**
 - D. They do not use gearing**

- 5. Which exchange is the world's leading international derivatives exchange with principal products including German bond futures and options (Bund)?**
 - A. ICE Futures Europe (formerly LIFFE)**
 - B. ICE**
 - C. Eurex**
 - D. LME**

- 6. What does PvP stand for in FX settlement?**
- A. Payment versus Payment; system used within CLS Bank to settle FX transactions between member banks**
 - B. Private value protection**
 - C. Payment verification protocol**
 - D. Profit variance program**
- 7. What does LPA stand for in the context of power of attorney?**
- A. Limited Power of Attorney**
 - B. Legal Proxy Agreement**
 - C. Lasting Power of Attorney**
 - D. Lasting Provisional Authority**
- 8. Investors in commercial property mainly derive returns from:**
- A. Rental income**
 - B. Capital gains**
 - C. Interest income**
 - D. Government subsidies**
- 9. When is an administrator appointed?**
- A. The executor must always act**
 - B. The administrator is the person who manages the estate during probate**
 - C. The administrator handles all taxes**
 - D. The administrator is appointed when the executor does not wish to act or if no will exists**
- 10. Flat yield for bonds is calculated as which expression?**
- A. $(\text{price per } \pounds 100 \text{ nominal} / \text{coupon}) \times 100$**
 - B. $(\text{coupon} / \text{price per } \pounds 100 \text{ nominal}) \times 100$**
 - C. $(\text{coupon} \times \text{price per } \pounds 100 \text{ nominal}) \times 100$**
 - D. $(\text{coupon} / \text{par}) \times 100$**

Answers

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

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Explanations

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1. Dividend tax rate for higher rate taxpayers on dividends beyond the allowance?

- A. 8.75%
- B. 33.75%**
- C. 0%
- D. 39.35%

Dividends have their own tax rates, separate from regular income tax, and there's a tax-free dividend allowance. After you account for that allowance, any dividend income that falls in the higher-rate band is taxed at the higher dividend rate. In this setup, that rate for dividends beyond the allowance is 33.75%. The other figures would apply to different bands or rule sets, but not to the higher-rate treatment described here.

2. Which statement accurately describes the ETF sponsor?

- A. The custodian holds the underlying assets
- B. The market maker ensures liquidity
- C. The entity that creates and manages the ETF**
- D. Authorized participants create or redeem ETF shares

The ETF sponsor is the issuer behind the fund—the entity that creates the ETF, defines its objective and structure, and oversees its ongoing management (often coordinating with the fund manager). That's why describing it as the entity that creates and manages the ETF is the best fit. The custodian's role is simply safekeeping the underlying assets, not creating or running the fund. Market makers provide liquidity for trading, while authorized participants handle the creation and redemption of ETF shares with the sponsor, but they are not the sponsor themselves.

3. How often do gilts pay interest?

- A. Half-yearly**
- B. Quarterly
- C. Monthly
- D. Annually

Gilts, as UK government bonds, pay interest through fixed coupon payments twice a year. This semi-annual pattern means you receive a coupon every six months, not monthly or quarterly, and not just once a year. The amount each time is the annual coupon rate applied to the bond's face value, split into two payments. For example, a gilt with a 4% annual coupon on a £100 nominal pays £2 each six months (totalling £4 per year). While some other bonds may have different frequencies, standard plain-vanilla gilts use semi-annual coupon payments.

4. Investment trusts are closed-ended funds that trade on the stock market. Which statement is true?

A. They are closed-ended funds that trade at a discount or premium to NAV

B. They are open-ended funds whose price equals NAV

C. They have no board of directors

D. They do not use gearing

Investment trusts operate as fixed-capital, closed-ended funds. Because a fixed number of shares is listed on the stock market, their market price is determined by supply and demand rather than by the fund's NAV per share. This means the share price can be lower than the NAV (a discount) or higher than the NAV (a premium) at any given time. NAV per share is the fund's total assets minus liabilities, divided by the number of shares, and it represents the value of the underlying holdings, not the price you'll pay on the exchange. The other statements don't fit because investment trusts do have a governance structure with a board, they are able to use gearing (borrowing) to invest, and they are not open-ended funds whose price always equals NAV.

5. Which exchange is the world's leading international derivatives exchange with principal products including German bond futures and options (Bund)?

A. ICE Futures Europe (formerly LIFFE)

B. ICE

C. Eurex

D. LME

Bund futures and options are the German government bond derivatives used to hedge or bet on interest-rate movements. The exchange that hosts these contracts as its flagship offerings is Eurex. Eurex specializes in European fixed-income derivatives and is widely regarded as the leading international venue for Bund contracts, delivering deep liquidity and standardized contracts that attract participants from across markets. The other options don't center on Bunds: LME focuses on metals, while ICE Futures Europe and ICE (as a group) cover a broad range of products but Bunds are distinctly associated with Eurex.

6. What does PvP stand for in FX settlement?

A. Payment versus Payment; system used within CLS Bank to settle FX transactions between member banks

B. Private value protection

C. Payment verification protocol

D. Profit variance program

Payment versus Payment means that the transfer of one currency happens only if the transfer of the other currency occurs as well. In FX, this eliminates principal risk by ensuring both sides of a trade settle simultaneously. CLS Bank uses a PvP settlement mechanism, tying the two legs of a trade together so neither leg settles unless the other does. If one party can't fulfill both legs, settlement for that cycle isn't completed, preventing one party from paying without receiving. The other options aren't relevant terms in FX settlement.

7. What does LPA stand for in the context of power of attorney?

- A. Limited Power of Attorney**
- B. Legal Proxy Agreement**
- C. Lasting Power of Attorney**
- D. Lasting Provisional Authority**

Lasting Power of Attorney is a UK legal arrangement that lets you appoint someone you trust to make decisions on your behalf if you lose mental capacity. The “lasting” aspect means the authority continues after you can no longer make decisions yourself, unlike some other powers of attorney that end on incapacity. There are two kinds: one covers financial and property decisions, and the other covers health and welfare decisions. Before they can be used, an LPA must be registered with the Office of the Public Guardian. The other terms listed aren’t standard UK terminology for this concept.

8. Investors in commercial property mainly derive returns from:

- A. Rental income**
- B. Capital gains**
- C. Interest income**
- D. Government subsidies**

The main driver of returns from commercial property, over the typical investment horizon, is capital gains—the increase in the property’s value when you sell. While rental income provides ongoing cash flow to cover costs and service debt, the larger, often more significant component of total return comes from the property’s value rising over time. Factors like location, demand, scarcity, and inflation push property values higher, and leverage can amplify these gains. Government subsidies aren’t a reliable or typical source of returns, and interest income is earned from lending assets, not from owning the property itself.

9. When is an administrator appointed?

- A. The executor must always act**
- B. The administrator is the person who manages the estate during probate**
- C. The administrator handles all taxes**
- D. The administrator is appointed when the executor does not wish to act or if no will exists**

In probate, who handles the estate depends on whether there is a will. An executor is named in a will and is normally the person responsible for administering the estate. An administrator is appointed when there is no valid will, or when the named executor cannot or does not wish to act. The court steps in to appoint the administrator to collect assets, settle debts, and distribute the estate according to the law. So this scenario—when the executor won’t act or there is no will—describes when an administrator takes on the role.

10. Flat yield for bonds is calculated as which expression?

- A. (price per £100 nominal / coupon) × 100**
- B. (coupon / price per £100 nominal) × 100**
- C. (coupon × price per £100 nominal) × 100**
- D. (coupon / par) × 100**

Flat yield shows the income you get from the bond relative to its current price. It's the annual coupon payment per £100 of nominal value divided by the current price per £100, expressed as a percentage. So you take the coupon and divide it by the price per £100 nominal, then multiply by 100. That matches coupon / price per £100 nominal × 100. The other forms aren't correct because they either invert the ratio, multiply values together, or use the par value instead of the actual market price.

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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.

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

<https://cisilevel3.examzify.com>

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

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