

# Chartered Institute of Stockbrokers (CISI)

# Professional 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. What is the principal role of a unit trust manager?**

- A. To provide legal advice to shareholders.**
- B. Deciding where the money is to be invested.**
- C. To manage shareholder communications.**
- D. To verify financial transactions.**

**2. What impact does the market risk have on bond investments?**

- A. Increases the bond's maturity duration**
- B. Alters the company's credit worthiness**
- C. Results from fluctuations in interest rates**
- D. Affects the bond's dividend yield**

**3. How is the effective annual interest rate calculated?**

- A. By multiplying the annual rate by the frequency it is charged**
- B. By dividing the annual rate by the frequency it is charged and then compounding it**
- C. By adding the nominal rate to the inflation rate**
- D. By multiplying the nominal rate by the number of years**

**4. What may influence an investor's choice of benchmarks?**

- A. Personal preference for asset types**
- B. Market trends and economic conditions**
- C. Investment advisors' opinions only**
- D. Historical performance of the investor's own portfolio**

**5. What role does a broker-dealer fulfill in financial markets?**

- A. A broker-dealer only executes trades for clients**
- B. A broker-dealer only invests in its own accounts**
- C. A broker-dealer acts both as a facilitator for clients and a trader for its own benefit**
- D. A broker-dealer is limited to providing investment advice**

**6. What rate of stamp duty is applied to the purchase of foreign shares?**

- A. 1% of the transaction value**
- B. 3% of the transaction value**
- C. No stamp duty is paid**
- D. 0.5% of the transaction value**

**7. What type of company are private equity firms usually set up as?**

- A. Public limited companies**
- B. Private limited companies**
- C. Corporations**
- D. Limited partnerships**

**8. Which element is essential for price discovery in financial markets?**

- A. The regulatory framework**
- B. The interaction of buyers and sellers**
- C. The number of financial instruments available**
- D. The historical performance of investments**

**9. How do you calculate flat yield?**

- A. Annual coupon divided by face value.**
- B. Annual coupon divided by bond price times 100.**
- C. Yield to maturity divided by years to maturity.**
- D. Annual dividend divided by market value times 100.**

**10. What type of knowledge is assessed in the "Investment Products" section of the exam?**

- A. Knowledge of corporate finance**
- B. Knowledge related to various investment products, including stocks, bonds, mutual funds, and derivatives**
- C. Knowledge on trading strategies**
- D. Knowledge of financial reporting standards**

## **Answers**

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

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## **Explanations**

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## 1. What is the principal role of a unit trust manager?

- A. To provide legal advice to shareholders.
- B. Deciding where the money is to be invested.**
- C. To manage shareholder communications.
- D. To verify financial transactions.

The principal role of a unit trust manager centers on the responsibility for investment decisions, which involves determining where the funds collected from unit holders will be allocated. The manager conducts thorough research and analysis on various investment opportunities, assessing the potential return and risk associated with different asset classes such as stocks, bonds, and other securities. This role is crucial as it directly impacts the performance of the unit trust and, consequently, the returns for investors. The unit trust manager must stay informed about market trends, economic indicators, and other factors that may influence investment outcomes. Their decisions aim to align with the stated investment objectives of the trust, ensuring that the unit holders' interests are prioritized and that there is effective portfolio management in place. While other responsibilities such as managing shareholder communications and verifying transactions are essential aspects of the unit trust's overall operations, they do not represent the central function of a unit trust manager as it specifically pertains to investment strategy and execution.

## 2. What impact does the market risk have on bond investments?

- A. Increases the bond's maturity duration
- B. Alters the company's credit worthiness
- C. Results from fluctuations in interest rates**
- D. Affects the bond's dividend yield

Market risk, often referred to as systematic risk, directly relates to the broader economic environment and can significantly impact bond investments. The correct answer highlights that market risk results from fluctuations in interest rates. When interest rates change, the prices of existing bonds often move inversely to these changes. If interest rates rise, the market value of existing bonds falls because new bonds are likely to be issued at higher rates, making the lower-rate bonds less attractive to investors. Conversely, if interest rates decline, existing bonds with higher rates become more valuable. This relationship underscores the inherent market risk associated with bond investments, as fluctuations in interest rates can lead to significant changes in bond prices, impacting an investor's return. The other options, while related to bonds, do not accurately define the direct impact of market risk. For instance, bond maturity duration is influenced by various factors, but market risk is more about price fluctuations due to interest rate changes rather than duration itself. The company's creditworthiness pertains to default risk rather than market risk. Lastly, dividends are not a characteristic of bonds; bonds provide coupon payments, but dividend yield is specific to equity investments. Thus, understanding that market risk revolves around interest rate fluctuations is crucial for effectively managing bond investments.

### 3. How is the effective annual interest rate calculated?

- A. By multiplying the annual rate by the frequency it is charged
- B. By dividing the annual rate by the frequency it is charged and then compounding it**
- C. By adding the nominal rate to the inflation rate
- D. By multiplying the nominal rate by the number of years

The effective annual interest rate is calculated by taking the nominal interest rate and adjusting it based on the frequency of compounding within a year. This means that if interest is compounded more frequently than annually, you must account for this additional growth by dividing the nominal rate by the number of compounding periods per year. Then, you compound that result over the number of periods to find the equivalent rate that reflects the true cost of borrowing or the true yield on an investment over a year. This approach captures the effects of compounding, which can significantly increase the total interest earned or owed compared to simply using the nominal rate. Therefore, calculating the effective annual interest rate in this manner provides a more accurate picture of the interest being charged or earned over time, accounting for how often interest is applied to the principal.

### 4. What may influence an investor's choice of benchmarks?

- A. Personal preference for asset types
- B. Market trends and economic conditions**
- C. Investment advisors' opinions only
- D. Historical performance of the investor's own portfolio

Choosing a benchmark for investing is a critical step that can be influenced by a variety of factors, with market trends and economic conditions being particularly significant. Investors typically look for benchmarks that reflect the environment in which they are operating, as these factors can greatly impact the performance of investment assets. Market trends might indicate a shift toward certain asset classes or sectors, prompting an investor to choose a benchmark that aligns closely with these movements. Economic conditions, such as interest rates, inflation, and overall economic growth, also play a crucial role in determining which benchmarks are appropriate for measuring performance. For instance, in a growing economy, an investor might use a benchmark that focuses on equities, while in a recession, a fixed-income benchmark might be more relevant. While personal preference for asset types, the opinions of investment advisors, and a portfolio's historical performance can all contribute to the decision-making process, they do not carry the same weight as the influence of current market dynamics. These factors may shape overall strategy but are considered secondary to the broader market context when selecting a benchmark. Therefore, understanding and responding to market trends and economic conditions is vital for setting relevant and achievable performance standards.

## 5. What role does a broker-dealer fulfill in financial markets?

- A. A broker-dealer only executes trades for clients**
- B. A broker-dealer only invests in its own accounts**
- C. A broker-dealer acts both as a facilitator for clients and a trader for its own benefit**
- D. A broker-dealer is limited to providing investment advice**

A broker-dealer plays a vital role in financial markets by serving dual functions: facilitating transactions for clients and engaging in trades for its own account. This dual approach enables broker-dealers to bridge the gap between buyers and sellers, enhancing market liquidity and efficiency. When acting as a facilitator for clients, broker-dealers execute trades on behalf of investors, ensuring that orders are processed in a timely manner. This service is crucial for individual and institutional investors who rely on broker-dealers to access market opportunities and streamline trading.

Simultaneously, when a broker-dealer trades for its own benefit, it can take advantage of market fluctuations by buying and selling securities, using its knowledge of market movements to generate profits. This position allows broker-dealers to contribute to market volume and pricing, as their trades can impact supply and demand dynamics. This combination of client services and proprietary trading allows broker-dealers to optimize their operations and provide value-added services to their clients. Additionally, their involvement in both facilitating client transactions and trading on their own account helps to improve overall market conditions, making them an integral part of the financial ecosystem.

## 6. What rate of stamp duty is applied to the purchase of foreign shares?

- A. 1% of the transaction value**
- B. 3% of the transaction value**
- C. No stamp duty is paid**
- D. 0.5% of the transaction value**

When purchasing foreign shares, there is no stamp duty applicable. This means that buyers are not required to pay any tax on the transaction value when they buy shares traded on foreign exchanges. This absence of stamp duty can encourage investment in foreign markets, as it reduces the overall cost of acquiring such shares compared to domestic transactions where stamp duty may be applicable. In contrast, the other options propose various rates of stamp duty that would apply to the transaction value, which does not align with current regulations regarding foreign share purchases. Each of these options suggests a tax implication that simply does not exist for foreign shares in many jurisdictions. This knowledge is essential for investors and financial professionals to effectively understand the cost structure associated with investing in shares listed outside their home country.

**7. What type of company are private equity firms usually set up as?**

- A. Public limited companies**
- B. Private limited companies**
- C. Corporations**
- D. Limited partnerships**

Private equity firms are typically structured as limited partnerships because this structure allows them to take advantage of certain legal and tax benefits. In a limited partnership, there are general partners and limited partners. The general partners manage the investments and operations of the fund, while limited partners provide capital but do not have a say in day-to-day management. This framework helps facilitate the collection of capital, typically from institutional investors and high-net-worth individuals, while limiting their liability to the amount they have invested. Moreover, the limited partnership model is advantageous for private equity firms, as it aligns the interests of the managers and investors. The general partners often invest their own capital alongside limited partners, promoting a shared goal of achieving high returns on investments. Additionally, the pass-through taxation that limited partnerships offer can lead to tax efficiencies for the investors. This structure is preferred in the private equity industry as it allows for a more straightforward operational process while also providing investors with limited liability and clearer insight into the firm's structure and operations.

**8. Which element is essential for price discovery in financial markets?**

- A. The regulatory framework**
- B. The interaction of buyers and sellers**
- C. The number of financial instruments available**
- D. The historical performance of investments**

The interaction of buyers and sellers is vital for price discovery in financial markets because it is through this engagement that the value of an asset is determined. When buyers express a willingness to purchase a financial instrument at a certain price and sellers are willing to offer it at another, the resulting negotiations lead to a market price that reflects the collective judgment of all market participants. This dynamic process creates transparency and facilitates the continuous updating of prices based on the latest information and perceptions about the asset. It allows for efficient market operations where supply and demand dictate price movements, enabling investors to make informed decisions. The active participation of buyers and sellers, hence, is fundamental in ensuring that prices accurately reflect the underlying value of the securities being traded. While other elements, like the regulatory framework and the historical performance of investments, contribute to the overall market environment, they do not directly drive the real-time price discovery process as the direct interactions between buyers and sellers do.

## 9. How do you calculate flat yield?

- A. Annual coupon divided by face value.
- B. Annual coupon divided by bond price times 100.**
- C. Yield to maturity divided by years to maturity.
- D. Annual dividend divided by market value times 100.

Calculating flat yield is an essential metric for assessing the income generated by a bond relative to its market price. The correct calculation approach involves taking the annual coupon payment and dividing it by the bond's current market price, then multiplying by 100 to express it as a percentage. This method captures how much return an investor can expect relative to what they would pay for the bond in the open market, allowing for a direct comparison to other investments or yields. This formula, represented in your answer, effectively illustrates the yield an investor can expect if they were to purchase the bond at its current market price, rather than at its face or par value. It emphasizes the importance of recognizing that bond prices fluctuate in the market, which can significantly affect the yield received by investors. The other approaches focus on different metrics or methods that do not provide the accurate calculation of flat yield in terms of the market environment. For example, dividing the annual coupon by the face value calculates a different yield measure tied to the bond's nominal or par value rather than its current market conditions.

## 10. What type of knowledge is assessed in the "Investment Products" section of the exam?

- A. Knowledge of corporate finance
- B. Knowledge related to various investment products, including stocks, bonds, mutual funds, and derivatives**
- C. Knowledge on trading strategies
- D. Knowledge of financial reporting standards

The assessment in the "Investment Products" section focuses on understanding the various types of investment vehicles available in the market, which is essential for anyone involved in stockbroking or investment services. This includes a comprehensive knowledge of stocks, bonds, mutual funds, and derivatives. Mastery of these products is crucial because each has unique characteristics, risk profiles, and potential returns, which investors must understand to make informed decisions. Examining the context of the other options, knowledge of corporate finance, trading strategies, and financial reporting standards, while valuable in the broader field of finance, are not the primary focus of the investment products section. This section specifically seeks to evaluate an individual's familiarity with and practical understanding of different investment options, enabling them to advise clients effectively on their investment choices. Thus, option B accurately identifies the essential area of knowledge being tested.

# 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://cisi.examzify.com>**

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

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