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CISI REGULATIONS EXAM CHAPTER 1 Final Exam Study Questions with COMPLETE SOLUTIONS (LATEST 2024]

Where does the FCA get the power to perform their regulatory role? - CORRECT ANSWER FSMA 2000

Who regulates Banks in the UK? - CORRECT ANSWER The Bank of England

Who funds the FCA via contributions? - CORRECT ANSWER Firms authorised under the Financial Services and Markets Act 2000

Who develops and executes the governments public finance and economic policy? - CORRECT ANSWER Her majesty's treasury

The core purposes of the UK Bank - CORRECT ANSWER Monetary (prices) stability, financial (systems) stability

What is the FPC? - CORRECT ANSWER The financial policy committee.

Meets 4 times a year. Issues direction to PRA/FCA

PRA objective - CORRECT ANSWER Promote the safety and soundness of PRA- authorised firms

Avoid instability

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CISI Investment Funds in Canada (IFC) Exam Sample Questions (Q287-Q292):

NEW QUESTION # 287

Which investor's needs would be BEST met with an income trust?

- A. Gary wants to invest in a product which provides a consistent cash flow of interest, royalties, and lease payments passed along to unitholders.
- B. Leanne wants a product that employs alternative strategies such as leverage and short selling to amplify returns.
- C. Phil wants to invest in a product where the performance is linked to that of an underlying asset and the issuer is obligated to repay his principal at maturity.
- D. Tina wants a product that guarantees the return of at least 75% of her capital upon maturity of the contract or upon her death.

Answer: A

Explanation:

An income trust is an investment trust that holds income-producing assets, such as debt instruments, royalty interests, or real properties. It can be structured as either a personal investment fund or a commercial trust with publicly traded closed-end fund shares. The main attraction of income trusts, in addition to certain tax preferences for some investors, is their stated goal of paying out consistent cash flows for investors, which is especially attractive when cash yields on bonds are low¹² References = Canadian Investment Funds Course (CIFIC) - Module 2: Investment Products - Section 2.3:

Income Trusts³ and web search results from search_web(query="income trust")¹²

3: <https://www.ifsc.ca/wp-content/uploads/2021/08/CIFIC-Module-2.pdf>

NEW QUESTION # 288

Faruq is a Dealing Representative with Smart Planning Group, a mutual fund dealer. Faruq meets with his new client, Taline, and learns that she lives on a low, fixed income.

Taline tells Faruq that she wants to maximize her investment returns as high as possible to make up the difference. Taline also indicates that she cannot afford large investment losses because her income is low.

Which of the following CORRECTLY describes how Faruq should assess Taline's risk profile?

- A. Faruq should assess Taline's risk profile based on the higher of her: (1) risk tolerance and (2) risk capacity
- B. Taline's risk profile should be "low" because her risk capacity is low and she cannot afford large investment losses.
- C. Taline's risk profile should be "high" because she is willing to accept risk in order to maximize her investment returns.
- D. Faruq should override the risk that Taline is able to accept because her return expectations cannot otherwise be met.

Answer: B

Explanation:

Taline's risk profile should be "low" because her risk capacity is low and she cannot afford large investment losses. Risk capacity is the degree of risk that an investor must take in order to achieve their financial goals, while risk tolerance is the degree of risk that an investor is willing to take. Risk capacity is more important than risk tolerance in determining an investor's risk profile¹. Taline has a low risk capacity because she lives on a low, fixed income and cannot afford to lose money. Her risk tolerance may be high, but that does not mean she should take more risk than she can handle. Faruq should not override Taline's risk capacity or assess her risk profile based on the higher of her risk tolerance and risk capacity, as that would be unsuitable and unethical. References: Unit 3: Suitability

NEW QUESTION # 289

Sonya, a mutual fund manager for Drake Financial, has had a stellar year in managing their Canadian equity portfolio and has outperformed the benchmark by over 200 basis points. She is now concerned that within the last couple of months of this calendar year, the Canadian equity market is due for a 10 to 15% pullback.

Which investment strategy would be most appropriate for her to implement for the last couple of months of the year to offset the market correction?

- A. Buy put options on the iShares S&P/TSX 60 Index Fund
- B. Increase her equity exposure to the consumer staples sector
- C. Reduce her equity exposure to the energy sector

- D. Buy call options on the iShares S&P/TSX 60 Index Fund

Answer: A

Explanation:

To protect against a market decline, purchasing put options on an index fund like the iShares S&P/TSX 60 allows the portfolio to offset losses by gaining value if the market falls. The feedback from the document states:

"A fund manager may have experienced a rapid growth in the value of her portfolio, but is concerned that the market may fall. To protect herself against a fall in value, she purchases put options on the iShares S&P/TSX 60 Index Fund (i60s). If the market declines, the fall in value of the portfolio is offset by an increase in the value of the put options."

Reference: Chapter 7 - Types of Investment Products and How They Are Traded Learning Domain:

Understanding Investment Products and Portfolios

NEW QUESTION # 290

Which person would be categorized as a vulnerable client?

- A. Peter, who is 65 years old but cannot afford to retire.
- **B. Ginger, who has reached retirement age and is easily confused.**
- C. Nafissa, who has no savings to address an immediate financial emergency.
- D. Aldous, who has become recently unemployed but still has a mortgage to pay.

Answer: B

Explanation:

A vulnerable client is a client who, due to their personal circumstances, is especially susceptible to harm or disadvantage when dealing with financial services. Vulnerability can be permanent or temporary, and can arise from various factors, such as physical or mental health conditions, cognitive impairments, low financial literacy, language barriers, abuse, or discrimination. A vulnerable client may have different needs and challenges than other clients, and may require more support and protection from their adviser. Ginger would be categorized as a vulnerable client because she has reached retirement age and is easily confused, which may affect her ability to understand and make informed decisions about her financial situation. She may also be at risk of being exploited or misled by others who may take advantage of her confusion. Therefore, Ginger's adviser should take extra care to ensure that she is treated fairly and that her best interests are served.

Canadian Investment Funds Course, Chapter 8: Suitability and Know Your Client¹

NEW QUESTION # 291

For what reason do different entities have securities created and sold?

- A. Government debt is reduced due to the capital that is received from investors when their securities are purchased.
- **B. Governments can address financial needs and support initiatives when securities are first sold.**
- C. The issuance of securities is a method used by corporations to redistribute their wealth to investors to lower taxes.
- D. When common shares are initially sold, the capital raised will increase the issuing corporation's retained earnings.

Answer: B

Explanation:

One of the main reasons why different entities have securities created and sold is to raise funds for various purposes. Governments, for example, can issue securities such as bonds or treasury bills to finance public spending, such as infrastructure, education, health care, or social programs. By selling securities to investors, governments can borrow money at a lower cost than other sources of funding, and can also stimulate the economy and create jobs¹² References = Canadian Investment Funds Course (CIFIC) - Module 2: Investment Products - Section 2.1:

Money Market Instruments³ and web search results from search_web(query="reasons for issuing securities")

¹²

³: <https://www.ifsc.ca/wp-content/uploads/2021/08/CIFIC-Module-2.pdf>

NEW QUESTION # 292

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