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Topic Break Down

Topic	No. of Questions
Topic 1, Fiduciary and Trust Activities	70
Topic 2, Financial Planning	264
Topic 3, Tax Law and Planning	36
Topic 4, Investment Management	453
Topic 5, Mix Questions	53
Total	876

QUESTION NO: 1

An activity that reduces the probability that a loss will occur is called:

A. Risk avoidance

B. Loss Control

C. Loss prevention

D. Insurance policy

ANSWER: C

Explanation:

Loss prevention is correct because it consists of actions intended to reduce the frequency, or likelihood, of a loss occurring in the first place. In trust and financial-services risk management, this means implementing controls before a loss event occurs. For example, employee training to recognize fraudulent payment instructions, dual authorization for wire transfers, secure storage of trust records, and routine safety inspections are loss-prevention measures because each reduces the chance that an adverse event will happen. The defining feature is its focus on probability: the control seeks to make a loss less likely, rather than merely addressing the financial consequences after an event occurs. Loss prevention is commonly treated as a risk-control technique and is an important part of an institution's operational-risk framework, where preventive controls help protect clients, assets, records, and fiduciary relationships. The International Risk Management Institute describes loss prevention as measures that reduce the frequency of losses, distinguishing that purpose from measures directed at reducing loss severity. See IRMI's definition of loss prevention and the Federal Reserve's operational risk management guidance for the role of effective internal controls in preventing operational losses.

QUESTION NO: 2

Overdraft protection line is:

A. A line of credit linked to a checking account

B. Its account allows depositor to overdraw the account up to a specified amount

C. A line of credit linked to a checking account that allows a depositor to overdraw the account up to a specified amount

D. None of these

ANSWER: A B C

Explanation:

An overdraft protection line is a line of credit connected to a customer's checking account. When a debit, check, ACH transaction, ATM withdrawal, or other covered item exceeds the available account balance, the linked credit line may advance funds—subject to the credit limit and the institution's applicable terms—to cover the shortfall. Thus, it is accurately described both as a line of credit linked to a checking account and as an arrangement that permits the depositor to overdraw up to a specified approved amount. The combined description is also correct because it states both essential elements together: the linkage to the checking account and the ability to cover overdrafts within a defined limit. This product is a form of overdraft protection based on an extension of credit, rather than merely a discretionary decision to pay an overdraft. Fees, interest, repayment requirements, credit underwriting, and transaction coverage are governed by the account and credit agreement. The OCC identifies a linked account or line of credit as a common overdraft protection service in its Overdraft Protection Programs: Risk Management Practices. The CFPB likewise describes linked credit accounts as a mechanism that can transfer funds to cover checking-account overdrafts; see its Regulation Z overdraft-credit guidance.

QUESTION NO: 3

A trustee administers a discretionary supplemental needs trust for a beneficiary who receives means-tested public benefits. Which of the following actions are generally appropriate?

A. Paying a provider directly for goods or services that supplement public benefits

B. Considering the effect of a proposed distribution on the beneficiary's public benefits

C. Retaining discretion over distributions

D. Making all trust income payable directly to the beneficiary each month

ANSWER: A B C

Explanation:

Paying a provider directly for goods or services that supplement public benefits is generally appropriate. A supplemental needs trust is commonly designed to enhance the beneficiary's quality of life without giving the beneficiary unrestricted control over trust assets. Direct payment to a provider also gives the trustee documentation of the purpose and amount of the distribution.

Considering the effect of a proposed distribution on the beneficiary's public benefits is essential. The impact depends on the particular benefit program, the type of payment, the beneficiary's living arrangement, and current program rules. A trustee should coordinate with benefits counsel or a qualified benefits specialist where needed. **Retaining discretion over distributions** is also consistent with the usual supplemental-needs-trust design. Mandatory payments directly to the beneficiary may be treated as income or an available resource and can adversely affect eligibility. The Social Security Administration explains the treatment of trusts for Supplemental Security Income purposes in its Program Operations Manual System guidance on trusts.

QUESTION NO: 4

A stock life insurance company writing both participating and nonparticipating business must follow special accounting procedures under the laws of certain jurisdictions. The purpose of these special accounting procedures is to provide for:

A. A separation of accounting, so that profits applicable to participating and nonparticipating business can be appropriately determined

B. This is a critical process, since profits from participating business are regulated as to their distribution among participating policyholders and the company's stockholders

C. Some jurisdictions require the filing of several of the statutory statement exhibits in three forms, one for the company as a whole

D. Any of these

ANSWER: A

Explanation:

A separation of accounting, so that profits applicable to participating and nonparticipating business can be appropriately determined is correct. Participating life insurance contracts provide for policyholder dividends, which generally reflect the favorable experience of the participating block. When a stock insurer writes both participating and nonparticipating business, separate accounting and allocation procedures are needed to identify the income, expenses, reserves, and resulting surplus or profits attributable to each line of business. This preserves the integrity of the participating account and permits dividends to be determined from the experience of the participating business rather than from the experience of the insurer's nonparticipating business. It also supports appropriate treatment of the stockholder's interest in the nonparticipating account and provides regulators with transparent information about how funds and operating results have been allocated. These procedures are therefore fundamentally intended to establish a reliable accounting separation from which the applicable profits can be determined. The NAIC describes statutory accounting and annual reporting as the regulatory framework insurers use to report financial condition and results: NAIC Accounting and Reporting. The NAIC's life insurance accounting guidance is available through its Actuarial Guidelines resources.

QUESTION NO: 5

In ________________, an adjustment is based on experience of an individual risk during the term of the policy and is generally subject to maximum and minimum premium limits specified in the policy.

A. Business recordkeeping

B. Retrospective premium adjustments

C. Premium transaction flow

D. Adjusting premiums

ANSWER: B

Explanation:

Retrospective premium adjustments are correct because retrospective rating determines the final premium after the policy period by applying a stated rating formula to the individual insured's actual loss experience. The premium initially charged is therefore provisional: as losses develop and become known, the insurer recalculates the premium using the policy's agreed loss-conversion factors, taxes, expenses, and other rating elements. This approach directly links the insured's ultimate premium to the experience of that particular risk during the coverage term.

A defining protection in retrospective rating is the contractual minimum and maximum premium. Those limits establish the lowest and highest premium the insured can ultimately owe, even when actual losses are substantially lower or higher than expected. Thus, the description's emphasis on an experience-based adjustment for an individual risk, coupled with specified premium floors and ceilings, precisely identifies retrospective premium adjustments. The insurance definition of retrospective rating similarly describes a plan in which final premium is determined by the insured's actual loss experience and is bounded by minimum and maximum premiums. See IRMI's definition of retrospective rating and the retrospective-rating discussion in Federal Acquisition Regulation 28.308.

QUESTION NO: 6

When accepting an appointment as trustee, a corporate fiduciary should consider which of the following before acceptance?

A. The terms of the governing instrument

B. The nature and location of trust assets

C. Potential conflicts of interest

D. The personal investment preferences of the trust officer

ANSWER: A B C

Explanation:

The terms of the governing instrument are essential because they define the trustee's authority, duties, distribution standards, investment powers, successor provisions, and reporting obligations. **The nature and location of trust assets** are also relevant because real estate, closely held business interests, concentrated securities, mineral interests, and foreign assets may require specialized administration or raise custody and valuation issues.

Potential conflicts of interest must be evaluated because a trustee's duty of loyalty requires administration solely in the interests of the beneficiaries, subject to authorized exceptions. The institution should also determine whether it has the expertise, systems, staffing, and authority needed to administer the account properly. The OCC's Fiduciary Activities Handbook addresses account acceptance, conflicts, and fiduciary risk management.

QUESTION NO: 7

The way in which people make, distribute, and use their goods and services is called?

A. Opportunity cost

B. Short-term goals

C. Economics

D. Wealth watch

E. Economy

ANSWER: E

Explanation:

An economy is the system through which people, businesses, and governments organize the production, distribution, and consumption of goods and services. It encompasses the practical arrangements that determine what is produced, how resources such as labor and capital are used, how products and income are distributed, and how individuals use goods and services to meet their needs and wants. This definition directly matches the question's focus on the way people make, distribute, and use goods and services. Economic systems can take different forms, including market-oriented, command-oriented, or mixed systems, but each is an economy because each provides a structure for allocating scarce resources and coordinating economic activity. For trust and financial advisory professionals, an understanding of the economy provides important context for client decisions involving income, spending, investment conditions, inflation, interest rates, and wealth planning. The term "economics" instead refers to the social science that studies economies and the choices made when resources are scarce. The distinction is reflected in standard reference definitions: an economy is a system for producing, distributing, and consuming goods and services, while economics is the study of those activities. See Encyclopaedia Britannica's definition of economy and its overview of economics.

QUESTION NO: 8

A federal law requiring mortgage lenders to give potential borrowers a government publication describing the closing process and providing clear, advance disclosure of all closing costs to home buyers is called:

A. Multiple listing service

B. Real Estate Settlement Procedures Act

C. Title check

D. Closing statement

ANSWER: B

Explanation:

The Real Estate Settlement Procedures Act is correct. Commonly known as RESPA, this federal law is designed to help consumers understand the mortgage-settlement process and the costs associated with obtaining a home loan. It requires specific disclosures for covered federally related mortgage loans and is implemented primarily through Regulation X. The law's consumer-disclosure framework supports informed borrowing decisions by requiring lenders or mortgage originators to provide standardized information early enough for applicants to review key loan terms, anticipated settlement charges, and the overall closing process before consummation.

In modern mortgage transactions, RESPA's disclosure requirements work alongside the Truth in Lending Act's requirements through the TILA-RESPA Integrated Disclosure rule. This rule generally requires the Loan Estimate shortly after application and the Closing Disclosure before closing, enabling borrowers to compare expected costs and final terms. The Consumer Financial Protection Bureau describes RESPA as a statute addressing settlement-cost disclosures and settlement practices, while Regulation X contains the operative implementing requirements. See the CFPB's Regulation X (RESPA) resource and the CFPB's Closing Disclosure guidance.

QUESTION NO: 9

__________ is the accumulated refundable value of an insurance policy; results from the investment earnings on paid-in insurance premiums.

A. Cash value

B. Nonforefeiture right

C. Decreasing term policy

D. Continuous premium

ANSWER: A

Explanation:

Cash value is the accumulated, refundable value that develops in a permanent life insurance policy. A portion of each premium pays for insurance protection and policy expenses, while the remainder may be credited to the policy's cash-value account. Over time, guaranteed interest, and where applicable dividends or other investment credits, contribute to this accumulation. The policy owner generally can access available cash value during life through withdrawals or policy loans, subject to the contract's terms and potential tax consequences. Cash value may also help support the policy's continued coverage, depending on the type of permanent insurance and how the policy is structured. The amount available is not necessarily identical to the death benefit; it is a living-policy value that can be affected by loans, withdrawals, surrender charges, credited interest, and policy expenses. The National Association of Insurance Commissioners describes cash value as the amount available to a policyholder upon surrender of a life insurance policy, and the Internal Revenue Service addresses the tax treatment of life-insurance proceeds and policy transactions. See the NAIC life insurance consumer guidance and IRS Publication 525.

QUESTION NO: 10

Philip took out a qualifying onshore endowment policy for 20 years which he made paidup in year 9. This means that he may become personally liable to tax on the policy proceeds:

A. At maturity

B. If he makes a partial surrender

C. If he assigns the policy to his wife

D. On settlement of a critical illness claim

ANSWER: A B

Explanation:

"At maturity" and "If he makes a partial surrender" are correct because making a 20-year qualifying policy paid up in year 9 does not meet the qualifying-policy premium-paying condition. For a policy with a term of at least 10 years, premiums generally must be payable for at least 10 years for the policy to retain its qualifying status. A policy made paid up before that point can therefore lose the exemption that would otherwise apply to gains from a qualifying life policy.

Once the policy is non-qualifying, a maturity payment is a chargeable event and any gain calculated under the chargeable-event rules may be subject to income tax on Philip. A partial surrender can also be a chargeable event. The insurer's calculation and any chargeable-event certificate identify the gain that must be considered for Philip's tax position. For an onshore policy, basic-rate tax is treated as having been paid within the fund; depending on Philip's overall income and the gain, he may nevertheless have further tax to pay, with top-slicing relief potentially relevant. HMRC's guidance on qualifying policies and chargeable-event gains is available in the Insurance Policyholder Taxation Manual and its life insurance policy gains guidance.

QUESTION NO: 11

Using data provided by the credit applicant, along with any information obtained from the credit bureau, the store or bank must decide whether to grant credit. Very likely, some type of credit scoring scheme will be used to make the decision. An over all credit score is developed for you by assigning values to such factors as:

A. Annual income

B. Level of debt paid

C. Level of existing debt

D. Presence of savings accounts

ANSWER: A B C D

Explanation:

Credit scoring in an underwriting setting evaluates data that indicate both an applicant's capacity to repay and past and current credit obligations. **Annual income** is relevant because it helps a creditor assess repayment capacity. **Level of debt paid** reflects the applicant's repayment performance, including whether obligations have been handled as agreed. **Level of existing debt** is also a core consideration because current outstanding balances and debt burden affect the applicant's ability to take on an additional payment. **Presence of savings accounts** may be considered in a creditor's proprietary application-scoring model as an indicator of available financial resources and financial stability, particularly when the lender uses information supplied by the applicant in addition to credit-bureau data.

The exact variables and weights differ among lenders and products. Consumer-report-based scores commonly emphasize payment history and amounts owed, while a lender's broader credit decision may also incorporate application information such as income and assets. The CFPB explains that creditors may use credit reports and additional financial information when making lending decisions, and it identifies payment history and debt amounts as important credit-score considerations. See the CFPB's overview of credit scores and its guidance on credit decisions.

QUESTION NO: 12

Large- value funds own__________.

A. Large company stocks considered overvalued

B. Large amounts of value companies

C. Large company stocks considered under valued

D. Largely overvalued stocks

ANSWER: C

Explanation:

Large company stocks considered under valued is correct. A large-value fund is an equity mutual fund or similar portfolio categorized by two characteristics: company size and investment style. "Large" indicates that the fund principally invests in companies with relatively large market capitalizations. "Value" indicates that its managers seek stocks trading at prices that appear low relative to fundamental measures such as earnings, book value, cash flow, dividends, or the manager's estimate of intrinsic worth. The classification does not mean the fund simply holds a large quantity of value stocks; it describes the market-capitalization segment and value-oriented selection discipline of the portfolio. Value investing generally rests on the expectation that the market price of a financially sound company may eventually move closer to its assessed fundamental value. Fund style classifications are useful for evaluating diversification and for comparing a fund with an appropriate benchmark and peer group. The SEC's investor education glossary defines a value stock as one believed to be undervalued relative to its assets, earnings, or other financial measures, while Morningstar explains that its large-value category consists of portfolios emphasizing large-capitalization value stocks. See Investor.gov's definition of a value stock and Morningstar's investment glossary.

QUESTION NO: 13

Stephen is about to commence taking benefits from his personal pension scheme, which includes protected rights. He should be aware that:

A. He can take up to 25% of the total fund as a pension commencement lump sum

B. He has the right to exercise the open market option

C. His whole pension fund must provide limited price indexation in payment

D. The value of the protected rights element will not count towards the lifetime allowance

ANSWER: A B

Explanation:

“He can take up to 25% of the total fund as a pension commencement lump sum” is correct in the historic protected-rights regime. On crystallising benefits, a member could generally take a pension commencement lump sum of up to one-quarter of the relevant pension fund, subject to the applicable tax rules and any scheme-specific limits. The presence of protected rights did not prevent Stephen from taking the permitted lump sum from the combined personal-pension fund.

“He has the right to exercise the open market option” is also correct. The open market option enabled a member approaching retirement to use the available pension fund to shop around for, and purchase, an annuity from a provider other than the existing pension company. This was particularly important where protected rights were involved because annuity terms, including escalation and survivor-benefit features where required, could vary significantly between providers. The provider had to give retirement information in sufficient time for the member to consider this choice.

Protected rights were abolished for contracting-out purposes from 6 April 2012, so this question concerns the former rules; benefits formerly classified as protected rights became ordinary scheme rights. See the Pensions Act 2007 and the FCA’s overview of annuity retirement options.

QUESTION NO: 14

Dealer invoice is the amount a dealer is billed by the car manufacturer.

A. True

B. False

C. It depends

D. There is no such invoice

ANSWER: A

Explanation:

True is correct. A dealer invoice generally represents the amount that the vehicle manufacturer charges, or bills, the franchised dealer for a particular vehicle. It is commonly used as a reference point in vehicle pricing and dealership finance because it reflects the manufacturer-to-dealer transaction rather than the retail price paid by the consumer. The invoice normally identifies the vehicle and its factory-installed equipment and may include charges such as destination or transportation fees. In practical lending and trust-related financial analysis, understanding the invoice amount can help distinguish a dealer’s acquisition cost from the manufacturer’s suggested retail price and the negotiated sale price.

Invoice price should be understood as a billing benchmark, not necessarily the dealer’s final economic cost after all manufacturer incentives, holdbacks, credits, or other program payments are considered. That distinction does not change the statement’s core definition: the invoice is the amount billed by the manufacturer to the dealer. The Federal Trade Commission discusses the distinction between dealer invoice and retail pricing in its consumer vehicle-buying guidance, and Experian provides a useful overview of invoice pricing terminology. See FTC: Buying a New Car and Experian: What Is Dealer Invoice Price?.

QUESTION NO: 15

A sound portfolio statement helps to protect the client against a portfolio manager’s:

A. Financial behavior

B. Inappropriate investment

C. Unethical behavior

D. Hedging

ANSWER: B C

Explanation:

A sound portfolio statement—commonly called an investment policy statement—defines the client's objectives, risk tolerance, liquidity needs, time horizon, tax considerations, permitted investments, diversification expectations, and performance-measurement standards. Accordingly, **Inappropriate investment** is correct because the manager's investment selections and portfolio risk can be evaluated against documented client-specific constraints and objectives rather than personal judgment alone. This creates a disciplined framework for suitability, asset allocation, monitoring, and review.

Unethical behavior is also correct because a well-documented statement establishes clear authority, responsibilities, reporting expectations, and decision criteria. Those records promote accountability and provide an audit trail through which the client, trustee, or supervisory personnel can identify actions that depart from authorized objectives or involve undisclosed conflicts. For a trust institution, written investment policies and procedures are a core governance control; federal fiduciary standards require national banks to establish policies that address investment responsibilities and the review of fiduciary assets. See 12 CFR § 9.6, Investment of fiduciary funds. The American Bankers Association's CTFA program likewise emphasizes the knowledge needed to administer fiduciary relationships responsibly: ABA Certified Trust and Financial Advisor.

QUESTION NO: 16

One of the components of monthly mortgage insurance is homeowner's insurance. Its cost varies with factor/s as:

A. Age of the house

B. Location

C. Material used in construction

D. A and B Only

ANSWER: A B C

Explanation:

Homeowner's insurance premiums are determined through property-specific underwriting, so the age of the house, location, and material used in construction are all relevant rating factors. A home's age can affect the expected condition and remaining useful life of major systems, particularly the roof, plumbing, electrical system, and heating equipment; these conditions influence the likelihood and severity of a covered loss. Location affects exposure to local hazards and claim costs, including wind, hail, wildfire, flooding, theft, and the availability and cost of rebuilding services. Construction materials affect both resistance to damage and reconstruction expense. For example, masonry, brick, frame, roof type, and other building characteristics can change a carrier's estimate of potential loss and repair costs. These factors help insurers assess the risk associated with insuring the dwelling and calculate an appropriate premium. In a mortgage transaction, homeowner's insurance is commonly collected through escrow as part of the borrower's total monthly housing payment, even though it is distinct from private mortgage insurance. The Insurance Information Institute discusses factors affecting homeowners insurance pricing at https://www.iii.org/article/what-determines-the-price-of-an-insurance-policy. The Consumer Financial Protection Bureau also describes the role of escrowed homeowners insurance in mortgage payments at https://www.consumerfinance.gov/ask-cfpb/what-is-an-escrow-or-impound-account-en-140/.

QUESTION NO: 17

The APT was developed in 1976 by __________.

A. Lintner

B. Modigliani and Miller

C. Ross

D. Sharpe

ANSWER: C

Explanation:

The correct answer is **Ross**. The Arbitrage Pricing Theory (APT) was developed by Stephen A. Ross and formally introduced in his 1976 article, “The Arbitrage Theory of Capital Asset Pricing.” APT is a multi-factor asset-pricing framework: rather than treating a security’s expected return as driven by exposure to only one market factor, it permits returns to reflect sensitivity to multiple systematic economic factors. Its central insight is that, when arbitrage opportunities are ruled out in a well-functioning market, expected asset returns must conform to a linear factor relationship. This makes the theory an important alternative framework for thinking about expected return, risk-factor exposure, portfolio construction, and the pricing of financial assets. The date in the question aligns directly with the publication year of Ross’s foundational work. The original article is available through ScienceDirect’s DOI record. For an accessible overview of the theory’s assumptions and factor-based approach, see CFA Institute’s Arbitrage Pricing Theory refresher reading.

QUESTION NO: 18

In administering a revocable living trust during the settlor's lifetime, which of the following are generally true?

A. The settlor may amend or revoke the trust

B. Assets titled in the name of the trustee may avoid probate at the settlor's death

C. The settlor normally retains control over trust assets

D. Trust assets are automatically excluded from the settlor's gross estate

ANSWER: A B C

Explanation:

The settlor may amend or revoke the trust is correct because a revocable trust is designed to permit the settlor to change its terms or terminate the arrangement while the settlor has capacity, subject to the trust instrument and applicable state law. **Assets titled in the name of the trustee may avoid probate at the settlor's death** is also correct. Trust-owned assets generally pass under the trust terms rather than through the settlor's probate estate, although assets not transferred to the trust may still require probate administration.

The settlor normally retains control over trust assets is correct where, as is common, the settlor serves as initial trustee and retains the right to revoke the trust. However, a revocable trust does not generally remove assets from the settlor's taxable estate for federal estate-tax purposes merely because title is held in the trust. The IRS discusses revocable trusts in its Revocable Trusts guidance.

QUESTION NO: 19

Bond funds offer_________:

A. Zero volatility

B. Relatively stable income

C. Superior capital appreciation

D. No-risk investment

ANSWER: B

Explanation:

Bond funds offer relatively stable income because they generally invest in portfolios of bonds and other debt securities that make periodic interest payments. Fund managers collect this interest income and, after expenses, commonly distribute it to shareholders, often on a monthly basis. Holding many securities in one fund can also diversify the income sources across issuers, maturities, and sectors, which may make the fund's income stream more consistent than relying on a single bond issuer.

"Relatively" is important: the amount and reliability of distributions can vary with the fund's holdings, changes in interest rates, credit conditions, defaults, prepayments, expenses, and portfolio-management decisions. A bond fund's net asset value can also rise or fall, particularly when market interest rates change. Thus, the key investor benefit described by bond funds is the potential for recurring income, rather than a guarantee of either principal stability or a fixed return. The SEC notes that bond funds can provide income but remain subject to risks, including interest-rate and credit risk. See the SEC's Investor Bulletin on Bond Funds and FINRA's Mutual Funds overview.

QUESTION NO: 20

Sometimes, as a condition of receiving an installment loan, a borrower is required to buy credit life insurance. From borrower's perspective, credit life insurance not a good deal because:

A. It's very costly

B. It does little more than give lenders a lucrative source of income

C. It increases market interest charges

D. It increases inflation

ANSWER: A B

Explanation:

"It's very costly" is correct because credit life insurance premiums can be relatively expensive compared with the limited and declining protection provided. The coverage typically pays the outstanding loan balance if the insured borrower dies, and that balance generally falls as the installment loan is repaid. A borrower may therefore pay premiums for coverage that declines over the life of the loan. Premiums may also be financed as part of the loan, meaning the borrower can pay interest on the insurance cost as well as the premium itself.

"It does little more than give lenders a lucrative source of income" is also correct in the consumer-protection sense intended by the question. Credit insurance is connected directly to the loan, protects repayment of the creditor's outstanding balance, and may involve commissions or other compensation to the lender or loan seller. Although paying off the debt can benefit a borrower's estate or family, the product's structure primarily protects the creditor against nonpayment of the covered balance. Borrowers should be clearly informed whether credit insurance is voluntary and should compare its cost and benefits with other available life-insurance protection. The Consumer Financial Protection Bureau explains the purpose and mechanics of credit insurance at its credit-insurance guidance. Additional consumer information is available from the National Association of Insurance Commissioners.

QUESTION NO: 21

Most financial planners fall into one of two categories based on how they are paid. Commission based planners earn commissions on the financial products they sell, whereas ______________ charge fees based on the complexity of the plan they prepare.

A. Free only planners

B. Commission based planners

C. Professional planners

D. Security planners

E. Fee-only planners

ANSWER: E

Explanation:

Fee-only planners is correct because this compensation model pays the planner directly for professional planning services rather than through commissions generated by selling financial products. The fee may be structured as an hourly rate, a fixed project or plan-preparation fee, a percentage of assets under management, or another disclosed fee arrangement. For a planning engagement, the scope and complexity of the client's circumstances—such as tax issues, estate-planning needs, retirement projections, business interests, and investment analysis—can affect the fee charged for preparing the plan. This directly completes the contrast in the question: commission-based planners receive compensation tied to product transactions, while fee-only planners receive client-paid fees for advice and planning work. Clear disclosure of how a planner is compensated is a core consumer-protection and professional-practice principle, because it helps a client understand the financial relationship and evaluate potential conflicts. CFP Board's Standards address disclosure requirements and compensation-related conflicts for CFP® professionals, including how compensation arrangements must be communicated to clients. FINRA also advises investors to understand a financial professional's credentials, services, and method of compensation before engaging them. See the CFP Board Code and Standards and FINRA guidance on working with an investment professional.

QUESTION NO: 22

Relief from administrative details and continuity are the major reasons for:

A. Trust acceptance

B. Trustee termination

C. Naming a financial institution as a trustee

D. Convenience and complete services of trusts

ANSWER: C

Explanation:

Naming a financial institution as a trustee is correct because a corporate fiduciary is designed to assume the ongoing administrative and investment responsibilities that can otherwise burden an individual trustee or family member. The institution can provide established trust-administration processes, professional fiduciary personnel, recordkeeping, tax and account administration, asset custody, investment oversight where authorized, and beneficiary servicing. This structure gives the grantor and beneficiaries relief from many of the practical details involved in administering a trust.

Continuity is also a central benefit. A financial institution does not become unavailable because of an individual's death, disability, resignation, move, or changing personal circumstances. Its fiduciary duties are carried out through an organization with documented procedures and succession of personnel, helping ensure that the trust continues to be administered according to its governing instrument over what may be a long period. The Office of the Comptroller of the Currency describes fiduciary activities as including acting as trustee and emphasizes the governance and risk-management framework applicable to national banks' fiduciary operations. See the OCC's Fiduciary Activities Comptroller's Handbook and the FDIC's overview of trusts and estate planning considerations.

QUESTION NO: 23

Which of the following is NOT true about technical analysis?

A. It requires some subjective decision-making

B. It requires much accounting information

C. Its success would mean markets are not efficient

D. Technical analysis is older than fundamental analysis

ANSWER: B

Explanation:

“It requires much accounting information” is the statement that is not true about technical analysis. Technical analysis evaluates market-generated data—principally a security’s historical prices, trading volume, and chart patterns—to identify trends, momentum, support and resistance levels, and potential trading opportunities. It therefore does not depend on extensive review of financial statements, accounting policies, earnings quality, or other company-specific accounting data. Those inputs are central to fundamental analysis, which estimates an investment’s value using information about the issuer’s business performance and financial condition. In trust and investment contexts, the distinction matters because technical tools can inform timing and market behavior, while accounting information is used to assess underlying economic value and financial strength. Technical indicators also commonly require judgment in selecting time periods, interpreting patterns, and setting trading signals. The CFA Institute describes technical analysis as an approach based on market activity and historical price behavior, while its discussion of financial analysis distinguishes the use of financial statements and accounting information in evaluating companies. See the CFA Institute’s technical analysis overview and its financial analysis techniques reading.

QUESTION NO: 24

Which of the following involves an additional source of basis risk due to the difference between the asset being hedged and the asset underlying the futures?

A. Long hedge

B. Short hedge

C. Cross hedge

D. Stack hedge

ANSWER: C

Explanation:

Cross hedge is correct because it uses a futures contract on an asset that is different from, but expected to be economically correlated with, the exposure being hedged. Basis risk is the risk that the cash-market price of the exposure and the futures price do not move in precisely the same way. With a cross hedge, the hedger faces the usual uncertainty associated with the cash-futures basis and an additional source of risk: imperfect correlation between the price of the specific asset held or anticipated and the price of the different asset underlying the chosen futures contract. For example, an institution might hedge exposure to a particular fixed-income instrument using Treasury futures, or hedge an input commodity with futures on a related commodity, when a direct futures contract is unavailable or insufficiently liquid. The hedge can still reduce overall price risk when the relationship is strong, but its effectiveness depends on how reliably the two assets move together and on the stability of that relationship over the hedge period. CME Group describes cross-hedging as using a related futures contract when the exact commodity or instrument is unavailable, and notes the resulting relationship risk. See CME Group’s hedging-with-futures overview and CME Group’s explanation of basis.

QUESTION NO: 25

A broker is:

A. Far more than a salesperson

B. Mostly interested in his own commission

C. May not be socially known

D. Can trade your stock without your permission

E. An agent who effects securities transactions for customers

ANSWER: A E

Explanation:

“Far more than a salesperson” is correct because a securities broker performs important customer-facing functions beyond soliciting transactions. A broker facilitates the purchase and sale of securities, communicates market and product information, handles orders and account-related activity, and is subject to registration, supervision, and conduct obligations. In a trust and financial-advisory setting, understanding the broker’s role includes recognizing the operational and regulatory responsibilities involved in serving investors and executing transactions.

“An agent who effects securities transactions for customers” states the core legal and practical meaning of a broker. The Securities Exchange Act definition describes a broker as a person engaged in the business of effecting transactions in securities for the account of others. This agency role is central: the broker acts to carry out customer securities transactions rather than purchasing or selling solely for the broker’s own account. The U.S. Securities and Exchange Commission provides a plain-language overview of broker-dealer registration and activities at SEC: Guide to Broker-Dealer Registration. FINRA also explains the regulated role of broker-dealers and registered representatives at FINRA: Working With a Stockbroker.

QUESTION NO: 26

A trustee is preparing the annual trust accounting for current and remainder beneficiaries. Sound fiduciary accounting and reporting practices include:

A. Identifying receipts and disbursements during the accounting period

B. Reporting assets on hand at the beginning and end of the period

C. Distinguishing principal from income where applicable

D. Omitting fiduciary fees from the accounting

ANSWER: A B C

Explanation:

Identifying receipts and disbursements during the accounting period is correct because beneficiaries and other interested parties need a clear record of trust cash flows. **Reporting assets on hand at the beginning and end of the period** is also correct because this allows interested parties to understand changes in the trust estate. **Distinguishing principal from income where applicable** is correct because allocation between principal and income can affect the respective interests of income and remainder beneficiaries.

Trustees should maintain records that are complete, accurate, and sufficiently detailed to permit review of fiduciary actions. The required format, timing, and recipients of an accounting depend on the trust instrument and applicable state law. The Uniform Trust Code includes provisions concerning a trustee's duty to keep qualified beneficiaries reasonably informed about trust administration.

QUESTION NO: 27

A process designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations is called:

A. External control

B. Internal auditing

C. Internal control

D. None of the above

ANSWER: C

Explanation:

Internal control is correct because it is the organization-wide process used to provide reasonable assurance that specified objectives will be achieved. Under the COSO Internal Control—Integrated Framework, internal control is effected by an entity's board of directors, management, and other personnel. It is designed to provide reasonable, rather than absolute, assurance regarding achievement of objectives related to operations, reporting, and compliance. The question specifically identifies reliability of financial reporting and effectiveness and efficiency of operations, which are two of COSO's core objective categories.

Internal control is not merely a policy, department, or periodic review. It is an ongoing, integrated process embedded in governance, risk assessment, control activities, information and communication, and monitoring. In a trust and financial-services setting, this can include authorization requirements, reconciliations, segregation of duties, access controls, supervisory review, and timely exception reporting. These practices collectively help management manage risk and support dependable reporting and efficient operations. The phrase "reasonable assurance" is especially important because even a well-designed system cannot eliminate every risk; it can reduce risk to an acceptable level while recognizing human judgment, error, and potential circumvention. COSO describes this framework and its objective categories at COSO's Internal Control guidance and in its Internal Control—Integrated Framework executive summary.

QUESTION NO: 28

Open-end lease is:

A. An automobile lease under which the estimated actual value of the car is used to determine lease payments

B. If the car is worth less than this value at the end of the lease, the lessee must pay the difference

C. If the car is worth less than this value at the end of the lease, the lesser must pay the difference

D. An automobile lease under which the estimated residual value of the car is used to determine lease payments

ANSWER: B D

Explanation:

An open-end automobile lease uses an estimated residual value—the vehicle's anticipated value at the end of the lease—to establish the periodic lease payment. The payment generally reflects the portion of the vehicle's expected depreciation during the lease term, rather than fully eliminating the vehicle's end-of-term value risk at inception. Accordingly, "An automobile lease under which the estimated residual value of the car is used to determine lease payments" correctly states the fundamental pricing feature of an open-end lease.

"If the car is worth less than this value at the end of the lease, the lessee must pay the difference" is also correct because the lessee bears the residual-value shortfall in an open-end arrangement. At lease end, the vehicle is typically sold and its actual proceeds are compared with the previously estimated residual value. When proceeds fall below that estimate, the lessee is responsible for the deficiency; when proceeds exceed it, the lessee may benefit under the lease terms. This allocation of end-of-term market-value risk is a defining feature of open-end leasing and is particularly common in commercial and fleet vehicle leasing. See the Federal Reserve's Consumer Leasing guide and the OCC's Lease Financing Comptroller's Handbook.

QUESTION NO: 29

Life insurance is intangible. You can't see, smell, touch or taste its benefits and those benefits mainly happen when someone is died. However, life insurance does have some important benefits that should not be ignored in the financial planning process. Which of the following is out of those benefits?

A. Protection from creditors

B. Financial protection from dependents

C. Vehicle for savings

D. Interest benefit

ANSWER: A B C

Explanation:

Life insurance can play several distinct roles in a financial plan. **Financial protection for dependents** is its central purpose: death-benefit proceeds can replace income, help pay final expenses and debts, fund education, or otherwise support beneficiaries after the insured's death. The NAIC explains that life insurance is designed to provide financial protection to people who depend on the insured and can help address obligations that would remain at death.

Vehicle for savings is also a valid planning benefit for permanent life insurance. Policies such as whole life and universal life may build cash value, generally on a tax-deferred basis while the policy remains in force. This value can support long-term financial objectives, subject to policy charges, performance, loans, withdrawals, and the risk of lapse.

Protection from creditors can be a further benefit, although its scope is determined by applicable state law, policy ownership, and beneficiary designation. Many states provide some protection for life-insurance proceeds or cash value against claims of the insured's creditors, making this an estate- and asset-protection consideration rather than a universal guarantee. The IRS also notes the general federal income-tax treatment of life-insurance proceeds received because of the insured's death. See the NAIC life insurance consumer guidance and IRS Publication 525.

QUESTION NO: 30

After opening the checking account, follow these basic procedures Except:

A. Always right checks in ink

B. Include the name of the person being paid the date, and the amount of the check

C. Note the check's purpose on the check

D. Sign the check in a different way than on the signature card

ANSWER: D

Explanation:

"Sign the check in a different way than on the signature card" is the exception because a check should be signed consistently with the authorized signature maintained in the bank's account records. The signature card establishes who is authorized to draw funds from the account and provides the bank with a specimen signature for authentication and fraud-control purposes. Consistent signing helps create a recognizable record of the account holder's authorization and supports prompt processing when a bank reviews a check.

Under Uniform Commercial Code § 4-401, a bank may charge a customer's account only for an item that is "properly payable." An authorized drawer's signature is central to whether a check is properly payable. Although banks increasingly use automated processing and may not manually compare every signature, customers should not rely on that practice. Maintaining a consistent signature remains a prudent account-control measure, particularly when writing higher-value checks or resolving a reported unauthorized transaction. The account agreement may also specify signature requirements and should be followed. See UCC § 4-401 and the American Bankers Association's consumer resources for banking-information resources.

QUESTION NO: 31

These are additional charges you may owe if you decide to pay off your loan prior to maturity. What are these?

A. Prepayment penalty

B. Loan rollover

C. Loan disclosure

D. Loan repayment

ANSWER: A

Explanation:

“Prepayment penalty” is correct because it is a fee or charge that a loan agreement may impose when a borrower pays all or part of a loan before its scheduled maturity date. Lenders may use this charge to compensate for interest income they expected to receive over the original loan term, particularly with certain mortgage or commercial-credit arrangements. Whether a prepayment penalty applies, how it is calculated, and the periods in which it can be charged depend on the specific loan contract and applicable law. For consumer mortgages, federal rules generally require creditors to disclose the existence of any prepayment penalty and its potential amount as part of the loan disclosures. The Truth in Lending Act’s Regulation Z also places important restrictions on prepayment penalties for many covered mortgage transactions. Accordingly, a borrower considering early payoff should review the promissory note, loan agreement, and disclosure documents to determine whether a prepayment penalty applies and calculate the total payoff amount. See the Consumer Financial Protection Bureau’s overview of prepayment penalties and the applicable provisions of Regulation Z, 12 CFR § 1026.43.

QUESTION NO: 32

An executor is considering whether to make a portability election after the death of a married client. Which of the following statements are correct?

A. The election is made on a timely filed Form 706

B. The surviving spouse may use the deceased spouse's unused exclusion amount

C. The election automatically transfers the deceased spouse's GST exemption

D. The election is available only if federal estate tax is due at the first death

ANSWER: A B

Explanation:

The portability election permits a surviving spouse to use the deceased spouse's unused applicable exclusion amount, commonly called the deceased spousal unused exclusion amount or DSUE amount. The election is made by filing a complete and properly prepared federal estate tax return, Form 706, for the deceased spouse, even when an estate tax return would not otherwise be required.

The election must generally be made on a timely filed Form 706, including extensions. A surviving spouse who later makes taxable gifts or dies with a taxable estate may be able to apply the deceased spouse's DSUE amount, subject to the applicable federal rules. Portability does not transfer the deceased spouse's generation-skipping transfer tax exemption. See the IRS Instructions for Form 706 and IRS guidance on estate tax portability.

QUESTION NO: 33

Single payment loan is a loan:

A. Made for a specified period

B. At the end of which the payment is due in full

C. At the end of which half of the payment is due

D. That expires within a year

ANSWER: A B

Explanation:

A single-payment loan is made for a defined term, with the borrower obligated to make one payment in full at the end of that term, commonly called the maturity date. The defining feature is not a particular loan length; rather, it is that the repayment obligation is scheduled as a lump sum at maturity instead of through periodic installments of principal and interest. Thus, "Made for a specified period" identifies that the loan has a stated term, while "At the end of which the payment is due in full" identifies the single-payment repayment structure. Depending on the loan agreement, the final payment may consist of principal plus accrued interest, or interest may be paid periodically with principal due at maturity; in either case, the loan's principal repayment is due in full at the stated end date. This structure is often used for short-term financing or situations in which repayment is expected from a known future cash flow. The Office of the Comptroller of the Currency discusses loan repayment terms and maturity considerations in its Commercial Lending booklet. The Federal Reserve's consumer lending guidance also describes how payment schedules and maturity dates define a borrower's repayment obligation: What You Need to Know About Loans.

QUESTION NO: 34

The investor's objectives are his or her investment goals expressed in terms of both risk and returns. The relationship between risk and returns requires that goals not be expressed only interms of returns. Expressing goals only in terms of returns can lead to:

A. Churning

B. Inappropriate investment practices by the portfolio manager

C. Hedging

D. Over the counter trading

ANSWER: A B

Explanation:

Churning and **Inappropriate investment practices by the portfolio manager** are correct because a return-only objective omits the risk limits, liquidity needs, time horizon, tax considerations, and preservation-of-capital requirements that should constrain investment decisions. A fiduciary or investment professional needs a complete investment objective to determine whether a proposed strategy is suitable and aligned with the client's circumstances. Without defined risk parameters, pressure to achieve a stated return can encourage excessive trading, unnecessary transaction activity, or speculative positioning. Excessive trading for the purpose of generating commissions is commonly described as churning, and it may harm the account through commissions, fees, taxes, and avoidable market exposure. The SEC explains that churning is excessive buying and selling in a customer account by a broker to generate commissions, rather than to advance the customer's interests. A portfolio manager also may adopt investments or trading strategies inconsistent with the investor's actual capacity or willingness to accept loss when the mandate focuses solely on target return. Sound investment-policy practices therefore pair return goals with explicit risk tolerances and other client constraints. See the SEC's Investor Bulletin on Churning and FINRA's Suitability Rule 2111.

QUESTION NO: 35

The loss reserve estimate is a significant estimate in the financial statements of an uninsured entity.

A. True

B. False

ANSWER: B

Explanation:

“False” is correct because being uninsured does not, by itself, make a loss reserve a significant financial-statement estimate. For an entity that is not an insurance company, potential uninsured losses are evaluated under the accounting guidance for loss contingencies. A liability is accrued only when it is probable that a loss has been incurred as of the reporting date and the amount can be reasonably estimated. The entity must use the facts and circumstances of its particular claims, exposures, legal obligations, and available estimates to decide whether recognition or disclosure is required.

Accordingly, an uninsured entity may have no accrued loss reserve, may have an immaterial accrual, or may have a material estimate, depending on its circumstances. Significance cannot be presumed solely from its uninsured status. Loss-reserve estimation is characteristically a major and often significant estimate for insurance entities because establishing reserves for unpaid claims is central to their business and financial reporting. The SEC’s discussion of loss contingencies describes the recognition threshold for estimated losses, while the NAIC’s accounting materials illustrate the insurance-industry focus on claim-reserve reporting. See the SEC Staff Accounting Bulletin Topic 5.Y—Accounting and Disclosures Relating to Loss Contingencies and the NAIC Accounting and Statistical Reporting.

QUESTION NO: 36

What can be the possible strategy to avoid liability?

A. Understand what causes liability

B. Develop your own safety program

C. Carry adequate liability insurance

D. None of these

ANSWER: A B C

Explanation:

Effective liability management combines prevention, control, and financial risk transfer. “Understand what causes liability” is a foundational preventive practice: a fiduciary or financial professional must recognize the duties, conduct, documentation gaps, conflicts, and operational events that can create exposure. This awareness supports sound policies and appropriately informed decisions. “Develop your own safety program” is also a practical control measure when it means establishing a program tailored to the organization’s services and risks, including written procedures, employee training, supervision, incident reporting, and periodic review. A well-designed program helps identify and address risks before they result in client harm or claims. “Carry adequate liability insurance” complements these prevention efforts by transferring specified financial consequences of covered claims to an insurer. Appropriate coverage limits, policy terms, and regular review help protect the institution and its personnel from the financial impact of liability events. Together, these measures reflect a prudent risk-management approach consistent with the professional knowledge and fiduciary responsibilities assessed by the CTFA credential. See the American Bankers Association’s CTFA certification information and the OCC’s Fiduciary Activities Handbook.

QUESTION NO: 37

In which of the following accounts the trading charges are high?

A. Savings account

B. System account

C. Personal account

D. Cash account

E. None of these; trading charges are set by the broker’s fee schedule, not by whether the account is savings, system, personal, or cash.

ANSWER: E

Explanation:

"None of these; trading charges are set by the broker's fee schedule, not by whether the account is savings, system, personal, or cash" is correct because there is no universal rule establishing higher trading charges for a particular account label. A brokerage firm discloses its commissions, transaction fees, markups or markdowns, platform charges, and other costs in its own customer agreement and fee schedule. Those costs can vary by firm, security type, trade channel, trade size, advisory service, and available pricing plan. A cash brokerage account describes how purchases are funded: the investor must pay for securities in full and does not borrow from the broker for the purchase. It does not, by itself, prescribe a higher commission or trading charge. In a trust and fiduciary context, an adviser or trustee should review and document applicable brokerage costs, seek appropriate execution consistent with governing duties and account terms, and provide required disclosures. Account selection should therefore be based on the client's or trust's authorized investment and financing needs, while trading-cost comparisons must be made using the actual broker fee disclosures. The SEC's overview of types of brokerage accounts and FINRA's guidance on choosing a brokerage account support this distinction.

QUESTION NO: 38

A technique used to reduce taxes in which a taxpayer shifts a portion of income to relatives in lower tax brackets.

A. Income shifting

B. Tax deferred

C. Tax avoidance

D. Tax Evasion

ANSWER: A

Explanation:

Income shifting is correct because it describes a tax-planning approach in which income-producing property, or an interest in a family business, is transferred to a family member who is subject to a lower marginal income-tax rate. The intended result is that future income attributable to the transferred property is reported by the recipient rather than by the original owner, potentially reducing the family unit's overall current income-tax liability. A common trust-and-estate planning context is making completed gifts of appreciating assets to adult children or other relatives, so that subsequent income and appreciation may be taxed outside the donor's higher tax bracket and estate.

The technique must be implemented through legitimate transfers that have real economic substance and comply with federal tax rules. For example, a donor cannot merely assign income that the donor has already earned while retaining ownership of the underlying property. In addition, special rules can limit the benefit when investment income is shifted to certain children, commonly called the "kiddie tax." The IRS discusses the taxation of a child's investment income in Instructions for Form 8615, and its guidance on gifts and related reporting is available in IRS Gift Tax.

QUESTION NO: 39

A company that might not have historical perspective in background but it will find a place in the future depending on the product or industry is a ___________.

A. Value company

B. Large cap company

C. Small cap company

D. Growth company

ANSWER: D

Explanation:

Growth company is correct because this classification focuses primarily on a company's anticipated future expansion rather than on an extensive record of operating history, earnings, dividends, or established market valuation. Growth companies are often associated with innovative products, developing industries, rapidly expanding markets, or business models expected to generate increasing revenue and earnings. Their investment appeal is therefore based substantially on future potential and the market's expectation that the company can gain a meaningful position in its industry. A company may have a limited historical track record because it is relatively new or because its product category is emerging, yet still be viewed as a growth company if its prospects for expansion are strong. This forward-looking emphasis distinguishes growth investing from approaches centered on current valuation measures or an established record of assets and earnings. The U.S. Securities and Exchange Commission notes that growth-stock investors seek companies expected to grow faster than the overall market, and FINRA explains that growth investing emphasizes companies with strong earnings-growth potential. See the SEC's stock investing overview and FINRA's stocks guide.

QUESTION NO: 40

A preliminary prospectus is known as a:

A. Golden Parachute

B. Red herring

C. Blue sky

D. Green shoe

ANSWER: B

Explanation:

A preliminary prospectus is known as a "Red herring." In a registered securities offering, this document is distributed before the Securities and Exchange Commission has declared the registration statement effective. It contains substantial information about the issuer, the securities being offered, anticipated use of proceeds, and material risks, allowing prospective investors to evaluate the proposed investment while the offering is still pending. The term comes from the prominent red-language legend historically printed on the cover, stating that the registration statement has been filed but is not yet effective and that the securities may not be sold until effectiveness occurs. Accordingly, a preliminary prospectus may be used to gauge investor interest and provide required offering disclosures, but it is not the final prospectus used to confirm sales. The SEC's Investor.gov glossary identifies a red herring as a preliminary prospectus filed with the SEC in connection with a public offering. SEC guidance also explains that a prospectus is the disclosure document investors receive in a registered offering. See Investor.gov: Red Herring and SEC: Registered Offerings.

QUESTION NO: 41

Treasury stock is:

A. Common stock issued by the U.S. government

B. Preferred stock issued by the U.S. government

C. Common stock that has been repurchased and is being held by the issuing company

D. A corporation's common stock outstanding

ANSWER: C

Explanation:

Treasury stock is common stock that a corporation previously issued and subsequently repurchased from shareholders, then retained rather than retired or reissued. The repurchased shares remain authorized and issued, but they are no longer outstanding because the corporation itself holds them. Consequently, treasury shares generally do not carry voting rights, do not receive cash dividends, and are excluded when calculating earnings per share while held by the issuer. A company may acquire treasury stock for several legitimate corporate purposes, such as having shares available for employee compensation plans, facilitating an acquisition, or returning capital to shareholders. For financial reporting purposes, U.S. GAAP presents treasury stock as a reduction of shareholders' equity rather than as an asset, commonly using the cost method. The definition is consistent with the SEC's investor guidance that distinguishes outstanding shares from shares repurchased and held as treasury stock. See the SEC's Treasury Stock glossary entry and the Financial Accounting Standards Board's guidance on treasury stock presentation.

QUESTION NO: 42

A trustee is considering whether to delegate investment management of a trust portfolio to a registered investment adviser. Under prudent delegation principles, the trustee should:

A. Exercise reasonable care, skill, and caution in selecting the agent

B. Establish the scope and terms of the delegation consistent with the trust's purposes and terms

C. Periodically review the agent's actions and performance

D. Transfer all fiduciary responsibility to the agent

ANSWER: A B C

Explanation:

Exercise reasonable care, skill, and caution in selecting the agent is correct. Delegation does not relieve a trustee of the responsibility to select a capable investment professional. **Establish the scope and terms of the delegation consistent with the trust's purposes and terms** is also correct because the trustee should communicate the trust's objectives, restrictions, liquidity needs, and relevant tax or distribution considerations.

Periodically review the agent's actions and performance is correct. Ongoing monitoring is necessary to determine whether the adviser continues to perform in accordance with the delegation and the trust's investment objectives. A trustee should not delegate blindly or permit the agent to disregard the governing instrument. Section 9 of the Uniform Prudent Investor Act sets out these duties of prudent delegation.

QUESTION NO: 43

All of the following are sentiment indicators Except:

A. Quick asset ratio

B. Odd lot short ratio

C. Shares sold short

D. Short interest ratio

ANSWER: A

Explanation:

The correct answer is **Quick asset ratio**. Also commonly called the quick ratio or acid-test ratio, it is a fundamental liquidity measure used to assess a company's ability to meet its current obligations with highly liquid assets. It generally compares cash, marketable securities, and accounts receivable with current liabilities. Consequently, it describes the company's near-term financial position rather than investors' expectations, trading attitudes, or market psychology.

Sentiment analysis, by contrast, uses market-participation and positioning data to help gauge whether investors are broadly optimistic, pessimistic, bullish, or bearish. Measures related to short selling can be used in this way because they reflect the extent to which market participants have positioned themselves for a potential decline in a security or market. The quick asset ratio does not capture such positioning or opinion; it is derived from financial-statement information and is primarily relevant to credit, liquidity, and fundamental financial analysis. For a discussion of the quick ratio's purpose and calculation, see Investopedia's Quick Ratio overview. FINRA also describes the reporting and publication of short-interest data at FINRA Short Interest, illustrating the type of market data used in sentiment-oriented analysis.

QUESTION NO: 44

Which of the following lines depict the tradeoff between risk and expected return for individual securities?

A. Value Market Line

B. Capital Market Line

C. Security Market Line

D. Money Market Line

ANSWER: C

Explanation:

The **Security Market Line** depicts the risk–return tradeoff for individual securities under the Capital Asset Pricing Model (CAPM). It plots an asset's expected return against its systematic risk, measured by beta. The line begins with the risk-free rate and has a slope equal to the market risk premium—the expected market return less the risk-free rate. CAPM expresses this relationship as expected return = risk-free rate + beta × market risk premium. Thus, a security with a beta of 1.0 has expected return consistent with market-level systematic risk, while securities with higher or lower betas require correspondingly higher or lower expected returns. This framework is especially useful in trust and investment management when evaluating whether the expected return of a particular stock or other individual investment is appropriate for the nondiversifiable market risk it contributes to a portfolio. The Security Market Line is consequently the relevant graphical representation for individual assets, as well as portfolios, when risk is defined as beta. The CFA Institute's discussion of CAPM provides the underlying expected-return framework, and a clear overview of the Security Market Line is available from Investopedia. See also the CAPM overview from CFA Institute.

QUESTION NO: 45

The method which assumes that an entity's experience in estimating case-basis reserves will be repeated in the future is called:

A. Paid loss projection

B. Reported loss development projection

C. Incurred loss projection

D. Internal entity loss projection

ANSWER: B

Explanation:

Reported loss development projection is correct because it projects ultimate losses from reported losses, generally defined as cumulative paid losses plus outstanding case-basis reserves. This approach analyzes how reported losses for prior accident or policy periods developed as claims matured, then applies the observed development experience to more recent periods. Because the starting reported-loss amounts include adjusters' case estimates, the method inherently relies on the entity's historical case-reserving practices and the adequacy of those estimates remaining reasonably consistent in the future. In practical terms, if case reserves historically developed upward or downward in a repeatable pattern before claims closed, that pattern is reflected in the reported-loss development factors used for the projection. This is why the defining assumption in the question—future experience in estimating case-basis reserves will resemble prior experience—identifies reported loss development projection. The approach is a standard loss-reserving technique and is commonly evaluated alongside paid-loss and other actuarial indications when estimating unpaid claim obligations. The Casualty Actuarial Society's reserving methods material discusses reported/incurred loss development concepts, and the NAIC's Statistical Handbook of Data Available provides regulatory context for insurers' loss and loss-adjustment-expense reporting.

QUESTION NO: 46

Which of the following factor contributes to the price volatility of a bond?

A. Maturity

B. Coupon

C. Yield to maturity

D. All of the given options

ANSWER: D

Explanation:

All of the given options is correct because a bond's price sensitivity to changes in market interest rates is primarily measured by duration, and duration reflects the bond's maturity, coupon rate, and yield to maturity. Maturity matters because, generally, cash flows received further in the future have greater sensitivity to changes in discount rates. Coupon matters because a lower-coupon bond returns less cash to the investor early in its life, leaving more of its value dependent on the final principal payment; this generally produces a longer duration and greater price volatility. Yield to maturity also affects duration and convexity: at lower yields, the present value of more distant cash flows becomes relatively more significant, usually increasing the bond's sensitivity to a given rate change. These factors work together rather than independently; two bonds with the same maturity can have materially different interest-rate risk when their coupons or yields differ. The Federal Reserve describes how bond prices and yields move inversely, while FINRA notes that longer-term bonds can be more sensitive to interest-rate changes. See the Federal Reserve's explanation of bond prices and yields and FINRA's bond investor guidance.

QUESTION NO: 47

The responsibility of setting an estate includes:

A. Taking possession of the property included within the descendent's estate

B. Valuing the estate's property

C. Paying any debts of the descendent's

D. All of these

ANSWER: D

Explanation:

"All of these

" is correct because the personal representative's core duty in administering, or settling, an estate is to marshal and protect estate assets, establish their date-of-death values, and resolve valid obligations before making distributions to beneficiaries. Taking possession or control of property allows the representative to safeguard assets and administer them under the will or applicable state law. Valuation is necessary for preparing the estate inventory, determining tax reporting requirements, and supporting an equitable distribution. The representative must also identify creditors and pay valid debts and expenses from estate assets in the proper order and within applicable legal deadlines. These responsibilities are interrelated parts of prudent fiduciary estate administration, rather than isolated tasks. The Internal Revenue Service's guidance for survivors, executors, and administrators discusses the fiduciary's responsibility to identify estate assets, address debts, and meet filing obligations; see IRS Publication 559, Survivors, Executors, and Administrators. Additional federal fiduciary standards emphasize administering fiduciary accounts in accordance with governing instruments and applicable law; see the OCC fiduciary activities regulations.

QUESTION NO: 48

A client transfers a residence to an irrevocable trust but retains the right to live in the residence for life. For federal estate tax purposes, the residence will generally be:

A. Excluded from the client's gross estate because the trust is irrevocable

B. Included in the client's gross estate

C. Eligible for an unlimited annual gift tax exclusion

D. Treated as a charitable transfer

ANSWER: B

Explanation:

Included in the client's gross estate is correct. A transfer of property during life does not generally remove the property from the transferor's gross estate when the transferor retains the possession, enjoyment, or right to income from the property for life. Retaining the right to occupy the residence is a retained enjoyment interest.

Section 2036 is designed to prevent a transferor from avoiding estate tax by making a nominal lifetime transfer while continuing to enjoy the transferred property. The analysis may differ if the transferor pays full fair-market-value rent after the transfer and no other retained interest or arrangement exists; however, a retained lifetime right of occupancy ordinarily causes inclusion. See Internal Revenue Code section 2036 and the IRS Instructions for Form 706.

QUESTION NO: 49

____________ is a hybrid form of HMO that allows members to go outside the HMO network for care and reimburses them at a specified percentage of the cost.

A. Individual practice association

B. Preferred provider organization

C. Exclusive provider organization

D. Point-of-service plan

ANSWER: D

Explanation:

Point-of-service plan is correct. A point-of-service (POS) plan combines core managed-care features associated with an HMO—such as using a primary care provider and receiving the strongest benefit level from participating network providers—with an out-of-network benefit. The member makes a coverage choice at the time care is needed, which is the "point of service." When the member obtains care within the network, the plan generally provides the most favorable coverage and cost sharing. When the member chooses a clinician or facility outside the network, the plan still contributes toward covered charges, but reimbursement is typically limited to a stated percentage or subject to a higher deductible and coinsurance. This structure gives members more flexibility than a closed-network HMO while preserving the care-management and contracted-provider framework of managed care. The U.S. Department of Labor describes POS arrangements as plans in which participants may choose among network and non-network providers, with different benefit levels depending on that choice. See the U.S. Department of Labor's health-plan overview and Healthcare.gov's definition of a point-of-service plan.

QUESTION NO: 50

A trustee is considering a discretionary distribution to an adult beneficiary. Before authorizing the distribution, the trustee should generally:

A. Review the governing instrument for the applicable distribution standard and limitations

B. Consider the beneficiary's circumstances and the purposes of the trust

C. Document the decision-making process

D. Make the distribution whenever the beneficiary requests it, regardless of the trust terms

ANSWER: A B C

Explanation:

Review the governing instrument for the applicable distribution standard and limitations is correct. The trust document controls the trustee's authority and may specify a standard such as health, education, maintenance, and support, an ascertainable standard, or broad discretion. The trustee must identify the standard before evaluating the beneficiary's request.

Consider the beneficiary's circumstances and the purposes of the trust is also correct. Relevant facts may include the beneficiary's needs, other resources when the instrument permits their consideration, tax consequences, the interests of other beneficiaries, and the effect of the distribution on the trust's long-term objectives. **Document the decision-making process** is appropriate because contemporaneous records demonstrate that the trustee exercised informed and impartial fiduciary judgment. A trustee should not base a decision solely on the trustee's personal preference or make distributions that exceed the authority granted by the trust. See the Uniform Law Commission's Uniform Trust Code resources and the OCC Fiduciary Activities Comptroller's Handbook.

QUESTION NO: 51

Frank, age 55, is considering adopting a lifestyle investment technique as he aims to build up his personal pension prior to retirement. He should be aware that:

A. The asset mix of the fund will be adjusted automatically on pre-determined dates

B. His ongoing exposure to equities will reduce with lifestyling

C. After 10 years, a maximum of 25% of the investments will be in bonds

D. Lifestyling is likely to be appropriate if he intends to purchase a conventional annuity with his entire fund.

ANSWER: A B D

Explanation:

Lifestyling is a pension investment approach that automatically changes the asset allocation as the selected retirement date approaches. The asset mix of the fund will be adjusted automatically on pre-determined dates, rather than requiring Frank to make each switching decision himself. This is intended to reduce investment risk at a time when there may be less opportunity to recover from a significant market fall before retirement.

Accordingly, his ongoing exposure to equities will reduce with lifestyling. Equities commonly provide the growth component during the earlier accumulation years, while assets are progressively moved toward lower-volatility investments, often including bonds and cash, as retirement nears. The precise glide path, dates, and holdings depend on the particular provider and fund.

Lifestyling is likely to be appropriate if he intends to purchase a conventional annuity with his entire fund because the strategy can progressively align the fund with the assets commonly used to support annuity pricing and reduce the risk that a late equity-market decline diminishes the amount available to secure retirement income. Frank should ensure that the fund's assumed retirement destination and retirement date match his actual plans. See MoneyHelper's pension investment guidance and the FCA's pensions and retirement-income information.

QUESTION NO: 52

The Module Rule requires the insurer to provide:

A. To the insurance commissioner of the state of domicile, a copy of notification of adverse financial condition

B. To the auditor, evidence that the notification has been provided to the organization

C. Both A & B

D. Neither A nor B

ANSWER: A

Explanation:

The requirement to provide “To the insurance commissioner of the state of domicile, a copy of notification of adverse financial condition” is correct. Under the NAIC Model Rule Requiring Annual Audited Financial Reports, when the independent certified public accountant determines that an insurer has materially misstated its reported financial condition or does not meet minimum capital and surplus requirements, the accountant must promptly notify an insurer officer and its board of directors in writing. The insurer then has the regulatory responsibility to forward a copy of that notification to its domiciliary insurance commissioner within five business days after receiving it. This prompt reporting requirement gives the domiciliary regulator timely notice of a potentially serious financial-condition issue and supports appropriate regulatory monitoring and intervention. The rule also establishes a backstop involving the accountant if the insurer does not acknowledge receipt of the notice within the prescribed timeframe; however, the insurer’s direct reporting obligation is to transmit the adverse-condition notification to the commissioner. See Section 11 of the NAIC’s Model Rule Requiring Annual Audited Financial Reports (Model 205) and the NAIC’s financial reporting resources.

QUESTION NO: 53

How are earnings per share calculated?

A. Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value

B. Use the income statement to determine net income available to common shareholders and divide by the weighted-average number of common shares outstanding.

C. Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding

D. Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value

ANSWER: B

Explanation:

Earnings per share is calculated by attributing earnings to common shareholders and dividing that amount by the weighted-average number of common shares outstanding during the reporting period. For basic EPS, the numerator is generally net income less any dividends on preferred stock, including the current-period accretion of preferred dividends when applicable. The denominator is weighted rather than simply the period-end share count because common shares may be issued, repurchased, or otherwise change during the year; weighting matches each share amount to the period for which it participated in earnings. This calculation produces the amount of profit earned for each common share and makes results more comparable across reporting periods. The Financial Accounting Standards Board’s earnings-per-share guidance is contained in ASC Topic 260, and SEC registrants must present EPS in accordance with the applicable requirements. The SEC’s Division of Corporation Finance Financial Reporting Manual, Topic 2 discusses EPS presentation and related reporting matters. A practical overview of the basic-EPS formula and weighted-average-share requirement is also available in the PwC Financial statement presentation guide.

QUESTION NO: 54

People typically use credit as a way to pay for goods and services that cost more than they can afford to take from their current income. Whatever their age group, people tend to borrow for several major reasons. Which of the following is out of those reasons?

A. To meet financial emergency

B. For convenience

C. To avoid paying cash for large outlays

D. None of these

ANSWER: A B C

Explanation:

“To meet financial emergency,” “For convenience,” and “To avoid paying cash for large outlays” are all recognized consumer reasons for using credit. Emergency borrowing can provide access to funds when an unexpected expense, such as an urgent repair or medical bill, cannot be covered immediately from current income or available savings. Convenience also is a legitimate reason: credit cards and other revolving credit products can simplify payment transactions, facilitate purchases when cash is not practical, and provide a record of spending. Finally, installment loans and other credit arrangements enable consumers to make significant purchases—such as vehicles, education, home improvements, or durable goods—without depleting cash reserves in one transaction. In that sense, credit spreads a large outlay across scheduled payments that may be better aligned with income and cash-flow timing. Sound financial planning treats borrowing as a tool that should be matched to repayment capacity, total borrowing cost, and the consumer’s broader liquidity needs. The Consumer Financial Protection Bureau discusses credit cards as a payment and borrowing product at https://www.consumerfinance.gov/consumer-tools/credit-cards/, and the Federal Reserve provides consumer-credit information at https://www.federalreserve.gov/releases/g19/current/.

QUESTION NO: 55

Preferred shareholders' claims on assets and income of a firm come those of creditors those of common shareholders.

A. Before; and also before

B. After; but before

C. After; and also after

D. Equal to; and equal to

ANSWER: B

Explanation:

After; but before is correct. Preferred stock occupies an intermediate position in a company’s capital structure: it is equity rather than debt, but it generally has contractual preferences over common stock. Consequently, creditors have priority claims because debt obligations, including principal and interest as specified by the debt agreement, must be satisfied before distributions are made to shareholders. If a corporation is liquidated, creditors’ claims are paid first from available assets. Once creditor claims have been addressed, preferred shareholders ordinarily receive their stated liquidation preference before common shareholders receive any residual value.

The same priority concept applies to income distributions. Preferred shareholders are generally entitled to their stated dividend before a dividend can be paid on common shares, subject to the corporation having funds legally available for dividends and the board declaring a distribution. Preferred dividends may be cumulative, in which case unpaid amounts accumulate and must be paid before common dividends. The U.S. Securities and Exchange Commission describes preferred stock as commonly having priority over common stock for dividends and assets upon liquidation. See Investor.gov’s overview of stocks and the SEC’s explanation of preferred stock.

QUESTION NO: 56

Under an employer’s group life assurance policy, what is the normal tax treatment of the death benefit?

A. It is liable to Inheritance Tax

B. It is liable to Capital Gains Tax

C. It is liable to Income Tax

D. It is not liable to any form of taxation

ANSWER: D

Explanation:

It is not liable to any form of taxation is the normal treatment of a death benefit from an employer-provided group life assurance arrangement. These policies are commonly set up so that the employer pays premiums and the benefit is paid at the employee's death to trustees, who then exercise discretion in distributing it to the intended beneficiaries. The resulting lump sum is ordinarily paid free of Income Tax and Capital Gains Tax. Use of a discretionary trust also normally means that the benefit does not form part of the employee's personal estate for Inheritance Tax purposes, provided the arrangement has been structured and administered in the usual way.

For a registered group life scheme, the tax treatment is governed by the pension tax rules for lump-sum death benefits. HMRC's Pensions Tax Manual explains the conditions and tax treatment applicable to authorised lump-sum death benefits: HMRC PTM073100. HMRC also confirms that a discretionary trust does not give a beneficiary an automatic entitlement to trust property, which supports the usual estate-planning treatment where trustees—not the employee—control distribution: HMRC guidance on trusts and Inheritance Tax. The question asks for the normal treatment, so the standard tax-free group-life death-benefit position applies.

QUESTION NO: 57

Cash advance is:

A. A loan that can be obtained by a bank credit cardholder at any participating bank or financial institution

B. A debt that can be obtained by a bank credit cardholder at any participating bank or financial institution

C. A financial leverage that can be obtained by a bank credit cardholder at any participating bank or financial institution

D. A and B both

ANSWER: A

Explanation:

A loan that can be obtained by a bank credit cardholder at any participating bank or financial institution is correct. A credit-card cash advance is a borrowing transaction: the cardholder accesses cash against the card's available credit line, creating a loan balance that must be repaid under the cardholder agreement. Cash may be accessed at a financial institution, ATM, or other authorized channel, subject to the issuer's terms, available credit, fees, and interest-rate provisions. In banking terminology, describing the transaction as a loan is most precise because it identifies the credit extension made by the card issuer. The resulting unpaid balance becomes an obligation of the cardholder, but the cash advance itself is the extension of credit rather than simply "a debt." The Consumer Financial Protection Bureau explains that credit-card cash advances are transactions in which a consumer uses a credit card to obtain cash and may be charged a separate cash-advance annual percentage rate and transaction fee. See the CFPB's cash advance guidance. Regulation Z also specifically recognizes cash advances as a type of credit-card transaction and requires related account disclosures; see 12 CFR § 1026.60.

QUESTION NO: 58

The presence of managerial, or real, options the worth of an investment project.

A. Increases

B. Decreases

C. Does not affect

D. Increases or decreases

ANSWER: A

Explanation:

Increases is correct. Real options are valuable managerial flexibilities embedded in an investment project. For example, management may be able to defer a project until conditions improve, expand production if demand is strong, reduce or abandon the project if results are poor, or alter inputs and operations as circumstances change. These choices allow the organization to capture favorable upside opportunities while limiting exposure to unfavorable outcomes. Consequently, the value of the project is not limited to the static cash flows assumed in a conventional net-present-value calculation; it also includes the economic value of having the right, rather than an obligation, to make future decisions after uncertainty is resolved. This flexibility has positive value when future conditions are uncertain and managers can act effectively on new information. In trust and financial-advisory contexts, understanding real options supports sound evaluation of closely held businesses, operating assets, and strategic investment decisions where management's ability to adapt can materially affect enterprise value. NYU Stern's discussion of real options describes how investment flexibility can add value beyond traditional discounted-cash-flow analysis: Real Options Valuation. The CFA Institute likewise explains that real options account for management's flexibility in capital-budgeting decisions: Real Options.

QUESTION NO: 59

First mortgage is:

A. Flexible payment mortgage

B. A mortgage which is in first lien position

C. Taking priority over junior liens

D. Graduated payment mortgage

ANSWER: B C

Explanation:

A first mortgage is a mortgage loan secured by a first-priority lien on the real property. The corrected description, "A mortgage which is in first lien position," identifies the defining feature: its lien is senior to later-recorded or junior mortgage liens against the same collateral. "Taking priority over junior liens" correctly states the practical consequence of that position. If the property is sold or foreclosed, the first-lien mortgage generally has the initial claim on sale proceeds before subordinate mortgage liens receive payment, subject to applicable law and liens that may receive priority by statute. This priority affects both the lender's risk assessment and the value of the borrower's equity available to support additional secured borrowing. The Consumer Financial Protection Bureau describes a first mortgage as the primary loan secured by a home, while its materials on home-equity borrowing explain that subsequent liens are commonly subordinate to the first mortgage. The Office of the Comptroller of the Currency likewise discusses lien priority and the distinction between senior and junior liens in its mortgage lending guidance. See the Consumer Financial Protection Bureau's definition of a first mortgage and the OCC Residential Real Estate Lending handbook.

QUESTION NO: 60

Sound financial planning dictates that you need a good idea of how much credit you can comfortably tolerate. One can do some measures to build a strong credit history. Which of the below mentioned points can be out of those measure?

A. Fulfill all the terms of credit

B. Be consistent in making payments promptly

C. Do not consult creditors immediately

D. None of these

ANSWER: A B

Explanation:

Fulfill all the terms of credit and **Be consistent in making payments promptly** are sound measures for establishing and maintaining a strong credit history. A credit agreement sets specific obligations, including the repayment schedule, required payment amount, interest, and other applicable conditions. Meeting those obligations as agreed demonstrates that the borrower manages credit responsibly. Prompt, consistent payments are especially important because payment history is a significant element of consumer credit reporting and credit-scoring assessments. Paying by the due date, every time, helps avoid delinquency entries and supports a record of reliable repayment behavior.

From a financial-planning perspective, these habits also help a consumer keep borrowing within a manageable level. An individual who understands loan terms and pays on time is better positioned to monitor cash flow, avoid unnecessary fees, and preserve access to credit for future needs. The Consumer Financial Protection Bureau advises consumers to pay bills on time and to review their credit reports for accuracy. Its guidance is available at CFPB: Credit reports and scores. Consumers can obtain the credit reports used to review their reported payment history through AnnualCreditReport.com, the federally authorized site.

QUESTION NO: 61

What is the act in which the main sections are for Canadian companies and for foreign companies?

A. Investment reimbursement Act

B. Insurance Companies Act

C. Regulatory Act

D. Revenue-earned Act

ANSWER: B

Explanation:

The **Insurance Companies Act** is correct. This is Canada’s federal statute governing the incorporation, operation, supervision, and winding-up of federally regulated insurance companies. Its structure distinguishes between Canadian insurance companies and foreign insurance companies that carry on insurance business in Canada through a Canadian branch. For example, the Act contains provisions specifically governing Canadian companies’ organization, capital, governance, and business powers, while Part XIII establishes the federal framework for foreign companies and other foreign entities that insure risks in Canada. This distinction is important in trust and financial-services contexts because a financial institution must determine whether an insurer is a Canadian-incorporated federally regulated insurer or a foreign insurer operating through a branch, as the applicable authorization and compliance requirements may differ. The Office of the Superintendent of Financial Institutions administers and supervises insurers under this framework, including both domestic insurers and foreign insurance company branches. The official consolidated statute is available through the Government of Canada’s Justice Laws website at Insurance Companies Act. OSFI also describes its supervisory role for federally regulated insurers at OSFI—Insurance Companies.

QUESTION NO: 62

Which of the following are common elements of a properly prepared investment policy statement for a trust account?

A. Return objectives

B. Risk parameters

C. Liquidity needs

D. A guarantee that the portfolio will outperform its benchmark

ANSWER: A B C

Explanation:

Return objectives are a core element because the trustee must identify the return required to meet the trust's purposes and anticipated distributions. **Risk parameters** are also essential because return objectives must be considered together with the trust's capacity to bear volatility and loss. **Liquidity needs** should be stated because foreseeable distributions, expenses, and taxes affect the amount of readily available assets the portfolio should maintain.

Investment policy statements commonly also address time horizon, tax considerations, asset allocation, permitted investments, restrictions, benchmarks, and review procedures. A statement should guide fiduciary decision-making rather than guarantee a specified investment result. Federal fiduciary standards require national banks to adopt policies and procedures governing the investment of fiduciary funds; see 12 CFR § 9.6.

QUESTION NO: 63

A corporate trustee maintains cash belonging to several fiduciary accounts. Sound fiduciary cash-management practices include:

A. Maintaining records that identify each account's ownership interest

B. Reviewing balances for liquidity needs and deposit-insurance exposure

C. Reconciling cash records promptly

D. Combining fiduciary cash permanently with the bank's operating funds

ANSWER: A B C

Explanation:

Maintaining records that identify each account's ownership interest is correct because fiduciary cash must be accounted for separately, even when funds are invested through a common vehicle or deposited in an omnibus account. Accurate records enable the institution to determine each account's balance, allocate income correctly, and respond to beneficiary, audit, and regulatory inquiries.

Reviewing balances for liquidity needs and deposit-insurance exposure is also correct. A trustee must maintain sufficient liquidity for expected distributions, taxes, expenses, and other obligations while managing credit and concentration risk. Deposit insurance coverage depends on the account ownership category, titling, and applicable FDIC rules; a fiduciary should not assume that all funds in a single depository relationship are fully insured. **Reconciling cash records promptly** is an important internal control that helps identify posting errors, unauthorized transactions, and differences between internal records and bank statements. See the OCC fiduciary activities regulations in 12 CFR Part 9 and the FDIC Deposit Insurance for Financial Institution Employees guide.

QUESTION NO: 64

Which of the following moves inversely to each other?

A. Interest rate and debt to equity ratio

B. Discount rate and P/E ratio

C. Coupon rate and leverage ratios

D. Interest rate and activity ratios

ANSWER: B

Explanation:

Discount rate and P/E ratio move inversely because the discount rate is the required return used to translate a company's expected future earnings or cash flows into a present value. When the required return rises, future amounts are discounted more heavily, reducing the value investors are willing to pay today for each dollar of current or expected earnings. That lower price relative to earnings results in a lower price-to-earnings ratio. Conversely, when the discount rate declines, the present value of future earnings increases, which supports a higher market price and therefore a higher P/E ratio, assuming earnings expectations and other valuation inputs remain unchanged.

This relationship is reflected in the Gordon growth valuation framework: the value multiple is driven by expected growth and the difference between the required return and growth rate. Holding growth constant, an increase in the required return widens that difference and compresses the valuation multiple. The U.S. Securities and Exchange Commission describes discounted cash-flow analysis as a method that estimates present value by discounting future cash flows at an appropriate rate; this same present-value principle underlies the inverse discount-rate/P/E relationship. See the SEC's overview of stock valuations and NYU Stern's valuation resources.

QUESTION NO: 65

Simon has experience of dealing with retail clients and is now in training to qualify as a pension transfer specialist. As a consequence, which of the following statements are true?

A. He must have at least 3 years experience as an adviser before his training can commence

B. His firm is allowed to impose a time limit on completion of the qualification

C. His supervisor must also be suitably qualified

D. Once qualified, CPD requirements are waived for 12 months

E. Once qualified, records of his training must be maintained for at least 5 years

ANSWER: B C E

Explanation:

His firm is allowed to impose a time limit on completion of the qualification because the FCA Training and Competence sourcebook establishes the maximum period in which an employee undertaking a relevant retail activity must obtain an appropriate qualification. A firm may use a more demanding internal deadline, provided that it continues to meet the FCA's competence and supervision requirements. The applicable qualification framework is set out in the FCA's Training and Competence sourcebook.

His supervisor must also be suitably qualified. While Simon is acquiring the specialist qualification and has not yet been assessed as competent to perform the relevant activity without oversight, the firm must provide appropriate supervision. The supervisor must have the knowledge, skills, and competence needed to supervise the activity effectively, including the specialist subject matter involved in pension-transfer advice.

Once qualified, records of his training must be maintained for at least 5 years. FCA rules require firms to create and retain adequate training-and-competence records, including records supporting an employee's competence, qualifications, and relevant training. The retention obligation is designed to allow the FCA and the firm to verify that competency standards have been met over time. The detailed record-keeping expectations are available in FCA TC 2.1.

QUESTION NO: 66

The principal reasons for using the Sharpe ratio when calculating a portfolio's performance are:

A. It indicates the percentage return above/below the risk-free rate for each unit of risk taken

B. It will always be quoted on a rolling quarterly basis

C. A positive Sharpe ratio will always guarantee positive returns

D. The higher the number, the more a portfolio manager can be said to have added value

ANSWER: A D

Explanation:

The Sharpe ratio is a risk-adjusted performance measure that relates a portfolio's return in excess of the risk-free rate to the total risk assumed, generally measured by the portfolio return's standard deviation. Therefore, "It indicates the percentage return above/below the risk-free rate for each unit of risk taken" captures its central purpose: assessing the amount of excess return earned for each unit of total volatility accepted by the investor. This makes the ratio especially useful for comparing portfolios that may have produced different raw returns while taking different levels of risk.

“The higher the number, the more a portfolio manager can be said to have added value” is also correct when portfolios are evaluated consistently—using comparable return periods, the same or appropriate risk-free-rate methodology, and similar investment objectives. A higher Sharpe ratio indicates more excess return per unit of volatility, reflecting more efficient risk-adjusted performance. It helps trustees and fiduciaries focus not only on whether return was generated, but whether the return reasonably compensated the portfolio for the variability experienced. The Sharpe ratio definition and formula describe this excess-return-per-unit-of-risk framework, and the CFA Institute’s discussion of portfolio risk and return provides context for evaluating return alongside volatility.

QUESTION NO: 67

Negligence is:

A. Failing to act in a reasonable manner

B. Failing to take necessary steps to protect others from harm

C. Causing a loss

D. Losing the judgment

ANSWER: A B

Explanation:

Negligence is the failure to exercise the level of care that a reasonably prudent person would use under similar circumstances. In a fiduciary and trust-administration context, this standard requires a trustee or other responsible party to act with appropriate care, skill, and caution when carrying out duties that can affect beneficiaries or other foreseeable parties. “Failing to act in a reasonable manner” states this core reasonable-care standard directly. “Failing to take necessary steps to protect others from harm” also captures negligence when a person has a duty to act and reasonable protective measures are required by the circumstances.

A negligence claim generally connects a duty of care, a breach of that duty, harm, and a causal relationship between the breach and the harm. Thus, the concept is focused on unreasonable conduct or omissions rather than simply the existence of a loss. The Legal Information Institute explains negligence as a failure to behave with the level of care that someone of ordinary prudence would have exercised in the same situation. The Restatement of Torts likewise frames negligence around conduct that creates an unreasonable risk of harm. These principles support both selected descriptions of negligence. See Cornell Law School’s Legal Information Institute: Negligence and the American Law Institute’s Restatement of Torts.

QUESTION NO: 68

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as __________.

A. Probability distribution

B. The expected return

C. The standard deviation

D. Co-efficient of variation

ANSWER: A

Explanation:

Probability distribution is correct because it describes every potential value, or range of values, that a random variable may take and assigns a probability to each possible outcome. In trust and investment analysis, probability distributions provide a structured way to represent uncertainty around variables such as investment returns, inflation, interest rates, or asset values. For a discrete random variable, the distribution lists each outcome and its associated probability; the probabilities collectively total 1. For a continuous random variable, the distribution is represented by a probability density function, with probabilities determined over intervals rather than at individual points. Analysts can use a probability distribution as the basis for calculating important risk and return measures, including the expected return and standard deviation. Thus, those measures are derived from the distribution rather than being the term for the full set of outcomes and their likelihoods. The coefficient of variation is likewise a relative-risk measure calculated from expected return and standard deviation. The Federal Reserve Bank of Atlanta's educational glossary defines a probability distribution as a listing of all possible outcomes of an experiment and the probability associated with each outcome. See the Federal Reserve Bank of Atlanta probability and risk lesson and NIST's overview of probability distributions.

QUESTION NO: 69

Pauline, a basic-rate taxpayer, has a portfolio which comprises of various equity and fixed-interest unit trusts and OEICs. She should be aware that:

A. Any losses from this portfolio are allowable for Capital Gains Tax calculations

B. Her entire portfolio will be subject to a 10% tax credit

C. Only the proceeds of sale from the OEICs could be subject to Capital Gains Tax

D. The taxation of dividends on the OEICs held will be treated the same way as the unit trusts

E. She can never reclaim any tax deducted at source

ANSWER: A D

Explanation:

"Any losses from this portfolio are allowable for Capital Gains Tax calculations" is correct because units in authorised unit trusts and shares in open-ended investment companies are generally chargeable assets for UK Capital Gains Tax purposes. Consequently, a loss arising on a disposal can ordinarily be claimed and set against chargeable gains, subject to the normal Capital Gains Tax loss-relief rules and to the investments being held outside a tax-exempt wrapper. HMRC's guidance on the treatment of unit trusts confirms their relevance for Capital Gains Tax: HMRC Capital Gains Manual: Unit trusts.

"The taxation of dividends on the OEICs held will be treated the same way as the unit trusts" is also correct. For an individual investor, authorised unit trusts and OEICs are broadly aligned in their income-tax treatment. Equity funds may make dividend distributions, while fixed-interest or bond funds may make interest distributions; the nature of the distribution, rather than whether the fund is constituted as an OEIC or unit trust, determines the relevant tax treatment. This is why Pauline should identify the type of income distributed by each fund and apply the applicable dividend or savings-income rules. HMRC explains the income-tax framework for investment income in its Savings and Investment Manual.

QUESTION NO: 70

Which of the following terms refer to the recurring and fluctuating levels of economic activity that an economy experiences over a long period of time?

A. Claims cycle

B. Reaction cycle

C. Capital cycle

D. Business Cycle

ANSWER: D

Explanation:

The correct term is "Business Cycle." The business cycle describes the recurring, though not precisely regular, fluctuations in overall economic activity over time. It captures changes in measures such as real gross domestic product, employment, consumer spending, business investment, production, and income. Economic activity commonly moves through periods of expansion, reaches a peak, contracts into a recessionary period, bottoms out in a trough, and then begins a recovery that can lead to the next expansion.

For trust and financial advisory work, recognizing the business cycle provides useful context for evaluating investment conditions, client cash-flow needs, credit quality, inflation expectations, and the likely direction of interest rates. The cycle is not a clockwork sequence with a fixed duration; its timing and severity depend on many interacting factors, including consumer and business confidence, monetary and fiscal policy, financial conditions, and external events. The National Bureau of Economic Research identifies U.S. business-cycle turning points by assessing the breadth, depth, and duration of changes in economic activity rather than relying on one indicator alone. The Federal Reserve also describes business cycles as expansions and contractions in economic activity around a longer-run growth trend. See the NBER Business Cycle Dating and the Federal Reserve Bank of St. Louis's Business Cycle overview.

QUESTION NO: 71

More investors are using technical analysis now than in earlier periods because:

A. Investors are able to know the quantitative calculations of technical analysis

B. More business schools are now teaching technical analysis

C. The Internet makes more data available to track stock prices

D. There is now more empirical evidence supporting technical analysis

ANSWER: C

Explanation:

The Internet makes more data available to track stock prices is correct because technical analysis depends principally on accessible market information, especially historical price and trading-volume data. Online financial platforms, brokerage websites, market-data vendors, and charting tools have made this information broadly available in near real time and at very low cost. Investors can now retrieve long price histories, display charts over selected periods, apply indicators, and compare securities without the manual data collection and calculation that earlier users often faced. This substantially lowers the practical barrier to using technical-analysis methods and allows investors to monitor market movements promptly.

Technical analysis is the use of market-generated information, such as price and volume patterns, to inform trading or investment decisions. The U.S. Securities and Exchange Commission notes that investors can access a wide range of market information and research electronically, while FINRA describes the importance of understanding the information and tools used in investment decisions. Greater Internet-based availability of market data is therefore the key development that explains the wider use described in the question. See the SEC's Introduction to Investing and FINRA's Investing Basics.

QUESTION NO: 72

Which investments held by life insurance enterprises should be carried in the balance sheet at amortized cost?

A. Appraisal-term acts

B. Variable-term portfolio

C. Fixed-maturity portfolio

D. Revenue-earned portfolio

ANSWER: C

Explanation:

The fixed-maturity portfolio is the appropriate answer when those debt investments meet the applicable held-to-maturity or statutory-accounting criteria. A fixed-maturity investment generally has contractual payments and a stated maturity date, allowing its carrying amount to be measured by starting with purchase price and systematically amortizing any premium or accreting any discount over the remaining life of the instrument. This produces amortized cost, subject to the required assessment and recognition of credit losses or other-than-temporary impairment when applicable.

For a life insurer, fixed-maturity securities are central to asset-liability management because their contractual cash flows can be aligned with expected policyholder benefit and annuity obligations. The accounting treatment reflects an insurer's ability and positive intent, where required under the reporting framework, to hold qualifying securities for collection of contractual cash flows rather than managing them principally through current market-price changes. The precise classification and impairment requirements depend on whether the insurer reports under U.S. GAAP or statutory accounting, but fixed-maturity debt investments are the category associated with amortized-cost measurement under the relevant qualifying conditions. The Financial Accounting Standards Board's Accounting Standards Codification provides the authoritative U.S. GAAP framework for debt-security classification and measurement: FASB Accounting Standards Codification. Statutory accounting guidance for insurers is administered through the NAIC's statutory accounting principles resources: NAIC Statutory Accounting Principles and Practices.

QUESTION NO: 73

Co-insurance is:

A. A provision in property insurance

B. A provision in actual cash value

C. A provision in liability insurance

D. A provision in health insurance

ANSWER: A

Explanation:

"A provision in property insurance" is correct. In property insurance, a coinsurance provision establishes the percentage of a property's value that the insured is expected to carry as insurance—commonly 80%, 90%, or 100%. Its purpose is to encourage policyholders to insure property close to its full replacement value, rather than purchasing a substantially lower limit and effectively shifting part of the loss cost to the insurer. If a covered loss occurs and the policy limit is below the amount required by the provision, the claim payment may be reduced using a coinsurance calculation, even when the loss itself is less than the policy limit. For example, an insured subject to an 80% requirement generally should maintain insurance equal to at least 80% of the property's applicable valuation amount to avoid a coinsurance penalty on a partial loss. This is an important trust and fiduciary administration concept because trustees should periodically review insurance limits as property values and rebuilding costs change. The Insurance Information Institute describes the property-insurance coinsurance requirement and its effect on claim settlements in its coinsurance overview. The National Association of Insurance Commissioners also provides consumer guidance on understanding coinsurance.

QUESTION NO: 74

Even if, the annual balances, in certain months' expenses may exceed income, causing a monthly budget deficit. Likewise, a surplus occurs when income in some months exceed expenses. It remedy may be:

A. Shift expenses from months which budget, deficits to months with surpluses for, (or alternatively, transfer income, if possible, from months with surpluses to those with deficit)

B. Use savings, investments, or borrowing to cover temporary deficits

C. Estimate genuine expenses

D. Pay off your credit card

ANSWER: A B

Explanation:

“Shift expenses from months which budget, deficits to months with surpluses for, (or alternatively, transfer income, if possible, from months with surpluses to those with deficit)” and “Use savings, investments, or borrowing to cover temporary deficits” are appropriate remedies for a timing-based cash-flow shortfall. A monthly deficit can occur even when projected annual income is sufficient because income and expenses do not arrive at the same time. A sound cash-flow plan therefore maps the timing of expected receipts and payments, then seeks to align them where practical. For example, a client may defer a discretionary payment to a month in which cash inflows are higher, or arrange for income to be received earlier when that is feasible.

When timing cannot be changed, readily available liquid reserves can bridge a temporary gap. Savings and suitable liquid investments may be used while preserving the ability to meet essential obligations on time. Borrowing can also serve as a short-term bridge when it is appropriate to the client’s liquidity needs, repayment capacity, borrowing cost, and overall financial plan. The central objective is to manage temporary liquidity needs without confusing a seasonal or monthly cash-flow mismatch with an annual inability to meet expenses. The FDIC discusses the value of maintaining savings for unexpected or temporary needs, and the CFPB provides budgeting and cash-flow planning resources: FDIC Financial Management; CFPB Budgeting.

QUESTION NO: 75

Two mutually exclusive investment proposals have "scale differences" (i.e., the cost of the projects differ). Ranking these projects on the basis of IRR, NPV, and PI methods give contradictory results.

A. Will never

B. Will always

C. May

D. Will generally

ANSWER: C

Explanation:

May is correct because differences in project scale can, but do not inevitably, cause the internal rate of return, net present value, and profitability index to rank mutually exclusive proposals differently. NPV measures the total dollar value expected to be added by a proposal at the required rate of return. By contrast, IRR expresses return as a percentage, while PI expresses value created relative to the amount invested. Consequently, a smaller project can have a higher percentage return or a higher benefit-to-cost relationship, even though a larger project produces a greater total dollar NPV. When the projects are mutually exclusive, accepting one prevents acceptance of the other, so a ranking conflict is important: the objective is generally to maximize the firm’s value, which is represented by NPV when cash flows are evaluated using the appropriate discount rate. However, scale differences alone do not guarantee a conflict. If the project with the higher NPV also has the higher IRR and PI, all three methods will rank it consistently. Thus, the technically accurate completion is that contradictory rankings *may* result. See OpenStax’s discussion of capital-investment evaluation methods and the CFA Institute’s overview of capital budgeting.

QUESTION NO: 76

Risk tolerance is more than a function of an individual’s psychological makeup; it is affected by other factors such as:

A. Person’s current insurance coverage and cash reserves

B. Nature of job

C. An individual’s family situation (for example, marital status and the number and ages of children) and by his or her age

D. Person’s current assets at a specified time period

ANSWER: A C

Explanation:

Risk tolerance reflects both a client's willingness to accept investment uncertainty and the practical consequences that losses could have on the client's financial life. **Person's current insurance coverage and cash reserves** is correct because adequate insurance can protect against potentially severe financial disruptions, while readily available cash reserves can help meet unexpected expenses without requiring the sale of long-term investments during an unfavorable market. These resources affect the client's ability to withstand volatility and losses.

An individual's family situation (for example, marital status and the number and ages of children) and by his or her age is also correct because family responsibilities, anticipated education costs, dependents' needs, retirement timing, and investment time horizon shape the financial impact of risk. A client supporting young children or approaching retirement may face different constraints and loss-recovery capacity than a client with fewer obligations or a longer horizon. A sound advisory process considers these personal and financial circumstances when establishing investment objectives and an appropriate risk profile. FINRA describes age, financial situation, needs, and investment objectives as information relevant to customer investment recommendations; see FINRA Rule 2111. The SEC's investor guidance also emphasizes matching investments to goals and time horizon: SEC Investor.gov: Asset Allocation.

QUESTION NO: 77

Several insurance provisions affect a health insurance plan's value to you. Some important provisions address:

A. The persons and places covered

B. Cancellation

C. Pre-existing conditions

D. Rehabilitation coverage

ANSWER: A B C D

Explanation:

Each listed topic is an important health-insurance policy provision because it defines the practical scope, continuity, and usefulness of coverage. "The persons and places covered" addresses who qualifies as an insured or dependent and where services may be obtained, including plan service areas and network-related access. "Cancellation" addresses the circumstances and process under which coverage may end, an essential contractual protection for policyholders. "Pre-existing conditions" is a standard insurance-coverage topic; for most Marketplace plans, federal protections prohibit denial of coverage or higher premiums based on a pre-existing condition. "Rehabilitation coverage" concerns covered rehabilitative and habilitative services, which can materially affect the value of a plan for an individual recovering or managing functional limitations. These provisions help a consumer assess both whether a policy fits anticipated healthcare needs and whether coverage will remain available when care is needed. The National Association of Insurance Commissioners provides consumer guidance on evaluating health coverage and policy features, while HealthCare.gov describes federal protections concerning pre-existing conditions and required categories of benefits. See NAIC Health Insurance Consumer Resources and HealthCare.gov: Coverage for Pre-existing Conditions.

QUESTION NO: 78

A charitable remainder trust is being considered as part of a client's charitable and estate-planning objectives. Which of the following are characteristics of a charitable remainder trust?

A. It provides for a charitable remainder interest

B. It may be structured as a charitable remainder annuity trust or a charitable remainder unitrust

C. The noncharitable payment period may last for life or for a term not exceeding 20 years

D. It permits the settlor to revoke the trust and recover all contributed property at any time

ANSWER: A B C

Explanation:

It provides for a charitable remainder interest is correct. A charitable remainder trust is an irrevocable split-interest trust under which one or more noncharitable beneficiaries receive payments for a defined period and a qualified charity receives the remaining trust property when that period ends.

It may be structured as a charitable remainder annuity trust or a charitable remainder unitrust is also correct. A charitable remainder annuity trust pays a fixed annuity amount, while a charitable remainder unitrust pays a fixed percentage of the trust assets valued annually. **The noncharitable payment period may last for the life of one or more individuals or a term of years not exceeding 20 years** is correct, subject to the statutory and regulatory requirements. In addition, the charitable remainder interest must satisfy the required actuarial-value tests for the trust to qualify. See IRS guidance on Charitable Remainder Trusts and Internal Revenue Code section 664.

QUESTION NO: 79

What is that form of investing in which future value and expected returns are highly uncertain?

A. Hedging

B. Speculating

C. Short-term investment

D. Long-term investment

ANSWER: A B

Explanation:

Speculating and hedging both involve taking positions whose eventual economic value depends on uncertain future market conditions. Speculating is the direct investment activity associated with accepting substantial uncertainty about future price movements and possible returns in pursuit of gain. A speculator assumes market risk because the outcome depends on changes in prices, rates, currencies, commodities, or other market variables that cannot be known in advance.

Hedging also uses investments or derivative positions whose future value is uncertain, but it does so to manage an existing exposure. The value of a hedge changes as the hedged asset, liability, or anticipated transaction changes; therefore, its ultimate return and value are inherently dependent on uncertain future market movements. In trust and wealth-management contexts, understanding both activities is important because a fiduciary may encounter speculative positions as well as hedges designed to mitigate portfolio or transaction risk. The SEC describes derivatives as instruments whose value is tied to an underlying asset, rate, or index, while FINRA discusses hedging as a risk-management use of options and other instruments. See the SEC's overview of derivatives and FINRA's options-investing guidance.