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Canadian Securities Course Exam 2



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Question: 1

The following financial information is available for fund SKE:

Total Liabilities	\$100,000
Units outstanding	1,000,000
Book value of assets	\$10,000,000
Current market value of assets	\$12,000,000

What is SKE fund's net asset value per share?

- A. \$9,90
- B. \$11,90
- C. \$12,00
- D. \$10,00

Answer: B

Explanation:

To calculate the **Net Asset Value (NAV)** per share of the SKE Fund, use the following formula:

$$\text{NAV per share} = \frac{\text{Current Market Value of Assets} - \text{Liabilities}}{\text{Units Outstanding}}$$

Step-by-step Calculation:

1. **Current Market Value of Assets:** \$12,000,000
2. **Liabilities:** \$100,000
3. **Net Asset Value (NAV)** = \$12,000,000 - \$100,000 = \$11,900,000
4. **Units Outstanding:** 1,000,000

Now calculate NAV per share:

$$\text{NAV per share} = \frac{\text{NAV}}{\text{Units Outstanding}} = \frac{11,900,000}{1,000,000} = 11.90$$

Thus, the **NAV per share** is \$11.90.

Explanation of Answer Options:

Option A (\$9.90): Incorrect; this value does not reflect the subtraction of liabilities.

Option B (\$11.90): Correct; it accounts for the subtraction of liabilities and proper division by outstanding units.

Option C (\$12.00): Incorrect; it represents the market value of assets per unit without deducting liabilities.

Option D (\$10.00): Incorrect; this value does not align with the given data or calculations.

Reference to Canadian Securities Course Exam 2 Study Materials:

Volume 2, Chapter 17 - Mutual Funds: Structure and Regulation, Pricing Mutual Fund Units:

Discusses the formula for calculating NAV per share, including the treatment of liabilities and market value of assets .

Volume 2, Chapter 22 - Other Managed Products:

Covers the concept of valuation for managed funds and its importance for accurate pricing .

Volume 1, Chapter 11 - Corporations and Their Financial Statements:

Provides foundational knowledge about book and market values used in calculations .

Question: 2

How are investment dealers unique participants in the institutional market?

- A. They manage pools of assets on behalf of beneficiaries.
- B. They act on both the buy side and sell side.
- C. They produce research reports.
- D. They manage a firm's financial assets in support of a company's business activities.

Answer: B

Explanation:

Investment dealers play a unique role in the institutional market due to their dual capability of operating on both the buy side and the sell side:

The Buy Side

Investment dealers assist institutional investors like pension funds, mutual funds, and hedge funds in acquiring securities to meet their investment objectives. These clients aim to optimize returns on their invested assets, and the dealers provide them with access to securities markets, investment advice, and execution services.

The Sell Side On the sell side, investment dealers facilitate the issuance of new securities. They underwrite and distribute these securities, providing liquidity to the market. They also produce research reports and provide trade execution services to institutional and retail clients. This dual operation is critical for maintaining market efficiency and ensuring the smooth functioning of capital markets. This dual-role capacity makes investment dealers pivotal in bridging gaps between the needs of securities issuers and institutional investors. They enhance market liquidity, efficiency, and transparency through their intermediary functions.

Reference:

Canadian Securities Course, Volume 1, Chapter 1: The Investment Dealer's Role as a Financial Intermediary

Canadian Securities Course, Volume 2, Chapter 27: Working with the Institutional Client .

Question: 3

Tom sold some bonds in his RRSP and used the total \$100,000 in proceeds to buy a 75% guaranteed segregated fund. Three years later, Tom died. At the time of his death, the market value of the segregated fund was \$700,000. Assuming no interim withdrawal on market value reset, what is the death benefit payable from this investment?

- A. \$0,
- B. \$70,000
- C. \$30,000
- D. \$5,000

Answer: C

Explanation:

Key Concepts:

A segregated fund with a guaranteed death benefit ensures that the investor (or their estate) receives at least a certain percentage of the initial investment in case of death. This percentage is applied to the original investment amount, and if the market value of the segregated fund at the time of death is lower than this guaranteed amount, the insurance company pays the shortfall.

Step-by-step Explanation:

Initial Investment in the Segregated Fund:

Tom invested \$100,000 into a segregated fund with a 75% death benefit guarantee.

Guaranteed amount = $75\% \times \$100,000 = \$75,000$.

Market Value at the Time of Death:

The market value of the segregated fund is \$70,000 at the time of Tom's death.

Shortfall Calculation:

The guaranteed amount (\$75,000) is greater than the market value (\$70,000).

Shortfall = $\$75,000 - \$70,000 = \$5,000$.

Death Benefit Payable:

Since the segregated fund guarantees at least \$75,000, the insurance company will pay the shortfall of \$5,000 to the estate.

Answer:

Option A (\$0): Incorrect; there is a shortfall between the guaranteed amount and the market value, so a payout will occur.

Option B (\$70,000): Incorrect; this is the market value, not the shortfall amount.

Option C (\$30,000): Incorrect; this value does not align with the 75% guarantee calculation.

Option D (\$5,000): Correct; this is the shortfall amount payable as the death benefit.

Reference to Canadian Securities Course Exam 2 Study Materials:

Volume 2, Chapter 22 – Segregated Funds

Explains death benefit guarantees in segregated funds and how the shortfall is calculated .

Volume 2, Chapter 24 – Canadian Taxation

Highlights how RRSP investments, such as segregated funds, are treated upon the investor's death .

Volume 2, Chapter 26 – Working with the Retail Client

Discusses estate planning considerations, including the role of segregated funds in ensuring financial protection .

Question: 4

In Canada, which industries are categorized as defensive?

- A. Baking and materials
- B. Energy and materials.
- C. Energy and utilities.
- D. Banking and utilities.

Answer: D

Explanation:

Defensive industries are less sensitive to economic cycles. They tend to perform consistently regardless of economic conditions because they provide essential goods and services that consumers require regardless of their financial situation. Banking and utilities fall under this category as:

Banking ensures essential financial services.

Utilities (e.g., electricity, water) provide necessary services.

Industries like energy and materials are more cyclical, reacting strongly to economic fluctuations. Hence, D. Banking and Utilities is the correct choice.

Reference:

Volume 2, Chapter 13, "Classifying Industries by Reaction to the Economic Cycle" .

Question: 5

Which type of market participant is generally regulated as an alternative trading system?

- A. Venture exchange
- B. Pink sheets
- C. Dark pool
- D. Over-the-counter bulletin board.

Answer: C

Explanation:

An alternative trading system (ATS) is a trading platform that is not a formal stock exchange but allows for the buying and selling of securities. A dark pool is a type of ATS where trade details are not displayed until after execution, providing anonymity to large institutional trades. Other options like venture exchanges, pink sheets, and OTC bulletin boards are not considered ATSs.

Reference:

Volume 1, Chapter 9, "Alternative Trading Systems" .

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