CIRO

RSE

Retail Securities Exam

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Question: 1

What must be calculated when any portion of the money balance in a cash account is overdue by less than 6 business days?

A. The total cash balance available in the account
B. The equity deficiency; net weighted security value minus net cash
C. The gross amount of all securities in the account
D. The total trading volume of all securities in the account

Answer: B

Explanation:
When a cash-account money balance remains overdue for fewer than six business days after the regular settlement date, the applicable calculation is the equity deficiency. CIRO Form 1 specifies that this deficiency is determined by comparing the net weighted market value of the settlement-date investment-product positions in the client's cash accounts with the net money balance calculated on a settlement-date basis. Option B expresses this regulatory calculation, although it abbreviates "net weighted market value" as "net weighted security value" and "net money balance" as "net cash."
The calculation is not based on the account's total cash balance, the gross market value of all securities, or trading volume. Those figures do not measure whether the overdue debit is adequately supported by eligible securities after the prescribed regulatory weightings have been applied. Different weightings may apply depending on the margin eligibility and risk characteristics of the securities held.
This requirement falls within the Retail Securities syllabus coverage of the cash-account rule, overdue cash accounts, settlement and delivery, and special margin situations. CIRO Form 1, Part II, Schedule 4 specifically prescribes the equity-deficiency calculation for balances overdue by fewer than six business days.
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Question: 2

How does asset class selection for an investment portfolio affect liquidity risk?

A. To avoid liquidity risk, all assets in a portfolio should be short-term and traded on a secondary market
B. A diversified portfolio with a mix of liquid and illiquid assets helps improve returns while reducing liquidity risk

C. Investing in private securities generally provides more liquidity than investing in publicly traded stocks
D. Liquidity risk is specific to fixed-income securities and has little impact on equity investments

Answer: B

Explanation:
Asset-class selection determines how readily an investor can convert portfolio holdings into cash without accepting a substantial price reduction. A properly constructed portfolio can combine highly liquid assets, which support expected withdrawals and emergency cash requirements, with less-liquid investments that may provide diversification or additional return potential. Therefore, option B provides the most appropriate description. It does not mean that diversification eliminates liquidity risk; rather, the liquid portion of the portfolio reduces dependence on selling illiquid holdings under unfavourable conditions.
Option A is unnecessarily restrictive. Requiring every asset to be short term and actively traded could impair long-term return objectives and would not constitute balanced portfolio construction. Option C reverses the normal liquidity relationship: private securities generally have fewer potential purchasers, restricted transferability and no continuously available public market. Option D is also incorrect because liquidity risk can affect equities, fixed-income products, private investments, real estate, alternative investments and managed products.
The Retail Securities syllabus expressly includes asset allocation, asset-mix strategies, liquidity risk, diversification and the role of risk in asset selection. CIRO also warns that alternative investments are commonly more complex and less liquid than traditional asset classes. The correct approach is therefore to balance liquidity requirements, investment horizon, risk profile and return objectives through diversified asset selection.
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Question: 3

An investor nearing retirement is building a portfolio focused on generating predictable income with lower exposure to market fluctuations. They are considering allocating a portion of their funds to preferred shares. Based on the investor’s objectives, what is the primary advantage of including preferred shares in their portfolio?

A. Preferred shares give their owners priority in voting decisions, influencing company policy
B. Preferred shares typically offer higher long-term capital gains than common shares
C. Preferred shares provide guaranteed returns backed by the issuing company
D. Preferred shares generally pay fixed dividends, offering more predictable income

Answer: D

Explanation:
Preferred shares are commonly structured to pay a stated or fixed dividend and generally have priority over common shares concerning dividend distributions. This income-oriented feature

can make them useful for an investor approaching retirement who places greater importance on comparatively predictable cash flow than on maximum capital appreciation. Accordingly, option D most directly matches the investor's stated objective.
Preferred shareholders normally have limited or no ordinary voting rights, so option A incorrectly attributes the governance rights associated primarily with common shares. Option B is also incorrect because preferred shares generally have less participation in the issuer's long-term growth than common shares. Their market prices may fluctuate with interest rates, issuer credit quality and redemption provisions, but substantial capital growth is not their principal investment characteristic. Option C is too absolute: a stated dividend does not create a government-backed or unconditional guarantee. Dividends remain dependent on the issuer's financial condition, the terms of the share issue and the board's declaration, although cumulative preferred shares may accumulate unpaid dividends.
The Retail Securities syllabus requires candidates to understand preferred-share dividend rights, voting rights, liquidation rights, risks and potential returns. CIRO's official investor glossary similarly describes preferred shares as securities providing fixed dividends paid before dividends to common shareholders.
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Question: 4

Why is investment time horizon a key factor in portfolio construction?

A. It restricts clients from investing in certain asset classes
B. It determines the client's ability to withstand market fluctuations
C. It eliminates the need for periodic portfolio reviews
D. It ensures that all clients invest in long-term bonds

Answer: B

Explanation:
Investment time horizon is the period before the client expects to require a significant portion of the invested capital. It directly affects risk capacity because a client with a longer horizon generally has more time to recover from temporary market declines. A client with a short horizon may be forced to sell during adverse market conditions and may therefore have a reduced ability to tolerate volatility. Option B correctly connects time horizon with the client's practical ability to withstand market fluctuations.
Time horizon does not automatically prohibit particular asset classes, making option A too absolute. Instead, it influences the proportion and type of assets that may be appropriate. Option C is incorrect because every portfolio requires periodic review, particularly when the client's circumstances, objectives, liquidity needs or risk profile change. Option D is also incorrect because there is no universal requirement that clients invest in long-term bonds; long-duration bonds can themselves experience material interest-rate volatility and may be unsuitable for short-term needs.
The Retail Securities syllabus identifies investment time horizon as required KYC information and as an input into risk-capacity assessment. It specifically links the client's ability to endure

financial loss with financial circumstances, current investments, investment horizon and liquidity needs. Portfolio construction must therefore align asset mix and volatility exposure with the period during which the client can remain invested.
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Question: 5

Which of the following actions demonstrates best practice when ensuring the accuracy of client information during the know-your-client (KYC) process?

A. Requesting confirmation only when substantial portfolio changes occur
B. Verifying client information through third-party databases
C. Recording the date of information collection and obtaining confirmation
D. Using predictive models to identify potential inaccuracies

Answer: C

Explanation:
Option C reflects CIRO’s expressly stated KYC documentation practices. Dealer Members must take reasonable steps to have clients confirm the accuracy of the information collected during the KYC process. CIRO guidance further identifies recording the date on which the information was collected as a best practice and requires the dealer to maintain evidence that the client confirmed its accuracy. Confirmation may be evidenced through a signature, an electronic acknowledgement or detailed notes recording the client’s instructions and confirmation.
Option A is inadequate because confirmation is not limited to substantial portfolio changes. KYC information must be confirmed after collection and kept current when significant changes occur. Option B may be relevant for limited identification or anti-fraud checks, but a Dealer Member and Registered Representative cannot substitute third-party data for meaningful interaction with the client concerning financial circumstances, objectives, risk profile, investment knowledge and time horizon. Option D does not satisfy the regulatory requirement because predictive technology cannot replace direct client confirmation or the dealer’s responsibility for accurate records.
The Retail Securities syllabus requires accurate documentation of client discussions and client confirmation of the information. It also includes maintaining KYC records as a specific examination outcome. The prescribed approach is therefore to date the information, obtain confirmation, preserve evidence and update the record when necessary.
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