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Question: 1

Which of the following situation would not impair audit objectivity?

- A. An auditor is assigned to audit a business function that the auditor was responsible for nine months ago
- B. An individual temporarily assigned to the internal audit activity because of the individual's expert knowledge in a particular business function assigned to audit an activity that the individual was responsible for just prior to transferring to the internal audit activity
- C. An auditor is assigned to perform a post-implementation review on a system for which the auditor participated in the design process
- D. An auditor is assigned to perform a post-implementation review on a system for which the auditor performed a procedure review and made control recommendations prior to the system's implementation

Answer: D

Question: 2

Internal auditing:

- A. Is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations
- B. Is an independent, performance measurement and consulting activity designed to add value and improve an organization's operations
- C. Helps an organization accomplish objectives by bringing a systematic, disciplined approach to evaluate but rarely improve the effectiveness of risk management, control and governance
- D. Helps an organization accomplish objectives by bringing a targeted, disciplined approach to evaluate but rarely improve the effectiveness of risk management, control and governance

Answer: A

Question: 3

IIA's code of ethics applies to _____ that provide internal auditing services:

- A. Individuals
- B. Entities
- C. Individuals and entities
- D. Individuals, entities and indirect authorities

Answer: C

Question: 4

Internal auditors are expected to uphold the following principles:

- A. Integrity, objectivity, competency
- B. Integrity, objectivity, confidentiality, and competency
- C. Integrity, objectivity, awareness and competency
- D. Integrity, objectivity, entirety

Answer: B

Question: 5

“Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.” This statement best explains one of the following principles:

- A. Competency
- B. Confidentiality
- C. Objectivity
- D. Integrity

Answer: C

Question: 6

Internal auditors, engaging in activities that are illegal and discreditable to the profession of internal auditing or the organization, violate which of the following principles:

- A. Objectivity
- B. Awareness
- C. Integrity
- D. Competence

Answer: C

Question: 7

Which of the following statements is NOT related to competency principle of internal auditing? Internal auditors:

- A. Shall continually improve their proficiency and effectiveness and quality of their services
- B. Shall perform internal auditing services in accordance with the standards for the professional practice of internal auditing
- C. Shall engage only in those services for which they have the necessary knowledge, skills and experience
- D. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review

Answer: D

Question: 8

While performing consulting services internal auditors should specifically maintain:

- A. Proficiency level
- B. Objectivity
- C. Competence
- D. Confidentiality

Answer: B

Question: 9

All these statements elaborate purpose of standards EXCEPT:

- A. Foster improved organizational processes and operations
- B. Establish the basis for the evaluation of internal audit performance
- C. Subvert the framework for performing and promoting broad range of value-added internal audit activities.
- D. Delineate basic principles that represent the practice of internal auditing as it should be

Answer: C

Question: 10

Nature of internal audit activities and quality criteria against which the performance of these services can be evaluated is best portrayed by:

- A. Performance Standards
- B. Attribute Standards
- C. Implementation Standards
- D. Evaluation Standards

Answer: A

Question: 11

There are multiple sets of attribute and performance standards:

- A. False
- B. True
- C. True- In specific conditions
- D. False- In specific conditions

Answer: A

Question: 12

All of the following phrases are used to express the auditor's opinion EXCEPT:

- A. Give a true and fair view
- B. Present fairly, in all material respects
- C. Timely and consistent opinion
- D. Comprehensible and realistic view

Answer: C

Question: 13

The auditor should plan an audit with an attitude of:

- A. Professional competence
- B. Professional skepticism
- C. Subject awareness
- D. Opinion sharing

Answer: B

Question: 14

Which of the following is a limitation in an audit that affects auditors' ability to detect material misstatements?

- A. Scope of an audit
- B. The use of testing
- C. Over- generalization
- D. Unidentifiable risks

Answer: B

Question: 15

Reasonable assurance relates to the:

- A. Audit planning process
- B. Scope of the internal audit
- C. End of the audit process
- D. Whole audit process

Answer: D

Question: 16

The responsibility for preparing and presenting the audited financial statements is that of:

- A. Internal auditor
- B. Engagement client/ Management of the entity
- C. Process owner
- D. Auditing Agency

Answer: B

Question: 17

All these are disparities in public and private sector audits EXCEPT:

- A. Objective and scope
- B. Specific requirements of relevant regulation, ordinances or ministerial directives
- C. Specific and broad range mandate in public sector
- D. Reasonable assurance

Answer: D

Question: 18

Which one of the following is an internal control component?

- A. Compliance control
- B. Control activities
- C. Financial Reporting Controls
- D. Communication channels and network

Answer: B

Question: 19

Management must assess business risk and develop clearly defined control objectives:

- A. Continually
- B. Annually
- C. Periodically
- D. Weekly

Answer: A

Question: 20

Internal audit routinely reviews compliance risk and also should be reviewing business risk. The efforts to control both risk types will purely enhance:

- A. The short-term profitability and viability of an organization
- B. The long-term profitability and viability of an organization
- C. Both short-term and long-term profitability and viability of an organization
- D. None of these

Answer: C

Question: 21

Following statements define risk EXCEPT:

- A. Organization has knowledge of facts constituting a dangerous condition
- B. Organization voluntarily exposes itself to the danger
- C. The element of assurance in an undertaking
- D. Measured in terms of impact and likelihood

Answer: C

Question: 22

Strategic planning is the process of taking a long-term view of the organization, the longer the view, the greater the uncertainty of risks and opportunities. Such reservations can better be handled by:

- A. Timely decisions
- B. Flexible/ Adaptive plans and processes
- C. Periodic risk assessments
- D. Focusing on current period organizational activity

Answer: B

Question: 23

High-risk scores are those with an average of scores:

- A. 3.75 or more
- B. 3.25 or more
- C. 4.25 or more
- D. 4.00 or more

Answer: C

Question: 24

Low-risk scores are those with an average of scores:

- A. 2.25 or less
- B. 2.75 or less
- C. 2.00 or less
- D. 3.25 or less

Answer: A

Question: 25

Risks inherent in the management process are known as:

- A. Residual risks
- B. Long-term risks
- C. Control risks
- D. Strategic risks

Answer: C

Question: 26

Both residual and control risk need to be dealt with in project management.

- A. Timely
- B. Implicitly
- C. Professionally
- D. Explicitly

Answer: D

Question: 27

“Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of control risk,” is an objective of:

- A. Risk Identification
- B. Risk Measurement
- C. Risk Management Process
- D. Risk Prioritization

Answer: C

Question: 28

Faulty human judgments, misunderstanding of instructions, errors, management override, and collusion and cost/benefit considerations are the limitations of:

- A. Reasonable Assurance
- B. Internal Control System
- C. Risk Management
- D. Compliance Control

Answer: B

Question: 29

Five internal control components are:

- A. Control environment, Risk assessment, Control activities, Information and communication & Monitoring
- B. Control environment, Risk assessment, and Operational control, Information and communication & Monitoring
- C. Control environment, Risk Prioritization, Control activities, Information and communication & Monitoring
- D. Control environment, Risk Prioritization, Control activities, Information and communication & Monitoring

Answer: A

Question: 30

Enterprise risk management encompasses all EXCEPT:

- A. Aligning risk appetite and strategy
- B. Enhancing risk responsibilities and decisions
- C. Increasing Operational Surprises
- D. Seizing Opportunities

Answer: C

Question: 31

Organization's Objectives are described in three general categories:

- A. Effectiveness of operations, Efficiency of strategic plans, Reliability of internal and external reporting
- B. Effectiveness of operations, Efficiency of strategic plans, Reliability of internal and external reporting, compliance with applicable laws and regulations
- C. Effectiveness and Efficiency of operations, Compliance with applicable laws and regulations, Monitoring and management control system

D. Effectiveness and Efficiency of operations, Reliability of internal and external reporting, Compliance with applicable laws and regulations

Answer: D

Question: 32

The plans developed for the audit functions should be updated as circumstances dictate. Such specific types of plans include all EXCEPT:

- A. Activity Reports
- B. Target dates
- C. Opportunities and threats
- D. Staffing plans and financial budgets

Answer: C

Question: 33

Which one of the following statements is NOT the part of audit work schedule?

- A. The extent and type of findings in the last audit
- B. Loss of assets, errors and fraud
- C. The availability of audit staff resources
- D. Opportunities to achieve operations benefits

Answer: B

Question: 34

Risk is the probability that an event or action may adversely affect the organization or activity under review. In other words, risk is anything that can prevent an organization from achieving an objective. Major components of risk are as follows EXCEPT:

- A. Non- Compliance with the laws, rules and regulations
- B. An event or cause that can interfere with achieving the objective (e.g. What can go wrong?)
- C. A probability or likelihood of occurrence
- D. The negative consequences of not achieving the objective

Answer: A

Question: 35

The extent to which an organization has implemented controls to minimize the actual occurrences of the risk determines the vulnerability to the risk actually occurring, or the

- A. Inherent Risk
- B. Understanding Risk
- C. Control Risk
- D. Disguised Risk

Answer: C

Question: 36

The major benefit of risk assessment is:

- A. To staff the plans and financial budgets
- B. To consider factor that may affect risk and giving the highest priority to audit areas that have the highest potential for adverse consequences
- C. To identify the possible adverse effects based solely on the type of activity, the type of resources, amount of assets or complexity of transactions
- D. Failure to achieve the organization's goal and objectives

Answer: B

Question: 37

The risk analysis process involves all of the following steps EXCEPT:

- A. Identifying auditable activities (e.g. programs, accounts, contracts, transactions)
- B. Identifying relevant risk factors (e.g. Complexity of programs, size of program, adequacy of internal control system)
- C. Prioritizing Risks
- D. Determine the need for external assistance of outsourcing

Answer: D

Question: 38

Which of the following steps is/are NOT considered in the audit planning process?

- A. Identifying what is to be audited?
- B. Assess risk and vulnerability
- C. Determine how to manage the risks
- D. Develop specific issues and Questions for the audit

Answer: C

Question: 39

Following is a list of background items auditors should review to determine their impact on audit objectives EXCEPT:

- A. The history of the program or entire organization
- B. Results of prior audits and their working papers

- C. Applicable laws, rules and regulations. Specific items usually set forth in laws and regulations include the following:
What the program is supposed to do? Who is supposed to do it?
How much can be spent on what?
- D. Audit methods, strategies, tests, analysis and comparisons

Answer: D

Question: 40

Auditors can use background information to define and modify:

- A. Scope of the audit
- B. The likelihood that a risk will occur
- C. Activity reports
- D. Audit Criteria (Reasonable, attainable, and relevant)

Answer: A

Question: 41

The main purposes of the audit survey are to assist with following goals and tasks EXCEPT:

- A. Develop preliminary estimates of time and resource requirements
- B. Determine whether further auditing is necessary
- C. Documenting key control activities
- D. Identify potential critical control points, control deficiencies or excessive controls

Answer: C

Question: 42

Auditors define audit objectives based on information gained:

- A. From external sources of the organization
- B. Either from knowledge they already have or from inquiries and observations
- C. From internal sources of the organization
- D. From external sources of the organization

Answer: B

Question: 43

Which of the following is NOT included in the list of principles for formulating well- stated audit objectives?

- A. Clearly identify the client
- B. Clearly identify the type of performance to be audited and separate objectives if more than one element of performance is to be reviewed
- C. Frame objectives that consider a realistic scope and methodology

D. Onsite Observation

Answer: D

Question: 44

Carefully crafted audit objectives are important BECAUSE:

- A. Objectives provide direction
- B. Limit collection of unneeded information
- C. Control scope, methodology, timing and nature of audit work
- D. All of the above

Answer: D

Question: 45

The scope of an audit defines the boundaries of the audit by addressing such items as the audit period or number of locations to be reviewed.. Some important considerations when defining the scope of an audit include:

- A. Needs of potential users of the audit report
- B Preliminary judgment about materiality levels
- C. Both A and B
- D. None of the above

Answer: C

Question: 46

Following elements should be documented in the audit scope EXCEPT:

- A. Time period to be covered by audit tests
- B. Available data:

No. of records Locations

Need to create data

Form

Reliability

- C. Prioritizing risks
- D. Both A and B

Answer: D

Question: 47

Site Selection Rationale

Client officials client/requesters for audit results

Scope limitations encountered or anticipated Expert advice

The above elements should be documented in the:

- A. Audit planning
- B. Risk assessment
- C. Audit scope
- D. None of these

Answer: C

Question: 48

Considerations for determining required audit resources include:

- A. Training needed by the audit staff to meet the audit objectives
- B. Contractual assistance needed to meet the audit objectives
- C. Both A and B
- D. None of these

Answer: C

Question: 49

Engagement client management often has a negative perception of audit process; therefore, communication throughout the audit process is essential to alleviate some of the concerns of management. The very first step in communicating the audit information with the client is:

- A. Entrance conference
- B. Formal notification of the audit
- C. Explanation of the scope of audit
- D. None of these

Answer: B

Question: 50

Entrance Conference— The entrance conference may be the auditor's first face-to-face contact with client. The objective/s of the entrance conference is/are to:

- A. Explain preliminary audit scope
- B. Present projected audit milestone dates and completion dates
- C. Identify key contacts and desired communication protocols
- D. All of these

Answer: D

Question: 51

"Audit management must decide whether to sample (judgment or statistical) or use the entire universe, and which specific

quantitative and qualitative methodologies will provide sufficient, competent and relevant evidence to answer the questions posed in the audit objectives.” It is an example of:

- A. Determining appropriate audit methods and strategies
- B. Determining resources needed to conduct the audit
- C. Determining audit scope
- D. None of these

Answer: A

Question: 52

Auditors must use professional judgment to determine the impact a risk factor may have on the use of audit resources. Risk can be controlled by various preventive measures such as:

- A. Adding personnel to a function
- B. Installing burglar alarms
- C. Increasing the frequency and level of management review implement tighter standards
- D. All of these

Answer: D

Question: 53

An organization might decide that the risk of fire is high so it will pay a high premium on its fire insurance policy to transfer the risk as much as possible. However, the organization will still have to pay deductible amount on the policy if a fire occurs. This scenario depicts:

- A. Assessment of the likelihood that a given risk will occur
- B. Control the risk
- C. Accept the risk
- D. Transfer the risk

Answer: C

Question: 54

Which of the following is not a characteristic of a control environment?

- A. Management communicates the importance of internal controls to all employees
- B. Employees have a vague idea of their responsibilities; so they work in a flexible environment
- C. Employees are held accountable for their performance
- D. A system is in place to monitor controls on a regular basis

Answer: B

Question: 55

Factor/s that influences/influence the state of an organization's control environment is/are:

- A. Organizational history of control weakness or violations
- B. Whether management emphasizes and values competence, integrity, and ethical behavior
- C. An inconsistent or unfair employee performance evaluation, compensation and promotion system.
- D. All of these

Answer: D

Question: 56

help bring performance back into compliance, or address problems that have been identified such as employee grievance system, employee performance approvals, or an administrative appeal's process.

- A. Correction controls
- B. Detective controls
- C. Preventive controls
- D. None of These

Answer: A

Question: 57

Internal auditing controls (e.g. segregation of duties, monitoring, reconciliation), management controls (e.g. the plan, methods and procedures adopted by management to ensure its goals are met, including systems for measuring reporting and monitoring program performance), physical controls (e.g. security), and Information technology control (e.g. access security controls ,data center operation controls). All these are examples of:

- A. Detective controls
- B. Control activities
- C Corrective controls
- D Preventive controls

Answer: B

Question: 58

Example/s of ongoing monitoring function/s is/are:

- A. Management's review of performance reports and comparing them to the budgets and other benchmarks
- B. Feedback obtained from external parties (e.g. complaints from stake holders)
- C. Direct supervision and review of work by functional level managers
- D. All of above

Answer: D

Question: 59

result from a failure to follow the logic of a series of statements.

- A. Deductive fallacies
- B. Inductive fallacies
- C. Corrective controls
- D. None of These

Answer: A

Question: 60

An example of an invalid deductive argument is as follows: Major premises: All employees who are committing fraud drive luxury cars. Minor premises: _____ Conclusion: Therefore, John Doe is committing fraud. What will be the minor premise in this example?

- A. John Doe is an employee
- B. John Doe drives a luxury car
- C. John Doe is a senior management level employee
- D. John Doe drives an ordinary car

Answer: B

Question: 61

A client makes the following statement: "If you make us put property tags and numbers on major equipment, next we will have to put tags on every pen, pencil, and paper clip in the place." This is the argument that if a particular action is taken, it will inevitably lead to another, less desirable action. We may call this:

- A. Slippery slope
- B. Hasty generalization
- C. False use of authority
- D. Ad Hominem

Answer: A

Question: 62

After implementation of a drop out recovery program, employment rate rose. The drop out recovery program is responsible for increases in employment and look for possible economic or other factors that might have contributed to the rise. This example may be referred towards:

- A. Post Hoc, Ergo Propter Hoc
- B. Ad Hominem

- C. Non Sequiter
- D. False use of authority

Answer: A

Question: 63

For Example one exception in 1000 cases is probably not the reason enough to recommend overhauling the entire system, although the final answer must be derived from the context and the condition of the related control system. Which one of the following statements is clearly supported by this example?

- A. Auditors should base findings and recommendations on significant information
- B. Auditors should be aware of that the concept of materiality and significance take on different meanings in the public and private sectors
- C. Both of these
- D. None of these

Answer: A

Question: 64

A manager of a very controversial program may have stolen only \$200, but the controversy and public accountability aspects may make the 200 significant, where it would not be material private sector financial statement opinion audit. It means:

- A. Auditors should be aware that the concepts of materiality and significance take on different meanings in the public and private sector
- B. During the planning and reporting processes, government auditors may need to consider qualitative factors such as the visibility of the program under audit, or the newness of the program or changes in its condition
- C. Both of these
- D. None of these

Answer: C

Question: 65

Audit evidence:

- A. Is sufficient when it is factual and would convince an informed person to reach the same conclusion
- B. Is competent if it consistently produces the same outcomes
- C. Is relevant when it is directly related to audit comments, recommendations and conclusions
- D. All of these

Answer: D

Question: 66

Data gathering and evaluation during field work includes:

- A. Gaining and understanding of the activity, system, or process under review
- B. Observing conditions and operations
- C. Interviewing people and examining assets and accounting, and other operational business, and other operational records.
- D. All of these

Answer: D

Question: 67

Compliance testing is designed primarily to:

- A. Hold detection risk to an acceptable level
- B. Determine whether policies and procedures have been followed
- C. Determine that account balances exist, are accurate, and are properly classified
- D. Provide evidence about monetary misstatements

Answer: B

Question: 68

Which one of the following is NOT an indicator of control weakness in derivatives?

- A. Application of inappropriate valuation models
- B. Management not involved
- C. Evidence of a "Star Manager" syndrome
- D. Absence of fiduciary mentality

Answer: A

Question: 69

Major categories of loans include all of the following EXCEPT:

- A. Commercial loans
- B. Residential loans
- C. Consumer loans
- D. Agricultural loans

Answer: D

Question: 70

allows businesses that sell durable goods such as auto-mobiles to finance inventories.
As the business sells goods, the loan advance against those goods is repaid.

- A. Term loans
- B. Consumer loans
- C. Installment loans
- D. Floor-plan financing

Answer: D

Question: 71

Common type/s of installment loans is/are:

- A. Credit card loans
- B. Residential loans
- C. Mortgage loans
- D. All of these

Answer: C

Question: 72

Types of commercial loans are /are:

- A. Installment loans
- B. Floor plan financing
- C. Asset-based financing
- D. Both B and C

Answer: D

Question: 73

Management of the lending institution sets a reserve for loan losses at a given point based on such factors as mentioned below EXCEPT:

- A. Number and type of loans made
- B. Quality of loans made
- C. Historical loss experience
- D. Loan portfolio

Answer: D

Question: 74

If more funds than expected are needed to cover loans losses in a given period, the reserve must be increased and the difference is charged to:

- A. Administration expenses

- B. Prepaid assets
- C. Operating expenses
- D. Loan expenses

Answer: C

Question: 75

When a loan becomes delinquent or when collection seems unlikely, banks often suspend:

- A. Accrual of interest
- B. Deferral of interest
- C. Loan losses
- D. Loan prepayments

Answer: A

Question: 76

If principal is paid on a loan after it has been placed on non-accrual status, the bank must determine whether it should record the payment as a reduction of:

- A. The loan principal amount
- B. Income interest
- C. Both of these
- D. Any one of these

Answer: D

Question: 77

Financial institutions regularly identify uncollectible accounts and charge them off against the reserve of:

- A. Unearned loan revenue
- B. Loan losses
- C. Loan expenses
- D. All of these

Answer: B

Question: 78

Watch lists of loans that are in danger of becoming delinquent generally contain information on such as:

- A. Customers name and account information
- B. Loan balance outstanding
- C. Available collateral and its estimated value

D. All of these

Answer: D

Question: 79

Deposit accounts are:

- A. Interest bearing accounts
- B. Non-interest bearing accounts
- C. Tax bearing accounts
- D. Either A or B

Answer: D

Question: 80

Some small businesses keep funds in a savings account to gain interest on:

- A. Fixed assets
- B. Liquid assets
- C. Loans
- D. All of these

Answer: B

Question: 81

Which one of the following generally pays higher rates of interest than saving accounts?

- A. Money market deposit accounts
- B. Certificates of deposit
- C. Term loans
- D. Asset-based financing

Answer: B

Question: 82

Interest rates offered on new CDs changes:

- A. Daily at most banks
- B. Twice a day at most banks
- C. Weekly at most banks
- D. Monthly at most banks

Answer: A

Question: 83

Certificates of deposit may be:

- A. Bearable or registered
- B. Negotiable or non-negotiable
- C. None of these
- D. Both of these

Answer: D

Question: 84

Many businesses generally find CDs to be a:

- A. Satisfactory money management approach
- B. More than satisfactory money management approach
- C. Less than satisfactory money management approach
- D. Dissatisfactory money management approach

Answer: C

Question: 85

Non-interest bearing accounts including checking accounts and escrow accounts are known as:

- A. Term deposit accounts
- B. Demand deposit accounts
- C. Fixed deposit accounts
- D. Both A and C

Answer: B

Question: 86

Demand deposit account allows customers to transfer money through the use of:

- A. Checks
- B. ATMs and EFTs
- C. Point of sale (POS) terminals
- D. All of these

Answer: D

Question: 87

During the posting process of ledger records on deposit account banks may reject some transactions because:

- A. They lack proper endorsements
- B. They are subject to stop payments
- C. They would create an over draft
- D. All of these

Answer: D

Question: 88

Which one of the following audit objectives and steps should not be considered when performing an audit of deposit account?

- A. Determine whether dormant accounts are closed in a timely manner and in accordance with policies
- B. Determine whether there are adequate controls to prevent unauthorized access and change to customer accounts
- C. Determine whether applicable fees and penalties are properly assessed and posted
- D. None of these

Answer: D

Question: 89

Trust departments provide services to publicly held companies related to issuing and maintaining:

- A. Stock transactions
- B. Stock balances
- C. Stock threshold
- D. None off these

Answer: A

Question: 90

Funds held in trust cannot be reinvented in:

- A. Term deposits
- B. Savings accounts
- C. Financial institution's own securities
- D. Floor-plan financing

Answer: C

Question: 91

Banks provide the following personal trust service/services for the individuals:

- A. Estate settlement
- B. Co-fiduciary
- C. Agent
- D. All of these

Answer: D

Question: 92

Some wills specify that more than one responsible party share the trustee's responsibilities of an estate. The condition depicts relation with which one of the following trust services:

- A. Guardians of estates
- B. Co-fiduciary
- C. Estate settlement
- D. Trusts

Answer: B

Question: 93

Corporations, government entities and other organizations use banks as trustee to handle the function associated with a stock or bond issue.

- A. Issuance and redemption of stocks or bonds
- B. Transfer and record keeping of stock or bonds
- C. None of these
- D. Both of these

Answer: D

Question: 94

A trust agreement is called:

- A. Trust paper
- B. Trust agreement document
- C. Both of these
- D. None of these

Answer: D

Question: 95

Stock transfer agent, Bond registrar, stock registrar and dividend reinvestments agent are the additional duties of:

- A. Brokers/Brokerage houses
- B. Corporate trust departments
- C. Mutual funds agencies
- D. None of these

Answer: B

Question: 96

A bank may serve as _____ for a company's employee benefit and retirement plans.

- A. Administrator or agent
- B. Trustee or co-trustee
- C. Custodian or depository
- D. All of these

Answer: D

Question: 97

Which one of the following is/are NOT the type of retirement plans that banks may administer?

- A. Pension plans
- B. Self-employed retirements trust
- C. Group retirement accounts
- D. Post-requirement accounts

Answer: C, D

Question: 98

Bank may serve as trustee or custodian for pension and profit sharing plans that self-employed individuals establish for themselves and their employees. These types of trust are referred to as:

- A. Defined benefit plans
- B. Keogh plans
- C. Individual retirement account
- D. None of these

Answer: B

Question: 99

Which one of the following activities is not related to the trust committee activities that should be reviewed?

- A. Whether regular meetings are held and documented by meeting minutes
- B. Whether the trust committee contains at least one member who is not a bank officer
- C. Whether there is adequate oversight of the trust committee's activities by board of directors
- D. None of these

Answer: D

Question: 100

When the maturity date of the annuity arrives, the insurer begins making a series of payment to the annuitant over a stated period (Known as _____).

- A. Accumulation period
- B. Lump-sum payment period
- C. Payment release period
- D. Pay-out period

Answer: D

Question: 101

Annuities provide the annuitants with

- A. Tax-deferred earnings
- B. Tax-accrued earnings
- C. Tax-free earnings
- D. Maximum level of earnings

Answer: A

Question: 102

Surrender charges usually apply only if the annuity has been in free:

- A. For a year
- B. For a maximum period of time
- C. For a minimum period of time
- D. For less than a year

Answer: C

Question: 103

“Insurers guarantee a minimum rate of interest during the time that the account is growing and periodic payment amounts of a specified amount for a stated period (either specific period 10 years indefinite period etc).” This statement is related to:

- A. Variable annuities
- B. Life time annuities
- C. Term period annuities
- D. Fixed annuities

Answer: D

Question: 104

The actual amount of payment the annuitant pays is based on:

- A. Amount of money invested and interest rate
- B. Length of the time principle has been invested
- C. No of annuity payment to be made
- D. All of the above

Answer: D

Question: 105

“A special type of annuity that involves a contract between the annuitant and insurer in which insurer credits the annuity account with return amounts based on changes in an equity index such as the S&P500 (composite price index),” is:

- A. Price indexed annuity
- B. Variable index annuity
- C. Stock indexed annuity
- D. Equity indexed annuity

Answer: D

Question: 106

If participation rate in an equity indexed entity is 80% and the index increases 9%, the return credited to the annuity would be:

- A. 7.1%
- B. 7.2%

- C. 7.25%
- D. 7.3%

Answer: B

Question: 107

In case of an annuity with a spread of 3%, if the index gained 9%, the return credited to the annuity would be:

- A. 11%
- B. 27%
- C. 6%
- D. 3%

Answer: C

Question: 108

Which one of the following does NOT depicts a common indexing method?

- A. The annual ratchet
- B. The point to point method
- C. The high water mark method
- D. The low water mark method

Answer: D

Question: 109

An index method that credits index-linked interest based on any increase in index value from the index level at the beginning of the contract's term to the highest index value at various points during the contract's term is called:

- A. Point to point method
- B. Annual returned
- C. The high watermarks method
- D. The low water mark method

Answer: C

Question: 110

Which one of the annuities, mentioned below, is not regulated by the SEC:

- A. Fixed annuities
- B. Variable annuities
- C. Mixed annuities
- D. Expired annuities

Answer: A

Question: 111

Non-deposit investment product includes:

- A. Fixed annuities
- B. Variable annuities
- C. Mixed annuities
- D. Both A&B

Answer: D

Question: 112

Under the interagency statement when a bank recommends or sells non-deposit investment product it should inform the customer that the product is:

- A. Having high interest rate
- B. Not insured by FDIC
- C. Not a deposit or other obligation of, or guaranteed by the depository institution
- D. Only B&C

Answer: D

Question: 113

The interagency statement calls for these disclosures to be provided EXCEPT:

- A. Orally during any sales presentation
- B. Orally when investment advice concerning the non deposit investment products is provided
- C. In advertisement and other promotional materials as specified in the interagency statement
- D. None of these

Answer: D

Question: 114

Derivates can be effective low cost tools for managing expose experience losses due to:

- A. Interest rate change
- B. Master agreements
- C. Commodity price change
- D. All of these

Answer: D

Question: 115

In option- type securities contracts the option's price is called:

- A. Mark up
- B. Premium
- C. Return value
- D. Both A&B

Answer: B

Question: 116

Derivatives can be:

- A. Exchange traded securities
- B. Exchange traded options
- C. Over-the-counter traded securities
- D. Either A or C

Answer: D

Question: 117

Basic control/s to consider when auditing derivatives strategies is/are:

- A. "Created" Reports
- B. Risk or position limits
- C. Highly volatile markets or illiquid markets
- D. Board-approved guidelines

Answer: D

Question: 118

The entity has comprehensive, written credit risk management policies and procedures for derivative activities. This addresses to:

- A. Counterparty Risk
- B. Market risk
- C. Market liquidity Risk
- D. Legal Risk

Answer: A

Question: 119

Which of the following does NOT come under the consideration of systematic or interconnection risk?

- A. Risk management systems that include limits or controls on interconnection risk to which the entity is willing to expose itself.
- B. Provisions for monitoring systematic risk effectively
- C. Contingency plans setting forth actions to be taken when system-wide market disruptions OCCUR
- D. Due diligence of enforcement activities

Answer: D

Question: 120

Electronic financial services audits should focus on whether there are adequate internal controls in place to protect customer transactions information, and assets. Some key steps in clued all of the following EXCEPT:

- A. Determine whether disaster contingency plans for the failure of internet transactions or communication are adequate, regularly updated
- B. Determine whether disaster contingency plans for the failure of internet transactions or communication are adequate, regularly tested, and regularly updated
- C. Determine whether an access is controlled by a firewall
- D. Stress test analyzing changes in market and credit conditions are appropriate. The market assumptions are reasonable

Answer: D

Question: 121

Visa and MasterCard have teamed up to develop payment card Industry (PCI) Data Security standards to govern the safekeeping of account information. Which of the following is NOT out of the major goals of PCI standards?

- A. Build and maintain secure network
- B. Protect Card holder Data
- C. Maintain vulnerability management program and regularly monitor and test networks
- D. Annual review of an information security policy

Answer: D

Question: 122

- I- Restrict access to data by business need-to-know
- II- Assign Unique ID t each person with computer access

III-Restrict physical access to cardholder data

The above requirements of PCI (Payment Card Industry) achieve which one of the following goals?

- A. Implementation of Strong access control measures
- B. Protection of card holder
- C. Maintenance of information data security policy
- D. Building and maintenance of a secure network

Answer: A

Question: 123

Cash equivalent may include:

- A. Commercial Papers
- B. Returned Checks C. Spotted debits
- D. Only A & B

Answer: D

Question: 124

Cash on hand refers to:

- A. Funds in bank
- B. Funds at teller windows
- C. Funds in vault and in ATM
- D. All of these

Answer: D

Question: 125

Due from bank balances are used to:

- A. Ensure liquid reserves
- B. Protect stored data
- C. Restrict physical access to cardholder
- D. Facilitate the transfer of funds and to use as compensation for correspondent banking services

Answer: A, D

Question: 126

When looking at account receivables auditors should ensure:

- A. Receipts are processed and recorded timely

- B. Collections are handled by an outside party
- C. Disbursements are made right after the original authorizations
- D. Collections are handled by a brokerage house

Answer: A

Question: 127

At the end of the day all funds in a non-interest bearing checking account are cleared out and moved into a short-term investment account overnight. At the beginning of the next day, those funds are put back into the regular account for use that day. Such accounts are called:

- A. Zero-balance accounts
- B. Sweep Accounts
- C. Lock Boxes
- D. None of these

Answer: B

Question: 128

Workpapers serve as the connecting link between the audit assignment, the auditor's fieldwork, and the final report. Most importantly, the workpapers document the auditor's conclusions and the reasons those conclusions were reached. Workpapers also provide a basis for demonstrating compliance with the IIA's Standards. Among other things, workpapers may include all of the following EXCEPT:

- A. Planning documents and audit procedures
- B. Analysis and test of transactions, processes, and account balances
- C. Results of substantive testing
- D. Audit correspondence that documents the audit conclusions reached

Answer: C

Question: 129

The reliability (competence) of evidence gathered by auditors is a . The reliability of evidence is a key factor in the audit analysis. Relevance is also a key factor in determining the quality of evidence.

- A. Fixed term
- B. Variable
- C. Determinant
- D. Subjective philosophy

Answer: B

Question: 130

Continuous monitoring in systems and networks is a by-product of the increasing demand for immediate and continuous access to reliable information. Advancements in information monitoring and analysis are being accelerated both by increasing demands for timely and accurate information and by advances in technology that contribute to the:

- A. Intelligence
- B. Capabilities
- C. Timeliness of evaluating system
- D. Both A & B

Answer: D

Question: 131

Continuous auditing is a method used to automatically perform control and risk assessment more frequently. Technology is the key to enable such an approach. Continuous auditing changes the audit paradigm from periodic reviews of a sample to ongoing audit testing of _____ percent of transactions.

- A. Ninety
- B. Ninety nine
- C. Seventy
- D. Hundred

Answer: D

Question: 132

Obtaining feedback from client management throughout the audit is encouraged in order to ensure that appropriate information is being obtained and to alleviate problems at the conclusions of the audit. Some specific components of continual communication to consider include:

- A. Keep client management informed of audit issues and concerns as they arise.
- B. Submit a draft audit report ensure that accurate and appropriate information has been reported
- C. Advise client management of projected audit days and weeks
- D. Both A and B

Answer: D

Question: 133

An objective of an exit conference is that it provides the client management with findings and recommendations identified during the audit which addresses all of the followings EXCEPT:

- A. Allow client management to state concerns and objections to the findings and recommendations
- B. Give the client management and the audit team the opportunity to identify and correct any errors or misinterpretations that may appear in the draft report
- C. It should include a description of significant noteworthy accomplishments and issues that need further work
- D. Provide the audit team with the formal opportunity to explain the remaining steps in the audit process prior to the release of the final report

Answer: C

Question: 134

“An element of information, from a transaction to an entire system, is appropriately entered, developed, changed, or used with proper authority.” Which of the following element of integrity supports this statement?

- A. Authorized
- B. Accurate
- C. Complete
- D. Timely

Answer: A

Question: 135

Elements of information and process integrity are that it should be authorized, accurate, complete, timely, recorded, processed, and reported in the proper time. Each of the elements in the above has a relationship to the:

- A. Selection of data
- B. Collection of data
- C. Classification of data
- D. All of these

Answer: D

Question: 136

Some organizations have information protection policies that place the burden of information protection on managers in individual organizational units. An information protection policy may include:

- A. Statements that define information as an asset that must be protected to different degrees based on its sensitivity, criticality, and value, regardless of the media on which it is stored, the manual or automated systems that process it, or the methods by which it is distributed
- B. Statements outlining the responsibilities of information owners, custodians and users
- C. Definitions of the previously audited data and its classifications
- D. Both A & B

Answer: D

Question: 137

A sound data classification scheme sets the foundation for the effective implementation of access control to ensure that data is adequately protected. The elements of a data classification scheme are as follows EXCEPT:

- A. Reporting
- B. Storing
- C. Collection
- D. Public information

Answer: C, D

Question: 138

Information technology general controls set the foundation for effective control over computerized information system assets. General controls apply to the entire computer operation. Which of the following is/are NOT out of these controls?

- A. Administrative controls
- B. Security controls
- C. Security administration
- D. Input controls

Answer: D

Question: 139

System tailoring is accomplished by setting optional system parameters and, therefore, has an impact on system performance and security. Control techniques for system's software include:

- A. Setting appropriate system parameters and security options for operating system
- B. Verifying the accuracy of output through manual or automated reconciliation activities
- C. Using the security features of security software effectively
- D. Controlling procurement and maintenance of software licenses

Answer: A, C, D

Question: 140

Feasibility studies and cost benefit analysis Approval process for initiating system development and

implementation of systems that are developed Change control procedures for new system developments and modifications to existing systems to ensure that only authorized changes are moved to production General and detailed design specification Project review, including periodic milestones reviews and post-implementation reviews Contracting procedures that include the requirements for describing expected project deliverables such as system components and source codes, project

timeframes, estimated hours, and the maximum allowable expenses for each phase These are some of the standards of:

- A. System development methodology
- B. Output controls
- C. Security controls
- D. Collection of Classified information

Answer: A

Question: 141

COBIT (Control Objectives for Information and Related Technology) is based on existing Information Systems Audit and Control Foundation, control objectives enhanced with existing and emerging international technical, professional, regulatory, and industry-specific standards. COBIT has four domains or high-level classifications. Which is of the following is NOT out of those domains?

- A. Planning and organization
- B. Acquisition and implementation
- C. Delivery and support
- D. Evaluation

Answer: D

Question: 142

The purpose of audits of financial statements is to issue an opinion on the fairness of the financial statements and to evaluate all of the following assertions (explicit or implicit) by management EXCEPT:

- A. Existence or occurrence assertions address whether available information addresses actual transactions, assets, and liabilities
- B. completeness assertions address whether all material financial information is included in financial statements
- C. Rights and obligations assertions address whether the entity has legal rights to the assets and obligations to the liabilities disclosed on the financial statements
- D. Presentation and disclosure assertions address whether the elements of the financial statements are properly organized, classified and disclosed

Answer: C

Question: 143

Standards related to information technology are not as well-developed or universally accepted as standards in some other audit areas. Financial statements that are fairly presented meet the following : Generally accepted accounting principles are used Appropriate accounting principles are used Financial statements address matters that may affect their use or interpretation Financial statements classify and summarize information in a reasonable manner Financial statements reflect underlying transactions and events in a way that facilitates the presentation of the financial position, results of operation , and cash flows

- A. Limitations
- B. Guidelines
- C. Objective controls
- D. Processing controls

Answer: B

Question: 144

The balance sheet is the fundamental report of a company's financial position. An examination of a balance sheet will assist in determining:

- A. If the company meets its financial obligations
- B. The amount of money invested in outside the company
- C. The company's debt ratio
- D. The type of assets that company has purchased with its debt financing

Answer: A, C

Question: 145

A statement of cash flows in a financial report that shows incoming and outgoing money during a particular period (often monthly or quarterly). It does not include items such as depreciation. The statement is a useful tool for determining the short-term viability of a company, particularly its ability to pay bills.

- A. Non-cash
- B. Depreciation related
- C. Depletion related
- D. Long-term debt

Answer: A

Question: 146

Off-balance-sheet usually means an asset or debt or financing activity not on the company's

balance sheet. It could involve a lease or a separate subsidiary or a contingent liability such as

- A. A letter of credit
- B. Scrutiny
- C. Debt securities
- D. Term papers

Answer: A

Question: 147

Commercial, residential and consumer are three basic types of:

- A. Short term working capital loans
- B. Asset-based financing
- C. Installment loans
- D. Loans

Answer: D

Question: 148

_____ loans allow the consumer to repay a loan over a set period. They require periodic principal and interest payments. The loan is generally secured by the item being purchased. Automobile loans or real estate mortgage loans are common types of such types of loans.

- A. Installment loans
- B. Consumer loans
- C. Residential loans
- D. Asset-based loans

Answer: A

Question: 149

"These are usually secured by mortgages, deeds of trust, land contracts, or other types of real estate liens. Interest rates for residential mortgages loans may be fixed or variable. Repayments of principal may be set up for full amortization, negative amortization, or partial amortization with a balloon payment at a specified rate." What are these?

- A. Asset-based loans
- B. Residential loans
- C. Consumer loans
- D. Term loans

Answer: B

Question: 150

All lending institutions assume some loans will not be repaid and thus estimate the losses they expect from their loan portfolio. Management of the lending institution sets a reserve for loan losses at a given point based on factors such as:

- A. The number and type of loans made
- B. The quality of loans made

- C. The number of problem loans
- D. All of these

Answer: D

Question: 151

Exception reports generated by the lending institution are designed to identify past-due loans. Auditors should review these exception reports to identify an unusually high number of exceptions and old or unusual exceptions that might indicate that:

- A. The institution is not following up on exceptions in a timely manner
- B. The institution is following up on exceptions in a timely manner
- C. The auditor is not following up on exceptions in a timely manner
- D. The competitor is not following up on exceptions in a timely manner

Answer: A

Question: 152

Financial institutions regularly identify uncollectible and charge them off against the reserve for loan losses. Auditors should ensure that the institution has developed adequate criteria for charge-offs and select a sample of charged-off loans whether they are handled properly.

Another useful test is:

- A. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria and assess why they have not been charged off
- B. To select a sample of loans that are significantly paid in order to determine whether they meet the past criteria and assess why they have not been charged off
- C. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria and assess why they have not been charged off
- D. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria to meet the current requirements

Answer: A

Question: 153

Deposit accounts are either interest bearing or non-interest bearing. Interest bearing accounts includes and . The types of accounts bear interest for a fixed period of time and are known as time deposits.

- A. Savings accounts, certificates of deposit
- B. Savings accounts, term deposit
- C. Certificate of deposit, Savings accounts and certificates of deposit
- D. Savings accounts, certificates of deposit and non-interesting bearing account

Answer: A

Question: 154

In the United States, banks are required to report cash deposits that exceed \$10,000 a day to any one account, regardless of how many branches or deposits have been used in the transactions. Banks are also required to report when cash is used to purchase cashier's checks, money orders, traveler's checks, or bank checks in excess of \$3000. In the United States, accounts are federally insured by the Federal Deposit Insurance Corporations (FDIC). An individual is limited to _____ in insurance coverage at each bank (including branches).

- A. \$50,000
- B. \$75,000
- C. \$100,000
- D. \$10,000

Answer: C

Question: 155

The financial institutions' general ledger records activity on deposit accounts. Posting of time deposit transactions usually occurs on the day transaction occurs or the next day. The following audit objectives and steps should be considered when performing an audit of deposit accounts EXCEPT:

- A. Assess the adequacy of policies, procedures, and internal controls regarding deposit accounts
- B. Determine whether documentation exists to show that accounts are properly opened and closed in a timely manner and in accordance with establish policies. Ensure that applications and signature cards are on file. Send confirmations on a sample of accounts. If any confirmations are not received, compare the signature on recent checks or transactions to the signature card for the account
- C. Determine whether deposit transactions and any expense is posted properly
- D. Ensure that there is adequate separation of duties between the posting and reconciling functions. Recalculate a sample of reconciliations to verify accuracy. Note whether any unusual transactions were properly verified and authorized

Answer: C

Question: 156

Most corporations have an annual meeting where stockholders have the opportunity to vote on important issues. These issues include:

- A. Election of the board of directors (the officers of the corporation)
- B. Changes to the corporate charter
- C. Reconciliation
- D. Takeovers

Answer: A, B

Question: 157

Stockholders are generally allowed one vote per share held. As a result, individuals who hold large blocks of share are more likely to be board members. Which of the following are out of the basic rights of stockholders?

- A. Proxy rights
- B. Reorganization rights
- C. Exception rights
- D. Liquidation rights

Answer: A, D

Question: 158

Although these rights do not always exist, if they do, shareholders are entitled to buy any new issue of stock in proportion to their holdings. If a person owns 5% of a corporation, then he or she would have the right to buy 5% of newly issued shares. These are:

- A. Proxy rights
- B. Preemptive rights
- C. Inspection rights
- D. Liquidation rights

Answer: B

Question: 159

Shareholders also have the right to receive declared dividends. Besides the potential for capital appreciation, investors also have the potential to receive dividend income. There are several types of dividends. For instance, an investor with 500 shares of stock selling at \$50 per share would have 1,000 shares at \$25 per share after a 2-for-1 split. These types of dividends are called:

- A. Cash dividends
- B. Stock split
- C. Preferred dividends
- D. None of these

Answer: D

Question: 160

Preferred stock is similar to common stock in that it represents ownership in a corporation. Preferred stockholders generally receive a fixed dividend rate. The types of preferred stock include all of the following EXCEPT:

- A. Cumulative preferred stock

- B. Non-cumulative preferred stock
- C. Participating preferred stock
- D. Invertible preferred stock

Answer: D

Question: 161

_____ stock generally costs more than _____ because of the additional rights its stockholders receive.

- A. Cumulative preferred stock, Non- Cumulative preferred stock
- B. Non- Cumulative preferred stock, Cumulative preferred stock
- C. Cumulative preferred stock, Cash dividends
- D. Preferred stock, Common Stock

Answer: D

Question: 162

Although generally attached to bonds or preferred stock, warrants can also be attached to other securities, such as speculative stock. Warrants allow holder to buy more stock as its value appreciates. Below are the terms that must be considered in order to understand warrants EXCEPT:

- A. Warrants are generally attached to a bond or preferred stock and carry the right to purchase common stock at a fixed price
- B. Detached warrants can be traded and have their own value based on the current market and exercise prices. If a warrant is not detachable, it has no individual market value
- C. Warrants typically expire after a number of years
- D. When exercised, a warrant is relinquished in return for shares of common stock at the current market price

Answer: D

Question: 163

_____ are investment securities that do not fall under one of the other types of securities. Examples of these are Type III securities including corporate bonds and municipal bonds.

- A. Type II Securities
- B. Type III Securities
- C. Type I Securities
- D. Type IV Securities

Answer: A

Question: 164

A residential mortgage-related security that is rated investment grade or is the credit equivalent thereof, or a residential

mortgage security that is rated investment grade in one of the two highest investment grade rating categories. It usually qualifies as:

- A. Type II Securities
- B. Type III Securities
- C. Type I Securities
- D. Type IV Securities

Answer: D

Question: 165

These are used to speculate on the direction of interest rates. The trading of these contracts is limited. The futures market is the main trading market for securities based on interest-rate movements. What are these?

- A. Put Options
- B. Call Options
- C. Interest rate options
- D. Index options

Answer: C

Question: 166

Options are quoted daily in the newspapers. The listing provides the name of the underlying stock and:

- A. Its closing price that day
- B. The strike price of the option
- C. Its closing price that day, the strike price of the option, the closing prices (premiums) of the call and 3 put contracts trading closest to expiration
- D. The closing prices (premiums) of the 3 call and 3 put contracts trading closest to expiration

Answer: C

Question: 167

Options are quoted daily in the newspapers. The listing provides the name of the underlying stock and its closing price that day, the strike price of the option, the closing prices (premiums) of the 3 call and 3 put contracts trading closest to expiration.

Listings can be divided into categories. Which of the following is/are out of those categories?

- A. Option Class
- B. Option Series
- C. Option Statuses
- D. Option Lists

Answer: A & B

Question: 168

Banks generally record securities transactions as of trade date. However, it is acceptable to record the transactions as of the _____ if the difference between the settlement date and trade date is not materially different.

- A. Market closing date
- B. Settlement date
- C. A day before the closing date
- D. None of these

Answer: B

Question: 169

Banks can record interest earned on trading securities as either interest income or trading income. However, the recommended method is:

- A. To report interest income separately from trading income if the amount is material
- B. To report interest income with trading income if the amount is material
- C. To report interest income separately from trading income if the amount is not material
- D. To report interest income with trading income if the amount is not material

Answer: A

Question: 170

Securities available for sale should be reported at current market value. When this type of security has an unrealized gain or loss:

- A. It is reported on balance sheet
- B. It is reported on income statement
- C. It is not reported on income statement
- D. It is reported on cash flow statement

Answer: C

Question: 171

When conducting an audit of securities investments, the following objectives and audit steps should be considered EXCEPT:

- A. Determine whether policies, procedures, practices, and internal controls over security investments are adequate and being followed
- B. Determine whether transactions are properly authorized and recorded. Verify that dividend or interest income is accurately calculated and recorded in the general ledger

- C. Determine that the institution has an adequate process for reconciling subsidiary records to the general ledger on a regular basis
- D. Determine whether the institution adequately control and records the sold securities in balance sheet

Answer: D

Question: 172

Which of the following is/are included in the specific steps for auditing short-term investments?

- A. Ensure that policies and procedures for short-term trading activities exist, are periodically reviewed for changes, and are properly approved
- B. Review to ensure that trading policies include allowed and restricted trading instruments, approved traders
- C. Review the short-term trading activity to ensure compliance with trading policies and procedures and applicable regulatory environment
- D. All of the above

Answer: D

Question: 173

Notes and bonds are long-term debt instruments. Long-term debt instruments are sold at when the market rate the stated interest rate.

- A. Discount, exceeds
- B. Premium, exceeds
- C. Discount, less than
- D. Premium, less than

Answer: A

Question: 174

These are similar to coupon bonds in that ownership is based on possession. These have not been issued for the last couple of decades, however those previously issued will continue to exist until they reach maturity. What are these?

- A. Registered bonds
- B. Bearer bonds
- C. Book-entry bonds
- D. Puttable bonds

Answer: B

Question: 175

A bond currently priced at \$1,250 with a 10% nominal yield of \$100 would have a current yield of . The same bond priced at \$800 would have a current yield of .

- A. 9%, 12.5%
- B. 12.5%, 9%
- C. 8%, 12.5%
- D. 12.5%, 8%

Answer: C

Question: 176

Bond yield is the return on a bond. Which of the following terms may apply to bond yields?

- A. Nominal yield
- B. Market yield
- C. Yield to Maturity
- D. Both A & C

Answer: D

Question: 177

It is a contract that defines corporation and bondholders responsibilities and is designed to protect the right of the bondholders. A trustee (most often a commercial bank) is generally appointed to ensure that the obligations defined in the agreement are of trust indenture must e filled with SEC. What is it?

- A. Bond certificate
- B. Trust indenture
- C. Secured bonds
- D. Collateral trust

Answer: B

Question: 178

Unsecured bonds are not backed by assets and provide no claim on assets for bondholders These include:

- A. Debenture
- B. Subordinated debenture
- C. Collateral trust bonds
- D. Trust indenture

Answer: A, B

Question: 179

The U.S government is the largest borrower in the world and has a variety of debt instruments. These government obligations or issues are a safe form of debt security, and there has never been a default. The "full faith and credit of the government" back these issues. Some terms and definitions include:

- A. Negotiable securities
- B. Non-negotiable securities
- C. Series YY bonds
- D. Series NN bonds

Answer: A, B

Question: 180

are the instruments with maturities of 30 years for new issues (10-to-30-years issues were allowed in the past). The amounts range from \$1,000 to \$1,000,000 and are sold at auction in a manner similar to that for treasury notes.

- A. Treasury notes
- B. Treasury receipts
- C. Treasury bonds
- D. Treasury bills

Answer: C

Question: 181

Municipal bonds are issued by state and local governments, U.S. territories, and non-federal public agencies such as school districts, cities, and airport authorities. Municipal debt is considered the second safest form of debt security after U.S. government obligations. Some types of municipal bonds include all of the following EXCEPT:

- A. General obligation bonds
- B. Revenue bonds
- C. Single barreled bonds
- D. Moral obligation bonds

Answer: C

Question: 182

These are the most common type of municipal bonds and are backed by projected revenue streams from the infrastructure built by the bond. These revenues can be in the form of rental r user fees for facilities or even tolls for road improvements. What are these?

- A. Doubled barreled bonds
- B. Moral obligation bonds
- C. Special tax bonds
- D. Revenue bonds

Answer: D

Question: 183

Negotiable certificates are:

- A. Mutual funds that invests in short-term liquid securities.
- B. Tradable certificates issued by commercial banks in exchange for time deposits.
- C. Are instruments issued by corporations with good credit ratings and are in effect an unsecured promissory note
- D. Are U.S. currency deposited in banks outside the United States

Answer: B

Question: 184

As interest rate change, the price of an issued bond also changes. The change in price has an inverse relationship to changes in interest rates (if one rises, the other falls). If new bond issues are paying a higher interest rate than existing bonds, investors will not purchase existing bonds unless:

- A. The bond is discounted
- B. The new bond prices fall
- C. The new issue is finished
- D. The interest rate declines

Answer: A

Question: 185

Banks should develop policies related to ALM, including specific guidelines regarding risk/reward tradeoffs. The goal is to manage risks while achieving acceptable returns on investments. In developing these policies bank officials analyze:

- A. Cash flows
- B. Liabilities
- C. Cash flows and liabilities by reviewing historical reports, ratio reports, balance sheet, the income statement, liquidity reports and other available information
- D. Liabilities by reviewing historical reports, ratio reports, balance sheet, the income statement, liquidity reports and other available information

Answer: C

Question: 186

Most municipal and corporate bonds are rated by an independent rating firm such as Standard & Poor's (S&P) or Moody's. These ratings provide investors with information regarding the risk of default on the bond issue. The higher rated bonds are considered

- A. Investment grade bonds

- B. Speculative bonds
- C. Junk bonds
- D. Blue chip bonds

Answer: A

Question: 187

Auditors should be aware that the investment objectives of a mutual fund are usually based on a risk profile outlined in the fund prospectus. For example, aggressive growth funds may invest in highly volatile stock issues and a money market fund may invest in low-risk money market instruments. Other funds have investment objectives based on the type or location of companies they invest in, such as:

- A. Funds that invest only in non-profit organizations
- B. Funds that invest only in environmentally conscious companies
- C. Funds that invest only in U.S. government organizations
- D. None of these

Answer: B

Question: 188

Risks related to assets/liability management that auditors should be aware of include all of the following EXCEPT:

- A. Deficient information processing, accounting, reconciliation, and reporting systems in relation to transaction volume and complexity
- B. Failure to effectively manage third-party vendors
- C. Failure to use legal counsel effectively
- D. Deficiencies in the integration of purchase-oriented businesses with the responsibilities associated with fiduciary relationships

Answer: D

Question: 189

The management of index funds is _____ than the management of non-index funds, because an index fund manager only needs to track a relatively fixed index of securities.

- A. More "Passive"
- B. More "Active"
- C. Less "Passive"
- D. Relatively less "Active"

Answer: A

Question: 190

A mutual fund that invested primarily in utility companies and bonds would be an example for an income mutual fund.

Which of the following risk/s is/are NOT associated with bond funds?

- A. Credit risk
- B. Prepayment risk
- C. Liquidity risk
- D. Interest rate risk

Answer: C

Question: 191

are a type of mutual funds that is required by law to invest in highly liquid and low-risk securities such as certificates of deposits or government securities. These funds pay dividends that generally reflect short-term interest rates and are not federally insured. Due to low-risk nature of the investments, these funds rarely lose money.

- A. Money market funds
- B. Trust funds
- C. Collateral funds
- D. Index funds

Answer: A

Question: 192

This agreement occurs when a security is sold with an agreement to buy it back. The repurchase date is usually very short term, often one day. Dealers sell a portion of their securities to entities with cash reserves and agree to buy them back for the principal plus interest. What is this?

- A. Certificate of deposit
- B. Commercial Paper
- C. Money market fund
- D. Repurchase agreement

Answer: D

Question: 193

The fund prospectus is the document that provides a general overview and description of the fund. The intent is to provide a potential investor with enough information to make a sound financial decision. The following information is generally placed in a prospectus EXCEPT:

- A. General description of the fund
- B. Condensed financial information (including annual rate of return and fees)
- C. All the management staff
- D. How to purchase and redeem shares

Answer: C

Question: 194

Auditors testing mutual funds transactions will typically focus on whether customer purchases and redemptions are accounted properly. In cases where brokers are used to maintain customer accounts, auditors may need to confirm:

- A. The number of shares held by the broker
- B. The number of shares held by the dealer
- C. The number of shares held by the shareholder itself
- D. The number of shares held by the mutual fund

Answer: A

Question: 195

Employee benefits are generally considered non-wage compensations designed to enhance any employee's salary compensation. However, it should be noted that payroll is one of the largest operating expense in many banks. Losses can occur if a bank does not have adequate controls over this function. The largest risk/s bank face in this function is/are:

- A. Making salary payments to employees no longer on the payroll
- B. Paying employees for unearned overtime, sick time, or vacation time
- C. Entering improper or unauthorized salary
- D. All of these

Answer: D

Question: 196

All members of a group insurance plan (group insureds) are covered under a single contract, known as a master group insurance contract. The employer or entity purchasing the group insurance is known as group policyholder. In , group insureds do not pay any premium for the coverage.

- A. Noncontributory plan
- B. Contributory plan
- C. Life insurance
- D. Preexisting provision condition

Answer: A

Question: 197

Group insurance policies typically include a preexisting condition provision that excludes:

- A. Coverage for conditions that the individual received treatment for during specified period prior to the effective date of coverage

- B. Provisions to prevent individuals covered under more than one plan from receiving enefits greater than the expense incurred
- C. Provisions to prevent mutual fund covered under more than one plan from receiving enefits greater than the expense incurred
- D. Coverage for conditions that the individual received treatment for after specified period rior to the effective date of coverage

Answer: A

Question: 198

Most of the group health policies contain a _____ to prevent individuals covered under more than one plan from receiving benefits greater than the expense incurred.

- A. Coordination of benefits provisions
- B. Preexisting condition provision
- C. Consumer-driven health
- D. Renewable term provision

Answer: A

Question: 199

Many group disability income policies contain a physical examination provision that requires a doctor to examine a claimant before the claim is paid. The insurer may also require the claimant to undergo periodic examinations to verify:

- A. That the disability still exists
- B. That the correct amount was paid
- C. That the claim is properly satisfied
- D. None of these

Answer: A

Question: 200

_____ is a type of insurance that employers provide for employees. Injured employees must file with the agency that administrates it in their state and notify their employer. It pays: Medical expenses for employees and rehabilitation benefits for employees who become disables through work Death benefits for survivors of employees who die because of an occupational injury or disease

- A. Dental insurance
- B. Presumptive disability provision
- C. Consumer-driven health plan
- D. Worker's compensation

Answer: D

Question: 201

Securities lending refers to the practice of temporarily transferring securities to a borrower with the intent that the lender will buy them back at a future date. The borrower is required to return the securities to the lender, either on demand or at a specified time. A major reason for securities lending is:

- A. To circulate the issued capital
- B. To facilitate short sale
- C. To facilitate over the counter trade
- D. To fasten secondary market trading

Answer: B

Question: 202

Auditors should be aware of the following control and monitoring activities typically associated with securities lending EXCEPT:

- A. Reviewing counterparties for credit worthiness and obtaining master trade agreements and credit approval for counterparties before entering into stock-loan or stock-borrow transaction
- B. Establishing transaction limits by counterparty
- C. Obtaining physical possession or control of all collateral
- D. Establishing position and credit limits by counterparty

Answer: D

Question: 203

Which of the following activity/ies should be considered by the auditors whenever reviewing situations where broker-dealer finance proprietary or customer activity through collateralized bank loans?

- A. Ensuring that customer, noncustomer, and firm bank loans are separately maintained and that procedures are in place to prevent commingling of collateral
- B. Maintaining separate accounts in the general ledger for the securities collateralizing each loan
- C. Obtaining collateral from the counterparty
- D. Reconciling the repurchase and reverse repurchase subsidiary ledgers to the stock record and general ledger daily. Out-of-balances are recorded as suspense items and researched immediately

Answer: A & B

Question: 204

Reviewing counterparties for creditworthiness and obtaining master trade agreements and credit approval for counterparties before entering into a repurchase or reverse repurchase agreement
Obtaining collateral from the counterparty
Marking to market all collateral daily; if a deficit (within

established guidelines) exists, additional collateral may be obtained from the counterparty Reconciling the repurchase and reverse repurchase subsidiary ledgers to the stock record and general ledger daily. Out-of-balances are recorded as suspense items and researched immediately These are **actually**:

- A. Control and monitoring activities related to purchase and reverse purchase agreement
- B. Review activities where broker-dealer –dealers finance proprietary or customer activity through collateralized bank
- C. Auditors should be aware of the following control and monitoring activities typically associated with securities lending
- D. None of these

Answer: A

Question: 205

“A valid contract involves each party giving something of value. This exchange of value, or consideration, may take the form of money, action, or promise. For insurance contracts, the insured’s consideration is the payment of premiums and a promise to fulfill the conditions of the contracts, and the insurer’s consideration is the promise to pay after a loss occurs.” This is related to an element in an insurance policy contract. It is known as:

- A. Agreement
- B. Consideration
- C. Competent parties
- D. Legal purpose

Answer: B

Question: 206

Insurance is a method of transferring, for a fee, the financing responsibility for the risk to another party. Insurance policies are legal contracts. There are four elements that constitute a legal, binding contract. Which of the following is NOT out of those elements?

- A. Agreement
- B. Periodic review
- C. Competent parties
- D. Legal purpose

Answer: B

Question: 207

It is a characteristic of insurance policy according to which the insured decides whether or not to pay the premium to be covered by the policy. If the insured pays the premium, the insurance company is

obliged to make payments as stated in the policy. What is it?

- A. Unilateral

- B. Bilateral
- C. Incontestable
- D. Adhesion

Answer: A

Question: 208

Insurance contracts are also considered in that they are legal documents that required the insurer to pay if covered events occur. Because the insurance company creates the contract, it is liable if there are any ambiguities in the contract language.

- A. Contracts of adhesion
- B. Bilateral
- C. Unilateral
- D. Incontestable

Answer: A

Question: 209

Insurance companies assist individuals in managing personal risk through risk pooling. Risk pooling is based on fact that the probability of any one type of loss occurring for a given individual is small. Therefore insurers can insure:

- A. A large number of people against a given peril, based on the knowledge that only a small percentage of those insured will ever file a claim for the particular peril
- B. Only few people against a given peril, based on the knowledge that only a small percentage of those insured will ever file a claim for the particular peril
- C. A large number of people against a given peril, based on the knowledge that a large percentage of those insured will ever file a claim for the particular peril
- D. None of these

Answer: A

Question: 210

Whole life policies accrue a cash value that the insurer must surrender to the policyholder if the policy does not remain in force until the policyholder's death. The actual cash value payable to the policyholder in this circumstance would be:

- A. Plus any surrender charges
- B. Less any surrender charges
- C. Plus policy repayments outstanding
- D. Less any surrender charges and policy repayments outstanding

Answer: D

Question: 211

Whole life policies offer lifetime coverage at a level premium rate that does not increase as the insured ages. Whole life policies are classified in all of the below mentioned categories EXCEPT :

- A. Continuous premium policies
- B. Limited payment policies
- C. Decreasing life policies
- D. Single premium policies

Answer: C

Question: 212

insures two lives under one policy. Death benefits are paid to the surviving insured. The surviving insured usually has the option of purchasing an individual whole life policy of the same face amount without providing evidence of insurability.

- A. Joint whole life policies
- B. First-to-die policies
- C. Modified premium whole life policies
- D. A & B are one and the same category

Answer: D

Question: 213

These policies provide a death benefit when the insured dies during a specified period. The term of this type of policy is usually not less than one year, but may be up to 40 years or more. It provides only temporary protection because coverage ends at the end of the term of coverage stated in the policy. What are these?

- A. Term life insurance policies
- B. Level term insurance policies
- C. Decreasing term life insurance policies
- D. Whole life insurance policies

Answer: A

Question: 214

For example, \$50,000 five-year policy might decrease to \$40,000 in benefits payable the second year, to \$30,000 the third year, to \$20,000 the fourth year, and to \$10,000 in the final year. This is an example of:

- A. Level term insurance policies
- B. Decreasing term life insurance policies

- C. Modified premium whole life policies
- D. First-to-die policies

Answer: B

Question: 215

Universal life policies are a form of permanent life insurance that has flexible premiums, flexible face amounts, and separate pricing for the three major pricing categories. Which of the following is/are out of those categories?

- A. Mortality charges based on the insurer's risk classification
- B. Interest rate paid on the cash value
- C. Expenses associated with administering the policy
- D. All of these

Answer: D

Question: 216

Purchasers of universal life policies specify the policy's face amount and whether the death benefit will be level or vary as the policy's cash value changes. Under level death benefit policies the death benefit payable:

- A. Equals the policy's face amount
- B. More than the policy's face amount
- C. Less than the policy's face amount
- D. Is policy's face value plus any accumulated cash value

Answer: A

Question: 217

insurance provides a specified benefit amount in either of the following cases: If the insured survives to the maturity date of the policy is reached.

If the insured dies before the maturity date of the policy is reached.

- A. General life insurance
- B. Whole life insurance
- C. Endowment insurance
- D. Term life insurance

Answer: C

Question: 218

General liability insurance covers the major liability exposure of a business, including lawsuits against an organization's facilities or products. General liability insurance does not cover:

- A. Liabilities that a business incurs through the use of its automobiles
- B. Liabilities that a business incurs through the use of its labor and machinery
- C. Liabilities that a business incurs through the use of its land and other capital products
- D. All of these

Answer: A

Question: 219

_____ pays damaged insured by the injured and the insured's passenger when injured in an auto accident caused by a motorist without liability insurance. The coverage also covers accidents caused by hit-and-run drivers.

- A. Uninsured motorist coverage
- B. Auto coverage
- C. Medical coverage
- D. Liability coverage

Answer: A

Question: 220

Homeowner policies combine property and casualty coverage into the same policy (known as multiline policies). Homeowner policies provide four types of property coverage. All of the following are out of those EXCEPT:

- A. Dwelling
- B. Personal property
- C. Loss of use
- D. Medical coverage

Answer: D

Question: 221

It provides additional living expenses when the home is unlivable, so home owners can continue to live comfortably. While the home is made livable, the homeowner policy will pay for items such as _____, rented rooms at a hotel, restaurant meals, and laundry expenses. What is it?

- A. Dwelling
- B. Personal property
- C. Loss of use
- D. Medical coverage

Answer: C

Question: 222

Personal liability covers claims for bodily injury or property damage caused by the insured. And, Medical payment provides a low level of medical payment to help avoid legal action between the insured and the injured part, regardless of whether or not the insured is legally liable for the incident. These are two major types of liability coverage provided by:

- A. Homeowner policies
- B. Term insurances
- C. Auto coverage policies
- D. Casualty insurance policies

Answer: A

Question: 223

Foreign currency futures contracts may be legitimately traded either on a recognized futures exchange or in the $_$ which generally involves trading between large institutions such as banks and corporations.

- A. Secondary security market
- B. Interbank market
- C. Over the counter market
- D. Dealers market

Answer: B

Question: 224

These occur when two parties trade currencies at a mutually agreed upon exchange rate. One trader calls another trader asking for the price of a particular currency, and the second trader quotes both buying and selling prices for that currency. What are these?

- A. Spot transitions
- B. Forward transitions
- C. Backward transitions
- D. None of these

Answer: A

Question: 225

Audits of foreign exchange transactions may include of the following objectives and tasks EXCEPT:

- A. Determine whether internal controls over the authorization of transaction are adequate
- B. Determine whether the valuation of transactions is properly calculated

- C. Determine whether net assets, dividends, interest, and taxes are properly calculated and recorded
- D. Determine that transactions are properly recorded on cash flow statement

Answer: D

Question: 226

Asset/liability management is a planning tool designed to maximize earnings. ALM tries to create optimal risk/reward decisions and focuses on creating prices that achieve a desired spread. A sound ALM policy must manage many types of risks such as:

- A. Credit risk
- B. Liquidity risk
- C. Capital risk
- D. All of these

Answer: D

Question: 227

The tax implications are to be considered in case of life insurance. As, you can take out in chunks to supplement the income, and minimize tax burden, while keeping the majority still under the tax deferred status (Not to mention the benefit of Roth IRA). So, the end result of what you have is for disposable income is once again better with the:

- A. 401K
- B. Whole life Insurance
- C. Term life Insurance
- D. None of these

Answer: A

Question: 228

Main areas within financial services are:

- A. Banking
- B. Stock Exchange
- C. Operations
- D. All of these

Answer: B

Question: 229

Which one of the following Factors does NOT ensure the financial health and security of the organization?

- A. Asset management and protection
- B. Capital allocation management
- C. Financial risk analysis and management
- D. None of these

Answer: D

Question: 230

The companies strive to improve customer acquisition, services and retention through the use of following methods EXCEPT:

- A. Market Analysis
- B. Customer relationship management
- C. One-to-one marketing
- D. None of these

Answer: C

Question: 231

Sarbanes Oxley and bases are:

- A. Financial service institutes
- B. Customer agencies
- C. Fraud detecting companies
- D. Regulatory reporting requirements

Answer: D

Question: 232

Financial services organizations are challenged to provide responsible fiduciary management while:

- A. Increasing profitability and competitive differentiations
- B. Balancing profitability and competitive differentiations
- C. Decreasing risk and fraud activities
- D. All of these

Answer: A

Question: 233

All of the following are financial instrument EXCEPT:

- A. Prepaid capital
- B. Debt securities
- C. Equity securities

D. Insurance policies

Answer: A

Question: 234

The term umbrella market segmentation is referred to:

- A. Financial services
- B. Insurance companies
- C. Banks
- D. Brokerage Houses

Answer: A

Question: 235

Some of the countries that do not permit companies to use IAS without a reconciliation to domestic generally accepted accounting principals are all EXCEPT:

- A. US (United States), Canada
- B. Japan
- C. Hong Kong
- D. None of these

Answer: D

Question: 236

Basel II aims to improve the security and long-term viability of the financial system by focusing on bank's

- A. Internal control System
- B. Supervisory discipline
- C. Marketing discipline
- D. None of these

Answer: D

Question: 237

The enterprise- wide risk management approach focuses both on familiar financial risks and harder to measure—though equally important:

- A. Strategic, business level and reputational risks
- B. Strategic, operational and reputational risks
- C. Strategic, business level and operational level risks

D. None of these

Answer: B

Question: 238

New Zealand's major trading partners are in the process of adopting or have already adopted, the international's accounting standards this includes all EXCEPT:

- A. Australia and Singapore
- B. Hong Kong and European Union
- C. United State, Canada and Japan
- D. None of these

Answer: C

Question: 239

The accounting standards in the United State are:

- A. Generally accepted accounting principles
- B. U.S. Generally accepted accounting principles
- C. IFRS Standards
- D. None of these

Answer: B

Question: 240

The EU saving Directive is aimed at effective taxation of saving income in the form of:

- A. Interest payments
- B. Inflation
- C. Both of these
- D. None of these

Answer: A

Question: 241

Following are the EU Saving Directives paying agents EXCEPT:

- A. Banks and deposit takers
- B. Brokers, Registrars and investment funds
- C. Castilians and transfer agent
- D. All of these

Answer: D

Question: 242

EFRAG is the abbreviation of:

- A. European Federation Reporting Advisory group
- B. European Financial Reporting Advisory group
- C. European Financial and Replacement Advisory group
- D. European Financial Reporting Administration group

Answer: B

Question: 243

The risks associated with operating objectives include all of the following EXCEPT:

- A. Customer requirements
- B. Technology
- C. Competitor
- D. Financial institute

Answer: D

Question: 244

Risks associated with compliance with laws and regulations may actually impact in . Choose the correct set.

- A. Positively, agencies, long term
- B. negatively, goals, short term
- C. negatively, institutions, short term
- D. None of these

Answer: B

Question: 245

Risk assessment may be:

- A. Quantitative only
- B. Qualitative only
- C. Both A&B
- D. Qualitative in general and quantitative in specific

Answer: C

Question: 246

An intelligent risks management platform approaches risk from the:

- A. Higher level
- B. Moderate level
- C. Low/ operational level
- D. Both A and B as it depends

Answer: A

Question: 247

All the statements mentioned below are clear and compelling business benefits of a strategic approach to enterprise-wide risk intelligence; EXCEPT:

- A. Remove disputes about whose information is "correct"
- B. Improves cross-function, enterprise level analysis.
- C. Provides a reusable enterprise intelligence platform, able to address new needs
- D. None of these

Answer: D

Question: 248

Basel Accord II's addition to key factors that an organization encounters is:

- A. Credit Risk
- B. Market Risk
- C. Operational Risk
- D. Liquidity Risk

Answer: C

Question: 249

Asset Management is the term usually given to describe companies that run mutual Funds. The largest are those who provide:

- A. Passive Funds
- B. ETF (Exchange traded funds)
- C. Index Funds
- D. All of the above

Answer: D

Question: 250

The most common index funds tries to tracks the S&P 500 by purchasing all 500 stocks using the same percentage as the index. Other indices that mutual funds try to copy include all of the following EXCEPT:

- A. Russell 2000
- B. Wilshire 5000
- C. MCSI-EAFE
- D. None of these

Answer: D

Question: 251

The primary mechanism for estimating potential losses is mathematical methodology, value at risk ("VaR") which estimates the exposure to market risk:

- A. Within a given level of risk, over a defined time period
- B. Within a given financial arrange over a specified level of risk
- C. Within an unlimited time period over a specified level of risk
- D. None of these

Answer: A

Question: 252

Known limitations of VaR methodology include the fact that changes in market may not tend to normal distribution (specifically, that very large movements are more likely than predicated by the normal distribution assumption); BECAUSE:

- A. Correlation between market movement can vary (especially during periods of stress in the market)
- B. The changes in present values are not perfectly linearly related to changes market rates.
- C. The use of one day horizon does not fully capture the market risk of positions that cannot be liquidated in one day.
- D. All of these

Answer: D

Question: 253

Which one of the following is common misinterpretation during the calculation of VaR

- A. The VaR calculation is based on an assumption that the portfolio is held constant over the time interval in practice are actively managed so that as adverse condition develop actions will be taken to mitigate losses As a result the true probability of a lose as large as that predicted may be much less then Fore cast

- B. The VaR Forecast is based on what has happened in the past. If the future is not like the past, the realized losses may be the larger (or smaller than predicted).
- C. There is a tendency to interpret VaR as the largest loss that has on X percent probability of being exceeded. The largest loss that may occur will not be too much larger than the VaR, while for other portfolios (particularly those including highly levered derivatives), it may be many times greater than the VaR.
- D. All of the above.

Answer: D

Question: 254

Historical simulation and model based approach are the methods to calculate:

- A. Return on investment
- B. Return on Risk
- C. Value at Risk
- D. Value at par

Answer: C

Question: 255

Default risk is an alternate term used for:

- A. Liquidity Risk
- B. Credit Risk
- C. Control Activities Risk
- D. Operational Risk

Answer: B

Question: 256

Which of the following best suits in place of question mark?

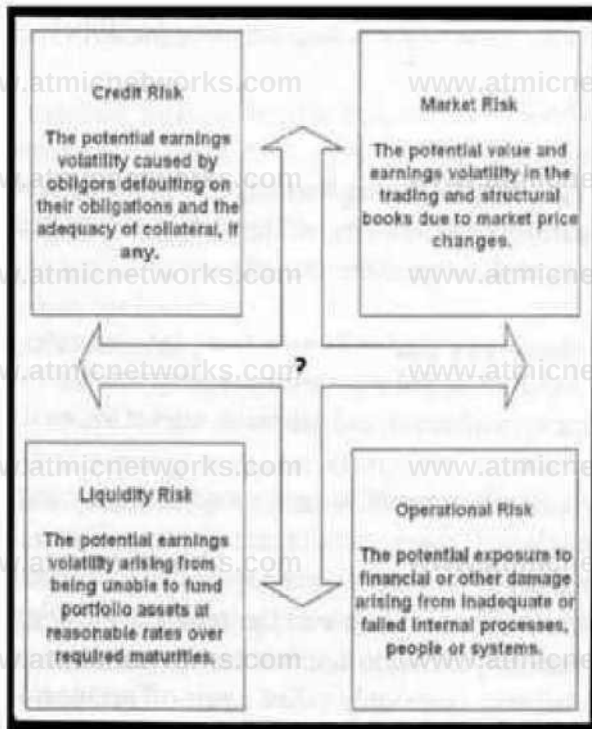


Figure 1.0

- A. Risk spectrum
- B. Risk platform
- C. Risk levels
- D. All of these

Answer: A

Question: 257

Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (____); from changing rate relationships among different yield curves affecting bank activities (____); from changing rate relationship across the spectrum of maturities (____); and from internet-related options embedded in bank products (____).

Choose the appropriate set.

- A. Repricing risk, basic risk, yield curve risk and option risk
- B. Basic risk, yield curve risk, option risk and Repricing risk
- C. Repricing risk option risk, yield curve risk, and basic risk
- D. Basic risk, yield curve risk, option risk and repurchasing risk

Answer: A

Question: 258

In a price risk situation if customers withdraw their applications a bank may be unable to originate enough loans to meet its forward sales commitments .Because of this kind of “Fallout” a bank may have to purchase additional loans in the secondary market at prices higher than anticipated. Alternatively, a bank may choose to liquidate its commitment to sell and deliver mortgages by paying a fee to the counterparty commonly called a _____.

- A. Settlement
- B. Pair-off arrangement
- C. End of loan settlement
- D. None of these

Answer: B

Question: 259

Compliance risk can lead to all of the following situations EXCEPT:

- A. Diminished reputation
- B. Reduced franchise value
- C. limited business opportunities
- D. None of these

Answer: D

Question: 260

Selectively increasing the price of a mortgages loan above the bank’s established rate to certain customers (“overages”) may have the effect of discriminating against those customers .This practice left undetected and not properly controlled may raise the possibility of:

- A. Reputation risk
- B. Price risk
- C. litigation or regulatory action (compliance Risk)
- D. Strategic Risk

Answer: C

Question: 261

Strategic Risk if not properly controlled, understood or measured may result in:

- A. High Earnings volatility
- B. Significant capital pressures
- C. Withdrawal of loan portfolios by the customers

D. Only A&B

Answer: D

Question: 262

To limit strategic risk management should ensure proper balance between the:

- A. Mortgage company's willingness to accept risk and its supporting resources and control
- B. Internal operations and possibility of litigation
- C. Managerial capacities and capabilities and delivery networks
- D. All of these

Answer: A

Question: 263

In order to avoid reputation risk; e.g. a bank that originates and sells loans into the secondary market should follow to protect its reputation in the market to support future loan sales.

- A. Proper communication channels
- B. Effective underwriting and documentation standards
- C. Regulatory requirements
- D. Disclosure requirements

Answer: B

Question: 264

When a bank charges off a loan as a loss, it reduces an account called the"

- A. Lease payable
- B. Lease Expense
- C. Allowance of loans and lease losses
- D. Prepaid loans and lease

Answer: C

Question: 265

Under the principles of bank accounting, loans reported as non-performing have not yet been charged off as

- A. Income
- B. Expense
- C. Losses
- D. prepaid

Answer: C

Question: 266

Hospitals document reserves as that portion of the accounts receivables that they hope to collect but have some doubt about its collectability. Rather than book these amounts as income, hospitals will “ ” These amounts until paid.

- A. Bad debts
- B. Reserve
- C. Income expense
- D. All (Allowance for loans and lease losses)

Answer: B

Question: 267

To the extent that the hedged relationship ceases to be effective, the hedging instrument's gains/losses should be transferred from the reserve and recognized in:

- A. Assets
- B. Receivables
- C. Income
- D. Expense

Answer: A

Question: 268

The process of purchasing all or any part of a new issue of municipal securities from the issuer and offering such securities for sale to investors is called:

- A. Underwriting
- B. Asset revaluation reserve
- C. Hedging
- D. None of These

Answer: A

Question: 269

For refinancing home and mortgage loans for example, the underwriter may request additional documentation such as:

- A. Savings/source of money for down payment
- B. Appraisal
- C. Credit History
- D. Only A&B

Answer: D

Question: 270

Once the underwriter has reviewed all of the file documentation provided, he or she will be issued a written decision .The decision may be one of the following:

- A. Approved
- B. Suspended
- C. Denied
- D. Any one of these

Answer: D

Question: 271

“A negotiated offering in which a new issue of municipal securities is sold on an agency basis by a placement agent directly to institutional or private investors rather than through an offering to the general investing public” is referred as:

- A. Public offering
- B. Private placement
- C. over the counter trade
- D. None of these

Answer: B

Question: 272

Regulation D, an SEC rule governing the limited offer and sale of securities without registration under the securities Act of 1933, regulates private placement exemptions. Regulation D supports all of the following EXCEPT:

- A. Allows for the issuance and sale of securities to purchasers, if they qualify as accredited investors
- B. Offerings are advantageous to any private company or entrepreneur because they allow an entity to obtain funding faster and to avoid the costs associated with a public offering
- C. Allows usually smaller companies to raise capital through the sale of equity or debt securities without having to register their securities with SEC.
- D. None of these

Answer: D

Question: 273

Underwriting decisions are more influenced by what underwriters think they can sell to the public than .

- A. Quality of the company
- B. Judgment in picking the IPO
- C. Estimated profit/gains

D. Both A&C

Answer: A

Question: 274

The term used to describe the process of raising funds through the sale of securities is called:

- A. D. Securitizations
- B. C. Securitizations
- C. Securitizations and sales
- D. Subprime loans

Answer: B

Question: 275

Recent turmoil in the financial markets illustrate the volatility of the secondary market for subprime loans and the significant liquidity risk incurred when originating a large volume of loans intended for:

- A. IPO
- B. Securitization and sale
- C. Loans
- D. All of these

Answer: B

Question: 276

If a securitization transaction meets FAS 125 sale or servicing criteria, the seller must recognize any gain or loss on the sale of the pool immediately and carry any retained interests in the assets sold (including servicing rights/obligation and interest-only strips) at .

- A. Principal value
- B. Fair value
- C. Premium Amount
- D. Both A&C

Answer: B

Question: 277

_____ includes provision provided by issuers to reduce risk in CMBS in a securitized process.

- A. Structuring
- B. Underwriting
- C. Credit Enhancement

D. Collateral pool

Answer: C

Question: 278

A special servicer is the servicer who assumes servicing responsibilities when a loan goes into default and conducts the work-out "or foreclosure process. There are various scenarios typical for determining special servicers; as mentioned below, EXCEPT:

- A. Those seller/issuers retaining the first-loss piece
- B. Those investing in "B" pieces in return for special services rights.
- C. Those appointed solely because of risk-management expertise.
- D. None of these

Answer: C

Question: 279

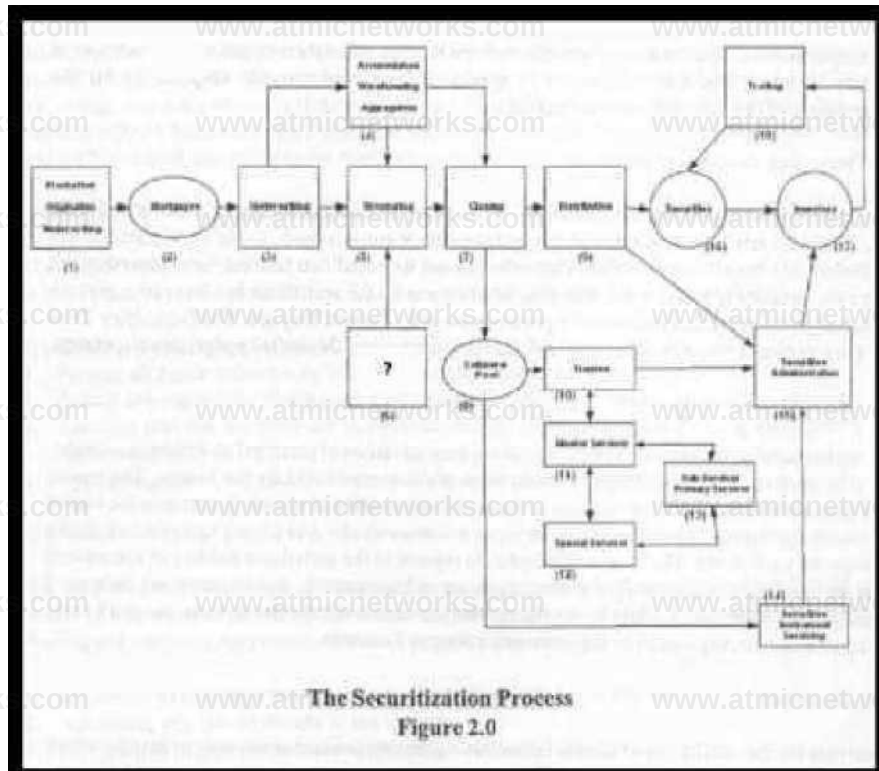
Most certificates are held by the depository trust company as custodians for the trustee for the benefit of the certificate holders, and the notice of book entry is made to the certificate holders simultaneously with the distribution. The actual certificates, but instead only possess a record of

- A. Where they are?
- B. What they have?
- C. When they purchased?
- D. All of these

Answer: A

Question: 280

Which of the following should be the next step after the structuring process in order to complete the securitization process?



- A. Credit management
B. Credit operations
C. Credit Enhancement
D. Credit deployment

Answer: C

Question: 281

Some organizations will strive to simply with the law; others will use the Act as an opportunity to further promote treasury best practices. Specific areas of opportunity include all of the following EXCEPT:

- A. Identifying control points/issues and improving control processes
- B. Improving financial reporting and support processes
- C. Strengthening global governance activities
- D. None of these

Answer: D

Question: 282

Initially, back-office operation were created as captives of parent companies and treated as cost centers from cost centers to profit centers due to:

- A. The emergence of third-party back-office facilities making it possible for corporation to avail of their services
- B. Corporation are increasingly converting captive back-office operations into profit centers by accepting external clients
- C. Stagnant position of service activities being outsourced.
- D. Both A&B

Answer: D

Question: 283

Back-office operations are _____ as offshore operations which establish business entities in tax-free export zones or offshore centers.

- A. Almost same
- B. Same
- C. Not the same
- D. None of these

Answer: C

Question: 284

- I- Loan Processing
- II- Claims Processing
- III- Applying
- IV- Credit and Collection
- V- Reconciliations
- VI- Account Payments
- VIII- Time and Expense Reimbursement
- IX- Vendor Payments
- X- Payroll

These all are the services included in

- A. Back office operations
- B. Offshore Operations
- C. Tax-free export zones
- D. None of these

Answer: A

Question: 285

Agents that represent one company exclusively are called:

- A. Independent Agents
- B. Captive Agents
- C. Exclusive Agents
- D. Detached Agents

Answer: B, C

Question: 286

Examples of illegal sales practices may be:

- A. Misrepresentation occurs when agents make false or misleading statements in an attempt to encourage an individual to buy a policy. Agents are also forbidden from guaranteeing policy dividends.
- B. Twisting occurs when an agent purposefully misguides an individual into canceling one policy and purchasing a new one
- C. Rebating occurs when an agent agrees to give an individual a share of the commission as an incentive to buy a policy
- D. All of these

Answer: D

Question: 287

Commonly used distribution system/s in the insurance industry is/are:

- A. Personal selling distribution system and the direct response distribution
- B. Ordinary agency system
- C. Career agency system
- D. All of these whereas B and C are the same

Answer: A

Question: 288

Which one of the following questions is NOT considered when claims department review the claims?

- A. Did a loss occur?
- B. Was the loss covered by the policy?
- C. Who are not the beneficiaries?
- D. How much is payable to the insured or beneficiaries?

Answer: C

Question: 289

_____ agency system uses agents who sell the policies of a group of affiliated companies.

- A. Multiple-line (or all lines) agency system
- B. Personal selling distribution system
- C. Career agency system
- D. None of these

Answer: A

Question: 290

Insurance companies decide on a _____ whether an investigation is necessary

- A. Claims review basis
- B. Case-by-Case basis
- C. Claim investigation basis
- D. All of these

Answer: B

Question: 291

Insurance products yield _____ compared to regular investment option and this is besides the added incentives (read bonuses) offered by insurers.

- A. More
- B. Less
- C. Almost the same
- D. It depends

Answer: A

Question: 292

Insurance policies are good for insurance needs, however, as a main investment vehicles, they have considerable downsides.

- A. A majority of a premium payments is "part of commission" a small percent of your money goes towards the investment avenue.
- B. The guaranteed cash value, or accumulation value of your investment is normally such a low percentage, typically one to three percent.
- C. You would be much better off using a traditional investment vehicle than an insurance policy as an investment
- D. Only A & B

Answer: D

Question: 293

In effect to protect customers from unsubstantiated or undocumented losses. NASD has some specific rules. The rules include:

- A. Registered representatives are prohibited from guaranteeing a customer's account against loss or from sharing in the losses or gains in an account.

- B. Private transactions conducted outside the firm are prohibited.
- C. If a firm's stock is publicly traded, employees of the firm may not recommend nor solicit purchases of the firm's stock. However, unsolicited purchases are acceptable.
- D. All of These.

Answer: D

Question: 294

Federal Reserve's duties fall into following general areas EXCEPT:

- A. Conducting the nation's monetary policy
- B. Supervising and regulating banking institutions and protecting the credit right of consumer
- C. Maintaining the stability of the financial system
- D. None of these

Answer: D

Question: 295

The federal open market committee (FOMC) board sets reserve requirements and shares the responsibility with the reserve banks for:

- A. Interest rate policy
- B. Premium policy
- C. Discount rate policy
- D. All of these

Answer: C

Question: 296

An area of FOMC board responsibilities is the development and administration of regulation that implement major federal laws governing consumer credit, such as:

- A. Truth bending Act and the equal credit opportunity Act
- B. Home Mortgage disclosure Act and truth savings ACT
- C. Sunshine Act
- D. Only A & b

Answer: D

Question: 297

The Federal Reserve System interacts with foreign central banks include:

- A. Bank of International Settlements (BIS) and European Central Bank (ECB)
- B. Bank of Investment Settlements (BIS) and European Countries Bank (ECB)
- C. Only Bank of International Settlements (BIS)
- D. None of these

Answer: A

Question: 298

The European Central Bank is the central bank for the Europe's single currency, the EURO. The ECB's main task is to maintain the EURO's:

- A. Distribution and stability in the EURO area
- B. Purchasing power and thus price stability in the EURO area
- C. Purchasing power and thus price downfalls in the EURO area
- D. None of these

Answer: B

Question: 299

How many member states of the European Union are participating in the single Euro Currency?

- A. Ten
- B. Eight
- C. Twelve
- D. Fourteen

Answer: C

Question: 300

The second largest economic area in the world is:

- A. United States
- B. Euro Area
- C. Japan
- D. Gulf Region

Answer: B

Question: 301

The primary objective/s of ECB is/are:

- A. To maintain price stability
- B. To support the general economic policies in the community with a view to contributing to the achievement of the objectives of the community
- C. To achieve a high level of employment and sustainable and non-inflationary growth
- D. None of these

Answer: A

Question: 302

ECB performs all these tasks EXCEPT:

- A. Defining and implementing monetary policy for the euro area
- B. Conducting Foreign Exchange operations
- C. Making the Euro area's insurance rules and regulations
- D. Promoting the smooth operations of payment system

Answer: C

Question: 303

Insurance industry is regulated by:

- A. State Governments
- B. Federal Government
- C. Non-Government
- D. All of these

Answer: D

Question: 304

The primary component of the McCarran-Ferguson Act is/are:

- A. To allow states to retain the right to regulate the insurance industry
- B. To allow the federal government to assume regulation of the insurance industry if Congress feels that the state regulation is inadequate or does not serve the public interest
- C. Both of these
- D. None of these

Answer: C

Question: 305

Which of the following is/ are the responsibility /ies of state insurance commission:

- A. Making the State's insurance rules and regulations

- B. Authorizing companies to operate in the state through the issuance rules and regulations
- C. Authorizing companies to operate in the state through the issuance of licenses and certificates of authority
- D. Both of these
- E. None of these

Answer: C

Question: 306

Issuance of licenses to insurance agents is one of the responsibilities of:

- A. European Central bank (ECB)
- B. National Association of Insurance Commissioners
- C. Insurance Commission
- D. Securities and Exchange Commission

Answer: D

Question: 307

The mission of the NAIC is to assist State Insurance regulators, individually and collectively, in serving the public interest and achieving all the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members EXCEPT:

- A. Protect the public interest
- B. Promote competitive markets
- C. Support and improve State regulation of insurance
- D. None of these

Answer: D

Question: 308

A major function of NAIC is to encourage _____ among state insurance departments through the development of model bills and regulations.

- A. Consistency
- B. Uniformity
- C. Regularity
- D. All of these

Answer: B

Question: 309

Which one of the following statements elaborates some insurance products that fall under the regulatory authority of SEC?

- A. Investment based insurance products
- B. Agents selling investment based insurance products
- C. Term insurance products
- D. Only A&B

Answer: D

Question: 310

Some specific requirement of securities Exchange Act of 1934 are all of the following EXCEPT:

- A. Credit Regulations
- B. Manipulation and Deception
- C. Insider rules
- D. Articles of incorporation

Answer: D

Question: 311

Insiders are generally barred from:

- A. Short-Selling
- B. Hedging
- C. OTC
- D. None of these

Answer: A

Question: 312

Which of the following type/s of company/ies is/are defined by Investment company act?

- A. Face amount certificate companies
- B. Unit investment trust companies
- C. Blue chip companies
- D. All of these

Answer: B

Question: 313

Which of the following are typical information system controls that are used to ensure properly authorized transaction?

- I. Online validation routines that check dollar authority limits.
- II. Online user access controls.
- III. Automated balancing and reconciliation routine.
- IV. Edits that validate full completion of data input fields.

- A. I and II only
- B. II and III only
- C. III and IV only
- D. I, II, and IV only

Answer: A

Question: 314

If a corporation has an asset sensitive gap in a rising rate environment, which of the following would be considered an appropriate hedging strategy to prevent a decrease in net interest income?

- A. Take no action
- B. Purchase an interest rate floor
- C. Enter into an interest rate swap to receive fixed and pay floating rate payments
- D. Enter into an interest rate swap to receive floating and pay fixed rate payment

Answer: A

Question: 315

While the SEC review is in progress, the issuer can circulate a preliminary prospectus to determine the interest in issue. The preliminary prospectus must include all of the following EXCEPT.

- A. Statement that the registration is filed but not effective.
- B. Statement that the information is subject to change.
- C. Red-ink it to distinguish it from final prospectus.
- D. All of these

Answer: D

Question: 316

Preliminary prospectuses are often called:

- A. Red hearing
- B. Introductory Notes
- C. Initial Coverage
- D. None of these

Answer: A

Question: 317

Some specific requirements of securities and exchange 1934 Act are:

- A. Registration Requirement
- B. Credit Regulation

- C. Manipulation and Deception
- D. All of these

Answer: D

Question: 318

Which of the following is NOT the requirement of Exempt Securities Act?

- A. Non-Profit groups
- B. Private placement
- C. Fees for underwriter of the issue.
- D. fixed annuity contracts and insurance policies.

Answer: C

Question: 319

In SEC review process, if SEC believes that the registration statement contains false or misleading information or that pertinent information has been omitted, it can suspend the process with _____.

- A. Stop orders
- B. Deficiency letters
- C. Legal notices
- D. Red herring

Answer: A

Question: 320

The SEC has 20 day _____ to review the materials before registration; however, the period is often longer than 20 days as the SEC may request additional information from the issuer.

- A. Review period
- B. Cooling-off period
- C. Transitional phase
- D. All of These

Answer: B

Question: 321

Insider rule/s:

- A. They are not allowed to profit from their information by trading a stock before that information is public.
- B. They are generally barred from short selling.
- C. Must file a personnel statement with SEC and report all personal security transactions in their corporation no later

than 10 days after the end of the calendar month in which they occur.

- D. Both A & C

Answer: D

Question: 322

A firm is trying to acquire another company. This is called _____, and all the participants involved must register with the SEC.

- A. Proxy contest
- B. Merger
- C. Acquisition
- D. Both A & C

Answer: D

Question: 323

Which one of the following is NOT the rule of National Association of Securities Dealers (NASD)?

- A. All correspondence and all transactions must be reviewed and approved by the firm and maintained for three years.
- B. Disciplinary actions regarding employees must be reported to NASD.
- C. Firms do not need to maintain fidelity bond to protect against losses due to theft or misappropriation of securities
- D. None of these.

Answer: C

Question: 324

A financial institution's performance in helping to meet the credit needs of its community is evaluated in context of information about:

- A. Institution (Capacity, Constraints and business strategies)
- B. Institution's community (demographic and economic data, lending, investment and service opportunities)
- C. Competitors and peers
- D. All of these

Answer: D

Question: 325

Which one of the following dominates the banking industry?

- A. Savings Banks

- B. Commercial banks
- C. Credit Unions
- D. Mortgage Bankers

Answer: B

Question: 326

The term "thrift institution" is referred to:

- A. Savings banks
- B. Savings and loan associations
- C. Saving banks and saving loan associations
- D. Mortgage banks

Answer: C

Question: 327

Banks that performs variety of services for other bank, e.g. they make emergency loans to banks that are short of cash and clear cheques that are drawn and paid out by different banks are called:

- A. Community Banks
- B. Regional Banks
- C. Federal Reserve Banks
- D. Credit unions

Answer: C

Question: 328

Deposit in many banks are insured by the _____, which ensure that depositors will get their money back up to a stated limit, if a bank should fail:

- A. Financial Deposit Insurance Corporation
- B. Federal Deposit Insurance Corporation
- C. Federal Deposits and Investment committee
- D. None of these

Answer: B

Question: 329

_____ are future economic benefits controlled by an entity.

- A. Stocks

- B. Assets
- C. Equity
- D. None of these

Answer: B

Question: 330

bank balances are bank assets on deposit in other banks.

- A. "Due from"
- B. "Due to fixed reserves"
- C. "Due from reserves"
- D. Both B & C

Answer: A

Question: 331

The due from bank either credits the due to bank's account or pays the due to bank directly with a

- A. Cheque
- B. Bank draft
- C. EFT (Electronic Funds Transfer)
- D. ATM

Answer: B

Question: 332

Cash and due from other bank accounts that are listed as a caption on the balance sheet include all currency and coin, cash being collected, and account balances with other banks:

- A. Except material interest-bearing accounts which should be disclosed separately
- B. Including material interest bearing accounts, which should be disclosed separately.
- C. Preferably material interest bearing accounts.
- D. None of these

Answer: A

Question: 333

Repos and Reverse repos govern instances such as:

- A. When a bank invests excess funds by buying securities from another bank or securities dealer

- B. When a bank withdraws excess funds by selling securities to another bank
- C. Both A & B
- D. None of these

Answer: A

Question: 334

The types of accounts that bear interest include savings accounts, negotiable orders of withdrawal (NOW) accounts, and certificates of deposit. These interest bearing accounts are known as:

- A. Interest bearing deposits/accounts
- B. Time deposits
- C. Both A & B
- D. Due from balances

Answer: C

Question: 335

Time deposit transactions are recorded in:

- A. Computer-generated ledger sheets and customer pass books
- B. Computer-generated ledger sheets
- C. Repos
- D. Reverse Repos

Answer: A

Question: 336

Trading securities are securities that a bank intends to sell within a short period, usually less than:

- A. Quarter
- B. Two months
- C. One month
- D. Twenty days

Answer: C

Question: 337

It should be an immediate decision:

- A. That securities are for trading or for bank's own investment account
- B. That how to record securities in the financial statements

- C. That marketable securities should be accounted for at current market value
- D. Both of these

Answer: B

Question: 338

Banks should account for trading securities at market value. Any changes in cost should be regarded as a/an:

- A. Realized gain
- B. Unrealized loss
- C. Unrealized gain or loss
- D. none of these

Answer: C

Question: 339

Securities available for resale, by the bank, should be reported at

- A. Principal value
- B. Principal value + interest rate
- C. Fair value
- D. All of these

Answer: C

Question: 340

Bank loans can generally be classified in several ways EXCEPT:

- A. Time loans are made for a specific time period
- B. Demand loans have fixed maturity dates and also may be payable on demand of the lender
- C. Installment loans require periodic principal
- D. Line-of-credit arrangements allow the borrower to borrow up to a maximum limit for a specific period.

Answer: B

Question: 341

Banks often make loans to officers, directors, employees, and principal shareholders. Disclosure of these related-party transactions is required:

- A. If they are material to the loan portfolio
- B. In relation to total stockholder's equity
- C. If they are presented as other liabilities

D. Either A or B

Answer: D

Question: 342

Asset-based financing involves loans that are secured by the borrower's:

- A. Fixed assets
- B. mortgages
- C. Current assets
- D. All of these

Answer: C

Question: 343

allows businesses that sell durable goods such as automobiles to finance inventories. As the business sells goods, the loan advance against those goods is repaid.

- A. Term loans
- B. Short-term working
- C. capital loans
- D. Floor-plan financing

Answer: D

Question: 344

Residential loans are usually secured by all EXCEPT:

- A. Mortgages
- B. Current Assets
- C. Deed of truest
- D. Land contracts

Answer: B

Question: 345

insures the real estate loans of borrowers who qualify for the program.

- A. Federal Housing Administration
 - B. Department of veterans Affairs
 - C. Mortgage Brokers
 - D. None of these
-

Answer: A

Question: 346

Both veteran affairs department and the Federal Housing Administration require an appraisal by a certified or licensed real estate appraiser for transaction valued at

- A. 200,000 or more
- B. 250,000 or more
- C. 225,000 or more
- D. 500,000 or more

Answer: B

Question: 347

Leases allow a customer to use an institution's property for a specified period. Most lease agreements give the lessee the option of purchasing the property:

- A. at principal amount
- B. below fair market value
- C. above fair market value
- D. None of these

Answer: D

Question: 348

A commercial or consumer loan made to foreign branch of a large bank is also considered as:

- A. A Federal Government loan
- B. International loan
- C. Financial insurance loan
- D. Term loan

Answer: B

Question: 349

National banks must sell any real estate within _____ of acquisition if it is not used for banking purpose.

- A. Three years
- B. Fourteen years
- C. Four years
- D. Five years

Answer: D

Question: 350

Letters of credit are also known as:

- A. Allowance for loan losses
- B. Bond indentures
- C. Term certificate
- D. Customer acceptances

Answer: D

Question: 351

Other asset categories are mentioned in:

- A. Audited Balance sheet
- B. Unaudited balance sheet
- C. Balance sheet only when they are material
- D. Other books of account

Answer: C

Question: 352

Checking account may pay interest. Checking accounts that pay interest are referred as a:

- A. Saving deposit
- B. Direct deposit
- C. MMDAS (money market deposit account)
- D. Negotiable order of withdrawal account (NOW)

Answer: D

Question: 353

CDs typically require a minimum deposit of at least
US.

US, and often require at least

- A. \$500, \$10,000
- B. \$1000, \$10,000
- C. \$1000, \$5000
- D. \$500, \$5000

Answer: B

Question: 354

_____ is a tool to transfer qualified investments from one account to another. In order to retain certain special tax treatments, funds may not be co-mingled with other types of assets, including other IRAs.

- A. Rollover IRA
- B. simple IRA
- C. Conduit IRA
- D. SEP IRA

Answer: C

Question: 355

Types of borrowed funds include all EXCEPT:

- A. Rollover funds
- B. Debentures
- C. Discounting or Advancing through counts with a federal bank
- D. Mortgage payable

Answer: A

Question: 356

Notes are debt instruments issued to:

- A. A broker
- B. An agent
- C. A single investor
- D. A single investor managing a portfolio

Answer: C

Question: 357

The "discount on bonds payable" account is _____ when a bond sells at discount. The "premium on bond payable" is _____ when a bond sells at a premium.

- A. Credited, debited
- B. Debited, credited
- C. Accrued, debited
- D. Deferred, debit

Answer: B

Question: 358

_____ is an electronic payment network used by individuals businesses, financial institutions and government organizations. It provide better cash management capabilities and lower costs than traditional paper payments.

- A. EFT (Electronic Funds Transfer)
- B. ACH (Automated cleaning house)
- C. ATM
- D. None of these

Answer: B

Question: 359

Correspondent banks, Credit party, Draw down, Execution date, Remitter, and Repetitive transfer are SOME terminologies related to:

- A. EFT
- B. Bank wire
- C. ACH D. ALL

Answer: B

Question: 360

“An incoming wire transfer with instruction to pay the beneficiary upon presentment of proper identification. The beneficiary usually does not maintain a checking or savings account with the paying financial institution.” This definition refers to:

- A. Receiving Bank
- B. Remitter
- C. PUPID
- D. Repetitive transfer

Answer: C

Question: 361

Banks provide the following personal trust services for individuals EXCEPT:

- A. Trust Development
- B. Serves as Co-fiduciary
- C. Serve as Agent and guardian of Estates
- D. None of these

Answer: D

Question: 362

Which one of the following is an additional duty of trust department?

- A. Dividends Reinvestment Agent
- B. Stock Registrar
- C. Bond Registrar
- D. All of the above

Answer: D

Question: 363

Pension plans that an Employer establishes for retired or disabled employees, regardless of whether an employee contributes, are known as:

- A. Defined benefit plans
- B. Guaranteed Pension benefits
- C. Pre-Pension Schemes
- D. None of the above

Answer: A

Question: 364

Pension Benefit Guarantee Corporation (PBGC) insures "Defined benefit plan", so employees assume for any option they contribute.

- A. Low Investment Risk
- B. High Investment Risk
- C. No Investment Risk
- D. Stable Investment Risk

Answer: C

Question: 365

Banks also serves as "registrar" for stocks and bond issues. The registrar accounts for all shares issued, certificates outstanding, and Certificates cancelled. The role/s of the registrar is/are:

- A. To ensure that the transfer agent does not issue too many shares
- B. That old certificates are properly cancelled
- C. That new certificates are properly issued in the correct numerical sequence
- D. All of these

Answer: D

Question: 366

Securities are divided into five categories. Type I securities are also known as:

- A. Bank eligible securities
- B. Stable obligations
- C. Mortgage related securities
- D. Marketable investment grade securities

Answer: A

Question: 367

Asset/Liability (ALM) is a short and long term planning tool designed to maximize earnings. ALM tries to create optimal risk/reward decisions and focuses on creating prices that achieve spread. A sound

ALM policy must manage following types of risks EXCEPT:

- A. Credit Risk
- B. Control Risk
- C. Liquidity Risk
- D. Capital Risk

Answer: B

Question: 368

There may be instances of massive losses, in case of derivatives, most notably by Δ these have not had repercussions.

- A. Long-Term Capital Management
- B. Short term capital Management
- C. Capital Management
- D. Risk and investment Management

Answer: A

Question: 369

All the activities, mentioned below, cause rise in interest rate EXCEPT:

- A. High inflation
- B. When government borrows money
- C. When government prints money
- D. None of these

Answer: D

Question: 370

The primary regulatory entities of banking industry include:

- A. Federal reserve system
- B. Office of the comptroller of the currency
- C. Federal deposit insurance Cooperation
- D. All of these

Answer: D

Question: 371

Commercial banks create money by:

- A. Making loans
- B. Selling government bonds to the public
- C. Placing reserves at the Federal Reserve Bank.
- D. Repurchasing their stock on the open market.

Answer: A

Question: 372

Which of the following are generally considered to be characteristics of savings deposits?

- I. Interest bearing.
 - II. No stated maturity.
 - III. Penalty for withdrawal.
-
- A. I and II only.
 - B. II and III only.
 - C. II and III only.
 - D. I, II, and III.

Answer: A

Question: 373

Which statement is correct concerning commercial letters of credit?

- A. A letter of credit is not a negotiable instrument, and the contract of sale between the buyer and seller is independent of the letter of credit
- B. A letter of credit is not a negotiable instrument, and the contract of sale between the buyer and seller is dependent of the letter of credit
- C. A letter of credit is a negotiable instrument, and the contract of sale between the buyer and seller is independent of the letter of credit

D. A letter of credit is a negotiable instrument, and the contract of sale between the buyer and seller is dependent on the letter of credit

Answer: B

Question: 374

Which of the following would not generally be a responsibility of an underwriting department?

- A. Helping policy owners with requests for information, interpreting policy language, answering questions regarding policy coverage
- B. Verifying that the mortality/morbidity rates of the company's insurers do not exceed the rates assumed when the premiums were calculated
- C. Considering the applicant's age, weight, physical condition, personal/family history, and other factors to determine the degree of risk
- D. Negotiating and managing reinsurance agreements.

Answer: A

Question: 375

A sound Asset/Liability management policy must manage following risk EXCEPT:

- A. Credit Risk
- B. Capital Risk
- C. Interest-Rate risk
- D. None of these

Answer: D

Question: 376

When one party trades a variable interest rate for a fixed interest rate or vice versa then OCCURS.

- A. Future contracts
- B. Interest rate swap
- C. Option
- D. Forward contracts

Answer: B

Question: 377

is a form of insurance, to move risk from someone major loss to someone who could absorb the loss, or is able to hedge against the risk by buying some other derivative.

- A. Future
- B. Option
- C. Swap
- D. All the derivatives

Answer: D

Question: 378

The Federal Reserve issue oral or written statement to encourage banks to increase or decrease their lending activities. This is a condition of:

- A. Moral Suasion
- B. Change in discount rate
- C. Situation prior to inflation
- D. None of these

Answer: A

Question: 379

The primary regulatory entities for banking include all EXCEPT:

- A. Federal Reserve System
- B. Office of the comptroller of currency
- C. State Regulatory System
- D. ALM union (Asset/Liabilities management union)

Answer: D

Question: 380

Federal Reserve Board has:

- A. Monetary policy
- B. Regulatory responsibilities
- C. Supervisory responsibilities
- D. All of these

Answer: D

Question: 381

supervise domestic and international activities of national banks and perform corporate analysis.

- A. National bank Examiners
- B. National banks project directors

- C. Subcontractors of Government entities
- D. None of these

Answer: A

Question: 382

Office of the comptroller of the currency:

- A. Ensures the safety and soundness of the National Banking System
- B. Foster competition by allowing banks to offer new products and services
- C. Improve the efficiency and effectiveness of OCC supervision including regulatory burden
- D. All of these

Answer: D

Question: 383

CAMEL is an acronym that comes from the key areas of a financial institution's safety and soundness examination. It stands for:

- A. Capital adequacy, Asset Quality, Management, Earning and Liquidity
- B. Credit Rating, Asset management, Employee turnover and liabilities
- C. Capital adequacy, Asset management, Earning and liabilities
- D. None of these

Answer: A

Question: 384

Adequate solution for insurance coverage is that:

- A. Which offsets the losses generated by the absence of a key contributor?
- B. Does not impose a financial burden on the business
- C. Establish control of the business to the surviving active owner
- D. All of these

Answer: D

Question: 385

are insurance company representatives with the authority to sell the company's product.

- A. Brokers
- B. Dealers
- C. Agents

D. Both A & B

Answer: C

Question: 386

Insurance Brokers work for:

- A. Insured and insurance company
- B. Insured rather than an insurance company
- C. Brokerage houses
- D. None of them

Answer: B

Question: 387

Following are the examples of illegal sales practice EXCEPT:

- A. Twisting occurs when an agent purposefully misguides and individual into canceling one policy and purchasing a new one
- B. Rebating occurs when an agent agree to give an individual the share of the commission as an incentive to buy a policy
- C. Misrepresentation occurs when agent makes false and misleading statements, but they are allowed to guarantee policy dividends
- D. None of these

Answer: C

Question: 388

A major type of personal selling distribution system is the:

- A. Direct response distribution
- B. Face to face representation
- C. Ordinary agency system or career agency system
- D. Agency-building distribution

Answer: D

Question: 389

Insurance in law and economics, is a form of risk management primarily used to:

- A. Hedge again risk of potential financial loss
- B. Lock the risk of potential financial losses
- C. Both the statements are one and the same

D. None of these

Answer: C

Question: 390

A contract whereby one undertakes to indemnify another or pay a specified amount upon determinable contingencies is called:

A. Demand draft

- B. Loan
- C. Insurance
- D. Term deposit

Answer: C

Question: 391

Which one of the following is not including in typical type of insurance:

- A. Private mortgage
- B. Mortgage
- C. Flood and co-insurance
- D. None of these

Answer: D

Question: 392

Life insurance includes all of following the products EXCEPT:

- A. Mortgage life insurance
- B. Straight life insurance
- C. Specialty life insurance
- D. Permanent life insurance

Answer: C

Question: 393

Policy holders of whole life insurance use the cash dividends in many ways as:

- A. To lower or vanish premium
- B. To purchase more insurance
- C. To pay more term insurance
- D. All of these

Answer: D

Question: 394

Which premium life insurance is flexible enough under which policy holder may change the death benefit from time to time?

- A. Variable life insurance
- B. Universal life insurance

- C. Term life insurance
- D. Straight life insurance

Answer: B

Question: 395

Variable life insurance is:

- A. Permanent life insurance
- B. Temporary life insurance
- C. Flexible life insurance
- D. None of these

Answer: A

Question: 396

Theory of life insurance is evolved from:

- A. Need-based analysis
- B. Cost based analysis
- C. Cost and return based analysis
- D. Both A& B

Answer: A

Question: 397

If investment returns are very poor, this could lead to:

- A. Down in the market share of that particular investment
- B. Policy Lapsing
- C. Stock exchange collapse
- D. Minimum premium

Answer: B

Question: 398

In variable universal life (VUL) policies the maximum premium standard set was:

- A. To define a maximum cash value per death benefit and to define a maximum premium for a given death benefit
- B. To define a minimum cash value per death benefit and to define a moderate premium for a given death benefit

- C. To define a maximum cash value per death benefit and to define a moderate premium for a given death benefit
- D. None of these

Answer: A

Question: 399

In variable life insurance the number and type of insurance choice available are dependent on insurer, but some policies are available with a wide variety of separate accounts also known as:

- A. Super accounts
- B. Child accounts
- C. Sub accounts
- D. Special accounts

Answer: C

Question: 400

Some general criticisms on variable life insurance include all EXCEPT:

- A. High cost
- B. Flexible premiums
- C. Limited in investment choices
- D. Investment risk is unknown

Answer: B

Question: 401

Life insurance policy in which two people are covered on one policy is called:

- A. Mortgage life insurance
- B. Group life insurance
- C. Whole life insurance
- D. Survivors universal insurance

Answer: D

Question: 402

At times when you have more money available, you can pay as if it were a whole life policy and accumulate cash value on a tax deferred basis. It is the advantage of:

- A. Survivorship universal life insurance

- B. Group life insurance
- C. Both A & B
- D. None of these

Answer: B

Question: 403

Which of the following is least expensive form of life coverage, at least initially?

- A. Variable life insurance
- B. Whole life insurance
- C. Term life insurance
- D. Permanent life insurance

Answer: C

Question: 404

Term Life insurance is available in which of the following variant?

- A. Group term life insurance
- B. Decreasing term life insurance
- C. Level term life insurance
- D. All of these

Answer: D

Question: 405

Cash surrender life insurance is referred to:

- A. Permanent life insurance
- B. Whole life insurance
- C. Both of these
- D. None of these

Answer: B

Question: 406

Group permanent life insurance often used:

- A. To fund group pension plans
- B. To provide life insurance coverage that will continue after retirement
- C. As a variant of permanent life insurance

D. All of these

Answer: D

Question: 407

Optional basic and supplement life insurances are the variants of:

- A. Ordinary life insurance
- B. Group life insurance
- C. Accidental death and Dismemberment
- D. None of these

Answer: B

Question: 408

Disadvantages of term life insurance to buyers are all EXCEPT:

- A. Low outlay
- B. Premium increase with age
- C. No cash value
- D. None of these

Answer: A

Question: 409

Whole life insurance protects for:

- A. A specified period
- B. Flexible Time period
- C. Entire life if you keep the policy
- D. Both B & C

Answer: C

Question: 410

The "combined ratio" of an insurance company is the ratio from combining which of the following?

- I. The "loss ratio."
- II. The "other underwriting expense ratio."
- III. The "expense ratio."
- IV. The "IBNR."

- A. I and II only.

- B. I and II only.
- C. III and IV only.
- D. I, II, III and IV.

Answer: B

Question: 411

A participant's right to receive partial or full benefits under a private retirement plan even if the participant terminates employment prior to retirement is referred to as

- A. Contributing.
- B. Accumulating.
- C. Vesting.
- D. Non-revocation.

Answer: C

Question: 412

Which of the following are duties of insurance commissioners in regulating insurers?

- I. Rule of the constitutionality of insurance law.
- II. Determine if an insurer meets the requirements to obtain a license.
- III. Render decisions on the meaning of policy terms.
- IV. Conduct financial investigations of insurers operating in the state.

A. I and II only B. I and III only C. II and IV only D. I, II, and III.

Answer: C

Question: 413

You are auditing the claim handling of your branch office. You note that one of the claims is for lost revenue due to a windstorm damaging the building. The claim file states that the insured requested coverage for this type of loss. However, the independent agent failed to request the coverage though an oversight. Which action is required to appropriately handle the claim?

- A. The claim should be denied since coverage was never present, and the claim should be placed against the agency's errors and omissions policy for reimbursement of the claimant.
- B. The claim should be accepted and paid up to the policy limits since the insured meant to create coverage for business interruption. Due premiums for the coverage can be charged retrospectively
- C. The claim should be denied since repaying for business interruption and lost revenues would financially enrich the insured, which is against one of the principle of insurance
- D. The claim should

be paid and the insured indemnified since the insured requested the coverage. Since the produce was acting as an "agent" of the carrier, they commute their liability

Answer: A

Question: 414

Which of the following accounts would NOT be found on a life insurance company's statutory financial statements?

- A. Non admitted assets
- B. Non ledger assets
- C. Deferred acquisition cost
- D. Policy loans

Answer: C

Question: 415

Recent activities in the marketplace have caused your company to comply with requests from 50 percent of your policyholders to cancel their policies. The company complies and refunds them amounts due. Your audit of this should ensure these refunds were charged against what account?

- A. Incurred but not reported (IBNR)
- B. Unearned premium reserve
- C. Goodwill
- D. Allocation for uncollectible accounts

Answer: B

Question: 416

Which two of the following characteristics apply to universal life insurance policies?

- I. To provide the insured with a number of investment options.
- II. To provide the insured with a minimum guaranteed cash value.
- III. To provide a cash value fund that accumulates tax deferred.
- IV. To provide flexibility of both premium and death benefits.

- A. I and IV
- B. II and III
- C. III and IV
- D. I and III

Answer: C

Question: 417

Which of the following are NOT common funding vehicles used by insurers to invest in retirement plan assets as they are accumulated?

- A. Group deferred annuities.
- B. Deposit administration contracts.
- C. Separate account contracts.
- D. Keogh plans.

Answer: D

Question: 418

A manufacturer wants to protect the company from financial loss resulting from third-party lawsuits. The manufacturer has learned of several recent jury awards over \$7 million for product defects. The manufacturer currently has only \$5 million in this type of coverage. The manufacturer has also learned that several automobile claims have been recently awarded against other company's cars in accidents over \$1 million. The manufacturer has damaged his competition and the manufacturer wants to protect his company further than the current policy allows. What insurance coverage product will the manufacturer likely buy?

- A. A personal injury protection (PIP) policy to protect others from personal injury
- B. An umbrella policy to place a protective umbrella over existing coverage.
- C. A surplus lines policy to protect against claims in surplus of the policy limits.
- D. A floater policy to float coverage where needed.

Answer: B

Question: 419

The two most common types of commercial insurance companies are:

- A. Sole proprietor and stock
- B. Equity and debt
- C. Stock and mutual
- D. Partnership and corporation

Answer: C

Question: 420

The benefits of an endowment insurance policy include all of the statements mentioned below EXCEPT:

- A. Ideal combination of investment and insurance coverage
- B. Attractive return and maximum security
- C. Amount paid out is guaranteed and taxable returns
- D. Both A&B

Answer: C

Question: 421

Endowment policies are similar to policies in that premiums are usually level through the term of policy and the policies build cash values.

- A. Permanent life insurance
- B. Straight life insurance
- C. Whole life insurance
- D. Universal life insurance

Answer: A

Question: 422

_____ is a health insurance plan where medical treatment is fully covered if provided by doctor or a hospital belonging to PPO'S network of health care providers.

- A. Permanently preferred organization
- B. Preferred provider organization
- C. Health insurance organization
- D. Health insurance from health maintenance organizations

Answer: B

Question: 423

Managed care health techniques are most often practical by organizations and professionals that assume risk for a/an:

- A. Infinite population
- B. Finite or defined population
- C. None of these
- D. Any one of these

Answer: B

Question: 424

Managed care has effectively formed a "go between," _____ by existing as the gatekeeper between payers & providers and patients.

- A. PPO (Preferred provider organization)
- B. Full-service health insurance
- C. Brokerage or third party arrangement
- D. None of these

Answer: C

Question: 425

HMO (Health maintenance organization) must meet the specifications of the federal HMO act as well as meeting many rules and regulations required at state level. There are following basic models EXCEPT:

- A. Group model
- B. Individual practice association
- C. Network model
- D. None of these

Answer: D

Question: 426

A health services delivery organization that offers the option to its members to choose to receive a service from participating or a non-participating provider. Which one of the best suits to this definition?

- A. Point-of-service plan
- B. Health maintenance organization (HMO)
- C. Preferred provider organization (PPO)
- D. Independent practice Association (IPA) or organization (IPO)

Answer: A

Question: 427

A health services delivery organization that offers the option its members choose to receive a service from participating or a non-participating provider which one of the following best suits to the definition?

- A. Point of service plan
- B. Health maintenance organization (HMO)
- C. Preferred provider organization (PPO)
- D. Independent practice Association (IPA) or organization (IPO)

Answer: A

Question: 428

Typically, the costs associated with receiving care from the "in network" or approved providers are when care is rendered by non-contracting providers.

- A. More than
- B. Less than
- C. Same as

D. Not comparable

Answer: B

Question: 429

Which of the following way best defines disability insurance?

A. General-disability insurance:

Provides benefits to a person who cannot perform any job that the person is qualified for because of sickness or injury. As long as the policyholder can still perform certain jobs that she is qualified for, she cannot recover

B. Occupational-disability insurance:

Provides benefits to a person who cannot perform his or her regular job because of sickness or injury

C. Conditionally renewable policies:

And your coverage can be cancelled in the event certain conditions stated in the policy are triggered

D. Only A&B

Answer: D

Question: 430

Major types of individual long-term disability policies are all EXCEPT:

A. Non-cancelable policies

B. Credit disability insurance

C. Guaranteed renewable policies

D. Conditional renewable policies

Answer: B

Question: 431

When purchasing a flood insurance policy, there is a standard 30-day waiting period for new applications and endorsements for coverage. Exclusions of flood insurance are all EXCEPT:

A. Boat houses (Buildings located)

B. Structures entirely over water buildings (fences, retaining walls underground structures)

C. Walkways, decks, driveways, patios

D. None of these

Answer: D

Question: 432

A less satisfactory option in dental insurance is the:

- A. HMO plan
- B. PPO plan
- C. IPA plan
- D. None of these

Answer: A

Question: 433

Deductibles for dental insurance plans are

- A. Negligible
- B. Non-existent
- C. Not negotiable (fixed)
- D. Either A or B

Answer: D

Question: 434

In utilization management, utilization reviews begin with a preadmission certification. In such situations, insureds must make notification within 48 hours of admission or face reduced or lost benefits. Utilization reviewers monitor the appropriateness of care while a patient is hospitalized. This is known as:

- A. Formal review
- B. UR primary activity
- C. Preadmission certification
- D. Concurrent review

Answer: D

Question: 435

Liability insurance is a part of general insurance system of

- A. Risk involvement
- B. Risk transference
- C. Risk management
- D. Self-help funds

Answer: B

Question: 436

The time that a new group member must wait before becoming eligible to enroll in a group insurance plan is known as the:

- A. Actively-at-work provision
- B. Probationary period
- C. Eligible period

D. Enrollment period

Answer: B

Question: 437

Which of the following statements about endowments is correct?

- A. Endowment insurance pays a benefit amount only if the insured dies during the specified term of coverage
- B. Premiums vary throughout the term of an endowment policy
- C. An endowment can be purchased with a single Premium or with a series of Premium over a limited period of time
- D. Unlike permanent life insurance policies, endowment policies do not steadily build cash values

Answer: C

Question: 438

In which of the following ways are calls and put options used by the options investor in purchase and sales transaction?

- I. A long call allows the investor to purchase the underlying security at the specified strike price after the option expiration date
- II. A long put allows the investor to sell the underlying security at the specified strike price until the option expiration date
- III. An investor who is short a call is at the underlying security at the specified strike price if a call option is exercised after the option expiration date
- IV. An investor who is short a put is obligated to buy the underlying security at the specified strike price if a put option is exercised by the option expiration date

- A. I and II only
- B. I and III only C. II and III only D. II and IV only

Answer: D

Question: 439

In which of the following ways would the writer of an uncovered call usually make a profit?

- I. The call expires
- II. The underlying stock splits
- III. The underlying stock goes up in price
- IV. The underlying Stock goes down in price

- A. III only
- B. I and IV only
- C. II and IV only
- D. I, II, and III only

Answer: B

Question: 440

Options in major types of life insurance is/are:

- A. May be renewable or convertible to a whole life policy (term life insurance)
- B. May pay dividends, may provide a reduced paid-up policy. Partial cash surrenders permitted (whole life insurance)
- C. May pay dividends minimum death benefit partial cash surrenders permitted
- D. All of these

Answer: D

Question: 441

I – In term life insurance premium increase with age no cash value.

11- In whole life insurance high cost is involved if you surrender early. Usually no cash value for at least three to five years. So, may not meet short-term needs.

III – Universal life insurance is also same a whole life and buyer assumes greater risk due to program flexibility. Low interest rates can affect cash value and premiums.

These are the _____ of different types of life insurances.

- A. Policy benefit
- B. Protections
- C. Disadvantages
- D. Premiums

Answer: C

Question: 442

Traditionally, insurance is paid:

- A. Continually, meaning that an even amount accrues during the period of insurance coverage
- B. In periodic payments
- C. With a whole sum in the start and continuous
- D. None of these

Answer: A

Question: 443

Life insurance that can be made valid up to a certain age or period is called _____. This insurance coverage continues up until an agreed time without having to be renewed.

- A. Voluntary Life insurance
- B. Straightforward risk insurance

- C. Savings insurance
- D. All of these

Answer: A

Question: 444

Which of the following is NOT the benefit of an endowment insurance policy?

- A. Ideal combination of investment and insurance coverage
- B. Attractive return and maximum security
- C. Amount paid out is guaranteed with tax free returns
- D. None of these

Answer: D

Question: 445

If a surgeon loses a hand, she may not be able to perform surgery. If she has an _____ policy, she would be able to recover, even though she can still work as a doctor in a nonsurgical field. If she has a _____ policy, there would be no recovery, even if the surgeon's only possible alternative is to be a tour guide.

- A. General disability, occupational disability
- B. Occupational disability, General disability
- C. None-cancelable policy and general disability
- D. None of these

Answer: B

Question: 446

Here are the following major types of long-term disability policies EXCEPT:

- A. Non-cancelable policies
- B. Guaranteed renewable policies
- C. Periodically renewable disability policy
- D. Conditionally renewable policies

Answer: C

Question: 447

Premiums can be increased and your coverage can be cancelled in the event certain conditions stated in the policy are triggered. This is in the case of:

- A. Non-cancelable policies
- B. Conditionally renewable policies
- C. Guaranteed renewable policies
- D. None of these

Answer: B

Question: 448

Business continuation insurance protects a business against the potential economic loss resulting from the passing or disability of key executives and/or employees. This is the insurance coverage which comes under the umbrella heading of:

- A. Casualty insurance
- B. General liability insurance
- C. Disability insurance
- D. Straight forward risk insurance

Answer: A

Question: 449

Individuals can invest in REITs:

- A. By purchasing their shares directly on an open exchange
- B. By investing in a mutual fund that specializes in public real estate
- C. Both A&B
- D. Either A or B; it depends

Answer: D

Question: 450

Securities products include:

1. Trusts
2. Annuities
3. Derivatives
4. Stocks
5. Bonds
6. Commodities
7. Mutual Funds
8. Pension Funds
9. Term Loans
10. Asset Management
11. Money Market Products

- A. Only 1, 2, 3,4,5,10,11
- B. Only 1, 3, 5, 10
- C. All except 8, 9
- D. All except 8,9,10

Answer: C

Question: 451

The objective/s of a trust department audit is/ are to:

- A. Detect and prevent irregularities such as errors and fraud
- B. Assess adequacy of accounting, operating, and administrative controls and procedures
- C. Determine the quantity of account administration
- D. all of the above

Answer: D

Question: 452

The objective/s of trust department's administration of corporate trust accounts include:

- I. Policies and procedures ensure compliance with governing instruments, applicable law and accepted fiduciary principles
- II. Deficiencies are identified and corrective action is promptly initiated
- III. There is sufficient management and staff expertise to administer these accounts
- IV. Effective policies , procedures and internal controls have been established
- V. The legitimate needs of security holders and other interested parties are met in a professional and timely manner

- A. III and IV
- B. I, II and IV
- C. II, III and V
- D. All of these

Answer: D

Question: 453

Personal trust accounts may be:

- A. Living or testamentary
- B. Revocable or irrevocable
- C. Both of these
- D. None of these

Answer: C

Question: 454

Trust under will is a term referred to:

- A. Living trust
- B. Testamentary trust
- C. Revocable trust
- D. None of these

Answer: B

Question: 455

The administration of personal trust accounts is primarily controlled by all of the following EXCEPT:

- A. Terms of Governing instrument
- B. A will
- C. Trust agreement
- D. Court order

Answer: A

Question: 456

Which one of the following is not commonly granted trustee's powers?

- A. Pertaining to the retention, purchase and sale of assets
- B. Those pertaining to distributions of principal
- C. Those pertaining to make dealings
- D. None of these

Answer: C

Question: 457

Defined benefits & defined contribution plans and individual retirement accounts are commonly administered:

- A. Corporate Trusts
- B. Charitable Trusts
- C. Estate Administrations
- D. Employee benefit trusts

Answer: D

Question: 458

Performance as _____ is normally the only true trust relationship administered by a corporate trust department.

- A. Trustee under a bond indenture
- B. Bank under a bond indenture
- C. Trust under a bond indenture
- D. None of these

Answer: A

Question: 459

Charitable trust that is an irrevocable trust and that may be testamentary or inter-vivos (Between living persons) is called:

- A. Foundations
- B. Charitable Remainder Unitrust
- C. Charitable Remainder Annuity Trust
- D. None of these

Answer: D

Question: 460

The duties of a guardian in guardianship arrangements are similar to those of a trustee. Specifically, the guardian is obligated to:

- 1) Protect and preserve the assets
- 2) Submit an inventory and appraisal to the court
- 3) Retain or divest assets
- 4) Use principal and income for the benefit of the ward
- 5) Submit an annual accounting to the court

- A. Only 1,3,4
- B. All of these
- C. Only 1, 2
- D. All except 3

Answer: D

Question: 461

The responsibility of setting an estate includes:

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

- B. Valuing the estate's property
- C. Paying any debts of the decedent's
- D. All of these

Answer: D

Question: 462

Unlike trust, there is no conveyance of title to the account assets. When the relationship is established; legal title to the property remains with the principal.

- A. Guardianship
- B. Estate Administration
- C. Agency Services
- D. None of these

Answer: C

Question: 463

To serve as family and/or financial planning tool
To provide for retirement To obtain favorable tax treatment
These are the primary reasons

- A. For establishing a trust
- B. For naming an institution as trustee
- C. of Safekeeping
- D. of Custodial

Answer: A

Question: 464

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

Question: 465

The trustee is responsible for producing a schedule of distribution which includes information as:

- A. Assets and their current fair market value

- B. The method of distribution
- C. Each beneficiary's share of assets and the trust's liability
- D. All of these

Answer: D

Question: 466

The accumulation phase in annuities can last from as long as:

- A. One day to five years
- B. One day to decades
- C. Ten days to ten years
- D. All of these

Answer: B

Question: 467

Annuities can be purchased through the following methods EXCEPT:

- A. Single payment deferred
- B. Periodic payment deferred
- C. Immediate payment
- D. Single payment accrued

Answer: D

Question: 468

The benefits of tax deferral will outweigh the costs of a variable annuity only if the investor holds it as:

- A. Long-Term investment
- B. Short-Term investment
- C. Credit-Risk investment
- D. Annuity investment

Answer: A

Question: 469

- I. Surrender Charges
- II. Mortality and Expense risk change
- III. Administrative Fees
- IV. Underlying funds expenses
- V. Fees charges for other features

These are the charges which investors pay when they invest in:

- A. Variable annuity
- B. Fixed annuity
- C. Mixed annuity
- D. Both B & C depends upon situation

Answer: A

Question: 470

Guaranteed investment contracts are contracts between:

- A. A bank and insurance company
- B. An insurance company and a corporate retirement plan
- C. A retirement plan and a brokerage house
- D. None of these

Answer: B

Question: 471

When one buys a cash instrument, for example 100 shares of ABC Inc., the payoff is linear

(disregarding the impact of dividends). If share are purchased at \$50 and the price appreciated to \$75, we have on a mark-to-mark basis.

- A. Made \$2500
- B. Lost \$2500
- C. Made \$2500
- D. None of these

Answer: A

Question: 472

A derivative with a convex payoff-profile at some point before the option's maturity is a simple plan vanilla option. As the option becomes progressively more-in-the money, the rate at which the position makes money increases until asymptotically approaches the linear payoff of the future. Similarly, as the option becomes progressively more out-of-the money, the rate at which the position loses money decreases until that rate becomes zero. This is an example of:

- A. Spot rate
- B. Non linear derivate
- C. Linear derivate
- D. None of these

Answer: B

Question: 473

One of the largest components of the global derivative markets and natural adjunct to the fixed income markets is the:

- A. Volatility
- B. Interests rate Swaps
- C. Commodity Swaps
- D. Both B & C

Answer: B

Question: 474

A gold producer wants to hedge his losses attributable to a fall in the price of gold for his current gold currency. This is an example of:

- A. Currency Swaps
- B. Commodity Swaps
- C. Interests rate Swaps
- D. All of these

Answer: B

Question: 475

An entity that purchases and sells securities on its own behalf is acting as:

- A. A broker
- B. A dealer
- C. An agent
- D. A principal

Answer: B

Question: 476

Which of the following statements about the over-the-counter market is false?

- A. Mutual funds and other new issues are initially issued over the counter
- B. Security prices are determined through auction bidding
- C. Broker dealers must be resigned
- D. Securities are traded at many locations throughout the country

Answer: B

Question: 477

General Market indices in the commodities market with which many people would be familiar include:

- A. Goldman Sachs Commodities Index (GSCI)
- B. Commodities Research board
- C. Acme Tool & Die
- D. Both A&B

Answer: D

Question: 478

_____ swaps give companies extra flexibility to exploit their comparative advantage in their respective borrowing markets.

- A. Fixed-floating swaps
- B. Currency swaps
- C. Interest rate swaps
- D. None of these

Answer: B

Question: 479

Standard and poor's 500 index, the Dow Jones Industrial average, or the Toronto stock Exchange index is the examples of:

- A. Equity indices
- B. Stock exchange indices
- C. OTC market indices
- D. All of these

Answer: A

Question: 480

The main objective/s of an audit of swaps is/are:

- A. To determine the adequacy and effectiveness of controls relating to rate swap transactions
- B. To ascertain that swap transaction are properly recorded in accordance with their term
- C. To ensure that the company's financial statements and regulatory reports properly reflect in accordance with generally accepted accounting principles, the results of swap activity
- D. All of these

Answer: D

Question: 481

Adequate procedures and controls associated with swap transactions should exist to help minimize the risks inherent in transaction process. Example/s of these controls may include:

- A. A daily reconciliation of traders' positions should be performed
- B. To minimize market risk in hedge transactions:
There should be independent sign-off procedures for hedging models
All hedge strategies should be clearly defined
All software and products should be secure and temper resistant
- C. All transactions should be authorized and affirmed
- D. All of these

Answer: D

Question: 482

Occasionally, a company will issue additional shares of its stocks, called _____, to raise additional capital.

- A. Secondary Offering
- B. IPO
- C. Private Placement
- D. Preferred Offering

Answer: A

Question: 483

Customer accounts:

Ensure that the firm is exercising due diligence in the opening and supervision of customer accounts.

The procedures should be formalized in writing and in accordance with the rules and regulations of the appropriate regulatory authority.

Ensure that daily customer positions and option exercises are in accordance with the limits established by the appropriate exchange. Verify that commissions generated by customer trades are properly calculated and posted to the general ledger.

- A. This is one of the primary audit objectives of stock and options
- B. This is one of the primary audit objectives of swaps
- C. This is one of the primary audit objectives of bonds
- D. None of these

Answer: A

Question: 484

Call provisions are often part of _____, but usually not bonds issued by _____

- A. Zero coupon bond, Federal Government bonds
- B. Corporate bonds, Zero coupon bonds
- C. Corporate and municipal bonds, bonds issued by Federal Government
- D. None of these

Answer: C

Question: 485

Audit objectives that apply to one sales portion are all EXCEPT:

- A. Ensure that daily activity of each salesman is reviewed by head salesman
- B. Ensure that inventory is being accurately market to market on a continuing basis
- C. Ensure customer markups are reasonable relative to NASD
- D. None of these

Answer: B

Question: 486

Which of the following is not an audit objective of a commodity department?

- A. All customer accounts are opened and maintained in accordance with the rules and regulations commodity futures trading commission (CFTC) and the various commodity Exchanges
- B. Adequate control exist to ensure the accuracy and propriety of information contained in regulatory reports, such as the commodity futures trading commission form 1-FR, and the focus report
- C. Verify the accuracy and reporting (inventory reports, fail reports, again reports and profit and loss reports.)
- D. None of these

Answer: C

Question: 487

I- With reference to the granting of customer credit lines a thorough analysis of the customer's overall financial position is performed prior to trading authorization.

II- confirmations of each transaction are sent to customers indicating the quantity, delivery month and the contract price to ensure the integrity of transactions.

III- Original margin deposits in cash or acceptable securities to guarantee performance of contracts are determined in accordance These all are adequate procedures and controls associated with:

- A. Commodity transaction

- B. Mutual funds audit
- C. Bond audit
- D. None of these

Answer: A

Question: 488

There are some investment companies, known as exchange-traded funds or ETFs, which are legally classified as open-end companies or UITs. EFTs differ from traditional open-end companies and UITs because:

- A. Pursuant to SEC exemptive orders
- B. Shares issued by ETFs Traded on a secondary market
- C. Are lonely redeem able in very large blocks (Blocks of 50,000 shares for example)
- D. All of these

Answer: D

Question: 489

If a mutual fund has an NAV of \$100 million, and investors own \$10,000,000 of fund's shares, the funds per share value will be:

- A. \$100
- B. \$1
- C. \$10
- D. None of these

Answer: C

Question: 490

The approximate per-share NAV plus any fees the fund imposes is the price:

- A. That investors pay to purchase mutual fund
- B. That investors receive on redemptions
- C. Per share NAV
- D. All of these

Answer: A

Question: 491

A UIT typically issues redeemable securities (or "units"), like a mutual fund, which means:

- A. That the UITs typically will make a one-time "public offering"
- B. A UIT does not activity trade its investment portfolio

- C. That the UIT will, buy back an investor's request at their approximate net asset value
- D. All of these

Answer: C

Question: 492

Close-end funds are traded on:

- A. A primary market
- B. Secondary market
- C. Tertiary market
- D. Are not traded anywhere

Answer: B

Question: 493

Close-end funds:

- A. Are not redeemable
- B. The investment portfolios generally are managed by separate entities
- C. Are permitted to invest in a greater amount of "illiquid" securities than mutual funds.
- D. All of these

Answer: D

Question: 494

One fund may invest on mostly established "blue chip" (Companies that pay regular dividends). Another fund may invest in newer technology companies that pay no dividends but that may have more potential for growth. These are the examples of:

- A. Mutual funds
- B. Index funds
- C. Stock funds
- D. Bond funds

Answer: C

Question: 495

Mutual funds provide an attractive investment choice because they generally offer the following feature/s:

- A. Professional Management
- B. Diversification
- C. Affordability
- D. All of these

Answer: D

Question: 496

All of these are disadvantages of mutual funds EXCEPT:

- A. Cost despite negative returns
- B. Liquidity
- C. Lack of control
- D. Price uncertainty

Answer: B

Question: 497

Investors typically cannot ascertain the exact makeup of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades. This is because of _____ in mutual funds.

- A. Price uncertainty
- B. Lack of control
- C. Costs despite negative returns
- D. All of these

Answer: B

Question: 498

I- A gold producer wants to hedge his losses attributable to a fall in the price of gold for his current gold inventory.

II- A cattle farmer wants to hedge his exposure to changes in the price of his livestock. These are the examples of _____ who need to manage their exposure to fluctuations in the prices of their commodities.

- A. Hedgers
- B. Producers
- C. Speculators
- D. None of these

Answer: B

Question: 499

End users need to hedge the prices at which they can purchase these commodities for instance:

- A. A University might want to lock in the price at which it purchases electricity to supply its air conditioning

units for upcoming summer months

- B. An airline wants to lock in the price of the jet fuel it needs to purchase in order to satisfy the peak in seasonal demand for travel
- C. A cotton producer wants to hedge his exposure to changes in the price of fertilizers or his end product (cotton)
- D. Only A and B

Answer: D

Question: 500

Money market funds bond funds (also called “fixed income” funds) , and stock funds (also called equity funds) are the categories of:

- A. Mutual funds
- B. Professionally managed portfolio
- C. Hedge funds
- D. None of these

Answer: A

Question: 501

have relatively low risks, compared to other mutual funds.

- A. Stock funds
- B. Hedge funds
- C. Money funds
- D. Both B and C

Answer: C

Question: 502

Money market funds:

- A. Can invest in only certain high-quality, short-term investments issued by Federal State and local government
- B. Try to keep their NAV at a stable \$1.00 per share
- C. Pay dividends that generally reflect short-term interest rates
- D. All of these

Answer: D

Question: 503

Some of the risks associated with bond funds are all of the following EXCEPT:

- A. Credit Risk
- B. Interest Rate Risk
- C. Payment Risk
- D. Liquidity Risk

Answer: D

Question: 504

If interest rates fall, a bond issuer may decide to pay off (or “retire”) its debt and issue new bonds that pay a lower rate. When this happens, the fund may not be able to reinvest the proceeds in an investment with a high return or yield. This is an example of:

- A. Credit risk in bond funds
- B. Prepayment risk in bond funds
- C. Interest rate risk in bond funds
- D. All of these

Answer: B

Question: 505

Overall “market risk” poses the greatest potential danger for investors in

- A. Bonds funds
- B. Hedge funds
- C. Stock funds
- D. Growth funds

Answer: C

Question: 506

funds may specialize in a particular industry segment, such as technology or consumer products stocks.

- A. Index
- B. Sector
- C. Growth
- D. Income

Answer: B

Question: 507

There are different classes of mutual funds. Classes that typically do not have a front-end sales load. Instead they may impose a contingent deferred sales load and a 12b-1 fee (along with other annual expenses) is called:

- A. Class A
- B. Class B
- C. Class C
- D. Both B&C

Answer: B

Question: 508

Hedge funds:

- A. Seek to profit in all kinds of markets by pursuing leveraging and other speculative investment practices
- B. Are subject to very few regulatory controls
- C. Also have voluntarily restricted investment to wealthy investors through high investment minimums (e.g. \$1 million)
- D. All of these

Answer: D

Question: 509

Some objectives of an audit related to mutual funds might include determining that:

- A. Mutual fund checks are issued in accordance with firm policies and supported by valid trades
- B. Mutual fund purchases are confirmed on a timely basis
- C. Mutual fund switches are not authorized by the client
- D. All EXCEPT "C"

Answer: D

Question: 510

Major types of Real Estate Investment Trust (REITs) include all of the following EXCEPT:

- A. Equity REITs
- B. Mortgages REITs
- C. Hybrid REITs
- D. None of these

Answer: D

Question: 511

Not all misstatements will be material enough to affect the fair presentation of the financial statement. A material misstatement is one that the auditors determine would change or influence the opinion of a reasonable person relying on the financial statements for information. Ultimately, auditors must exercise judgment to assess materiality based on the qualitative nature of the misstatements and their quantitative extent. Materiality is also

based on auditors' assessment of control risk levels in the organization. The following factors may influence the auditors' assessment of control risk EXCEPT:

- A. Management's awareness or lack of awareness of applicable laws and regulations
- B. Client policy regarding such matters as acceptable operating practices and codes of conduct
- C. Assignment of responsibility and delegation of authority to deal with such matters as

organizational goals and objectives, operating functions, and regulatory requirements D. None of these

Answer: D