CANNON FINANCIAL INSTITUTE CFIRS PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. What is a convertible bond?

A. One which may be exchanged for equity in the company.

B. A bond with equity voting rights.

C. A bond with a floating rate where no top rate is established.

D. A bond secured by physical assets.

2. What is the requirement for a national bank regarding the management of non-real estate assets?

A. Keep them in the bank's vault.

B. Keep them in a third party depository.

C. Keep them segregated from the assets of the bank.

D. Comingle with the bank's insured deposits.

3. Which of the following should NOT be added to the net demand deposit account balance when assessing pledged assets?

A. Overdrafts

B. Outstanding checks

C. Interest bearing accounts of the trustee bank awaiting investment or distribution

D. Available cash reserves

4. What act is referred to as the "truth in securities" act?

A. National Bank Act of 1934.

B. Securities Act of 1933.

C. Trust Indenture Act of 1939.

D. Federal Reserve Act of 1913.

5. In the absence of specified revocation powers, a trust is assumed to be what?

A. Amendable

B. Void

C. Revocable

D. Irrevocable

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6. Earnings on collateral in a securities lending transaction paid by a lender to a borrower are referred to as:

A. Marks

B. Rebates

C. Dividends

D. Interest

7. The Trust Indenture Act does NOT apply to which type of indenture?

A. Corporate bond indentures.

B. Municipal bond indentures.

C. Debenture indentures.

D. Corporate note indentures.

8. The MAJOR reason the issuers of bonds call provisions is to:

A. Allow the bondholder an opt out

B. Protect the issuer from interest rate risk

C. Protect the bondholder from market risk

D. Allow fair distribution through lottery

9. Which of the following types of underwriting requires the underwriters to sell the entire offering to the public?

A. Best efforts underwriting

B. All-or-none underwriting

C. Contingency offering

D. Firm commitment underwriting

10. For eligibility purposes, the initial year of service is based on what?

A. Tax year.

B. Employment year.

C. Elapsed year.

D. Years after age 18.

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Answers

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1. A
2. C
3. A
4. B
5. D
6. B
7. B
8. B
9. B
10. B

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Explanations

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1. What is a convertible bond?

A. One which may be exchanged for equity in the company.

B. A bond with equity voting rights.

C. A bond with a floating rate where no top rate is established.

D. A bond secured by physical assets.

A convertible bond is a type of fixed-income security that can be converted into a predetermined number of the company's equity shares, typically at the discretion of the bondholder. This feature offers bondholders the potential to benefit from appreciation in the company's stock price while still receiving regular interest payments. By providing this opportunity for conversion into equity, convertible bonds often attract investors who are seeking both fixed income and potential upside if the company's equity performs well. The other options present features that do not define a convertible bond. For example, having equity voting rights does not align with the nature of convertible bonds, which are primarily debt instruments. A floating rate bond without a top rate refers to a different category of bonds altogether, often associated with interest rate fluctuations rather than conversion to equity. Similarly, a bond secured by physical assets describes secured bonds, which provide collateral to bondholders, distinguishing them from convertible options.

2. What is the requirement for a national bank regarding the management of non-real estate assets?

A. Keep them in the bank's vault.

B. Keep them in a third party depository.

C. Keep them segregated from the assets of the bank.

D. Comingle with the bank's insured deposits.

A national bank is required to keep non-real estate assets segregated from the assets of the bank to ensure clear accounting and proper management of those assets. This segregation aids in maintaining liquidity and managing risks more effectively by ensuring that non-real estate assets are handled distinctly from the bank's primary operational assets. Segregating these assets allows for better tracking of performance and valuation and protects them from any potential losses associated with the bank's other operations. The need for separation also helps to comply with regulatory requirements and industry standards, which are designed to safeguard both the bank's integrity and its customers' interests. Other methods such as storing assets in a vault or a third-party depository do not address the need for clear financial management and accurate reporting, while commingling these assets with insured deposits can create complications in risk management and regulatory compliance. Therefore, segregation ensures that the bank operates within the legal frameworks established for asset management and reporting.

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3. Which of the following should NOT be added to the net demand deposit account balance when assessing pledged assets?

A. Overdrafts

B. Outstanding checks

C. Interest bearing accounts of the trustee bank awaiting investment or distribution

D. Available cash reserves

When assessing pledged assets against a net demand deposit account balance, it is important to consider the liquidity and actual available funds that can be pledged. Overdrafts represent a situation where the account balance can go negative, which means that they are not actual funds available for use. Instead, they indicate that the account holder has borrowed funds to cover transactions, usually subject to fees and interest. Consequently, overdrafts should not be included when calculating the total balance that can be pledged, as they do not reflect actual liquid assets of the account. In contrast, outstanding checks and interest-bearing accounts, while they might affect available cash flow temporarily, still have an underlying balance that can be pledged or considered as a financial position. Similarly, available cash reserves represent actual funds that can be readily accessed or pledged. Thus, the rationale for excluding overdrafts lies in their nature as borrowed funds rather than available liquidity, making them unsuitable for assessment of pledged assets.

4. What act is referred to as the "truth in securities" act?

A. National Bank Act of 1934.

B. Securities Act of 1933.

C. Trust Indenture Act of 1939.

D. Federal Reserve Act of 1913.

The term "truth in securities" refers specifically to the Securities Act of 1933. This landmark legislation was enacted primarily to ensure transparency in the securities market and to protect investors from fraud. The act requires that all securities sold to the public must be registered with the Securities and Exchange Commission (SEC) and mandates full disclosure of all material information regarding the securities being offered. This includes details about the company, its financial condition, and the risks associated with the investment. The goal of the Securities Act of 1933 is to promote informed decision-making by providing investors with the necessary information to evaluate the potential risks and rewards of their investments. This emphasis on transparency and honesty in the securities market is why it is often referred to as the "truth in securities" act. The act laid the groundwork for modern securities regulation and has had a lasting impact on the way financial markets operate today.

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5. In the absence of specified revocation powers, a trust is assumed to be what?

A. Amendable

B. Void

C. Revocable

D. Irrevocable

In the context of trusts, when there are no specified revocation powers granted, the trust is generally assumed to be irrevocable. This means that once the trust is established, the grantor does not retain the power to alter or terminate it. Irrevocability ensures that the assets within the trust are protected from the grantor's creditors and that the terms of the trust will be honored as intended, even if circumstances change. The presumption of irrevocability is significant because it strongly influences how assets are managed, distributed, and insulated from estate taxes and creditors. Beneficiaries can have greater confidence in their rights to the trust property, as the trust's terms are set and cannot be unilaterally changed by the grantor. On the other hand, if a trust were amendable or revocable, parties involved would inherently understand that terms could change or the trust itself could be dissolved, which is not the case when irrevocability is assumed. This clear delineation helps to establish the nature and longevity of the trust, ensuring that all parties involved have a clear understanding of their rights and responsibilities.

6. Earnings on collateral in a securities lending transaction paid by a lender to a borrower are referred to as:

A. Marks

B. Rebates

C. Dividends

D. Interest

In a securities lending transaction, the borrower uses financial securities that are owned by the lender, and in return, the lender typically receives some form of compensation for that transaction. The earnings on the collateral provided by the borrower—often in the form of cash or equivalent securities—are commonly referred to as rebates. Rebates are necessary in this context because the lender does not sell their securities; rather, they maintain ownership while allowing the borrower to use them. The borrower, while using the borrowed securities, generates income (for example, from short-selling). To incentivize the lender to engage in the transaction, the borrower pays a portion of this income back to the lender, which is termed a rebate. This arrangement serves as a means of compensating the lender for the temporary transfer of ownership rights. Understanding this concept is crucial for grasping how securities lending and collateral management operate, particularly in negotiations and financial agreements between parties involved in securities lending.

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7. The Trust Indenture Act does NOT apply to which type of indenture?

A. Corporate bond indentures.

B. Municipal bond indentures.

C. Debenture indentures.

D. Corporate note indentures.

The Trust Indenture Act (TIA) is a federal law that governs the offerings of corporate bonds and certain types of securities issued through an indenture. Its primary purpose is to protect the interests of corporate bondholders by requiring certain disclosures and establishing clear rights and duties for both the issuer and the bondholders. Municipal bond indentures are not covered by the Trust Indenture Act. This exemption exists because the TIA is specifically designed to address the needs and characteristics of corporate finance and does not extend to instruments issued by state or local governments. Municipal bonds operate under different regulations and are subject to state laws, which have their own set of rules regarding disclosure and investor protection. The other types of indentures mentioned, such as corporate bond indentures, debenture indentures, and corporate note indentures, fall within the jurisdiction of the Trust Indenture Act. Each of these types involves corporate entities that are typically subject to the TIA's requirements, reflecting its aim to create a uniform set of protections for investors in corporate debt securities. Understanding this distinction is key to grasping the regulatory landscape of different types of indentures.

8. The MAJOR reason the issuers of bonds call provisions is to:

A. Allow the bondholder an opt out

B. Protect the issuer from interest rate risk

C. Protect the bondholder from market risk

D. Allow fair distribution through lottery

The primary reason issuers of bonds incorporate call provisions is to protect themselves from interest rate risk. When interest rates decline after a bond is issued, the issuer may be paying a higher coupon rate compared to the current market rates. To mitigate this financial burden, the issuer can call the bonds, meaning they can pay off the bondholders before the maturity date and reissue new bonds at a lower interest rate. This strategy allows the issuer to reduce their overall borrowing costs, enhancing their financial flexibility and improving their cash flow management. In contrast, choices related to providing options for bondholders or ensuring fair distribution do not align with the issuer's primary financial motivations. While protecting bondholders from market risk might seem beneficial, it does not reflect the issuer's perspective, as their focus is primarily on managing their own financial risks and obligations.

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9. Which of the following types of underwriting requires the underwriters to sell the entire offering to the public?

A. Best efforts underwriting

B. All-or-none underwriting

C. Contingency offering

D. Firm commitment underwriting

All-or-none underwriting is the type of underwriting that mandates the underwriters to sell the entire offering to the public. In this arrangement, if the underwriters cannot sell the entire amount of the securities being offered, the deal is canceled, and no securities are issued. This structure protects the issuer by ensuring that they do not receive partial proceeds, which might not meet their financial needs or objectives. In contrast, best efforts underwriting allows the underwriters to sell as much of the offering as they can, without the obligation to sell the entire amount. If not all securities are sold, the issuer will receive the funds for the portion sold, which can result in partial funding. Firm commitment underwriting, on the other hand, involves underwriters purchasing the entire offering outright and taking on the risk of selling the securities to the public, irrespective of whether they can sell them all. A contingency offering is not a standard term typically used in this context and does not describe a type of underwriting in the same way. Understanding these distinctions helps clarify the dynamics and obligations between issuers and underwriters in various underwriting agreements.

10. For eligibility purposes, the initial year of service is based on what?

A. Tax year.

B. Employment year.

C. Elapsed year.

D. Years after age 18.

The initial year of service for eligibility purposes is vital in determining benefits, retirement plans, or other employment-related privileges. The correct choice indicates that eligibility is calculated based on the employment year, which is the year in which an employee is officially hired and begins working for the organization. This approach directly ties the duration of the employee's service to the time they are actively employed, allowing employers to assess eligibility for various programs, such as retirement plans, health benefits, and accrual of paid time off, consistently from the date of hire. Understanding that the employment year marks the beginning of an employee's tenure helps in clearly defining when they become eligible for certain benefits and how other factors, such as vesting schedules or qualifying periods, interact with their employment status.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cannoncfirs.examzify.com

We wish you the very best on your exam journey. You've got this!

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