CISI INTRODUCTION TO SECURITIES AND INVESTMENT 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. Special resolution is defined as:

A. A resolution on major decisions of a company (such as changing the company's articles or reducing its share capital) at a general meeting that must be passed by a certain majority, usually 75%.

B. A routine management decision by simple majority.

C. An automatic approval by the board.

D. A resolution requiring a 50% plus one vote.

2. The balance of payments is defined as what?

A. Difference between inflows and outflows of money

B. Net exports only

C. Total government debt outstanding

D. Budget surplus or deficit

3. Income Protection Cover pays out what?

A. A lump sum on death

B. Pays mortgage interest only

C. An income benefit when unable to work, typically 50-75% of pre-tax earnings

D. A one-off bonus for good performance

4. In the event of winding up, ordinary shares are:

A. Paid first ahead of creditors.

B. Never paid.

C. Paid after creditors and other senior claims.

D. Paid before preference shares.

5. Which risk erodes the real value of a bond's coupon and redemption payments when inflation rises unexpectedly?

A. Inflation risk

B. Reinvestment risk

C. Liquidity risk

D. Credit risk

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6. Which of the following is a feature of income protection?

A. Pays an income benefit when unable to work due to sickness

B. Pays a fixed salary regardless of absence

C. Provides life cover equal to mortgage

D. Only covers dental expenses

7. Which statement correctly describes a quote-driven trading system?

A. Orders go through an electronic order book with no market makers.

B. Trades are executed by a single specialist for a given security.

C. Uses market makers to quote two-way prices throughout the day regardless of market conditions.

D. Only primary market trades occur with no market participants.

8. In the event of default, which claims are paid first?

A. Debt with the highest seniority is repaid first in liquidation.

B. All creditors are paid equally

C. Equity holders are paid first

D. Debt with the lowest seniority is repaid first

9. Which instrument provides protection against default risk on a corporate bond or loan?

A. Credit Default Swap

B. Interest Rate Swap

C. Put Option

D. Call Option

10. In derivative terminology, the writer is best described as the

A. Holder

B. Seller

C. Buyer

D. Counterparty

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Answers

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

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Explanations

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1. Special resolution is defined as:

A. A resolution on major decisions of a company (such as changing the company's articles or reducing its share capital) at a general meeting that must be passed by a certain majority, usually 75%.

B. A routine management decision by simple majority.

C. An automatic approval by the board.

D. A resolution requiring a 50% plus one vote.

Special resolutions are used for major actions that change the company's structure or governing documents, and they require a higher level of shareholder agreement. They must be passed at a general meeting and typically need at least 75% of votes cast, which helps ensure broad consensus for significant changes. Examples include altering the articles of association or reducing share capital. This higher threshold distinguishes them from ordinary resolutions, which cover routine matters and only require a simple majority. A decision by the board alone isn't a special resolution, and a 50% plus one vote usually wouldn't meet the required higher threshold.

2. The balance of payments is defined as what?

A. Difference between inflows and outflows of money

B. Net exports only

C. Total government debt outstanding

D. Budget surplus or deficit

The balance of payments is the country's record of all money coming in from and going out to the rest of the world. It covers every transaction with foreigners, including trade in goods and services, income flows, and financial movements like investments and loans. Because it sums all these inflows and outflows, it reflects the net position across borders over a period. That makes it essentially the difference between money coming in and money going out to other countries. The other options mix domestic fiscal concepts—net exports is only part of the picture, while government debt and budget balance relate to the government's finances, not international payments.

3. Income Protection Cover pays out what?

A. A lump sum on death

B. Pays mortgage interest only

C. An income benefit when unable to work, typically 50-75% of pre-tax earnings

D. A one-off bonus for good performance

Income protection is about providing ongoing financial support if you can't work due to illness or injury. It pays a regular income (usually monthly) to replace part of your earnings while you recover, rather than a one-off lump sum. The typical level is around 50-75% of your pre-tax earnings, which helps cover living costs without causing a sudden cash lump sum. So the option describing an income benefit when unable to work, typically 50-75% of pre-tax earnings, is the best fit. The other options describe different products: a lump sum on death is life cover, mortgage-related protection is a separate policy tied to mortgage payments, and a one-off bonus for good performance isn't insurance at all.

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4. In the event of winding up, ordinary shares are:

A. Paid first ahead of creditors.

B. Never paid.

C. Paid after creditors and other senior claims.

D. Paid before preference shares.

In winding up, assets are distributed in order of priority to ensure those with legal claims are paid first. Secured creditors come first on the assets pledged to them, and after them, costs of winding up and other senior claims (such as preferential creditors) are paid. Only after all these higher-priority claims have been satisfied do ordinary shareholders receive anything, making them residual claimants who are paid last. If nothing remains after all debts and senior claims are settled, ordinary shares receive nothing.

5. Which risk erodes the real value of a bond's coupon and redemption payments when inflation rises unexpectedly?

A. Inflation risk

B. Reinvestment risk

C. Liquidity risk

D. Credit risk

Inflation risk, also known as purchasing-power risk, is the idea that fixed cash flows from a bond can lose real value when inflation rises unexpectedly. A bond typically pays fixed coupons and returns a fixed principal at maturity in nominal terms. If inflation increases unexpectedly, the actual buying power of those fixed payments falls, so even though you receive the same nominal amount, its real value is lower. For example, a bond paying a 5% coupon on a $1000 par yields $50 annually, but if inflation jumps to 7%, those $50 buy less in goods and services than before, and at maturity you only get $1000 nominal, which may have less real purchasing power. This is distinct from reinvestment risk (the risk that future coupon cash flows must be reinvested at lower rates), liquidity risk (difficulty selling the bond quickly without a price concession), and credit risk (the issuer failing to pay). Inflation-linked bonds can help because their payments adjust with inflation, preserving real value.

6. Which of the following is a feature of income protection?

A. Pays an income benefit when unable to work due to sickness

B. Pays a fixed salary regardless of absence

C. Provides life cover equal to mortgage

D. Only covers dental expenses

Income protection is a policy that pays a regular income when you are unable to work because of sickness or injury. The key idea is to replace a portion of your earnings to help cover living costs while you're off work, rather than paying a fixed salary no matter what. This aligns with the described feature: an income benefit paid due to sickness. It isn't about continuing full salary regardless of absence, it isn't life cover, it isn't mortgage protection, and it doesn't primarily cover dental expenses. Benefits typically start after a waiting period and continue for as long as you're disabled (up to the policy's term or until retirement age), subject to policy terms and any offsets from other income.

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7. Which statement correctly describes a quote-driven trading system?

A. Orders go through an electronic order book with no market makers.

B. Trades are executed by a single specialist for a given security.

C. Uses market makers to quote two-way prices throughout the day regardless of market conditions.

D. Only primary market trades occur with no market participants.

In a quote-driven trading system, liquidity comes from market makers who continuously publish two-way prices for a security. They stand ready to buy and sell, providing bid and ask quotes throughout the trading day, so trades can occur with the market maker even if there isn't a matching order in an order book. This dealer-based approach contrasts with an electronic order book where trades are matched by incoming bids and offers from many participants rather than by ongoing quotes from a market maker. It also contrasts with a system described as having only a single specialist or no market participants at all, which don't accurately capture the ongoing two-way quoting by market makers.

8. In the event of default, which claims are paid first?

A. Debt with the highest seniority is repaid first in liquidation.

B. All creditors are paid equally

C. Equity holders are paid first

D. Debt with the lowest seniority is repaid first

The main idea being tested is the priority of claims in a default or liquidation. When a company goes bankrupt, its assets are distributed according to a strict waterfall: the most senior creditors, typically those with secured claims, are paid first from the assets available. After them come other senior unsecured creditors, then subordinated creditors, and finally equity holders, who are last in line. This order exists because secured creditors have collateral that reduces their risk, so they have the strongest claim on assets; equity holders are residual claimants and take the last share of any remaining value. So the option that says the most senior debt is repaid first aligns with this established hierarchy. The idea that debt with the lowest seniority is repaid first would violate the priority structure. Likewise, paying all creditors equally ignores the ranking, and paying equity holders first would ignore the seniority order and isn't consistent with how defaults are resolved.

9. Which instrument provides protection against default risk on a corporate bond or loan?

A. Credit Default Swap

B. Interest Rate Swap

C. Put Option

D. Call Option

The key idea is matching protection to the risk being hedged: default risk on debt. A credit default swap is a credit derivative that provides payout protection if the reference entity (the bond or loan issuer) experiences a default or other qualifying credit event. The buyer pays a premium to the seller, and if a default occurs, the seller compensates the buyer for the loss, effectively transferring credit risk. This is exactly what investors need to guard against when holding corporate bonds or loans. The other options address different risks. An interest rate swap protects against moves in interest rates rather than the issuer's ability to repay. Put and call options give rights to sell or buy the underlying asset but don't provide direct protection against a default event on a corporate issuer.

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10. In derivative terminology, the writer is best described as the

A. Holder

B. Seller

C. Buyer

D. Counterparty

In derivative markets, the writer is the party that creates and sells the contract and is obligated to fulfill its terms if the contract is exercised. That makes the writer the seller of the contract. For an option, the writer collects the premium up front and must deliver or take delivery if the option is exercised by the holder. The holder (buyer) has the right but not the obligation. In futures, the writer is the short side, agreeing to deliver or settle the underlying, with the buyer having the long position. "Counterparty" is too generic for this specific role. So the writer is best described as the seller.

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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://cisiintrotosecandinvestment.examzify.com

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

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