2025 Provide Updated CISI ICWIM Dumps as Practice Test and PDF [Q37-Q56

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Q37. Offshore foundations are often used as a suitable alternative to which similar type of arrangement?
* Limited liability partnerships
* Credit unions
* Trusts
* SICAVs

Offshore foundations are often considered alternatives totrusts, as both are used for wealth structuring, asset protection, and estate planning. However, unlike trusts, foundations are independent legal entities and can provide greater control to the founder.

* Limited liability partnerships (A): LLPs are business entities, not typically used for wealth management.

* Credit unions (B): These are financial cooperatives, unrelated to wealth structuring.

* SICAVs (D): SICAVs are investment funds, not wealth-structuring vehicles.

References:

* International Certificate in Wealth & Investment Management: Comparison of trusts and offshore foundations in wealth management.

* Legal structures and their applications in estate and tax planning.

Q38. What term is used to describe a situation where clients give investment instructions to a firm without being given advice to do so?
* Discretionary
* Execution only
* Non-discretionary
* Robo-advice
Execution-only refers to situations where clients make investment decisions without receiving advice from the firm. The firm’s role is limited to executing the client’s instructions, without providing recommendations or assessing suitability.

Key features:

* The firm does not offer advice.

* The client takes full responsibility for their investment decisions.

Q39. If someone in a fiduciary position has personal or professional interests that compete with their duty to act in the client’s best interest, this is called:
* Discretionary management
* A regulatory breach
* Full disclosure
* A conflict of interest
* Conflict of Interest Definition:

* A fiduciary position requires prioritizing the client’s best interest. When personal or professional interests compete with this duty, it constitutes a conflict of interest.

* Such conflicts can undermine the trust and integrity of the fiduciary relationship.

* Elimination of Other Options:

* A: Discretionary management is unrelated to fiduciary conflicts.

* B: A regulatory breach may occur if the conflict is not disclosed but is not inherently the conflict itself.

* C: Full disclosure is a way to manage conflicts, not the conflict itself.

References:

* ICWIM Module 5: Coverage of fiduciary responsibilities and managing conflicts of interest.

Q40. What is a key feature of offshore trusts that can make them attractive to wealthy UK clients?
* They are not publicly registered
* The offshore trust is only liable for local taxes

* The beneficiaries never have to pay inheritance tax
* The offshore trust is usually a less complex product to understand

Offshore trusts are often set up in jurisdictions with favorable tax regimes, making them appealing to wealthy UK clients. The key feature is that the trust is generally only liable for taxes in the jurisdiction where it is established.

Advantages include:

* Potential tax deferral or reduction.

* Privacy due to less stringent reporting requirements.

However, beneficiaries must still comply with UK tax laws, especially on distributions or gains brought into the UK.

Q41. When investors wish to sell units in mutual funds, there is a risk of the fund being gated. Why might this happen?
* To ensure any tax deferral benefits are not lost
* To ensure that the commission as a proportion of the fund remains small
* Because the investor has not held the units past the ‘lock-in’ period
* To allow fund managers to raise enough funds to pay out to those wishing to sell their units
* Fund Gating:

* Gating occurs when fund managers temporarily restrict redemptions to protect the remaining investors and ensure liquidity.

* This allows the fund to sell illiquid assets to generate sufficient cash for redemptions.

* Elimination of Other Options:

* A: Tax deferral benefits are irrelevant to gating.

* B: Commission proportions are unrelated to liquidity.

* C: Lock-in periods are predetermined and not linked to gating.

References:

* ICWIM Module 3: Focus on fund structures and liquidity management.

Q42. Equities have a higher risk/reward profile when compared to many other asset classes. Their use within a portfolio stems from:
* The potential to counter inflationary effects
* Their lower cost compared to other assets
* The ability to align liabilities with profits from equities
* Their low volatility when compared to bonds

Equities are often used to hedge against inflation because they represent ownership in real assets that can grow in value. Companies generally have the ability to pass on inflationary costs to consumers, which can preserve or enhance their profitability and the equity value.

* Lower cost (B): Equities may incur higher transaction and management costs than other asset classes.

* Align liabilities (C): While equities offer returns, liability alignment is more relevant to fixed-income assets.

* Low volatility (D): Equities are more volatile than bonds or cash, making this statement incorrect.

References:

* International Certificate in Wealth & Investment Management: Equities as inflation hedges and their risk/reward profile.

* Historical analysis of equity performance in inflationary periods.

Q43. Which of the following will be a major constraint on a client’s ability to invest and protect against all of the risks that might arise?
* Age
* Affordability
* Risk aversion
* Tax implications
* Why Affordability is the Major Constraint

* A client’s ability to mitigate risks is directly limited by their financial resources.

* Even the most sophisticated risk strategies, such as diversification, derivatives, or insurance, require financial capacity.

* Other Options Analyzed

* Age: Impacts risk tolerance but does not constrain the financial ability to manage risks.

* Risk aversion: A behavioral factor, not a financial constraint.

* Tax implications: Important but secondary compared to affordability.

* ICWIM Textbook, Chapter on Investment Constraints: Highlights affordability as the top financial constraint.

* Wealth Planning Principles: Discusses practical limitations of risk mitigation strategies.

ReferencesThus, the answer isB. Affordability.

Q44. If an investor expects to receive a bullet payment, they are likely to be invested in a:
* Treasury bond
* Zero coupon bond
* Convertible bond
* Premium bond
* Understanding Bullet Payments:

* A bullet payment is a single payment of principal and interest at maturity.

* Zero coupon bonds do not provide periodic interest payments, making them associated with bullet payments.

* Elimination of Other Options:

* A: Treasury bonds typically pay semiannual interest.

* C: Convertible bonds may have periodic interest.

* D: Premium bonds involve prize draws, not bullet payments.

References:

* ICWIM Module 3: Coverage of fixed income securities and payment structures.

Q45. Which one of the following is true of fundamental analysis? It seeks to establish:
* Long-term price trends of a security
* Long-term volume trends of a security
* The momentum of share prices
* The intrinsic value of a security

Fundamental analysis involves evaluating a security to determine its intrinsic value by examining factors such as financial statements, economic conditions, and industry trends. The goal is to identify whether the security is undervalued or overvalued compared to its current market price.

Q46. What is the most likely effect on the demand curve of an increase in consumer preference for a good?
* A downward movement
* An upward movement
* A rightward shift
* A leftward shift
* Effect of Increased Consumer Preference:

* When consumer preference for a good increases, demand rises at all price levels, leading to a rightward shift in the demand curve.

* The rightward shift reflects higher quantity demanded at each price point.

* Elimination of Other Options:

* A & B: Movements along the curve (upward or downward) occur due to price changes, not preference shifts.

* D: A leftward shift indicates reduced demand, contrary to the scenario presented.

References:

* ICWIM Module 3: Microeconomics: Demand and supply curve analysis.

Q47. If two sets of data have a correlation coefficient of 1.0, they possess:
* No correlation
* Weak correlation
* Perfect negative correlation
* Perfect positive correlation
* Correlation Coefficient of 1.0:

* A correlation coefficient measures the strength and direction of the relationship between two datasets.

* A value of1.0indicates a perfect positive correlation, meaning the two sets of data move in the same direction proportionally.

* Elimination of Other Options:

* A: A value of 0 indicates no correlation.

* B: Weak correlation would be closer to 0.

* C: Perfect negative correlation has a value of -1.

References:

* ICWIM Module 3: Concepts of statistical measures, including correlation.

Q48. Stablecoins are less prone to price fluctuations because:
* They do not use blockchain technology
* Their price is in US Dollars
* Their value is pegged to underlying assets
* They are highly illiquid
* Stablecoin Characteristics:

* Stablecoins reduce price volatility by pegging their value to stable underlying assets like fiat currencies (e.g., USD) or commodities (e.g., gold).

* This backing creates confidence in their value stability.

* Elimination of Other Options:

* A: Stablecoins use blockchain technology.

* B: Pegging can occur in other currencies, not just USD.

* D: Stablecoins are designed for liquidity, contrary to being illiquid.

References:

* ICWIM Module 6: Explanation of cryptocurrency types and characteristics.

Q49. “An approach which applies a theoretical price to a company’s shares by discounting the company’s expected future cash flow into infinity.” This statement is describing the:
* Net asset value
* Market value added
* Dividend valuation model
* Economic value added
* Dividend Valuation Model (DVM)

* The DVM values a company’s shares by calculating thepresent value of future expected dividends, assuming dividends grow perpetually at a constant rate.

* Why the Answer is C

* The model explicitly relies ondiscounting future cash flows (dividends)to determine the theoretical share price.

* Why Other Options are Incorrect

* A. Net asset value: Focuses on book value, not cash flows.

* B. Market value added: Measures value creation over invested capital, unrelated to theoretical share pricing.

* D. Economic value added: Measures performance based on excess returns, not share valuation.

* ICWIM Study Guide, Chapter on Equity Valuation: Explains the DVM and its mechanics.

* Valuation Literature: Highlights DVM’s use in share pricing.

References

Q50. In economics, costs are defined as:
* Opportunity
* Financial
* Normal profit
* Minimum efficient scale (MES)
* Definition of Costs in Economics

* Costs in economics are defined asopportunity costs, which represent the value of the next best alternative foregone when a decision is made.

* Examples

* If a business invests in Project A, the opportunity cost is the potential return from Project B, which was not pursued.

* Why the Other Options are Incorrect

* B. Financial: Financial costs are explicit, but economics considers opportunity costs as broader.

* C. Normal Profit: Normal profit is a component of total costs but not the definition of “costs” itself.

* D. MES (Minimum Efficient Scale): Refers to the production scale at which average costs are minimized, unrelated to cost definition.

* ICWIM Study Guide, Chapter on Economic Principles: Emphasizes opportunity cost as the core definition.

* Economic Textbooks: Widely recognize opportunity cost as the key concept in cost theory.

ReferencesThus, the correct answer isA. Opportunity.

Q51. Which type of investment is associated with providing finance to growing companies with the objective of exiting via a profitable stock market listing?
* Convertible bonds
* Preference shares
* Private equity
* Structured products
* Private Equity and Growing Companies:

* Private equity involves investing in privately-held companies with the goal of increasing their value and exiting through a stock

market listing (IPO) or sale.

* This investment type targets growth-stage businesses requiring significant capital.

* Elimination of Other Options:

* A: Convertible bonds are debt instruments, not equity investments.

* B: Preference shares provide fixed dividends and are not growth-oriented investments.

* D: Structured products are financial instruments tied to underlying assets and not specific to growth financing.

References:

* ICWIM Module 3: Coverage of private equity investments and their objectives.

Q52. An execution-only sale usually means a sale where there is an absence of:
* Charges
* Advice
* Product
* Guarantee
* Understanding Execution-Only Sales:

* Execution-only sales occur when the client makes a financial transaction without receiving any advice or recommendations from the intermediary.

* The client assumes full responsibility for the decision.

* Elimination of Other Options:

* A: Charges are typically present in execution-only sales.

* C: The product is being sold; the sale cannot occur without it.

* D: Guarantees are unrelated to the advisory process.

References:

* ICWIM Module 4: Focus on financial advice models, including execution-only services.

Q53. The UCITS regulations have been integral to introducing a common format for:
* Company accounts
* Corporate actions
* Key investor information documents
* Trade settlement
TheUCITS (Undertakings for the Collective Investment in Transferable Securities)regulations mandate that fund managers provide a standardizedKey Investor Information Document (KIID)to investors. This document ensures that all retail investors receive clear and concise information about the fund’s objectives, risks, charges, and past performance.

* Company accounts (A): UCITS does not govern corporate accounting.

* Corporate actions (B): Corporate actions such as dividends or mergers are unrelated to UCITS.

* Trade settlement (D): UCITS does not standardize trade settlement processes.

References:

* International Certificate in Wealth & Investment Management: Regulations surrounding UCITS and KIIDs.

* UCITS directives and their implementation across the European Union.

Q54. Which term is used to describe a dividend payment made by a company with insufficient earnings to do so?
* An ex-dividend payment
* A proxy dividend payment
* A scrip dividend payment
* An uncovered dividend payment
* What is an Uncovered Dividend?

* An uncovered dividend payment occurs when a company pays a dividenddespite having insufficient earningsto support the payout.

* The dividend is effectively “uncovered” by profits, meaning the company might be using reserves, taking on debt, or liquidating assets to fund the dividend.

* Why Companies Pay Uncovered Dividends

* To maintain investor confidence and avoid negative signals to the market.

* Investors may interpret a dividend cut as a sign of financial trouble, so companies sometimes prioritize dividends even at a financial strain.

* Other Options Explained

* A. Ex-dividend payment: Refers to the status of a stock when a dividend has already been declared, and new buyers are not entitled to the dividend.

* B. Proxy dividend payment: No such widely recognized term in this context.

* C. Scrip dividend payment: A dividend paid in the form of additional shares rather than cash.

* Example

* A company reports $500,000 in profits but declares a $1,000,000 dividend, funding the shortfall through borrowing. This is an uncovered dividend.

* ICWIM Textbook, Chapter on Corporate Actions: Discusses uncovered dividends and their implications.

* Corporate Finance Standards: Defines uncovered dividends and contrasts them with scrip and ex- dividends.

References

Q55. What causes the price of a closed-ended investment company to trade at a premium or discount to net asset value (NAV)?
* The level of charges within the fund
* The tax status of the fund
* Supply and demand
* Current level of interest rates
* Price of Closed-Ended Investment Companies:

* These companies issue a fixed number of shares. Prices can trade at a premium or discount to NAV based on market demand and supply for their shares.

* Strong demand increases prices above NAV (premium), while weak demand decreases prices below NAV (discount).

* Elimination of Other Options:

* A: Charges affect long-term returns but not immediate pricing.

* B: Tax status is generally consistent and not a determinant of premiums or discounts.

* D: Interest rates indirectly affect demand but are not a direct cause.

References:

* ICWIM Module 3: Discussion on pricing mechanisms of closed-ended funds and NAV premiums

/discounts.

Q56. Your client estimates that they will require £40,000 of income annually to live off when they retire. Personal plus state pension will provide £35,000. They wish to retire in 20 years’ time. It is estimated that they can earn

3% per annum and inflation has been forecast at 2% over the next 20 years. Interest rates are currently 1.5%.

Allowing for inflation, what lump sum would they need to accrue to supplement their pension?
* £165,105
* £247,658
* £331,631
* £495,316
* Determine the shortfall in income:

* Desired income: £40,000

* Pension provided: £35,000

* Annual shortfall: £40,000 – £35,000 = £5,000

* Adjust for inflation over 20 years:Future value = Present Value × (1 + Inflation Rate)n£5,000 × (1 +

0.02)20 = £7,430 (inflation-adjusted shortfall)

* Calculate the lump sum required to generate this shortfall:Use the real rate of return formula: (1 + nominal return) ÷ (1 + inflation rate) – 1Real rate of return = (1 + 0.03) ÷ (1 + 0.02) – 1 = 0.98% per year Use the present value of annuity

formula:PV = PMT × [(1 – (1 + r)-n) ÷ r]PV = £7,430 × [(1 – (1 + 0.0098)-

20) ÷ 0.0098]PV = £7,430 × 44.64 = £331,631

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