

Canadian Securities Institute FP-I

Financial Planning I (FP I)

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Question: 1

Why does diversification generally reduce investment risk?

- A. It guarantees that every investment will earn a profit
- B. It removes all market and inflation risk
- C. It reduces dependence on the performance of a single security, issuer, industry, or asset class
- D. It ensures that all investments move in the same direction

Answer: C

Explanation:

Diversification spreads investments across holdings whose returns may respond differently to economic and market conditions. Poor performance from one holding may therefore be partially offset by stronger performance elsewhere. It is particularly useful for reducing security-specific and concentration risk. Diversification cannot eliminate systematic market risk, guarantee a profit, or prevent losses during widespread market declines.

Question: 3

A testator wants to make a limited change to an existing valid will. What document has traditionally been used for this purpose?

- A. A mortgage discharge
- B. A beneficiary's power of attorney
- C. A properly executed codicil
- D. An investment-policy statement

Answer: C

Explanation:

A codicil is a testamentary document traditionally used to amend, add to, or revoke specific provisions of an existing will. It must satisfy the applicable legal execution requirements to be effective. Because several codicils can create ambiguity or inconsistency, preparing a new will may sometimes be clearer. The testator should obtain appropriate legal advice and ensure that informal markings or physical changes do not unintentionally create questions about validity.

Question: 4

Which statement correctly distinguishes the Canada Pension Plan from Old Age Security?

- A. Both programs are based only on investment account balances
- B. CPP is generally contribution and earnings related, while OAS eligibility is primarily residence based and may be subject to income recovery
- C. OAS is available only to individuals who contributed to CPP
- D. CPP benefits are identical for every eligible recipient

Answer: B

Explanation:

CPP is a contributory program and retirement benefits generally reflect factors such as pensionable

earnings, contributions, and the age at which payments begin. OAS is financed from government revenues and primarily uses age and Canadian residence requirements rather than employment contributions. Higher-income recipients may be required to repay some or all OAS through the recovery-tax mechanism. Advisors should use current government estimates and rules when preparing a retirement-income projection.

Question: 5

A client refuses to disclose several outstanding debts during the initial financial-planning meeting. What should the advisor do?

- A. Estimate the debts using the client's income
- B. Exclude debt planning from the engagement
- C. Explain why complete information is required and describe the limitations created by missing data
- D. Prepare recommendations using only the client's assets

Answer: C

Explanation:

An advisor needs complete, current, and accurate information to analyze a client's financial position properly. Undisclosed debts can distort cash flow, net worth, borrowing capacity, insurance needs, and retirement projections. The advisor should explain why the information is relevant and how confidentiality is maintained. If the client still refuses to provide it, the advisor should document the limitation and avoid presenting recommendations as comprehensive.

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