

Question 1

L2PM-EP0008-1908

LOS: LOS-10707

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: medium

Identify which of the following costs is *least* significant for a frequent/active ETF trader.

- ☐ Bid-ask spreads
- ☒ Management fees
- ☐ Discounts/premiums to NAV

Rationale

Bid-ask spreads

Incorrect. Bid-ask spreads and premiums/discounts to NAV are the most significant concern for an ETF trader. They easily outsize the management fees when a frequent trader holds an ETF.

Rationale

Management fees

Correct. Bid-ask spreads and premiums/discounts to NAV are the most significant concern for an ETF trader. They easily outsize the management fees when a frequent trader holds an ETF.

Rationale

Discounts/premiums to NAV

Incorrect. Bid-ask spreads and premiums/discounts to NAV are the most significant concern for an ETF trader. They easily outsize the management fees when a frequent trader holds an ETF.

Question 2

L2PM-EP0010-1908

LOS: LOS-10708

Lesson Reference: Lesson 3: ETFs in Portfolio Management

Difficulty: medium

Identify which of the following items is not a portfolio operational activity that can be optimized through the use of ETFs.

- ☐ Portfolio rebalancing
- ☐ Managing cash flows
- ☒ Implementing strategic tilts

Rationale

Portfolio rebalancing

Incorrect. Implementing strategic portfolio tilts is not considered an operational activity, but it relates to fund management.

Rationale

Managing cash flows

Incorrect. Implementing strategic portfolio tilts is not considered an operational activity, but it relates to fund management.

Rationale

Implementing strategic tilts

Correct. Implementing strategic portfolio tilts is not considered an operational activity, but it relates to fund management.

Question 3

L2PM-EP0001-1908

LOS: LOS-10701

Lesson Reference: Lesson 1: Costs of Trading

Difficulty: medium

Identify which of the following statements regarding ETFs is untrue.

- ☐ When new ETF shares are created, APs acquire and contribute securities in the creation basket for ETF shares of equal value.
- ☐ If an AP wants to redeem ETF shares, they exchange their ETF shares in exchange for the underlying shares in the redemption basket.
- ☒ ETFs only trade in primary markets.

Rationale

✗ When new ETF shares are created, APs acquire and contribute securities in the creation basket for ETF shares of equal value.

Incorrect. When new ETF shares are created, APs acquire and contribute securities in the creation basket for shares of equal value.

Rationale

✗ If an AP wants to redeem ETF shares, they exchange their ETF shares in exchange for the underlying shares in the redemption basket.

Incorrect. If an AP wants to redeem ETF shares, they exchange their ETF shares in exchange for the redemption basket.

Rationale

✓ ETFs only trade in primary markets.

Correct. ETFs trade in primary and secondary markets.

Question 4

L2PM-EP0005-1908

LOS: LOS-10705

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: hard

Identify which of the following statements is correct regarding stale ETF pricing.

- ☐ ETF trading prices can more accurately reflect value than NAVs or iNAVs when underlying securities are more actively traded/liquid.
- ☐ ETF trading prices can more accurately reflect value than NAVs or iNAVs when market volatility declines.
- ☒ ETF trading prices can more accurately reflect value than NAVs or iNAVs when there are time lags.

Rationale

✗ ETF trading prices can more accurately reflect value than NAVs or iNAVs when underlying securities are more actively traded/liquid.

Incorrect. ETF trading prices can more accurately reflect value than NAVs or iNAVs when underlying securities are less actively traded/liquid, markets are volatile, or when there are time lags.

Rationale

✗ ETF trading prices can more accurately reflect value than NAVs or iNAVs when market volatility declines.

Incorrect. ETF trading prices can more accurately reflect value than NAVs or iNAVs when underlying securities are less actively traded/liquid, markets are volatile, or when there are time lags.

Rationale

✓ ETF trading prices can more accurately reflect value than NAVs or iNAVs when there are time lags.

Correct. ETF trading prices can more accurately reflect value than NAVs or iNAVs when underlying securities are less actively traded/liquid, markets are volatile, or when there are time lags.

Question 5

L2PM-EP0004-1908

LOS: LOS-10704

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: medium

Identify which of the following fixed income securities trade actively after the time of issuance.

- ☐ U.S. corporate A-rated bonds
- ☐ U.S. corporate high-yield bonds
- ☒ U.S. Treasuries bonds

Rationale

U.S. corporate A-rated bonds

Incorrect. Investment-grade, high-yield corporate debt, and some municipal and international bonds only trade actively around the time of issuance.

Rationale

U.S. corporate high-yield bonds

Incorrect. Investment-grade, high-yield corporate debt, and some municipal and international bonds only trade actively around the time of issuance.

Rationale

U.S. Treasuries bonds

Correct. Investment-grade, high-yield corporate debt, and some municipal and international bonds only trade actively around the time of issuance.

Question 6

L2PM-EP0007-1908

LOS: LOS-10706

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: medium

Identify which of the following ETF costs is implicit.

- ☐ Management fees
- ☐ Commissions
- ☒ Bid-ask spreads

Rationale

Management fees

Incorrect. Management fees are explicit costs.

Rationale

Commissions

Incorrect. Commissions are explicit costs.

Rationale

Bid-ask spreads

Correct. Bid-ask spreads are implicit costs.

Question 7

L2PM-EP0003-1908

LOS: LOS-10703

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: medium

Identify which of the following is *not* a drag on ETF performance relative to its index.

- ☐ Fees
- ☒ Securities lending
- ☐ Fund accounting practices

Rationale

 **Fees**

Incorrect. Fees are a drag on performance.

Rationale

 **Securities lending**

Correct. Securities lending provides income for the ETF to offset costs to benefit shareholders.

Rationale

 **Fund accounting practices**

Incorrect. ETFs may use different calculations than its index that cause tracking error.

Question 8

L2PM-EP0006-1908

LOS: LOS-10706

Lesson Reference: Lesson 2: Understanding ETFs

Difficulty: medium

Identify which of the following ETF costs do not become increasingly large as a portion of returns over time.

- ☐ Cash flow generation
- ☒ Bid-ask spreads
- ☐ Portfolio optimization

Rationale

Cash flow generation

Incorrect. Ongoing costs like management fees and trading for portfolio optimization and operational/cash flows become an increasingly large portion of returns as time passes.

Rationale

Bid-ask spreads

Correct. Bid-ask spreads for ETFs' fixed costs have a diminishing impact on returns over time.

Rationale

Portfolio optimization

Incorrect. Ongoing costs like management fees and trading for portfolio optimization and operational/cash flows become an increasingly large portion of returns as time passes.

Question 9

L2PM-EP0002-1908

LOS: LOS-10702

Lesson Reference: Lesson 1: Costs of Trading

Difficulty: easy

Identify how many days the NSCC needs to clear normal trades and have broker/dealers review their records and correct discrepancies.

- ☐ T + 1
- ☒ T + 2
- ☐ T + 3

Rationale

 **T + 1**

Incorrect. For normal trades, the NSCC has two days (T + 2) to clear trades and have each broker/dealer review its records and correct discrepancies.

Rationale

 **T + 2**

Correct. For normal trades, the NSCC has two days (T + 2) to clear trades and have each broker/dealer review its records and correct discrepancies.

Rationale

 **T + 3**

Incorrect. For normal trades, the NSCC has two days (T + 2) to clear trades and have each broker/dealer review its records and correct discrepancies.