

Question 1

L2CF-EP0007-1908

LOS: LOS-7694

Lesson Reference: Lesson 4: Evaluating ESG-Related Risks and Opportunities

Difficulty: medium

If a company is forecasted to produce lower operating margins in line with its peers due to ESG-related regulations, identify which of the following statements regarding a company's publicly traded equities is correct.

- ☒ The P/E ratio will fall.
- ☐ The P/E ratio will remain unchanged.
- ☐ The P/E ratio will rise.

Rationale

✔ **The P/E ratio will fall.**

Correct. If operating margins fall alongside industry peers, then future profits are likely to fall and the current share price will fall in anticipation, reducing the P/E ratio.

Rationale

✘ **The P/E ratio will remain unchanged.**

Incorrect. If operating margins fall alongside industry peers, then future profits are likely to fall and the current share price will fall in anticipation, reducing the P/E ratio.

Rationale

✘ **The P/E ratio will rise.**

Incorrect. If operating margins fall alongside industry peers, then future profits are likely to fall and the current share price will fall in anticipation, reducing the P/E ratio.

Question 2

L2CF-EP0005-1908

LOS: LOS-7693

Lesson Reference: Lesson 3: Identifying ESG-Related Risks and Opportunities

Difficulty: easy

Identify which of the following statements is correct regarding equity valuations if a company experiences a significant ESG event.

- ☐ Credit spreads on their bonds will decrease.
- ☐ Credit spreads on their bonds will remain unchanged.
- ☒ Credit spreads on their bonds will increase.

Rationale

 **Credit spreads on their bonds will decrease.**

Incorrect. A significant ESG event would have a negative impact on a company's financials and marketplace reputations, which would cause credit spreads on its bonds to increase.

Rationale

 **Credit spreads on their bonds will remain unchanged.**

Incorrect. A significant ESG event would have a negative impact on a company's financials and marketplace reputations, which would cause credit spreads on its bonds to increase.

Rationale

 **Credit spreads on their bonds will increase.**

Correct. A significant ESG event would have a negative impact on a company's financials and marketplace reputations, which would cause credit spreads on its bonds to increase.

Question 3

L2CF-EP0004-1908

LOS: LOS-7692

Lesson Reference: Lesson 2: Evaluating Corporate Governance Policies and Procedures

Difficulty: easy

Identify which of the following is true regarding voting power under dual-class share structures.

- ☐ Management shares typically have less voting power as publicly available shares.
- ☐ Management shares typically have the same voting power as publicly available shares.
- ☒ Management shares typically have greater voting power as publicly available shares.

Rationale

 **Management shares typically have less voting power as publicly available shares.**

Incorrect. Under dual-class share structures, founder/management shares typically have greater voting power than publicly available shares.

Rationale

 **Management shares typically have the same voting power as publicly available shares.**

Incorrect. Under dual-class share structures, founder/management shares typically have greater voting power than publicly available shares.

Rationale

 **Management shares typically have greater voting power as publicly available shares.**

Correct. Under dual-class share structures, founder/management shares typically have greater voting power than publicly available shares.

Question 4

L2CF-EP0001-1908

LOS: LOS-7691

Lesson Reference: Lesson 1: Global Variations in Ownership Structures

Difficulty: easy

Identify which of the following is *not* associated with dispersed ownership and concentrated voting power.

- ☐ Pyramid ownership
- ☒ Voting caps
- ☐ Dual-class shares

Rationale

Pyramid ownership

Incorrect. Those with concentrated voting power can control other minority shareholders by using dual-class shares, pyramid ownership structures, and control over management. Voting caps are associated with concentrated ownership and dispersed voting power.

Rationale

Voting caps

Correct. Those with concentrated voting power can control other minority shareholders by using dual-class shares, pyramid ownership structures, and control over management. Voting caps are associated with concentrated ownership and dispersed voting power.

Rationale

Dual-class shares

Incorrect. Those with concentrated voting power can control other minority shareholders by using dual-class shares, pyramid ownership structures, and control over management. Voting caps are associated with concentrated ownership and dispersed voting power.

Question 5

L2CF-EP0002-1908

LOS: LOS-7691

Lesson Reference: Lesson 1: Global Variations in Ownership Structures

Difficulty: easy

Identify which of the following statements regarding institutional investors is correct.

- ☒ Institutional ownership is usually dispersed and uncoordinated.
- ☐ Institutional investors usually exercise significant control over managers.
- ☐ Institutional investors usually exercise significant control over boards of directors.

Rationale

☒ **Institutional ownership is usually dispersed and uncoordinated.**

Correct. Institutional ownership is usually dispersed and uncoordinated.

Rationale

☒ **Institutional investors usually exercise significant control over managers.**

Incorrect. Institutional investors do not usually exercise significant control over managers.

Rationale

☒ **Institutional investors usually exercise significant control over boards of directors.**

Incorrect. Institutional investors do not usually exercise significant control over boards of directors.