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39	A	B	C	D	E

PRACTICE QUESTIONS

Canadian Investment Regulatory Organization (CIRO)

TE1E

Trader Exam

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for Canadian Investment Regulatory Organization (CIRO) **TE1E**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **TE1E**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1 SINGLE CHOICE

Under CRO Universal Market Integrity (UMIR) Rule 6.1, a Trading Participant must use reasonable efforts to ensure that orders entered into a marketplace are not intended to create a misleading appearance of trading activity. Which of the following trading practices is specifically prohibited as a form of artificial trading?

- ☒ **A** Trading with the intention of transferring positions between accounts under common control at artificially high or low prices
- ☐ **B** Providing liquidity on both sides of the market to tighten bid-ask spreads during regular trading hours
- ☐ **C** Executing a bona fide customer order at the best displayed market price
- ☐ **D** Hedging a long equity position with an offsetting option trade

ANSWER A

WHY UMIR Rule 6.1 prohibits trading that creates a misleading appearance of trading activity, which includes wash trades and pre-arranged trades designed to transfer positions between related accounts at artificial prices. Options B, C, and D are legitimate trading activities that support market liquidity or customer execution, not prohibited artificial trading practices.

QUESTION 2 SINGLE CHOICE

Under UMIR Rule 7.1, when may a Trading Participant accept an order from a client without first obtaining proper documentation of the client's identity?

- ☒ **A** Never; proper client documentation must always be in place before accepting an order
- ☐ **B** Only when the order is for an institutional account known to the participant
- ☐ **C** Only when the order value is below a \$5,000 de minimis threshold
- ☐ **D** Only when the client is a registered portfolio manager

ANSWER A

WHY UMIR Rule 7.1 (and the related Dealer Member Rules) require proper documentation of client identity and account information before orders are accepted. There is no exception based on account type, order size, or registrant category. The other options describe plausible-sounding but non-existent exemptions.

QUESTION 3

SINGLE CHOICE

Under UMIR, a Trading Participant that receives an order it knows or ought reasonably to know is for the purpose of manipulating or deceiving the market must:

- ☐ A Execute the order as instructed and report the activity to CIRO after the trade settles
- ☒ B Refuse to enter the order into the marketplace and document the refusal
- ☐ C Split the order across multiple marketplaces to disguise the trading intention
- ☐ D Negotiate a revised price with the client before entering the order

ANSWER B

WHY UMIR requires Trading Participants to refuse orders that they know or reasonably should know are intended to manipulate or deceive the market, and to document the refusal. Executing and reporting later, splitting orders across marketplaces, or repricing do not discharge the obligation to reject the order at the outset.

QUESTION 4

SINGLE CHOICE

Under UMIR Rule 4.2, which of the following best describes the 'best execution' obligation owed by a Trading Participant?

- ☐ A Executing every client order on the marketplace with the lowest posted commission rate
- ☒ B Taking reasonable steps to obtain the most favourable execution terms reasonably available under prevailing market conditions
- ☐ C Routing all client orders to the marketplace offering the largest posted size at the best price
- ☐ D Executing client orders only during the regular trading session of the listing marketplace

ANSWER B

WHY UMIR Rule 4.2 requires Trading Participants to use reasonable efforts to obtain the best execution terms reasonably available for client orders, taking into account factors such as price, speed, certainty of execution, and prevailing market conditions. The other options describe narrow, single-factor interpretations that are inconsistent with the rule's broader obligation.

QUESTION 5 SINGLE CHOICE

Which of the following best describes the principal risk to a seller (writer) of a naked call option?

- ☐ A Loss limited to the premium received
- ☐ B Loss limited to the strike price multiplied by the contract multiplier
- ☒ C Unlimited loss potential if the underlying price rises substantially above the strike price
- ☐ D Loss capped at the difference between the strike price and zero

ANSWER C

WHY The writer of a naked (uncovered) call option has an obligation to deliver the underlying at the strike price, with theoretically unlimited loss if the underlying rises significantly above the strike. Option A describes the maximum profit, not the risk profile; option B describes a covered call's capped risk (covered by owning the underlying); option D incorrectly treats zero as a floor on the underlying price.

QUESTION 6 SINGLE CHOICE

An investor purchases a long call option with a strike price of \$25 for a premium of \$2. At what underlying price at expiration does the investor break even?

- ☐ A \$23.00
- ☐ B \$25.00
- ☒ C \$27.00
- ☐ D \$25.02

ANSWER C

WHY The break-even price for a long call equals the strike price plus the premium paid: $\$25 + \$2 = \$27$. At \$27, the intrinsic value (\$2) exactly offsets the premium, resulting in zero profit or loss.

QUESTION 7 SINGLE CHOICE

Which of the following best describes the function of a marketplace's order routing system (ORS)?

- ☐ A A system used by issuers to file continuous disclosure documents with the regulator
- ☒ B A system used by Trading Participants to electronically transmit orders to a marketplace for execution
- ☐ C A clearing and settlement system operated by CDS
- ☐ D A regulatory surveillance system used to detect insider trading

ANSWER B

WHY An Order Routing System (ORS) is used by Trading Participants to electronically route client and proprietary orders to a marketplace for matching and execution. Option A refers to continuous disclosure filing (e.g., SEDAR+), option C refers to CDS clearing/settlement, and option D refers to regulatory market surveillance systems maintained by CIRO.

QUESTION 8 SINGLE CHOICE

Under CIRO rules, which of the following trades is considered 'crossing' and is subject to specific regulatory requirements?

- ☐ A A trade executed on a marketplace between unrelated third-party orders
- ☒ B A trade resulting from the entry of both a buy and a sell order from the same Trading Participant for accounts under common control
- ☐ C A trade executed during the pre-market opening auction
- ☐ D A trade printed by an Alternative Trading System at the closing price

ANSWER B

WHY Under UMIR, a 'cross' (or crossing trade) is a trade involving orders on both sides from the same Trading Participant, including trades between accounts under common control, and is subject to specific requirements such as price improvement and disclosure. The other options describe trades that do not meet the definition of a cross.

QUESTION 9

MULTIPLE CHOICE

Which of the following are features of a 'limit order' as defined under UMIR? (Choose two.)

- ☒ **A** It must be executed at a specified price or better
- ☐ **B** It guarantees execution regardless of price
- ☒ **C** It may be either marketable or non-marketable when entered
- ☐ **D** It is executed only at the opening auction price

ANSWER **A - C**

WHY A limit order is an order to buy or sell at a specified price or better (A). When entered, a limit order may be marketable (would execute immediately against the current market) or non-marketable (would rest on the book) (C). It does not guarantee execution (B) — a limit order may not be filled if the market never reaches the limit price — and it is not restricted to the opening auction (D).