Series #56
Final 4

1.
If the NYSE halts trading in all securities due to imposition of the "circuit breaker" rule that is initiated in response to extraordinary market conditions, the CBOE will:

a. halt trading in stock options on NYSE listed issues, but not in stock options on AMEX or NASDAQ listed issues
b. halt trading in all stock options, but not in index options
c. halt trading in all stock options and index options
d. continue to trade all options contracts

2.
If 2 Floor Officials agree, trading in a specific options contract can be halted for a maximum of:

a. 1 business day
b. 2 business days
c. 3 business days
d. 5 business days
with the SRO 10 days in advance of use

3.
Which of the following has the same breakeven point as 1 ABC Jan 50 Call @ $3?

a. 1 ABC Jan 50 Put @ $7
b. 1 ABC Jan 60 Put @ $7
c. 1 ABC Jan 55 Call @ $2
d. 1 ABC Jan 45 Call @ $9

4.
The principal supervisory office having jurisdiction over the office servicing a customer's options account is obligated to perform a timely review all of the following in each customer options account **EXCEPT:**

a. commission activity
b. profit or loss
c. undue concentration
d. tax liability

5.
A customer owns 15,000 shares of ABC stock purchased at $40 that has appreciated in value to $61 per share. The customer believes that the stock may rise to $70 per share, but wants to protect the position from downside loss at minimum cost. In order to meet the customer's objectives, the best recommendation is to:

a. Buy 150 ABC Jan 60 Puts and Sell 150 ABC Jan 70 Calls
b. Buy 150 ABC Jan 70 Puts and Sell 150 ABC Jan 60 Calls
c. Sell 150 ABC Jan 60 Calls and Buy 150 ABC Jan 70 Calls
d. Sell 150 ABC Jan 60 Puts and Buy 150 ABC Jan 70 Puts

6.
Exercise limits on the CBOE are applied over a time period of:

a. 1 business day
b. 3 business days
c. 5 business days
d. 10 business days

7.
The minimum time period for which customer options complaints must be retained is:

a. 1 year
b. 3 years
c. 5 years
d. 6 years

8.
A customer places a closing order to sell 5 ABC Jul 60 Calls @ $5, 2 days after ABC has gone ex-dividend for a 10% stock dividend. If the order is filled at the $5 premium, the customer will receive:

a. $500
b. $2,500
c. $2,750
d. $3,000

9.
Which of the following allocation methods is permitted to be used by a member organization if that member receives an exercise notice from the Options Clearing Corporation?

a. First In; First Out
b. First In; Last Out
c. Last In; First Out
d. Last In; Last Out

10.
A member firm is permitted to execute an options trade for a customer outside of the exchange floor if:

a. approval of the exchange is received prior to "executing away" from the trading floor
b. the order is placed by the customer as a "market not-held" order
c. a better execution can be obtained for the customer, resulting in a lower purchase price or higher sale price
d. a narrower bid-ask spread is present in the alternate marketplace, resulting in a better execution for the member firm

11.
ABCD stock is trading at $120 on NASDAQ. The company declares a 3:2 stock split. On the ex date for the split, the holder of 1 ABCD Jan 120 Call will have:

a. 1 ABCD Jan 120 Call with a multiplier of 100
b. 1.5 ABCD Jan 120 Calls with a multiplier of 100
c. 1 ABCD Jan 80 Call with a multiplier of 150
d. 1.5 ABCD Jan 80 Calls with a multiplier of 100

12.
In determining whether there is a violation of position limits, options trades in which of the following accounts will be aggregated?

I A discretionary options account where Broker "A" executes trades for a client
II An options account owned by Broker "A" where he or she trades for his or her own account
III An options account for an individual customer that is serviced by Broker "A"

a. II only
b. I and II only
c. II and III only
d. I, II, III

13.
The last date and time to exercise an expiring equity option contract is:

a. 4:30 PM ET on the business day prior to the last day of trading
b. 5:30 PM ET on the business day prior to the last day of trading
c. 4:30 PM ET on the last day of trading
d. 5:30 PM ET on the last day of trading

14.
Options positions limits do **NOT** apply to:

a. Equity Options
b. Index Options
c. Foreign Currency Options
d. Flex Options

15.
All of the following are equivalent positions **EXCEPT:**

a. Long Call = Long Stock + Long Call
b. Short Call = Short Stock + Short Put
c. Long Put = Short Stock + Long Call
d. Short Put = Long Stock + Short Call

16.
A customer holds 1 ABC Oct 60 Call contract. The market price of ABC is currently 62. ABC declares a 2:1 stock split. On the ex date, the holder will have:

a. 1 contract with a multiplier of 100
b. 1 contract with a multiplier of 200
c. 2 contracts with a multiplier of 100
d. 2 contracts with a multiplier of 200

17.
A customer is long 10 ABC Jan 60 Call contracts. ABC Corporation has just declared a $1 per share dividend. To receive the dividend, the customer must:

a. sell the contracts prior to the ex-date
b. sell the contracts prior to the record date
c. file an effective exercise notice with the Options Clearing Corporation prior to the ex-date
d. file an effective exercise notice with the Options Clearing Corporation after to the ex-date

18.
The last time to trade an equity option that is about to expire is:

a. 2:00 PM Central Time; 3:00 Eastern Time, on the 3rd business day prior to expiration
b. 3:00 PM Central Time; 4:00 Eastern Time, on the 3rd business day prior to expiration
c. 2:00 PM Central Time; 3:00 Eastern Time, on the business day prior to expiration
d. 3:00 PM Central Time; 4:00 Eastern Time, on the business day prior to expiration

19.
A floor broker on the Chicago Board Options Exchange announces, by public outcry, that he is "crossing." This means that:

a. The floor trader held an order to buy and sell the same option; was unable to execute the trade in the trading crowd; and therefore, is canceling the orders by crossing them off his order book
b. The floor trader held an order to buy and sell the same option; was unable to execute the trade in the trading crowd; and therefore, executed the orders against each other by crossing them
c. The Floor Official has declared that the trade is invalid and the trader must publicly announce that the trade is "crossed off"
d. The floor trader, as an accommodation, is liquidating a worthless option contract for an aggregate $1 premium

20.
Which statements are true about PHLX World Currency British Pound options?

I The contract size is 10,000 British Pounds
II The contract size is 100,000 British Pounds
III The contract multiplier is 100
IV The contract multiplier is 10,000

a. I and III
b. I and IV
c. II and III
d. II and IV

21.
Portfolio margining:

I uses standardized stress-testing of probable price declines or increases to compute margins
II uses fixed percentages established by Regulation T to compute margins
III is mainly used by hedge funds and institutional investors seeking to increase leverage
IV is mainly used by smaller investors seeking to increase leverage

a. I and III
b. I and IV
c. II and III
d. II and IV

22.
A member firm may assume, for its own account, an option contract made for a customer after a loss to the customer has been established:

I If the customer requests in writing and the member organization agrees in writing
II If the contract was made by the member organization's mistake
III If approval of the exchange has first been obtained

a. I only
b. I and II
c. II and III
d. I, II, III

23.
A customer enters an order to sell 80 OEX Jan 850 Calls @ $10 - IOC. The order is transmitted to a floor broker on the CBOE, who is able to fill 60 contracts at $10. Which statement is true?

a. The floor broker will execute the trade for 60 contracts and can make additional attempts to fill the remaining 20 contracts during that trading day
b. The floor broker will execute the trade for 60 contracts and the balance of 20 contracts that were not filled will be canceled
c. The floor broker will execute the trade for 60 contracts and place the unfilled limit order to sell 20 contracts with the Board Broker or DPMM
d. The floor broker cannot execute the order because it must be filled in its entirety

24.
When the price of ABC stock is $50, on the same day in a margin account, a customer: Buys 1 ABC Jan 55 Call @ $1; Sells 2 ABC Jan 50 Calls @ $4; and Buys 1 ABC Jan 45 Call @ $8. The customer has created a:

a. combined long and short spread
b. butterfly spread
c. ratio write
d. covered straddle

25.
The latest time to place a trade for an equity option on the CBOE floor is:

a. 4:00 PM EST; 3:00 PM CST
b. 4:15 PM EST: 3:15 PM CST
c. 5:30 PM EST: 4:30 PM CST
d. 11:59 PM EST; 10:59 CST

26.
A customer places an order to "Sell 10 ABC Jan 60 Calls @ Mkt" at 12:15 PM ET. The registered representative writes the order on a notepad and rushes out to a pressing lunch engagement. At 1:45 PM, the registered representative returns from lunch and enters the order, which is immediately executed at a premium of $5 per share. The trade is reported to the customer, who complains that when the order was placed at 12:15 PM, the option was trading at $7. The customer wants the member firm to pay for the $2 of "lost" premium. Which statement is true?

a. The customer is required to accept the $5 execution price, since this was a market order
b. The customer is required to accept the $5 execution price, since member firms are prohibited from assuming customer losses
c. The member firm must break the trade since the customer did not receive the desired price
d. The member firm must credit the customer account for the $2 per share of "lost" premiums

27.
A registered representative has been suspended for 60 days as a result of a disciplinary action taken under the Code of Procedure. Which statement is **TRUE** regarding payment of compensation to the representative during the suspension person?

a. The representative cannot be paid during the suspension period
b. The representative can be paid for prior business done, but cannot be paid for any current business
c. The representative can be paid for any current business, but cannot be paid for prior business done
d. The representative can continue to be paid in the normal manner

28.
A registered representative with your firm wishes to supplement her income by becoming a real estate agent on weekends. Which statement is **TRUE** about this activity?

a. She is prohibited from taking an outside job
b. She can take an outside job, but cannot be commission-based
c. She can only take the second job if she gives written notice to the firm
d. She can only take the second job if she gives written notice to the SRO

29.
A registered representative is deployed in the Army Reserves. During the length of time that the individual is in the Reserves:

a. his registration goes into "special inactive" status and he is excused from his Regulatory Element CE obligation
b. his registration remains active but he does not have to complete his Regulatory Element CE until his military service is completed
c. his registration remains active and he has to complete his Regulatory Element CE obligation on-line when given notice from CRD
d. his registration is terminated and he must file a new U-4 Form if he wishes to re-enter the securities business when his military service is completed

30.
A registered representative that has worked at a member firm for 3 years pleads no contest to a misdemeanor charge of bribery. Which statement is **TRUE**?

a. There is no requirement to report this event because it is not a felony
b. This event must be reported to the SRO promptly
c. This event must be reported as a U-4 amendment promptly
d. This event must be reported promptly to the SRO and as an amendment to the individual's U- 4

31.
A block trade of a listed stock is defined as a trade of at least:

a. 1,000 shares
b. 5,000 shares
c. 10,000 shares
d. 100,000 shares

32.
A broker executes a trade for a customer at $10 per share. When the customer gets the trade confirmation, it shows the cost as $10.30 per share plus a $.50 per share commission. Which statement is **TRUE?**

a. This conforms with industry rules
b. This is permitted because the mark-up is less than 5%
c. This is permitted if the customer was informed of the mark-up in advance of trade execution
d. This is prohibited

33.
The "Regulatory Element" of the Continuing Education requirement must be completed:

a. annually
b. semi-annually
c. on the 2nd anniversary of registration and every 3 years thereafter
d. on the 3rd anniversary of registration and every 5 years thereafter

34.
A branch issues cashier's checks to the same customer in the amounts of $1,000, $2,500, $3,000 and $5,000 during a single day. A report to FinCEN is:

a. not required
b. only required for the $5,000 cashier's check
c. required only for the $3,000 and $5,000 cashier's checks
d. required for all of the transactions

35.
When XYZ is trading at $10, a customer enters a limit order to buy 100 shares at $10. The trade is executed and reported by the broker to the client that it was filled at $10. When the customer gets the confirmation, it shows the trade occurring at $10.57. The firm should:

a. break the trade
b. give the customer the $10 price and charge the representative $.57
c. give the customer the trade at the correct price of $10 and book the $10.57 trade into the branch error account
d. report the trade to the Market Operations Review Committee

36.
Trading in a stock has been halted pending an important news announcement. A customer wishes to place a limit order to sell short listed options during this trading halt. Which statement is **TRUE**?

a. The customer order cannot be accepted until trading resumes
b. The customer order cannot be accepted because it is a short sale
c. The customer order can be accepted by the member firm but the customer should be notified that trading is currently halted
d. The customer order can be accepted by the member firm and executed through a foreign exchange

37.
A customer deposits $20,000 of cash at your firm and over the course of a week, withdraws cashier's checks in the amounts of $1,000, $2,500, $3,000 and $5,000. A report to FinCEN is:

a. not required
b. only required for the $5,000 cashier's check
c. required only for the $3,000 and $5,000 cashier's checks
d. required for all of the transactions

38.
An opening rotation on the floor of the CBOE starts:

a. prior to the opening of trading of the underlying security
b. at the opening of trading of the underlying security
c. after the opening of trading of the underlying security
d. after the close of trading of the underlying security

39.
A tender offer is being made for 10% of the outstanding shares of XYZ company's stock at $25 per share. This represents a premium of $5 over XYZ's current market price of $20. Officers of XYZ hold both XYZ stock and options positions. Which statement is **TRUE** about their ability to participate in the tender offer?

a. The officers of XYZ are not permitted to participate in the tender offer
b. The officers of XYZ can tender an amount that equals 10% of their shares and options
c. The officers of XYZ can tender as much of their stock holdings as they wish
d. The officers of XYZ can tender as much of their stock and options holdings as they wish

40.
Which of the following persons have potential civil liability under the Insider Trading Act of 1988?

I A person who executes a trade while in possession of inside information
II A registered representative who executes a trade for his own account at the same time as executing the transaction for the insider
III The broker-dealer supervising the registered representative in Choice II above
IV The Board of Directors of the issuing corporation, whose shares were the subject of an "insider trade" by an unaffiliated person

a. I only
b. II only
c. I, II, III
d. I, II, III, IV

41.
A floor broker would be permitted to initiate which one of the following transactions?

a. Bona-fide arbitrage transaction
b. Principal transaction in a security admitted to trading
c. Transaction for an account in which the floor broker has an interest
d. Discretionary transaction

42.
Which of the following receives dividend payments?

a. Warrants
b. Treasury Stock
c. ADRs
d. Rights

43.
A customer is long 1,000 shares of ABCD stock and has gone "short against the box" 400 shares of ABCD stock. If there is a tender offer for the shares of ABCD Corporation, the customer:

a. cannot tender any shares
b. can tender 400 shares
c. can tender 600 shares
d. can tender 1,000 shares

44.
A customer that wishes to effect a securities trade through an ECN in the "after-hours" market should be advised that the market is:

I subject to high volatility
II subject to low volatility
III highly liquid
IV highly illiquid

a. I and III
b. I and IV
c. II and III
d. II and IV

45.
Buy stop orders can be used to:

I Protect a profit on short positions
II Limit loss on short positions
III Acquire stock if a resistance level is broken
IV Acquire stock if a support level is broken

a. I and II only
b. III and IV only
c. I, II, III
d. I, II, III, IV

46.
A customer places an order to sell 100 XYZ at 38 Stop Limit. This means that the order:

a. is elected at 38 or lower and can be executed at 38 or higher
b. is elected at 38 or higher and can be executed at 38 or lower
c. can only be filled at 38 exactly
d. will be filled at 38 or better only after a trading halt

47.
A sell order for a customer is considered to be "long" if the customer is long:

a. a call option on the stock being sold that has not yet been exercised
b. the stock and will not deliver the shares on settlement
c. a convertible bond that has been converted into the stock being sold for delivery on settlement
d. a warrant on the stock being sold that has not yet been exercised

48.
Under the provisions of Regulation M, a syndicate manager is permitted to stabilize the price of a new issue offering for:

a. the 30-day window of time following the effective date
b. the 45-day window of time following the effective date
c. the 90-day window of time following the effective date
d. any length of time as determined by the manager, but stabilization must cease once the syndicate is disbanded

49.
Orders placed in NASDAQ Single Book are filled based on:

a. Price priority
b. Time priority
c. Price priority; then Time priority
d. Time priority; then Price Priority

50.
"Painting The Tape" is the:

a. illegal practice of effecting wash trades in thinly traded issues
b. illegal practice of matching buyers and sellers in a common trading pool
c. legal practice of effecting both long sales and short sales subject to the "uptick" rule
d. legal practice of taking both a stock and option position on the same "side of the market"

51.
Quotes disseminated by market makers under the SEC "Firm Quote Rule" - Rule 602 of Regulation NMS - cover all of the following securities **EXCEPT:**

a. Trades of OTCBB issues effected by registered market makers
b. Third market trades of exchange listed issues
c. Trades of NASDAQ Global Market issues effected by registered market makers
d. Trades of NASDAQ Capital Market issues effected by registered market makers.

52.
A limit order that a customer requests not be displayed is:

I permitted under the limit order display rule
II not permitted under the limit order display rule
III subject to the limit order protection (Manning) rule
IV not subject to the limit order protection (Manning) rule

a. I and III
b. I and IV
c. II and III
d. II and IV

53.
The inside market for ABCD stock is $15.00 - $15.50. If a market maker enters a bid of $15.55 into NASDAQ Single Book, the order is:

a. executed at $15.00
b. executed at $15.50
c. executed at $15.55
d. canceled

54.
Under SEC Rule 602 of Regulation NMS, the Firm Quote Rule, a market maker is **NOT** obligated to execute against its quote in which of the following situations?

I The market maker has entered a revised quote price into the NASDAQ system just prior to the presentation of the customer order
II The market maker has entered a revised quote size into the NASDAQ system just prior to the presentation of the customer order
III The market maker has just executed another transaction in that security and is in the process of communicating a revised quote to NASDAQ

a. I only
b. I and II
c. II and III
d. I, II, III

55.
All of the following are prohibited practices by market makers **EXCEPT:**

a. lowering a bid at the request of another market maker
b. raising an ask at the request of another market maker
c. giving details of customer trading strategies to other market makers
d. entering an ask at a price that is lower than the current highest ask

56.
Which order is **NOT** required to be included in the monthly reports required by SEC Rule 605 of Regulation NMS?

a. Market Orders
b. Marketable Limit Orders
c. Limit Orders
d. Not Held Orders

57.
A NASDAQ market maker is quoting ABCD stock as follows:

$15.00	**$15.25**
300	**800**

The market maker receives an order to buy 1,000 shares of ABCD at $15.25. Which statement is true about filling this order? The market maker is:

a. obligated to fill the entire 1,000 share order at $15.25 and then must move its quote price up
b. only obligated to fill 100 shares of the order at $15.25 and can maintain the same ask quote
c. only obligated to fill 300 shares of the order at $15.25 and can maintain the same ask quote
d. only obligated to fill 800 shares of the order at $15.25 and then must increase its quote price

58.
In order to effect a penny stock transaction for a customer, all of the following must be given to the customer **EXCEPT**:

a. the current bid-ask quote for that security
b. the average daily trading volume for that security
c. the compensation to be earned by the broker-dealer in the transaction
d. the compensation to be earned by the registered representative in the transaction

59.
Trading has been halted in ACBD stock by NASDAQ pending the release of material information. The information is considered to be properly released when it is distributed:

a. to a select group of research analysts
b. to the corporation's largest shareholders
c. to the news media
d. over the news media

60.
A market maker would be permitted to use an automated quote update system to do all of the following **EXCEPT:**

a. reflect the execution of customer limit order
b. expose a marketable limit order, allowing for price improvement
c. improve the price or size of either side of the NBBO
d. maintain the market maker's quote at least $.05 away from the NBBO

61.
Under Rule 103 of Regulation M, passive market making would be permitted by a market maker that is also a syndicate member in an "add on" offering only if:

a. there are at least 3 other market makers quoting that issue at the time that the market maker wishes to enter his quote
b. there is a current independent market for the subject security
c. the bid is placed at a price that is higher than the highest current independent bid
d. any other syndicate member is maintaining a firm 2-sided quote for that issue

62.
If a NASDAQ market maker makes a payment for order flow to an order entry firm:

a. the market maker has violated FINRA rules and is subject to disciplinary action
b. the payment must be reported in the TRF trade report made by the market maker
c. the payment must be disclosed on the trade confirmation sent to the customer
d. the market maker's bid quote in Single Book must adjusted up and its ask quote must be adjusted down by the amount of the payment

63.
A listed company has asked a broker-dealer to buy its own shares in the market under a Treasury stock repurchase plan. The inside market in the stock is 15.00 - 15.25. The last reported sale in the stock occurred at $15.10. At what price can the stock be purchased?

a. $15.00 or lower
b. $15.10 or lower
c. $15.25 or lower
d. At any price as long as the trade is effected on an agency basis

64.
Broker-dealers are obligated to check the threshold list:

a. daily
b. every 24 hours
c. every 48 hours
d. every 72 hours

65.
Which of the following individuals cannot buy options for his own account?

I Order Book Official
II Specialist.
III Market Maker
IV Floor Broker

a. I and IV only
b. II and III only
c. III and IV only
d. I, III, IV

66.
A customer who is long 1 ABC Jan 50 Call contract wishes to exercise in time to receive the current dividend declared by ABC Corporation. The last day to exercise and receive the dividend is:

a. 1 business days prior to Ex date
b. the Ex date
c. 1 business day after the Ex Date
d. the Record Date

67.
Which of the following will cover the sale of 1 ABC Jan 50 Call contract?

I 100 shares of ABC stock held in the customer's account
II An Escrow receipt from a qualified depository evidencing that 100 shares of ABC are being held
III 1 ABC Oct 50 Call Contract held long in the customer's account
IV U.S. Government bonds with a market value equal to the aggregate exercise price of the contract held in the customer's account

a. I only
b. I and II
c. I, II, III
d. II, III, IV

68.
The synthetic equivalent of a long call is:

a. long stock / long put
b. long stock / short put
c. long stock / long call
d. short stock / long call

69.
A floor broker on the Chicago Board Options Exchange receives the following order:

"Sell, to close, firm"

Which statement is true?

a. A customer of a member firm is closing a long position
b. A customer has placed a firm order to close an existing long position
c. A member firm is closing a long position for its own account
d. A member firm is establishing a long position for its own account

70.
During an opening rotation, which of the following orders may be executed?

I Market Orders
II Limit orders
III Stop orders
IV Straddle orders

a. I only
b. I and II only
c. I, II, and III
d. II, III, and IV

71.
All of the following are true regarding the treatment of bids made on the floor of the CBOE **EXCEPT:**

a. At the opening, public market orders held by the Order Book Official have priority over equivalent limit orders held by the Order Book Official
b. The bid representing the highest price has priority over lower bids
c. If two or more orders represent the highest price, and a bid by the Order Book Official is not involved, priority is afforded the orders based upon the sequence of the bids
d. If two or more bids represent the highest price, and one of the bids is displayed by the Order Book Official, the other bid has priority

72.
All of the following statements are true regarding the activities of Floor Brokers on the CBOE **EXCEPT:**

a. Floor brokers directly accept and execute orders for other member firms
b. Floor brokers directly accept and execute orders for public customers
c. Floor brokers are prohibited from executing orders to buy and sell the security in which they are registered to trade for their own accounts
d. Floor brokers may either be independent, or may act as nominee for member firms

73.
A Floor Broker holds orders to buy and sell the same option series, and wishes to cross the orders. Which statement is true?

a. Crossing of the orders is prohibited by CBOE rules
b. Crossing is permitted if the trade is effected at the same price as the last reported trade in that series
c. Crossing is permitted if the Floor Broker first request bids and offers from the trading crowd, including the Order Book Official, and there are no takers
d. Crossing is permitted if two Floor Officials approve the transaction

74.
The appropriate order to place above a "resistance level" would be:

a. Buy Limit
b. Buy Stop
c. Buy MIT
d. Buy AON

75.
Which of the following options strategies involving stock positions has the greatest risk?

a. long stock / short call
b. long stock / long put
c. short stock / long call
d. short stock / short put

76.
The trading of an NYSE listed stock is halted on that exchange on the Thursday prior to expiration, and trading on the CBOE in that issuer's contracts is halted as well. If the trading halt continues through the expiration date, holders of contracts expiring that month may:

I Effect closing transactions on the CBOE on first day that trading resumes
II Effect closing transactions on the NYSE on first day that trading resumes
III Exercise the contracts prior to the expiration date
IV Allow the contracts to expire

a. I only
b. II and III only
c. III and IV only
d. I, III, IV

77.
A person associated with a member may:

a. give gifts totaling no more than $100 in value per person per year related to one's activities in the securities business
b. give gifts totaling no more than $200 in value per person per year related to one's activities in the securities business
c. give any gift that is fair and reasonable related to one's activities in the securities business
d. is prohibited from giving any gifts to another person related to one's activities in the securities business

78.
Which of the following individuals can be considered to be "insiders" under the Securities Exchange Act of 1934?

I Attorney for a corporation
II Accountant for a corporation
III Research scientist for a corporation
IV Business journalist

a. I and II only
b. II and III only
c. IV only
d. I, II, III, IV

79.
All of the following would be considered long positions in ABC stock under the Securities and Exchange Act of 1934 **EXCEPT:**

a. Long ABC warrants on which notice of exercise has been served
b. Long ABC call options on which notice of exercise has been tendered
c. Long ABC convertible preferred stock which has been tendered for conversion
d. Long ABC stock for which payment has not been tendered

80.
Which of the following is the definition of a "stock power"?

a. A power of attorney given to the broker-dealer to accept dividends and interest on behalf of the customer for securities held in street name
b. A limited power of attorney given to the broker-dealer to vote the stock if no contest exists
c. The amount of securities that can be purchased in a margin account without making a deposit
d. A limited power of assignment or substitution given to the broker-dealer

81.
Which of the following persons cannot be denied FINRA registration?

a. A person who is the subject of pending litigation involving securities fraud
b. A person who has been suspended by the Chicago Board Options Exchange
c. A person who has been suspended by the Securities Exchange Commission
d. A person who has been dismissed by another member firm for violating firm procedures

82.
A customer that has not signed an arbitration agreement wishes to file a lawsuit against a registered representative, alleging that the representative lied to the customer to induce trading for the purpose of earning commissions. Which statement is true?

a. The customer is not permitted to file a lawsuit because this type of dispute must be settled by binding arbitration
b. The customer may file a lawsuit in Federal court as long as the alleged violation did not occur more than 3 years ago
c. The customer may file a lawsuit in Federal court as long as the alleged violation did not occur more than 5 years ago
d. The customer may file a lawsuit in Federal court as long as the alleged violation did not occur more than 10 years ago

83.
Under Regulation M, the maximum restricted period for trading a subject security by a syndicate member that is **NOT** a market maker is:

a. 1 day
b. 5 days
c. 10 days
d. 20 days

84.
A customer places an order to sell $500,000 of ABC stock at the market. The member firm receiving the order is a market maker in the stock and has a long inventory position in ABC stock of $200,000. Because of the size of the customer order, the market making desk wishes to hedge its inventory position by purchasing 2,000 ABC Put options. Which statement is **TRUE**?

a. The market making desk is prohibited from buying put options on securities held in inventory
b. The market making desk can only buy the put options prior to placing the customer's order
c. The market making desk can only buy the put options after placing the customer's order
d. The market making desk can buy the put options without restriction since this is a bona-fide hedge transaction

85.
When comparing an ETN to an ETF, which statements are **TRUE**?

I ETNs are a type of investment company offering
II ETFs are a type of investment company offering
III ETNs are a debt instrument
IV ETFs are a debt instrument

a. I and III
b. I and IV
c. II and III
d. II and IV

86.
Which statements are **TRUE** about ETNs?

I ETNs are a structured product
II ETNs are an investment company product
III ETNs are suitable for investors seeking income
IV ETNs are suitable for investors seeking long-term capital gains

a. I and III
b. I and IV
c. II and III
d. II and IV

87.
Which of the following is the proper description of the following order:

"Sell 10 ABC Jan 100 Calls @ 8.50 MIT"

a. The order becomes a market order to sell if a trade occurs at 8.50 or higher
b. The order becomes a limit order to sell at 8.50 if a trade occurs at 8.50 or higher
c. The order becomes a market order to sell if a trade occurs at 8.50 or lower
d. The order becomes a limit order to sell at 8.50 if a trade occurs at 8.50 or lower

88.
A market order to buy an options contract is placed when the market maker is quoting 4.00 - 4.50. This order will **NOT** be the first to be filled on the exchange floor if:

a. a market order to buy from another member firm is received at the same time
b. the long leg of an unfilled spread order is received at the same time
c. the market maker wishes to fill an order to buy for its proprietary trading account
d. a Registered Options Trader attempts to execute a market not-held order to buy at the same time

89.
A broker-dealer wishes to execute a closing trade in its proprietary account in a cabinet transaction. Which statement is **TRUE**?

a. The position can be closed as long as the aggregate premium is no more than $1
b. The position cannot be closed because cabinet transactions are not available for proprietary positions
c. The position cannot be closed because only opening positions are permitted in cabinet transactions
d. The position can be closed without any limitations

90.
The "Firm Element" of the Continuing Education requirement must be completed:

a. annually
b. semi-annually
c. on the 2nd anniversary of registration and every 3 years thereafter
d. on the 3rd anniversary of registration and every 5 years thereafter

91.
An associated person of ABC Securities maintains her personal account at the firm. The associated person leaves to join XYZ Securities and ABC Securities files a U-5 Form with CRD on a timely basis. Under SEC rules, ABC Securities must keep copies of the associated person's account records for:

a. 2 years
b. 3 years
c. 5 years
d. 6 years

92.
An individual that is in possession of material nonpublic information relating to a tender offer that has been received from the maker of the offer or the issuer that is the subject of the offer:

I cannot buy the issuer's common stock, convertible securities, or options on these securities
II can buy the issuer's common stock, convertible securities, or options on these securities
III after public disclosure of the information and its source, cannot buy the issuer's common stock, convertible securities, or options on these securities
IV after public disclosure of the information and its source, can buy the issuer's common stock, convertible securities, or options on these securities

a. I and III
b. I and IV
c. II and III
d. II and IV

93.
An example of a "delta neutral" options strategy is a:

a. long call
b. long put
c. long straddle
d. long spread

94.
Which of the following is **NOT** a reason for trading to be halted in the affected option contract?

a. Trading has been halted on the NYSE in all stocks because the circuit breaker has been triggered
b. NASDAQ MarketWatch has delayed the opening of a stock because of a pending news announcement
c. The Philadelphia Stock Exchange has stopped trading its stocks due to a regional power disruption
d. The SEC has closed the securities markets because of a national calamity

95.
A customer trade in a listed options contract is permitted to be routed away from the exchange for execution:

a. under no circumstances
b. if the member firm takes the other side of the trade in a principal transaction
c. if the price of the transaction will be better than that offered on the exchange
d. without restriction

96.
What is a "delta neutral" options strategy?

a. An options strategy that is profitable in a sharply rising market and unprofitable in a sharply falling market
b. An options strategy that is profitable in a sharply falling market and unprofitable in a sharply rising market
c. An options strategy that is insensitive to small price movements either upwards or downwards
d. An options strategy that highly sensitive to small price movements either upwards or downwards

97.
If a CBOE member firm believes that a clearly erroneous trade occurred, which statements are true?

I The trade in question must be reported to a Trading Official within 15 minutes of occurrence
II The trade in question must be reported to a Trading Official within 60 minutes of occurrence
III A determination is rendered by a trading official within 15 minutes of receiving the report
IV A determination is rendered by a trading official within 60 minutes of receiving the report

a. I and III
b. I and IV
c. II and III
d. II and IV

98.
The individual that maintains a fair and orderly market on the CBOE floor is the:

a. Designated Primary Market Maker
b. Registered Options Trader
c. Board Broker
d. Competitive Trader

99.
Which of the following would be a violation of the "acting in concert" prohibitions?

a. A registered representative receives 10 unsolicited customer orders for the same options series and enters them for execution
b. A registered representative and 4 other associates in the branch agree to make the same trades in their discretionary options accounts
c. An investment company takes large options positions as part of its investment objective
d. A registered representative makes the recommendation of the same options strategy to all of his customers for which the strategy is suitable

100.
Under CBOE rules, options trade confirmations must sent to customers:

a. promptly
b. the next business day
c. on T + 1
d. on T + 3

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1. The best answer is **c.** If the NYSE closes its market, which will occur if the DJIA drops by 10% intra-day, the CBOE will close its market as well. The time length of the shut due to the imposition of the "circuit breaker" is either 1/2 hour or 1 hour, depending on the time of day that the halt occurs.

2. The best answer is **b.** The CBOE will halt trading in a specific option contract if two Floor Officials agree that trading should be halted. The length of the halt can be no more than 2 business days.

3. The best answer is **b.** The breakeven point on a call is the strike price plus the premium. The breakeven on a put is the strike price minus the premium.

The breakeven on the 50 Call @ 3 is 50 + 3 = 53.
The breakeven on the 50 Put @ 7 is 50 - 7 = 43.
The breakeven on the 60 Put @ 7 is 60 - 7 = 53.
The breakeven on the 55 Call @ 2 is 55 + 2 = 57.
The breakeven on the 45 Call @ 9 is 45 + 9 = 54.

4. The best answer is **d.** The designated ROP in the supervisory office is responsible for the overall review of customer accounts and orders in customer accounts. To do this, the designated ROP must review each customer's options account on a timely basis to determine:

the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;

the size and frequency of options transactions;

commission activity in the account;

profit or loss in the account;

undue concentration in an options class(es); and

compliance with the provisions of Regulation T of the FRB.

5. The best answer is **a.** The customer wishes to protect the stock from a market decline. Since the current market price is $61 per share, the purchase of a $60 Put gives the customer the right to sell at $60, protecting the stock position. However, a premium must be paid for this protection. If the customer sells a $70 Call, then he or she will receive a premium, and will only be exercised and forced to deliver the stock if the market value rises above $70. This customer believes that the stock will not rise above $70, so exercise of the call is not likely. The sale of the call is covered by the long stock position, so the premium received can be used to offset the cost of the protective put.

6. The best answer is **c.** The CBOE places limits on the number of options contracts that can be exercised, with the numerical limit tied to the trading volume of the underlying stock. The limits are applied over a 5 business day time window.

7. The best answer is **b.** Copies of customer complaints about options must be retained by the member firm for 3 years.

8. The best answer is **b.** The multiplier and strike price are not adjusted for stock dividends and fractional stock splits. If there is an exercise, then the "deliverable" is adjusted. So this contract stays with a multiplier of 100 x $5 premium x 5 contracts = $2,500 received.

9. The best answer is **a.** Do not confuse the OCC's allocation method for assigning exercise notices to member firms (which is done by random selection) with the CBOE's rule on how a member firm, upon receipt of such an exercise notice, should allocate that notice to one of its customers. The CBOE states that the member firm may choose to allocate the notice by either "first in; first out;" or an automated random selection basis. Since random selection is not offered as a choice, we must go with "first in; first out."

10. The best answer is **c.** Under the "best execution" rule, a member firm must send a customer order to the market venue that is posting the best price. There is competition for the CBOE floor in the form of the other options trading floors (such as the AMEX - now being merged into the NYSE) and the ISE - the International Securities Exchange - the all electronic options exchange. These market venues compete with each other for options trading business.

11. The best answer is **a.** For stock dividends and fractional stock splits, there is no adjustment to the contract by the OCC. Only if the contract is exercised, then the "deliverable" is adjusted. So the contract stays as 1 ABCD Jan 120 Call with a multiplier of 100. If there is an exercise, the multiplier becomes 100 x 1.5 = 150 and the exercise price becomes $120/1.5 = 80.

12. The best answer is **b.** The accounts that are aggregated are the ones where the investment decisions are being made independently by the broker - these include discretionary accounts managed by the broker and the broker's own personal account. An individual customer account serviced by the broker will not be aggregated since the investment decision is being made by the customer, not the broker.

13. The best answer is **d.** The exercise cut-off for expiring equity options is 5:30 PM ET; 4:30 PM CT; on the expiration date (which is the 3rd Friday of the month).

14. The best answer is **d.** Because FLEX options are custom contracts with "flexible terms," they do not come under the regular standardized options contract position limits. FLEX option contracts allow for flexible contract terms and are mainly designed for institutional use with minimum trades of $1,000,000. They are mainly used as hedging vehicles and there is no "trading" unless a request is made.

15. The best answer is **a.** The equivalent position to a Long Call is: Long Stock + Long Put. The equivalent to a Short Call is: Short Stock + Short Put. The equivalent to a Long Put is: Short Stock + Long Call. The equivalent to a Short Put is: Long Stock + Short Call.

16. The best answer is **c.** Options contracts are adjusted for 2:1 and 4:1 stock splits. They are not adjusted for stock dividends or other stock splits (however, for these, if there is an exercise, the "deliverable" is adjusted). This is 1 ABC Jan 60 Call. If the stock splits 2:1, on the ex date the contract becomes 2 ABC Jan 30 Calls, each with a multiplier of 100.

17. The best answer is **c.** To receive a dividend, the holder of call contracts must exercise the contract **prior** to the ex-date (set at 2 business days prior to Record Date). Since exercise settlement takes 3 business days, the holder would settle on or before the Record Date, and would receive the distribution.

18. The best answer is **d.** The last time to trade equity options just prior to expiration is 4:00 PM Eastern Time on the Friday prior to expiration (which occurs on the Saturday immediately following).

19. The best answer is **b.** If a floor broker on the CBOE holds an order to buy and another order to sell the same option contract, he must first attempt to trade each order independently on the floor with another trader, Order Book Official or Market Maker. If he cannot execute the trades because their Offer is to high; or their Bid is too low; then he must Offer to sell at the minimum trading increment below that lowest offer; and offer to buy at the minimum trading increment above the highest bid. If there are no takers, he may cross the orders himself at one of these "in-between" prices, and must, by public outcry, announce that he is "crossing," with the size and price of the trade. (Note: If you find this hard to understand, just consider yourself to be normal.)

20. The best answer is **a.** The contract size for PHLX World Foreign Currency option contracts is 10,000 units of currency (for the major world currencies, with the exception of the Japanese Yen, where the contract size is 1,000,000 units of currency). The contract multiplier for calculating the premium is 100 (except for Japanese yen), where an extra "00" is added to the multiplier for calculating the premium to account for the larger contract size.

21. The best answer is **a.** Portfolio margin is a "risk" based margin method that gives substantially lower margin requirements for lower risk positions. It recognizes that if positions are hedged, such as a stock position hedged by the purchase of a put, then the loss potential of the combined position is much lower, and a lower margin is applied. It also applies margin to unhedged positions based on the probable price movement of a given security in "stress" conditions of large overall market price movements. In essence, it will produce a lower margin for a low beta stock; and a higher margin for a high beta stock. Lower margin requirements means that customers who use portfolio margin get greater leverage. Note that portfolio margin can only be used by institutional or wealthy sophisticated individual customers.

22. The best answer is **c.** A member firm cannot assume a customer loss in an options account, unless the loss was due to a mistake made by the member firm; or the CBOE gives approval for the member firm to assume the loss (which would be unlikely). The member firm cannot assume a loss in a customer account simply because the customer makes such a request!

23. The best answer is **b.** An IOC order is an "Immediate or Cancel" order. With this order type, the floor broker attempts to fill the entire order in one shot; if only part of the order can be filled, the unfilled portion is canceled. Subsequent reattempts to complete the unfilled portion of the order are not permitted.

24. The best answer is **b.** To analyze this strategy, for calls, stack the positions from "low to high" strike prices. This customer has taken the following positions when ABC stock is at $50:

Buy 1 ABC Jan 45 Call @ $8

Sell 2 ABC Jan 50 Calls @ $4

Buy 1 ABC Jan 55 Call @ $1

-$1 Debit

This is a "butterfly spread," which is a combination of a bull call spread and a bear call spread. This is a market neutral strategy that is profitable when the market stays close to $50. If the market stays at $50, the short 50 Calls expire "out the money," as does the long 55 Call. The long 45 Call is "in the money" and is exercised. The stock is purchased at 45 through the exercise and can be sold at $50 for a 5 point gain, partially offset by the initial $1 debit paid, for a maximum gain of 4 points or $400. If the market falls below 45, all of the contracts expire "out the money" and the customer loses the $1 debit. If the market rises above $55, all of the contracts are exercised. Through the exercises, 100 shares of stock are bought at 45 and delivered at $50; and another 100 shares are delivered at $50 that are purchased at $55, for no gain or loss. Since $1 was paid in net debit ($100), this is the loss.

25. The best answer is **a**. CBOE equity options trading is open during the same hours as the NYSE, so trades can be placed until 4:00 PM Eastern Standard Time; 3:00 PM Central Time. Note, in contrast, that index options trading on the CBOE floor takes place until 4:15 PM.

26. The best answer is **d.** This situation clearly is an execution error on the part of the firm, and any loss is the responsibility of the firm. The customer market order should have been entered at 12:15 PM at the time that the customer placed the order. It is the representative's (and hence the firm's) fault that the order was not placed until 1:45 PM and the customer received an inferior execution because of this. Note that the trade cannot be "broken" since there was no execution error on the trading floor itself. The error occurred because of a communication delay at the member firm entering the order.

27. The best answer is **b.** If a registered representative is suspended, that individual cannot work or be paid during the suspension period. However, that individual can be compensated for work completed prior to the suspension period.

28. The best answer is **c.** If a registered individual wishes to take a second job, prior written notice must be given to the employing member firm and the registered individual must follow any instructions of the employing member firm. There is no requirement to give notice to the SRO, such as FINRA or the CBOE.

29. The best answer is **c.** "Special inactive" registered status is only given to registered representatives that are called for active military duty. If a registered representative is in the Army Reserves, he or she still holds a regular job in the U.S. and only goes on military duty on specified weekends. So there is no reason why this individual can't complete Regulatory Element CE just like everyone else!

30. The best answer is **d.** On the list of "reportable events" is a conviction, indictment or no contest plea for any felony; or for specified misdemeanors. The specified misdemeanors involve securities or money, and bribery is on the list! This must be reported to the SRO promptly (which they define as within 10 business days); and also must be reported as an amendment to that individual's U-4 Form, since this is a question that is asked on the Form and which must be explained on the Form.

31. The best answer is **c.** A "block" is defined as a trade of 10,000 shares of more; or a trade of $200,000 or more.

32. The best answer is **d.** Charging a customer both a mark-up and a commission on the same trade is prohibited. Either the firm acts as a principal, charging a fair and reasonable mark-up; or it acts as an agent, charging a fair and reasonable commission.

33. The best answer is **c.** The Regulatory Element of Continuing Education is delivered by FINRA to each registered person on their second anniversary of initial registration and every 3 years thereafter.

34. The best answer is **a.** A "CTR" - Currency Transaction Report - is only required if the customer deposits or withdraws cash. In these transactions, the question says nothing about "cash." If the customer has an account and asks for a cashier's check (or multiple checks), there is no CTR report filed. However, if the firm is suspicious about these, it can file an SAR (Suspicious Activities Report) report with FinCEN.

35. The best answer is **c.** In this example, the trade was executed at $10. This is the price that the customer specified in the buy order and this is the price that the customer pays. If the shares really were purchased at $10.57, then the trade is taken to the branch error account.

36. The best answer is **c.** There is nothing prohibiting a member firm from accepting an order for a security that is subject to a trading halt. The order will be executable when trading resumes. However, the customer should be notified that there is a trading halt and that the order cannot be filled currently. If there is a trading halt, that means that there is no trading in that security anywhere in the U.S.

37. The best answer is **d.** A "CTR" - Currency Transaction Report - is required if the customer deposits or withdraws cash in an amount of over $10,000. Because this customer deposited $20,000 of cash, the Form CTR must be filed with FinCEN within 15 days.

38. The best answer is **b.** The CBOE uses an opening rotation to open trading in each options series. At the market opening (9:30 AM ET), all options series do not start trading. Rather, trading rotates through each series individually, with all executable orders filled for that series before moving on to the next series, and so on. Once the rotation has been completed covering all options series, then at 9:45 AM, all options series begin trading simultaneously.

39. The best answer is **c.** Only shares owned can be tendered in a tender offer. Call options don't count unless they are exercised. The officers can tender the shares that they own; but cannot tender the call options.

40. The best answer is **c.** This is a very subjective question. Clearly, a person who executes a transaction based on "inside information" is in violation of the Insider Trading Act of 1988. A registered representative who trades for his own account based on the trading of a customer that he knows to be an "insider" would also be in violation **if** he knew that the customer was trading based on "inside information." Since the question is not clear on this point, let's crucify the guy anyway! Under the Insider Trading Act of 1988, broker-dealers must have written procedures in place to detect and prevent Insider Trading by their employees. Thus, the broker-dealer has potential liability if it did not enforce these procedures over the registered representative. The Board of Directors of the issuer does not have liability since it is not a "controlling person" in any of these transactions.

41. The best answer is **a.** Rule 11a-1 of the Securities Exchange Act of 1934 states that it is unlawful for any floor member of an exchange to initiate, directly or indirectly, any transaction for any account in which the member has an interest or where the member exercises investment discretion. This means that a floor broker must always put the client's interest first. Floor brokers are prohibited from exploiting their time and place advantage to their own benefit through proprietary or discretionary trading (this is the SEC's wording). Thus, a floor broker cannot initiate a trade as a principal (this is proprietary trading); cannot initiate a trade for an account in which he or she has an interest; and cannot initiate discretionary transactions. These prohibitions do not apply to specialists on the exchange floor; to odd lot transactions; to stabilizing transactions; and to bona-fide arbitrage transactions.

42. The best answer is **c.** American Depositary Receipt holders receive dividends. The bank that issues the receipts against the foreign securities "passes through" dividends paid on the stock to the receipt holders. Warrants and rights do not receive dividends; nor is a dividend paid on Treasury shares which have been repurchased by the issuer.

43. The best answer is **c.** A customer is only considered to be "long" to the extent of his or her "net" long position in a security. This customer is long 1,000 shares of ABCD and short 400 shares of ABCD, for a net long position of 600 shares. This is the amount that can be tendered (remember that the customer must replace the 400 shares borrowed to sell short, leaving him or her with the remaining 600 shares out of the 1,000 owned).

44. The best answer is **b.** ECNs are Electronic Communications Networks - which match trades for institutional customers at low cost. Trades that are effected through ECNs "after-hours" are only filled if there is a "match." There is no specialist or market maker that must take the opposite side to the trade and that will "smooth" price movements. Thus, the market is not nearly as liquid as an exchange and price movements can be volatile.

45. The best answer is **c.** Buy stop orders are placed **above** the current market and are triggered when the market rises. In a rising market, short sellers lose money. To limit the loss, a buy stop is placed to buy in the stock if the market rises to the stop price. Profits on short positions are lost if the market begins to rise from a low point. To protect the profit, a buy stop order is placed higher than the current market. If the market rises, the stock will be bought in and the profit is protected. Resistance levels are higher than the current market. The theory is that if the market breaks the resistance level, the price will rise rapidly. To buy at a price higher than the current market, a buy stop order is used. Buy limit orders are placed below the current market and are triggered as the market falls. Support levels are lower than the current market. To buy stock below a support level, a buy limit order would be used..

46. The best answer is **a.** Sell stop orders are placed **below** the current market and are triggered as the market drops. An order to sell at 38 stop limit is elected if the market drops to 38 or lower; then the order becomes a limit order to sell at 38 - meaning sell for at least $38 per share (38 or higher).

47. The best answer is **c.** A customer order to sell can only be marked "long" if the customer will deliver the shares being sold on settlement. For a customer that is long a call option or a warrant, these must be exercised and the stock delivered for the sell order to be "long." A customer that is long the stock, but will not deliver the shares on settlement, is "going short against the box." Since he is not delivering the shares, this is a short sale. A customer that is long a convertible bond that has been converted into the stock being sold, and that will deliver the converted shares on settlement, is selling "long."

48. The best answer is **d.** There is no stated maximum length of time where the manager can stabilize the price of a new issue offering. The manager can start stabilizing and stop stabilizing at any time once registration is effective. However, stabilization must stop once the manager disbands the syndicate. (Also note that there is a related FINRA rule that requires syndicate managers to disband and settle syndicates no later than 90 days from the effective date.)

49. The best answer is **c.** For all exchanges (not only NASDAQ), orders are filled based on best price first. If 2 orders are placed at the same price, then they are filled on a First In, First Out basis. Thus, the priority of filling orders is first Price; then Time.

50. The best answer is **a.** In the "old" days, stock trade reporting was done mechanically through the "ticker tape." The "ticker" was a machine similar to a telegraph, that received reported trades and printed them on a paper tape. A manipulative practice was "painting the tape" - that is, effecting a series of buy and sell trades in a stock where there is no change of ownership (so-called "wash" trades) just to show trading activity coming across the tape. The increased trading activity would attract other traders to buy the stock (since they would think that "something was going on with the stock"), and the price would rise - at which point, the manipulator would unload his stock position.

51. The best answer is **a.** The SEC Firm Quote Rule requires that only firm 2-sided quotes can be posted in active trading markets. Backing away from a quote is prohibited. The rule applies to market maker quotes for exchange listed and NASDAQ issues. It applies to market makers on the floor of the exchange and to Third Market makers that trade exchange listed issues OTC. It applies to quotes by market makers for all NASDAQ issues (both Global Market and Capital Market). Note, however, that the rule does not apply to quotes for OTCBB or Pink Sheet issues. These can be quite illiquid and quotes need not be firm.

52. The best answer is **a.** If a customer requests, that customer's limit order is not required to be displayed under the Limit Order Display Rule. However, the Manning Rule still applies - all customer limit orders must be protected and cannot be "front run" by the firm. It makes no difference if the order is displayed or undisplayed.

53. The best answer is **b.** Any orders entered into NASDAQ Single Book during regular market hours that would lock or cross the market are automatically matched and filled at the inside market. This customer places an order to buy at $15.55 (meaning at $15.55 or lower). Since the inside ask is at $15.50, the order will be filled at the lower price of $15.50 - a better execution for the buyer.

54. The best answer is **d.** Exemptions are granted to the requirement not to back away from a firm quote for 2 reasons.

First, if the member firm is in the process of updating its quote price or size, it does not have to honor the previous quote - but it must honor orders that come in against the updated quote.

Second, if the firm has just executed an order against its previous quote, and is in the process of communicating the trade report and will update its quote, then the rule applies to the updated quote - not to the "old" quote.

55. The best answer is **d.** Market makers cannot collude to move prices higher or lower, making Choices **a** and **b** violations. Market makers have a fiduciary responsibility to their customers, so disclosing customer trading strategies is illegal as well. A market maker entering an ask quote at a price lower than the current ask will narrow the spread between high bid and low ask - this is a very nice thing to do!

56. The best answer is **d.** SEC Rule 605 of Regulation NMS requires exchanges to prepare monthly reports of statistical information concerning their order executions, covering execution speed, price, including any price improvement and bid-ask spreads. This information is available to the public. The types of orders "covered" by this rule are market orders and limit orders (including marketable limit orders). In addition, "IOC" - Immediate or Cancel orders are covered by the rule (since they allow for partial execution if the full amount of the order cannot be filled). However, other special instruction orders are excluded from the rule because either they can take longer periods of time to fill and would distort the "speed of execution" statistics that are compiled; or they might never be filled. The excluded orders include All or None (AON) orders; At the Open and At the Close orders; Stop orders; and Not Held orders.

57. The best answer is **d.** SEC Rule 602 of Regulation NMS prohibits backing away from firm quotes. If a market maker is posting a quote on NASDAQ (which must be firm), the market maker is obligated to trade the display size shown at that price (which is 800 shares at $15.25). If the market maker receives a larger size order, which is the case here, it has either of 2 choices. In this example, the market maker received an order to buy 1,000 shares. The market maker can either fill the entire 1,000 share order at $15.25 and has no obligation to move its quote; or it can fill 800 shares at $15.25 and must worsen its quote by at least 1 trading increment ($.01). This is known as the "Trade or Fade" rule - which requires a market maker to worsen its quote if it can't handle the entire size of an order. On the other hand, if the market maker fills the entire order size, it is under no obligation to worsen its quote.

58. The best answer is **b.** Under the "Penny Stock" rules (Rules 15g-1 through 15g-6), when effecting a transaction for a customer in a non-exchange listed, non-NASDAQ stock under $5, the customer must be given the current bid-ask quote for the issue; and must be given the compensation amounts to be earned by the registered representative and brokerage firm. This is intended to stop sleazy penny stock boiler rooms from overcharging customers or from taking excessive spreads. There is no requirement to disclose average daily trading volume in the issue to the customer.

59. The best answer is **d.** Until material non-public information has been broadly disseminated over the news media, those persons in possession of the information are considered to be "insiders" and are prohibited from trading on the information.

60. The best answer is **d.** Automated updating of quotes is permitted, and this functionality is built into NASDAQ Single Book. However, this feature cannot be used to automatically maintain a market maker's quoted prices away from the "inside market." If this were permitted, then the market maker would never be obligated to trade!

61. The best answer is **b.** Rule 103 of Regulation M places limits on market makers who are also syndicate members in an "add on" (secondary offering) during the 20 day cooling off period. The underlying problem is that the issue has yet to be priced, and it would be in the syndicate's interest to move that price up - and this is prohibited. Thus, any market maker that is also a syndicate member can either resign as a market maker until the effective date; or can act as a PSMM - Passive Market Maker, where that market maker is prohibited from bidding higher than the highest current independent bid in that issue. Thus, in order to act as a PSMM, there currently must be an independent market for that issue - which means at least 1 other market maker that is not a member of the syndicate is quoting that issue.

62. The best answer is **c.** The SEC permits payment for order flow, however it requires that disclosure of the payment be made on the confirmation sent to the customer. In essence, a market maker that is "paying for order flow" is giving up a portion of his spread to the order entry firm. The economic argument for the practice is that, since exchanges only allow price increments of 1 cent, this allows the market maker to narrow the spread in increments of less than 1 cent, with the narrowing amount paid to the order entry firm. In turn, the order entry firm, because it is being compensated out of the market maker's spread, can reduce the commission cost to the customer.

63. The best answer is **b.** Rule 10b-18 gives an issuer a "safe harbor" from being accused of market manipulation when it buys its own stock in the market, typically to fund stock option plans and Treasury stock repurchase plans. As long as the issuer does not buy the stock at the market open or within 1/2 hour of market close (this is reduced to 10 minutes for very actively traded stocks) and effects the purchase at the higher of the current independent bid ($15.00) or the last reported sale ($15.10), then the issuer will not be accused of trying to manipulate the price higher. Since the last reported sale is at $15.10, and this is higher than the current independent bid of $15.00, the stock can be purchased at $15.10 or lower.

64. The best answer is **a.** Under Regulation SHO, each exchange must prepare a "threshold" list of "hard-to-borrow" securities. The list is published each morning by the exchange, and must be checked by member firms each day.

If a security is on the list for that day; and

a short sale is effected in that security on that day; and

the customer fails to deliver the security on settlement; then

Regulation SHO requires mandatory buy-in of the position in "13 settlement days."

65. The best answer is **a.** The Order Book Official on the CBOE maintains a book of limit orders that are "away from the market" for public customers. He executes these orders on an agency basis, and is prohibited from trading for his own account. The Floor Broker acts as an agent, handling transactions for his firm, or for other firms. Floor brokers are also prohibited from trading for their own accounts. On the American Stock Exchange and the Philadelphia Stock Exchange, there are Specialists that are market

makers in options. They can buy for their own account. On the CBOE, there is no Specialist. Instead, there is a Designated Primary Market Maker, who performs the same functions as a Specialist, and other competing market makers, who only buy .and sell from their inventory accounts.

66. The best answer is **a.** To receive a dividend, a customer must be on the record books of the issuer. A customer is recorded on the Record Book if he has settled by the Record Date. The Ex date is set by the exchange at the first day that a regular way trade will settle after the record date. Since exercise settlement is "regular way," a customer that exercises a long call prior to the Ex date will settle on, or before, the Record Date and will receive the dividend. If he exercises on, or after, this date, he would not be on the Record Books to receive the dividend.

67. The best answer is **b.** The sale of a call contract can be covered by being long that stock position (with the stock either held at the broker or held in a depository, as evidenced by a proper escrow receipt). The sale of 1 ABC Jan 50 Call is **not** covered by the purchase of 1 ABC Oct 50 Call, because the long call expires prior to the short call. Once the October call expires, the writer is naked on the short call until its expiration in January. To be covered, the long call must have **the same or later** expiration than the short call. U.S. Government bonds or cash will not cover the sale of a call. If a call writer is exercised, **that stock** must be delivered; delivery of U.S. Government bonds or cash is not acceptable.

68. The best answer is **a.** The holder of a long call has unlimited upside gain potential. To match this characteristic, the customer must be long the stock. On the other hand, the holder of a long call can only lose the premiums if the market drops; while the holder of stock has increasing loss as the market drops. To match this characteristic, the customer must take a position that limits loss as the market drops - such as a long put on that stock. To illustrate, assume that ABC stock is trading at $50. To create a synthetic long call, the customer buys 100 shares of ABC at $50 and buys 1 ABC Jan 50 Put @ $5. If the market rises, the long put expires, and the customer has unlimited gain on the long stock. If the market falls, the long put is exercised and the customer sells the stock at the strike price, for no gain or loss. Since $5 was paid in premiums, this is the amount lost.

69. The best answer is **c.** All options orders must be marked as "opening" or "closing." Thus, this is an order for a closing sale transaction. "Firm" in this case means that the order is placed for the account of a member firm (this is noted since customer orders have priority over equivalent orders for the firm's account). Please note that this is not a "firm" quote - this is an order to be executed against the quote (which must be a "firm" quote) of a market maker of another broker on the floor.

70. The best answer is **b.** During the opening and closing rotations, only market and limit orders may be executed at the bids and offers made. No stop orders, spread orders, or straddle orders are executed during the rotations. Rotations are used daily to insure orderly openings; and are used at the close on the business day prior to expiration to insure an orderly close.

71. The best answer is **d.** Since orders held by the Order Book Official are those from the **public,** these orders always have priority over equivalent orders from other sources (e.g., market makers or floor brokers). Therefore, Choice **d** is false. The other statements are true. At the opening, public market orders held by the Order Book Official have priority over equivalent limit orders held by the Order Book Official, since market orders always have priority over limit or stop orders at the same price. The bid representing

the highest price has priority over lower bids, and the ask representing the lowest price has priority over higher asking prices. Finally, if two or more orders represent the highest price, and a bid by the Order Book Official is not involved, priority is afforded the orders based upon the sequence of the bids (first come, first served!).

72. The best answer is **b.** Floor brokers effect trades **only** for other member firms - they are prohibited from accepting orders directly from public customers. Thus, a customer calls his member firm to place the order. The firm then routes the order to a floor broker on the Exchange. This floor broker can either be an "independent" - that is, an individual who solely effects trades for retail member firms for a commission; or the floor broker can be a "nominee" of the member - that is a floor broker who is actually an employee of that member, and who only effects trades for that member. Floor brokers are prohibited from acting as market makers in the same security.

73. The best answer is **c.** If a floor broker holds an order to buy an options contract at the market; and also holds an order to sell the equivalent contract at the market, he is only permitted to "cross" the orders if the following procedure is used:

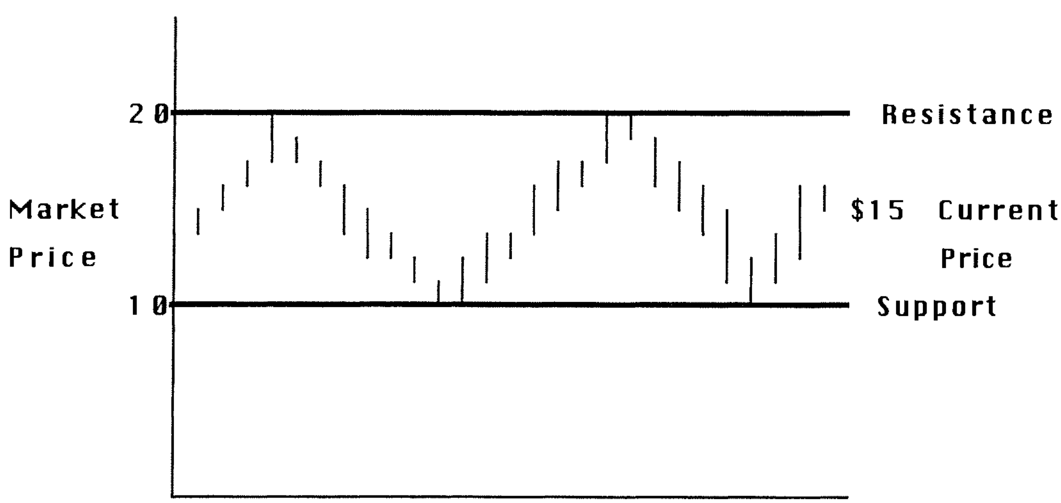
The floor broker must first request bids and offers for those contracts from the trading crowd, **including** the Order Book Official;

The floor broker must then bid above the highest bid received by the minimum fraction; and must offer below the lowest offer received by the minimum fraction;

If this higher bid or lower offer is not taken, he may cross the orders at such higher bid or lower offer by announcing by public outcry that he is crossing, and giving the quantity and price.

Essentially, this procedure forces the floor broker to first attempt an execution with other traders before crossing the orders himself; and also forces the floor broker to cross the orders at a price that truly reflects the current market.

74. The best answer is **b.** Following is a picture of support and resistance levels:



If a security "breaks" a resistance level, it is expected that the price will rise rapidly. To profit from this, an order would be placed to buy if the stock breaks through resistance (say at $21). The buy orders that are placed **higher** than the current market, and would be executed if the market moves up, are buy stop orders. The buy orders that allow the stock to be purchased at a price lower than the current market are buy limit and buy MIT orders.

75. The best answer is **d.** If one has shorted stock (let us say at $50) and sells 1 ABC Jan 50 Put @ $5, and if the market rises above $50, the put expires and the $5 premium is retained. However, the customer is left with a short stock position that must be bought in. This price could be "sky-high" and the customer has potentially unlimited loss on this position.

76. The best answer is **c.** If an option stops trading, closing transactions cannot be effected since there is no market on the Exchange floor. However, holders can still exercise their contracts (since this goes directly to the O.C.C. and does not involve the Exchange floor), or can let them expire.

77. The best answer is **a.** Each SRO limits gifts related to one's activity in the industry to $100 in value per person per year.

78. The best answer is **d.** Anyone who has material information about a publicly traded company, that has not been distributed to the public can be considered to be an "insider," under the court rulings that accompany the formal definition of an insider under the Securities and Exchange Act of 1933. Thus, an attorney for the corporation; an accountant for the corporation; a research scientist for the corporation; and a business journalist can all be considered to be insiders.

79. The best answer is **d.** A customer is considered long if he owns option or warrants and **has exercised;** or if he owns convertible securities and has tendered the securities for conversion. A customer is not considered to be long for a position that is unpaid.

80. The best answer is **d.** A stock power is a form that is separate from a stock certificate on which the assignment can be performed. Transfers of ownership are effected by naming the old and new holders on the stock power. In this way, a new stock certificate does not have to be issued each time there is a change of ownership. Instead, a new stock power is used.

81. The best answer is **d.** If a person fails to follow firm procedures and is dismissed, this is not a cause for FINRA to deny registration of that person with another firm.
A person being subject to litigation for securities fraud, or a person who has been suspended or expelled by another self regulatory organization, is likely to be denied registration.

82. The best answer is **c.** As long as the customer has not signed an arbitration agreement, the customer can sue the broker-dealer. Under the Act of 1934, any suits must be brought within 2 years of discovery, but no later than 5 years after the violation occurred.

83. The best answer is **b.** During the cooling off period for "add-on" offerings, Regulation M places restrictions on syndicate members that are not market makers from trading that issuer's securities. The idea is that the syndicate members will not attempt to bid up the price of the issuer's outstanding shares, in order to be able to raise the POP of the additional issue. The rule states that:

If the security is actively traded (average daily trading volume of $1,000,000 or more and public float of at least $150,000,000), there are **no** restrictions placed on market makers trading the issue prior to the distribution. The idea here is that this issue is too big for the price to be manipulated. This is called a "Tier 1" issue.

If the security has an average daily trading volume of $100,000 and a public float of at least $25,000,000, the restricted period is the business day prior to the effective date. This is called a "Tier 2" issue.

Any other security not meeting these minimums is a "Tier 3" issue and is subject to a restricted period of 5 business days prior to the effective date.

84. The best answer is **c.** This is a large customer order to sell, which will likely have a negative impact on the price of the stock. The firm's market making desk is not permitted to use its knowledge of the order to make a trading profit, or to avoid a trading loss (as in this example). If the market making desk does so, it is "front running" the customer order, which is a violation. The put options can only be purchased after the customer order is placed. They cannot be purchased prior to placing the customer sell order.

85. The best answer is **c.** An ETN is an Exchange Traded Note. It is a type of structured product offered by banks that gives a return tied to a benchmark index. The note is a debt of the bank, and is backed by the faith and credit of the issuing bank. An ETF is an Exchange Traded Fund. It is an investment company that owns an underlying portfolio of securities. The shares of the ETF are listed and trade like any other stock.

86 The best answer is **b.** An ETN is an Exchange Traded Note. It is a type of structured product offered by banks that gives a return tied to a benchmark index. The note is a debt of the bank, and is backed by the faith and credit of the issuing bank. ETNs make no interest or dividend payments, so they are not suitable for an investor seeking income. Their value grows as they are held based on the growth of the benchmark index, with any gain at sale or redemption currently taxed at capital gains rates. Thus, they are tax-advantaged as compared to conventional debt instruments.

87. The best answer is **a.** A sell MIT (market if touched) order is similar to a sell limit in that it is also placed higher than the prevailing market. Assume that the market is trading at $50 and a customer places the following order: "Sell 100 ABC @ $60 MIT GTC." This is a sell "Market If Touched" order and is placed higher than the current market price. If the stock trades up to $60 or higher, the order **becomes a market order to sell**. If a trade occurred at $60 (not this order) and the stock then moved below $60, this order would still be filled because it became a market order to sell - there is no limit on the price.

88. The best answer is **b.** Normally, customer market orders have priority on the trading floor and are filled first. Member firms cannot "trade ahead" of customer orders at the same price - customer orders are filled first! However, an exception to this rule is permitted under the "Spread Priority Rule." To facilitate the filling of spread orders, which need to have both legs filled to complete the spread position, the CBOE permits the uncompleted leg of a spread order to "trade ahead" of an existing customer order at the same premium.

89. The best answer is **a.** In a cabinet trade, a worthless option position is closed by a specialist or market maker as an "accommodation liquidation" at an aggregate premium of $1 ($.01 per share). This can be done for both customer and proprietary positions that are worthless.

90. The best answer is **a.** The Firm Element of Continuing Education is delivered by the member firm to each registered person annually.

91. The best answer is **d.** All of the information about the associated person leaving the firm and a U-5 being filed has nothing to do with this question. Customer account records must be retained for 6 years - it makes no difference that the customer was an associated person. Remember that there are six - 6 year records to be retained by member firms. These are:

3 Blotters of Original Entry;

General Ledger;

Customer Account Records; and

Securities Record.

The 3 blotters of original entry are the cash receipts and disbursements blotter; the securities received and delivered blotter; and the purchase and sales blotter.

92. The best answer is **b.** Under SEC Rule 14e-3, during the life of a tender offer, an individual that receives material nonpublic information from the maker of the offer relating to that offer and how it is progressing, is treated as an "insider." Therefore, that individual cannot buy the issuer's common stock, convertible securities or options on these securities. However, if the information is publicly disclosed, then it is no longer treated as "inside" information and that individual is permitted to buy that issuer's securities.

93. The best answer is **c.** "Delta" is the measure of an option's premium movement as compared to the movement of the price of the underlying stock. It is a correlation coefficient.

A "deep in the money call" has a delta of very close to +1 = for every dollar that the market price of the stock rises, the premium will move up by the same dollar;

A "deep out the money" call has a delta of very close to 0 = for every dollar that the market price of the stock rises, the premium of the option does not move at all, since it is essentially worthless;

"At the money" call options tend to have deltas around +.5 = for every dollar that the stock price rises, the options premium moves up by $.50.

The delta movement of put options is similar, except that the deltas are negative instead of positive.

A "delta neutral" strategy is one that profits from volatility - one is not taking a market direction. It requires 2 legs and attempts to make the strategy delta "0" - which makes the strategy relatively insensitive to small price movements. However, it is strongly profitable if the market moves sharply in either direction. For example, a long "at the money straddle" is delta neutral.

Assume that when the market price of ABC is 50, a customer:

Buys 1 ABC Jan 50 Call @ $3 Delta = +.50
Buys 1 ABC Jan 50 Put @ $2 Delta = -.50

Initially, the strategy delta is "0" (+.5 offset by -.5).

If the market moves a bit up or a bit down, the customer loses the combined premium paid, less any small gain on the side of the straddle that is "in the money."

If the market rises sharply, the delta of the 50 call goes towards +1, and the delta of the 50 put goes towards 0, so the strategy delta heads towards +1. The call premium keeps increasing by $1 for each $1 increase in the stock price.

If the market falls, the delta of the 50 put goes towards -1, and the delta of the 50 call goes towards 0, so the strategy delta heads towards -1. The put premium keeps increasing by $1 for each $1 decrease in the stock price.

As a practical matter, options market makers try to remain delta neutral across all positions that they take - long versus short. This makes their overall positions relatively immune to small price changes, giving them time to respond if there are sharp market moves that could hurt them.

94. The best answer is **c.** If trading of a stock is halted on the stock's principal exchange (NYSE, NASDAQ or AMEX), then trading in the option is halted. Cessation of trading on a regional exchange, such as the PHLX, will not stop the option from trading - since it will still be trading in its principal market.

95. The best answer is **c.** "Best execution" rules of the exchanges state that if the price on the exchange where an option trades is not the "best price," then the order can be executed away from the principal exchange.

96. The best answer is **c.** "Delta" is the measure of an option's premium movement as compared to the movement of the price of the underlying stock. It is a correlation coefficient.

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A "delta neutral" strategy is one that profits from volatility - one is not taking a market direction. It requires 2 legs and attempts to make the strategy delta "0" - which makes the strategy relatively insensitive to small price movements. However, it is strongly profitable if the market moves sharply in either direction. For example, a long "at the money straddle" is delta neutral.

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Buys 1 ABC Jan 50 Put @ $2 Delta = -.50

Initially, the strategy delta is "0" (+.5 offset by -.5).

If the market moves a bit up or a bit down, the customer loses the combined premium paid, less any small gain on the side of the straddle that is "in the money."

If the market rises, the delta of the 50 call goes towards +1, and the delta of the 50 put goes towards 0, and the strategy delta heads towards +1. The call premium keeps increasing by $1 for each $1 increase in the stock price.

If the market falls, the delta of the 50 put goes towards -1, and the delta of the 50 call goes towards 0, and the strategy delta heads towards -1. The put premium keeps increasing by $1 for each $1 decrease in the stock price.

97. The best answer is **b.** The CBOE rule for resolution of "clearly erroneous trades" requires that the trade be reported to a Trading Official within 15 minutes of execution. The Trading Official must review the circumstances of the trade and make a determination within 60 minutes. If either party disagrees with the determination, an appeal can be made to the Obvious Error Panel within 30 minutes. The Obvious Error Panel reviews the complaint and makes a final determination by the end of that trading day. (Also note that if a trade occurs after 2:30 PM CT, either party has until 8:30 AM CT the next day to request the review, in which case, the determination is made by the end of that day.)

98. The best answer is **a.** On the CBOE, the market maker function is handled by the "DPM" - the designated Primary Market Maker. The DPM maintains the bid-ask quote in the contract and must maintain a fair and orderly market. The DPM cannot act as a floor broker in the options classes to which it is assigned. Floor brokers, also called ROTs (Registered Options Traders), handle customer agency orders but cannot maintain a bid-ask quote.

99. The best answer is **b.** The "acting in concert" prohibition applies to individuals that group together in an attempt to avoid position limits or exercise limits. For individual to be acting in concert, there must an individual or group that is coordinating the trading, which is the case in Choice "b."

100. The best answer is **a.** CBOE rules require that options trade confirmations be sent "promptly" - but the rule does not actually set a date. In practice, the confirmation is sent no later than the business day after trade date (which is the same as settlement date for options traded "regular way"). In this question, the best answer is to use the CBOE wording of their rule (Rule 9.11) - which is "promptly."

