

Series 56 Practice Questions

1. The U4 needs to be updated for all of the following events except:
 - A. Bankruptcy
 - B. Marriage
 - C. Securities related Felony
 - D. Change of Residence

2. How long after a U4 or U5 becomes inaccurate must it be amended by:
 - A. 1 day
 - B. 15 days
 - C. 30 days
 - D. 1 year

3. Supervisors must keep the trade blotter for how long?
 - A. 1 year
 - B. 3 years
 - C. 6 years
 - D. Forever

4. When must the CE regulatory element be passed?
 - A. On the 1 year anniversary and every year after
 - B. On the 2 year anniversary and every year after
 - C. On the 1 year anniversary and 3 years after
 - D. On the 2 year anniversary and 3 years after

5. What is the maximum gift amount that an exchange employee can receive?
 - A. \$50
 - B. \$100
 - C. \$200
 - D. \$500

6. SROs can hand out all of the following punishments except:
 - A. Censure
 - B. Monetary Fine
 - C. Jail Time
 - D. Expulsion

7. If a Market Maker continues to participate until 4:25, he may leave...
 - A. Anytime
 - B. Anytime After 4:30
 - C. Anytime After 6:30
 - D. He must stay until 8:00

8. What type of stock can be repurchased by the issuing corporation?
 - A. Callable Preferred Stock

- B. Common Stock
- C. Convertible Preferred Stock
- D. Cumulative Preferred Stock

9. Minority Shareholders benefit most from...

- A. Warrants
- B. Rights
- C. Statutory Voting Rights
- D. Cumulative Voting Rights

10. A stock certificate...

- A. Provides physical evidence of ownership
- B. Is now an electronic document
- C. Always represents 1 share
- D. Always represents 100 shares

11. How much margin is required to purchase a penny stock?

- A. 30%
- B. 50%
- C. 100%
- D. It is up to the broker

12. Which of the following is not a responsibility of the transfer agent?

- A. Account for lost shares
- B. Act as a proxy for the firm
- C. Handle issues relating to damaged certificates
- D. Reimburse stockholders for share transfer payments

13. What happens to your ownership percentage if you do not subscribe to a firm's rights offerings?

- A. It increases
- B. It decreases
- C. It stays the same
- D. Not enough information is given

14. All of the following are risks associated with OTCBB stocks except:

- A. Illiquid trading
- B. Increased volatility
- C. Tighter spreads
- D. Threat of bankruptcy

15. If I own XYZ calls and it goes ex-dividend today, how must I settle to receive the dividend?

- A. I can settle the normal way
- B. I must settle on a cash basis
- C. I must settle via seller's option
- D. I will automatically receive the dividend, so it does not matter how I settle

16. Which of the following will not change an option contract

- A. Stock Dividend
- B. Cash Dividend
- C. Even stock split
- D. Odd stock split

17. Which of the following will cause an adjustment to an options contract?

- A. A dividend greater than 5% of the stock price
- B. A dividend greater than 10% of the stock price
- C. A cash dividend of over \$12.50
- D. A cash dividend of any amount

18. The Index Option settlement price is based on

- A. Yesterday's opening price
- B. Yesterday's closing price
- C. Today's opening price
- D. Today's closing price

19. Which of the following does not have a contract size of 10,000

- A. Canadian Dollar
- B. Australian Dollar
- C. Japanese Yen
- D. Swiss Franc

20. How long does a trader have to report an erroneous trade?

- A. 5 minutes
- B. 30 minutes
- C. By the end of the trading day
- D. Before the open of the next trading day

21. When can a trading pause be enacted?

- A. 7:00 to 8:00
- B. 9:30 to 4:00
- C. 9:45 to 3:35
- D. 9:45 to 4:00

22. If a trader buys his own offer and there is no beneficial transfer of ownership, it is...

- A. A Wash Trade

- B. Painting the tape
- C. A Step Out
- D. Interpositioning

23. Which of the following is considered trade shredding?

- A. Destroying stock certificates
- B. Failing to acknowledge that a trade occurred
- C. Breaking of a trade
- D. Breaking up an order to make more commission

24. Which of the following is quoted in hundredths of cents?

- A. Canadian Dollar
- B. Australian Dollar
- C. Japanese Yen
- D. Swiss Franc

25. Trader X posts an offer at \$2 displaying 100 shares with 500 shares in reserve. Then trader Y posts an offer at \$2 displaying 1000 shares. Trader Z pays the offer for 600 shares. What happens?

- A. Trader X gets filled for 600 shares and Trader Y gets filled for 0
- B. Trader Y gets filled for 600 shares and Trader Z gets filled for 0
- C. Trader X gets filled for 100 shares and Trader Y gets filled for 500 shares
- D. Trader X and Y each get filled for 300 shares.

26. On the expiration date, what time do options expire?

- A. 4:00 pm
- B. 4:15 pm
- C. 5:30 pm
- D. 11:59 pm

27. What is the max profit for the following option position

Long 1 XYZ 45 call for \$8
Short 1 XYZ 50 call for \$3

- A. \$0
- B. \$5
- C. \$11
- D. Infinite

28. When must a customer sign the Options Account Agreement?

- A. 15 days prior to account approval
- B. Upon account approval
- C. Within 15 days of account approval
- D. Prior to the first trade

29. Who is responsible for supervision of accounts for branch offices?

- A. The branch manager
- B. The principal
- C. The registered representative
- D. The custodian

30. The securities act of 1933 addresses

- A. The primary market
- B. The secondary market
- C. The SEC
- D. FINRA

31. Which of the following is not on a trade blotter report?

- A. Entered Orders
- B. Executed Orders
- C.
- D. Changes in market levels

32. Which of the following agencies cannot investigate a prop trading firm?

- A. NYSE
- B. OPRA
- C. FINRA
- D. SEC

33. What is an auction market?

- A. An oral market
- B. A market with automatic bid and offer transactions
- C. A market formed by competitive bids and offers
- D. A market formed through negotiated prices

34. Which of the following represents treasury stock?

- A. The amount of shares a company can issue
- B. The amount of shares a company has left to issue
- C. The amount of shares authorized shares minus the amount of issued shares
- D. The amount of shares that were issued and then repurchased by a company

35. Which of the following is not a method used by firms to compensate equity holders?

- A. Interest Payments
- B. Stock Dividend Payment
- C. Cash Dividend Payment
- D.

36. Trader A, who is long XYZ, enters a 20,000 share bid. The stock price rises and the trader exits his position on the offer. Trader A then cancels the bid. This is an example of

- A. Painting the Tape
- B. Marking the Close
- C. Spoofing
- D. Wash trading

37. Trader B calls his broker and asks him to buy 300 shares of XYZ near the close of trading everyday for a week. Trader B already has a substantial position in XYZ, and the additional shares have little impact on his position. This is an example of...

- A. Painting the Tape
- B. Marking the Close
- C. Spoofing
- D. Wash trading

38. When does the opening trade rotation begin?

- A. When the pre-market session begins
- B. When the normal market hours begin
- C. When the underlying stock opens for trading
- D. When there is a market for the option

39. When must you mark a short sale?

- A. When the order is placed
- B. When the execution occurs
- C. When the trade is settled
- D. When the delivery occurs

40. A customer must inform which party that he is exercising an option?

- A. My clearing firm
- B. The writer of the option
- C. The writer of the option's clearing firm
- D. The OCC

41. What should a participant do if there is a failure to deliver for 13 days?

- A. Contact the other end of the trade and establish a timeline for repayment
- B. Contact the OCC and file grievance
- C. Contact the compliance officer and wait for directions
- D. Close out the position

42. A facilitation cross occurs when there are orders from which two parties?

- A. Customer and Customer
- B. Customer and Broker
- C. Broker and Broker
- D. Broker and Market Maker

43. What is the minimum number of contracts for a facilitation cross?

- A. 1
- B. 50
- C. 100
- D. 500

44. What is the minimum amount of capital a JBO must hold?

- A. \$1 million

- B. \$10 million
- C. \$50 million
- D. \$100 million

45. A market maker has a 40,000 share offer at \$10. A customer puts in a 200 share offer at the same price. What does the market maker do?

- A. The market maker must change his display 40,200 shares because that is the full size of the order
- B. The market maker must change his display to 200 shares since customer order have priority
- C. The market maker may keep his display because it is a de minimus change to the offer
- D. The market maker must post the 200 shares on another exchange

46. When is the last time a customer can exercise an option?

- A. 4:15 ET the day before expiration
- B. 5:30 ET the day before expiration
- C. 8:00 ET the day before expiration
- D. 11:59 ET the day of expiration

47. When is the last time OCC clearing member can submit exercise notices?

- A. 4:15 ET the day before expiration
- B. 5:30 ET the day before expiration
- C. 8:00 ET the day before expiration
- D. 11:59 ET the day of expiration

48. What is the difference between OATS and COATS?

- A. OATS is the updated version of COATS
- B. COATS is the updated version of OATS
- C. OATS applies to option and COATS applies to equities
- D. COATS applies to option and OATS applies to equities

49. What must a market maker do to short a restricted security?

- A. Located the stock
- B. Mark the order "Short Sale" and then locate the stock
- C. Mark the order "Market Maker Exempt"
- D. Nothing

50. Futures and Stock transactions settle in how many days respectively?

- A. Both settle t+1
- B. Both settle t+3
- C. Futures settle t+1 and stocks settle t+3
- D. Stocks settle t+1 and futures settle t+3

51. Which of the following is a narrow based index?

- A. S&P 500 Index
- B. Russell 1000 Index
- C. Dow Jones Transportation Index
- D. Nasdaq 100 Index

52. Stock Options and Index Options settle in which of the following ways, respectively

- A. Stock and Stock
- B. Cash and Stock
- C. Stock and Cash
- D. Cash and Cash

53. Of the following, who is not required to display a 2 sided quote?

- A. Floor Broker
- B. Lead Market Maker
- C. Remote Market Maker
- D. Specialist

54. Who sets options exercise limits?

- A. Each individual exchange
- B. The primary exchange
- C. The OCC
- D. OPRA

55. A market maker firm must submit an exercise notice to:

- A. The OCC
- B. Its clearing firm.
- C. The exchange
- D. The writer of the contract

56. During Fast Markets, which of the following is true?

- A. Specialists are no longer allowed to execute trades
- B. Floor brokers are no longer allowed to execute trades
- C. Quoted bids and offers are inaccurate
- D. Normal market hours are shortened

57. A trading pause occurs when an S&P 500 stock moves:

- A. More than 5% in 5 min.
- B. More than 10% in 5 min.
- C. More than 5% in 10 min.
- D. More than 10% in 10 min.

58. The following must be received by the supervisor from any outside brokerage accounts:

- A. Monthly statements
- B. Trade confirmations
- C. Monthly statements and trade confirmations.
- D. Nothing

59. Which of the following regulations involves the dissemination of nonpublic material?

- A. Reg SHO
- B. Reg M
- C. Reg FD
- D. Reg NMS

60. What's the par value of a preferred stock?

- A. 1
- B. 10
- C. 100
- D. 1000

61. An option contract is adjusted for a dividend at this time:

- A. Ex-dividend date
- B. Declaration date
- C. Payment date
- D. Record date

62. Except for the Japanese Yen, what is the standard contract size for a Forex option?

- A. 100
- B. 1,000
- C. 10,000
- D. 100,000

63. What is the auto-exercise threshold for in-the-money options?

- A. \$0.01
- B. \$0.03
- C. \$0.05
- D. \$0.10

64. A trader buys 1 June XYZ 45 call and 1 June XYZ 45 put. This is an example of a:

- A. Combination
- B. Straddle
- C. Spread
- D. Bull call

65. What is the method for determining order priority?

- A. Time then Price
- B. Price then Time
- C. Price then Size then Time
- D. Time the Price then Size

66. For American Style options, assignments to sellers can happen:

- A. Only at expiration.

- B. At any time.
- C. The day before expiration.
- D. At settlement

67. A trader at firm A receives a call from his friend at firm B who tells him about a sell stop order in security XYZ that is 10 cents away. Trader A immediately buys puts on XYZ to guarantee himself a profit if the stop gets triggered. This is an example of...

- A. Short-selling violation
- B. Information-barrier violation
- C. Front-running violation
- D. Interpositioning

68. What does T+N refer to?

- A. The number of days after the transaction that the settlement occurs
- B. The number of days after the transaction that the delivery occurs
- C. The number of days after the transaction that a failure to deliver must be closed out
- D. A traders net position in stocks and options

69. A broker-dealer assigns options exercises to sellers by all of the following methods except

- A. Completely at random.
- B. By trade size.
- C. First in, first out
- D. Fair and equitable

70. Which agency provides the threshold stock list?

- A. OCC
- B. FINRA
- C. The Exchange
- D. The Clearing Firm

71. Which is an example of the Manning rule?

- A. A broker executes a proprietary order at a more favorable price than a customer limit order.
- B. A broker executes his order at a more favorable price than when a customer order was received 30 seconds after.
- C.
- D.

72. The securities act of 1934 includes...

- A. Trading of any security within the US
- B. Trading of US listed securities within the US
- C. Trading of US listed securities anywhere
- D. Trading anywhere

73. There is a dutch tender between \$99 and \$105. Trader A puts in an order to sell 100,000 shares at \$99.75. The company says they will buy 95% pro-rata at \$100.25. What are the terms of the sale?

- A. Trader A sells 100,000 shares at \$99.75
- B. Trader A sells 95,000 shares at \$99.75
- C. Trader A sells 100,000 shares at \$100.25

D. Trader A sells 95,000 shares at \$100.25

74. Exchange A has a system error and cannot route orders to exchange B. What happens?

- A. Exchange B declares self-help against exchange A.
- B. Exchange A declares self-help against exchange B.
- C.
- D.

75. What time does ACT close?

- A. 4:00
- B. 4:30
- C. 8:00
- D. 11:59

76. The following is true about bulletin board securities in relation to listed securities:

- A. There is greater market risk.
- B. There is greater beta risk.
- C. There is greater idiosyncratic risk.
- D. Less information must be disseminated to investors regarding company information.

77. According to the Anti-Money Laundering portion of the Patriot Act, who must a broker-dealer check with prior to accepting capital contributions from a customer?

- A. Department of Homeland Security
- B. NYSE
- C. Office of Foreign Assets
- D. FINRA

78. Which of the following is not true in regards to the code of arbitration?

- A. All testimonies are under oath
- B. The decision is final and binding
- C. Both parties can withdraw at any point
- D. The hearings are private but the decision is public

79. You are long 1 XYX 25 call and short 1 XYZ 30 call with a net debit of \$3. What is the maximum profit?

- A. \$2
- B. \$3
- C. \$5
- D. Infinite

80. How long do you have to report OTC trades

- A. 30 seconds
- B. 45 seconds
- C. 60 seconds
- D. 90 seconds

81. A firm is below their minimum margin requirements (or doesn't have enough capital) but with permission, executes a trade for a customer under the name of another firm. This is referred to as a:
- A. Give-up
 - B. Step-out
 - C. Takeaway
 - D. Painting the Tape
82. Which of the following is NOT true of warrants?
- A. They can receive stock dividends.
 - B. They can be perpetual.
 - C. They are guaranteed by the OCC.
 - D. If a warrant is exercised, the company will issue new shares.
83. Which of the following trading facilities is an ATS?
- A. NYSE
 - B. AMEX
 - C. Dark Pool
 - D. ECNs
84. John owns 1 March XYZ call @ \$25. XYZ gets a hostile takeover bid for \$28. What happens to the contract?
- A. The contract will be adjusted to the right to receive 100 shares of the acquiring company.
 - B. The contract will be adjusted to the right to receive 100 contracts of the acquiring company.
 - C. The contract will be adjusted to the right to receive 100 shares at \$28.00.
 - D. Option contract adjustments for mergers and acquisitions are handled on a case by case basis.
85. A buy limit order designated to a specific market center, while a better offer is available on another exchange is called:
- A. A directed order
 - B. An Inter-Market Sweep Order
 - C. A reserve order
 - D. A Market-on-Close order
86. Who is in charge of choosing lead market makers, specialists, and so forth?
- A. The specialists' association.
 - B. The exchange.
 - C. The OCC
 - D. The corporation of each security.
87. Which of these best describes a "give up"?
- A. The negotiated price on an out trade
 - B. The commission a customer pays
 - C. The executing broker places a trade on behalf of another broker as if he/she actually executed the trade
 - D.
88. How is the position limit for a broad index calculated?
- A. The open interest and the trade volume for the last 6 months.
 - B. The open interest.
 - C. The number of outstanding shares and the volume for the last 6 months.
 - D. The number of outstanding shares

89. When must a customer receive the risk disclosure document?

- A. 15 days prior to account approval
- B. At or prior to account approval
- C. Within 15 days of account approval
- D. Prior to the first trade

90. The maximum spread allowed by market makers of options between the prices of \$5 and \$10 is:

- A. \$0.40
- B. \$0.50
- C. \$1.00
- D. \$2.00

91. If a trade occurs between 8pm and 8am, when is it reported?

- A. 90 seconds before 7am
- B. 90 seconds before 8am
- C. 15 minutes before the open
- D. 9:30am

92. When a trader is short Aug 35 calls and long Aug 55 calls, what type of option strategy is being used?

- A. Bull call spread
- B. Bear call spread
- C. Synthetic straddle
- D. Covered call

93. You are long 5 XYZ Aug 20 calls, and XYZ is at \$25. You close the position. What happens to your account?

- A. Increased by \$25,000
- B. Decreased by \$25,000
- C. Increased by \$2,500
- D. Decreased by \$2,500

94. What is the maximum gift amount that a trader can receive?

- A. \$50
- B. \$100
- C. \$200
- D. \$500

95. In order to close out a short position, a trader must:

- A. Buy to close
- B. Buy to open
- C. Sell to close
- D. Sell to open

96. If a trader does not complete the continuing education requirement:

- A. He is barred from the securities industry
- B. He is subject to suspension by FINRA
- C. He must retake the qualifying exam
- D. He is subject to be fined

97. Market makers have how long to settle a fail-to-deliver?

- A. T+1
- B. T+3
- C. T+4
- D. T+6

98. Which of the following indicates a marking-the-close violation?

- A. A trader trades on material, non-public information
- B. A trader puts in a limit order before the close
- C. A trader buys 500 shares at or near the close each day in order to end the day on an uptick
- D. A trader uses a sell on close order to buy shares of a stock with an imbalance order

99. An options market maker's displayed quote:

- A. Is firm for the public but subject to change for members
- B. Is usually not fully displayed.
- C. Should be considered a firm quote for all investors
- D. Cannot be changed

100. A supervisor is required to review all of the following daily except:

- A. A random sampling of chats
- B. A random sampling of emails
- C. Daily trade blotters
- D. All outside research reports used by employees

101. Tickets that are marked on a "as/of" (T+N) basis signify

- A. Trades that will happen at a future date
- B. Trades that happened earlier and have not yet been reported
- C. Trades that happen through open outcry
- D. (Make something up)

Additional Practice Questions

The following questions have been generated by traders but are incomplete, need to be revised, or the answer is unknown or uncertain. As they are revised, they will be added to the list above. Until then they are meant for informational purposes only.

XX. What must you do if you short a restricted security?

- A. Close the position immediately
- B. Contact your compliance officer and wait for directions
- C. Notify FINRA within 30 minutes of closing the position
- D. Nothing, so long as you do not add to the position

XX. Which organization does not operate under the securities act of 1934?

- A. SEC
- B. Investment Companies
- C. FINRA
- D. ECNs

XX. With respect to the Anti-Money Laundering Act, which agency performs background searches on potential trade participants?

- A. Department of Homeland Security
- B. FBI
- C. SEC
- D. FINRA

XX. If a broker has to execute a limit order for a market maker, he must:

- A. Put the order in the book.
- B. Announce to the crowd that it's for a market maker.
- C. Treat it like a customer order.
- D. Treat the order like it is his own

XX. Which of the following is a market maker prohibited from doing during an IPO

- A. Shorting after getting a locate
- B. Executing trades beyond opening trade
- C. Buying more than 5% of the shares on the first day of trading
- D. Participating in the IPO

XX. A market maker has failed to deliver. The close-out requirement is

- Put in a market order at the close for the amount for each day that has been failed to deliver
- Put in a market order at the close for the amount that hasn't been delivered
- Cover up to the net amount that hasn't been delivered
- Cover up to the net amount for each day that has been failed to deliver

XX. An market buy order is sent to an exchange A. At the same time, Exchange B is displaying a better offer. This order will receive price improvement because

- A. It is a protected order
- B. Trade-throughs are prevented
- C. The Manning Rule guarantees the best price

D. Interpositioning is illegal

XX. Which rules are included under Reg M?

- A.
- B.
- C.
- D.

XX. A floor broker receives a market order to purchase 30 contracts. He sends out requests and receives responses. He should:

- A. Take the best offer available after receiving responses
- B. Make the market (or something like that)
- C. Send out to another trader to execute

XX. What is a depository eligible security?

- A.
- B.
- C.
- D.

XX. You should assume a market maker's order is...

- A. Just an Indication of interest
- B. Firm to private investors but no one else
- C. Firm to all investing public
- D. Able to be adjusted at any point

XX. Which trades are considered in the third market?

- A. OTC trades on any exchange
- B. Pink sheet trades
- C. OTC trades on the NASDAQ
- D. OTC trades on NYSE

XX. When a trader is short Aug 35 calls and long Aug 55 calls, what type of option strategy is being used?

- A. Bull call spread
- B. Bear call spread
- C. Synthetic straddle
- D. Covered call

XX. A supervisor at a firm needs to have all of the following in writing at all times, except...

- A. Firm margin requirements
- B. Contingency Supervisor plans for unanticipated reason/event
- C. Security plan outline for proprietary trading software

XX. How often must a supervisor confirm written plans for compliance and general rules?

- A. Every 6 months
- B. Every Year
- C. Every 2 years
- D. Every 3 years

XX. How often are traders required to complete continuing education under AML rules?

XX. What should a broker do with trades in an error account?

- A. Review them at the end of each trading day
- B. Close out all positions
- C. Send everything along to clearing agency
- D. Pass along to each individual exchange the underlying came from