QBank Quiz December 1, 2017

Test ID: 59460078

Question #1 of 118

Question ID: 606147

If a customer sells $5,000 worth of stock in a restricted margin account, the SMA will be:

- ✗ **A)** credited by $5,000.
- ✓ **B)** credited by $2,500.
- ✗ **C)** debited by $5,000.
- ✗ **D)** debited by $2,500.

Explanation

When securities are sold in a restricted account, 50% of the proceeds are credited to SMA. In other words, the customer is permitted to remove 50% of the proceeds from the account, but the balance must remain in the account to reduce the debit balance.

Reference: 6.2.1.7 in the License Exam Manual

Question #2 of 118

Question ID: 606145

A customer wants to buy $12,000 worth of stock using other marginable securities owned as collateral for the purchase. With Regulation T at 50%, what must the current market value (CMV) of the securities deposited be?

- ✗ **A)** 18000.
- ✓ **B)** 12000.
- ✗ **C)** 24000.
- ✗ **D)** 6000.

Explanation

Stock buys stock dollar for dollar. With $12,000 worth of fully paid marginable securities, the customer can borrow $6,000 against them. The $6,000 can be the 50% initial requirement for the additional $12,000 purchase.

Reference: 6.2.1.1 in the License Exam Manual

Question #3 of 118

Question ID: 606115

All of the following would affect a customer's equity balance EXCEPT:

- ✗ **A)** withdrawal of SMA.
- ✓ **B)** stock dividends.
- ✗ **C)** interest charged.
- ✗ **D)** cash dividends.

Explanation

Stock dividends do not affect total equity in an account, only the number of shares contained (but at a lower per share price). Cash dividends increase equity, while withdrawal of SMA and interest charges assessed against the account decrease equity.

Reference: 6.2.1.5 in the License Exam Manual

Question #4 of 118

Question ID: 606129

Which of the following transactions must occur in a margin account?

I. Short sale of stock.
II. Purchase of stock to cover a short position.
III. Long purchase of stock.

IV. Long sale of stock.

- ✗ **A)** III and IV.
- ✗ **B)** I and III.
- ✗ **C)** II and IV.
- ✓ **D)** I and II.

Explanation

Short sales must always occur in a margin account because the investor is borrowing stock from the broker/dealer. Covering must take place in the same account.

Reference: 6.2.3 in the License Exam Manual

Question #5 of 118

Question ID: 606100

If an investor opens a new margin account and buys 100 shares of DEF at 39, with Regulation T at 50%, what is the investor's initial margin requirement?

- ✗ **A)** 1950.
- ✗ **B)** 3900.
- ✓ **C)** 2000.
- ✗ **D)** 975.

Explanation

In a new margin account, for first trades between $2,000 and $4,000 the initial margin requirement is $2,000.

Reference: 6.1.4 in the License Exam Manual

Question #6 of 118

Question ID: 606135

If an investor has an established margin account with a current market value of $6,000, and a debit balance of $2,500 with Regulation T at 50%, how much buying power does the investor have?

- ✗ **A)** 3500.
- ✓ **B)** 1000.
- ✗ **C)** 6000.
- ✗ **D)** 2500.

Explanation

The Regulation T requirement is 50% of the current market value of $6,000 ($3,000). Equity is equal to the current market value of $6,000 minus the debit balance of $2,500 ($3,500). Excess equity is calculated by subtracting the Regulation T requirement of $3,000 from the current equity of $3,500 ($500). Buying power is calculated by multiplying the excess equity of $500 by 2 ($1,000).

Reference: 6.2.1.5 in the License Exam Manual

Question #7 of 118

Question ID: 606073

The determination as to whether an OTC stock is eligible for purchase on margin is made by:

- ✗ **A)** the FDIC.
- ✗ **B)** FINRA.
- ✗ **C)** the SEC.
- ✓ **D)** the Federal Reserve Board.

Explanation

All decisions regarding initial margin eligibility are the role of the Federal Reserve Board.

Reference: 6.1.3.1 in the License Exam Manual

Question #8 of 118

Question ID: 786016

Which of the following statements regarding a Regulation T extension are TRUE?

I. It is granted by a self-regulatory organization.
II. It is granted by the transfer agent.
III. An extension is automatically granted once the extension request is made.
IV. Extensions are not automatically granted and may be denied.

- ✗ **A)** I and III
- ✗ **B)** II and III
- ✓ **C)** I and IV
- ✗ **D)** II and IV

Explanation

In certain cases where the customer cannot make payment by the fourth business day following the trade date, the broker/dealer can request an extension from its SRO. Extensions are not automatic, may be denied, and are granted at the discretion of the SRO.

Reference: 6.1.5 in the License Exam Manual

Question #9 of 118

Question ID: 606105

If an investor opens a new margin account and buys 100 shares of DWQ at 18, with Regulation T at 50%, what is the investor's initial margin requirement?

- ✓ **A)** 1800.
- ✗ **B)** 900.
- ✗ **C)** 2000.
- ✗ **D)** 3600.

Explanation

If the initial transaction is less than $2,000, the investor must deposit 100% of the market value.

Reference: 6.1.4 in the License Exam Manual

Question #10 of 118

Question ID: 606069

An investor purchases $15,000 worth of stock in a margin account, depositing the Regulation T requirement. If the account is charged with interest amounting to $100, and no other activity has occurred in the account, the new debit balance is:

- ✓ **A)** 7600.
- ✗ **B)** 7400.
- ✗ **C)** 100.
- ✗ **D)** 7500.

Explanation

Because the Regulation T requirement is 50%, the investor deposits $7,500 and is loaned $7,500 (debit balance) for the $15,000 purchase. If the account is charged with $100 interest expense, the new debit balance is $7,600.

Reference: 6.1.2.1 in the License Exam Manual

Question #11 of 118

Question ID: 606111

In a new margin account, a customer sells short 1,000 shares of ABC at $15 per share and makes the required Regulation T deposit. If the stock drops to $12 per share, what is the equity in the account?

- ✗ **A)** 15000.

✓ **B)** 10500.

✗ **C)** 12000.

✗ **D)** 18000.

Explanation

The initial equity is $7,500 (50% × $15,000). The market value of the short stock falls by $3,000, which increases equity by the same amount. Therefore, the current equity is $10,500 ($7,500 + $3,000 = $10,500).

Reference: 6.2.3.5 in the License Exam Manual

Question #12 of 118

Question ID: 606159

A customer is short 1000 shares of XYZ common stock. For purposes of valuing his short position he should expect that it will be marked-to-market:

✗ **A)** weekly.

✗ **B)** only when he is to receive a statement from his broker/dealer.

✗ **C)** monthly.

✓ **D)** daily.

Explanation

All positions, long or short, are marked-to-market daily for purposes of valuing the position.

Reference: 6.2.3.5 in the License Exam Manual

Question #13 of 118

Question ID: 606179

A broker/dealer can hypothecate (pledge) up to

✗ **A)** 50% of the equity balance in a margin account.

✗ **B)** 25% of the debit balance in a margin account.

✓ **C)** 140% of the debit balance in a margin account.

✗ **D)** 100% of the long market value (LMV) in a margin account.

Explanation

The amount of securities a broker/dealer can hypothecate (pledge) in a customer's margin account is equal to 140% of the account debit balance.

Reference: 6.4 in the License Exam Manual

Question #14 of 118

Question ID: 606125

On the same day in a new margin account, a customer buys 1,000 XYZ at $80 and sells short 1,000 ABC at $20. Which statements are TRUE?

I. The margin deposit is $50,000.
II. The margin deposit is $60,000.
III. The minimum maintenance margin requirement is $25,000.
IV. The minimum maintenance margin requirement is $26,000.

✗ **A)** I and III.

✗ **B)** II and III.

✓ **C)** I and IV.

✗ **D)** II and IV.

Explanation

The customer must put up 50% on both the purchase and short sale, which results in a deposit of $50,000. The maintenance requirement on the long position is 25% of the current market value (25% × $80,000 = $20,000) while the maintenance requirement on the short position is 30% of the current market value (30% × $20,000 = $6,000).

Reference: 6.2.4 in the License Exam Manual

Question #15 of 118

Question ID: 606138

Assume that a customer has an established margin account with no SMA and the account is restricted. With the Regulation T requirement at 50%, the purchase of $10,000 worth of stock would generate a Regulation T call of:

- ✗ **A)** 25000.
- ✗ **B)** 2500.
- ✓ **C)** 5000.
- ✗ **D)** 20000.

Explanation

The customer must deposit the full margin requirement of the purchase (50% of $10,000) whether the account is restricted or not; therefore, the call would be for $5,000.

Reference: 6.2.1.7 in the License Exam Manual

Question #16 of 118

Question ID: 606121

If an investor has an established margin account with a short market value of $24,000 and a credit balance of $30,000, the maintenance call will be for

- ✗ **A)** 7200.
- ✗ **B)** 2000.
- ✗ **C)** 6000.
- ✓ **D)** 1200.

Explanation

Minimum maintenance requirement in a short margin account is 30% of the current market value. In this case, 30% of $24,000 is $7,200. The equity in the account is currently $6,000 ($30,000 − $24,000). Therefore, the amount of the maintenance call is $1,200.

Reference: 6.2.3.4 in the License Exam Manual

Question #17 of 118

Question ID: 606148

A customer buys 800 shares of ABC at $70 per share in a new margin account. If the price of ABC drops to $50, the minimum maintenance margin requirement for this account is:

- ✓ **A)** 10000.
- ✗ **B)** 14000.
- ✗ **C)** 20000.
- ✗ **D)** 12000.

Explanation

The minimum maintenance margin requirement for a long account is 25% of the current market value. The CMV is $40,000 (800 shares × $50 = $40,000). Therefore, minimum maintenance equals $10,000 (25% × $40,000 = $10,000).

Reference: 6.2.1.4 in the License Exam Manual

Question #18 of 118

Question ID: 606096

Regulation T applies to:

- ✗ **A)** margin accounts only for nonexempt securities.
- ✗ **B)** margin accounts only for listed securities.
- ✓ **C)** both cash and margin accounts for nonexempt securities.
- ✗ **D)** both cash and margin accounts for all unlisted securities.

Explanation

Regulation T controls the credit that broker/dealers extend in all types of accounts, and only applies to nonexempt securities.

Reference: 6.1.3 in the License Exam Manual

Question #19 of 118

Question ID: 606092

If a customer wants to buy shares of ABC on margin, while ABC is engaged in an initial public offering, how many days must the customer wait after the public offering date?

- ✓ **A)** 30.
- ✗ **B)** 40.
- ✗ **C)** 25.
- ✗ **D)** 90.

Explanation

According to Regulation T, a new issue may not be purchased on margin for the first 30 calendar days following the public offering date.

Reference: 6.1.3.1 in the License Exam Manual

Question #20 of 118

Question ID: 606143

The minimum maintenance requirement on short stock selling above $5 is:

- ✓ **A)** 30% of the market value or $5 per share, whichever is greater.
- ✗ **B)** 50% of the market value or $5 per share, whichever is greater.
- ✗ **C)** the same as the initial margin requirement.
- ✗ **D)** 25% of the market value or $5 per share, whichever is greater.

Explanation

The minimum maintenance in a short account is 30% of the market value or $5 per share (whichever is greater) for stocks trading above $5. For stocks trading below $5, the minimum maintenance is $2.50 per share or 100% of market value (whichever is greater).

Reference: 6.2.3.6 in the License Exam Manual

Question #21 of 118

Question ID: 606076

A margin account customer buys 100 shares of HEX at $70 and writes a HEX Oct 70 call for a premium of 8. What must he deposit? (Regulation T is 50%.)

- ✗ **A)** 2000.
- ✓ **B)** 2700.
- ✗ **C)** 4500.
- ✗ **D)** 3700.

Explanation

The normal call would be 50% of $7,000 or $3,500. In this example, subtract the premium of $800 that the customer received. (Remember, in a covered call situation, no margin is required for the call.)

Reference: 6.1.3.1 in the License Exam Manual

Question #22 of 118

Question ID: 606157

If a margin account with SMA of $2,000 is restricted by $2,000, which of the following actions may the customer take in order to eliminate the restriction?

I. Transfer $2,000 from SMA.
II. Deposit $2,000 cash.
III. Deposit $4,000 of fully paid marginable stock.
IV. Deposit $2,000 of fully paid marginable stock.

- ✗ **A)** I and III.
- ✗ **B)** I and II.
- ✗ **C)** II and IV.
- ✓ **D)** II and III.

Explanation

Equity may be increased by depositing cash. Depositing fully-paid securities increases equity because the loan value of marginable stock is equal to 50% of its market value. SMA cannot be used to meet minimum maintenance requirements.

Reference: 6.2.1.7 in the License Exam Manual

Question #23 of 118

Question ID: 606173

Which of the following increases SMA?

- ✗ **A)** Decline in market value of long positions.
- ✓ **B)** Receipt of a cash dividend.
- ✗ **C)** Purchase of margin securities.
- ✗ **D)** Withdrawal of margin securities.

Explanation

Cash dividends are credited to SMA dollar for dollar.

Reference: 6.3 in the License Exam Manual

Question #24 of 118

Question ID: 606091

Which of the following organizations determines which OTC securities are eligible for purchase on margin?

- ✗ **A)** FINRA.
- ✗ **B)** SEC.
- ✓ **C)** FRB.
- ✗ **D)** MSRB.

Explanation

The Federal Reserve Board determines whether any security is marginable.

Reference: 6.1.3.1 in the License Exam Manual

Question #25 of 118

Question ID: 606122

A new margin customer buys $12,000 CMV of ABC and sells short $10,000 CMV of XYZ. With Regulation T at 50%, what is the amount of his initial call?

- ✓ **A)** 11000.
- ✗ **B)** 1000.
- ✗ **C)** 5000.
- ✗ **D)** 6000.

Explanation

In a mixed-margin account, the investor should figure the transactions as separate. The investor needs $6,000 for his purchase and $5,000 for his short sale.

Reference: 6.2.4 in the License Exam Manual

Question #26 of 118

Question ID: 606144

A customer purchases 200 shares of ABC Health Care at $60 per share and meets the initial margin requirement. If ABC announces an acquisition and its stock appreciates on the news to $75, how much cash can the customer withdraw after this market move?

- ✓ **A)** 1500.
- ✗ **B)** 3000.
- ✗ **C)** 1000.
- ✗ **D)** 0.

Explanation

The customer could withdraw cash equal to the SMA. A purchase of 200 shares at $60 per share would require an initial deposit of $6,000 on a market value of $12,000. The customer would have $6,000 in equity and a $6,000 debit. After a rise to $75 a share, the stock's market value would be $15,000. The customer's debit balance would remain unchanged at $6,000, but the equity would increase to $9,000 ($15,000 CMV − $6,000 DR). The customer needs to have 50% equity (50% × $15,000 = $7,500). Because the customer only needs $7,500 equity but now has $9,000, the excess equity of $1,500 is credited to SMA, which is the amount the customer can withdraw.

Reference: 6.2.1.6 in the License Exam Manual

Question #27 of 118

Question ID: 606137

All of the following statements regarding a mark to the market are true EXCEPT:

- ✓ **A)** it requires the use of a due bill.
- ✗ **B)** it often occurs in connection with margin transactions.
- ✗ **C)** it occurs because of a change in the stock's market value covered by a contract.
- ✗ **D)** it may result in a request for additional collateral.

Explanation

A mark to the market occurs when one party to a contract becomes partially unsecured due to a change in the stock's market value covered by a contract. A mark to the market is a request for additional collateral.

Reference: 6.2.1.1 in the License Exam Manual

Question #28 of 118

Question ID: 606080

In a new margin account, if a customer buys 300 shares of XYZ for 48 and simultaneously writes 3 XYZ Jan 50 calls at 1, the margin call will be for:

- ✗ **A)** 7500.
- ✗ **B)** 7200.
- ✗ **C)** 7350.
- ✓ **D)** 6900.

Explanation

The Regulation T requirement is $7,200 (50% × $14,400). There is no Regulation T requirement for writing covered calls. The requirement to establish both positions is $7,200. However, the question asked for the margin call (a margin deposit). The requirement of $7,200 is reduced by the premium income received ($300). By depositing $6,900, the customer will have $7,200 in the account, the difference being the premium income credited to the account on settlement date.

Reference: 6.1.3.1 in the License Exam Manual

Question #29 of 118

Question ID: 606146

An investor has an established margin account with a long market value of $6,500 and a debit balance of $3,750, with Regulation T at 50%. A maintenance call would be triggered if the long market value decreased below:

- ✗ **A)** 4875.
- ✗ **B)** 2812.5.
- ✓ **C)** 5000.
- ✗ **D)** 8666.67.

Explanation

To determine long market value at maintenance, divide the debit balance of $3,750 by 75% ($5,000).

Reference: 6.2.1.4 in the License Exam Manual

Question #30 of 118

Question ID: 606156

If a client has a margin account with $23,000 in securities and a debit of $12,000, and Regulation T is 50%, which of the following statements are TRUE?

I. The account is restricted.
II. The client will receive a margin call for $500.
III. The client may withdraw securities if he deposits 50% of the securities' value.
IV. The account has excess equity of $5,250.

- ✗ **A)** III and IV.
- ✓ **B)** I and III.
- ✗ **C)** I and II.
- ✗ **D)** II and III.

Explanation

The account is restricted by $500 because the equity of $11,000 is less than the Regulation T requirement of 50% ($11,500). However, the client will not receive a margin call for the $500 because Regulation T applies only to the initial purchase. Because the account is restricted, any withdrawal of securities requires a cash deposit of 50% or a deposit of securities with a loan value of 50% of the value of the securities withdrawn. The account is $5,250 above the required minimum maintenance margin, but this amount is not considered excess equity.

Reference: 6.2.1.7 in the License Exam Manual

Question #31 of 118

Question ID: 606108

As the initial transaction in a new margin account, your customer shorts 100 shares of DMF at 30. With Regulation T at 50%, he will receive a margin call for:

- ✗ **A)** 1500.
- ✗ **B)** 750.
- ✓ **C)** 2000.
- ✗ **D)** 3000.

Explanation

Because the total market value of the transaction is $3,000, the initial margin would be $1,500 (50% of $3,000). However, minimum initial margin is $2,000.

Reference: 6.2.3.3 in the License Exam Manual

Question #32 of 118

Question ID: 606109

An investor has an established margin account with a short market value of $4,000 and a credit balance of $6,750, with Reg T at 50%. How much excess equity does the investor have in the account?

- ✗ **A)** 1500.
- ✗ **B)** 2750.
- ✓ **C)** 750.
- ✗ **D)** 2000.

Explanation

The Regulation T requirement and equity must be calculated before excess equity can be determined. The Regulation T requirement is 50% of the short market value of $4,000 ($2,000). Equity is calculated by subtracting the short market value of $4,000 from the credit balance of $6,750 ($2,750). Excess equity is calculated by subtracting the Regulation T requirement of $2,000 from the equity of $2,750 ($750).

Reference: 6.2.3.5 in the License Exam Manual

Question #33 of 118

Question ID: 606132

A customer has a margin account which shows a market value of $190,000 and a debit balance of $90,000. In addition, the account has SMA of $5,000. The long market value at maintenance is:

- ✗ **A)** 115000.
- ✓ **B)** 120000.
- ✗ **C)** 150000.
- ✗ **D)** 95000.

Explanation

Long market value at maintenance is the point to where an account must fall (in market value) to reach minimum maintenance (25% of market value). To compute, divide the debit balance by .75 ($90,000 / .75 = $120,000). If the market value were to fall to $120,000, the account would look like this: $120,000 − $90,000 = $30,000 (25%) (MV − DB = EQ).

Reference: 6.2.1.4 in the License Exam Manual

Question #34 of 118

Question ID: 606128

In a new margin account, a customer sells short 1000 shares of XYZ at $30 per share and deposits the required margin. If the stock subsequently falls to $25 per share, the equity in the account is:

- ✓ **A)** 20000.
- ✗ **B)** 10000.
- ✗ **C)** 15000.
- ✗ **D)** 25000.

Explanation

The beginning equity is $15,000 (CR − SMV = EQ, or $45,000 − $30,000 = $15,000). If the market value falls to $25,000, equity is determined as $45,000 minus $25,000 equals $20,000.

Reference: 6.2.3.3 in the License Exam Manual

Question #35 of 118

Question ID: 606127

A customer sells short 500 XYZ at $80 per share in a margin account. Prior to regular way settlement, if the stock falls to $60 per share, the minimum maintenance margin requirement is:

- ✓ **A)** 9000.
- ✗ **B)** 10000.
- ✗ **C)** 12000.
- ✗ **D)** 7500.

Explanation

Minimum in a short margin account is 30% of the current market value, which is $30,000 (500 shares × 60); 30% of $30,000 is $9,000.

Reference: 6.2.3.5 in the License Exam Manual

Question #36 of 118

Question ID: 786012

When must a Regulation T call be met?

I. Immediately
II. Within 4 business days in a margin account
III. Within 4 business days in a cash account
IV. Within 10 business days if both a cash and a margin account are maintained

- ✗ **A)** I and II
- ✓ **B)** II and III
- ✗ **C)** I and IV
- ✗ **D)** III and IV

Explanation

Under Regulation T, the initial margin requirement on purchases in a margin account and the full payment on purchases in a cash account must be made within 4 business days of trade date.

Reference: 6.1.5 in the License Exam Manual

Question #37 of 118

Question ID: 606174

All of the following will affect SMA in a short account EXCEPT:

- ✓ **A)** appreciation of CMV.
- ✗ **B)** the purchase of securities.
- ✗ **C)** the sale of securities.
- ✗ **D)** a decline in CMV.

Explanation

In a short account, the customer benefits if the CMV falls. If the CMV is falling, the equity is increasing, thus increasing SMA. If the CMV is rising, the equity is falling, with no effect on SMA.

Reference: 6.3 in the License Exam Manual

Question #38 of 118

Question ID: 606065

An investor is long 10 XYZ calls with a strike price of 40 in his general account. XYZ stock is currently selling at 48. In addition to the fully paid calls, the account also contains a $3,000 credit balance. Cash withdrawal from the account would NOT be allowed to exceed:

- ✓ **A)** 3000.
- ✗ **B)** 11000.
- ✗ **C)** 6000.
- ✗ **D)** 5000.

Explanation

It must be assumed from the information given that the account has only fully paid for call options plus an additional $3,000 cash (credit balance). The investor can withdraw the cash because the options are fully paid for. The question here is whether or not he can withdraw additional cash to borrow against the value of the options contracts. The answer is no; he cannot borrow against long option positions. Or in other words, options have no loan value.

Reference: 6.1.3.1 in the License Exam Manual

Question #39 of 118

Question ID: 606161

Which of the following will NOT affect SMA?

- ✗ **A)** A deposit of cash into the account by the customer.
- ✓ **B)** A stock dividend on stock held long in the account.
- ✗ **C)** A long sale at a profit.
- ✗ **D)** A cash dividend on stock held long in the account.

Explanation

The value of the stock dividend received will be offset by the decline in CMV of the long position on which the dividend is paid. The account's long CMV will not change; it will just be represented by more shares. There will be no change in the overall CMV, debit balance, or equity, and therefore no change in SMA. On the other hand, a cash dividend means that new money is coming into the account, which will reduce the debit balance and be credited to SMA so the customer may withdraw the dividend, if desired.

Reference: 6.3 in the License Exam Manual

Question #40 of 118

Question ID: 606075

Your customer has made a margin purchase of 100 shares of DMF at 50. Two days later, before the customer has met his call, the current market value of DMF is 60. How much must your customer now deposit? (Regulation T is 50%.)

- ✓ **A)** 2500.
- ✗ **B)** 2000.
- ✗ **C)** 3000.
- ✗ **D)** 1500.

Explanation

The investor must come up with the initial call of $2,500. The amount of margin required for a new purchase is based on the CMV of the security at the time of purchase.

Reference: 6.1.3 in the License Exam Manual

Question #41 of 118

Question ID: 606134

If an investor opens a new margin account and sells short 100 shares of COD at 87.25, with Regulation T at 50%, what is the investor's required deposit?

- ✗ **A)** 2617.5.
- ✗ **B)** 2181.25.
- ✗ **C)** 8725.
- ✓ **D)** 4362.5.

Explanation

The required deposit is calculated by multiplying the market value of $8,725 by the Regulation T requirement of 50% ($4,362.50).

Reference: 6.2.3.3 in the License Exam Manual

Question #42 of 118

Question ID: 606169

A customer's restricted margin account shows the following:

LMV $30,000
DB $16,000
SMA $0

If the customer sells $2,000 of securities, how much could be withdrawn from the account?

- ✓ **A)** $1000.
- ✗ **B)** $2000.
- ✗ **C)** $15,000.
- ✗ **D)** $0.

Explanation

In this restricted account, half of the sales proceeds will be used to reduce the DB balance to $15,000 and half of the sales proceeds are released to SMA. Therefore, when $2,000 of stock is sold, $1,000 is credited to SMA. This is the amount that can be withdrawn from the account.

Reference: 6.3 in the License Exam Manual

Question #43 of 118

Question ID: 606087

Regulation T permits borrowing money for the purchase of each of the following EXCEPT:

- ✓ **A)** listed options with expirations of less than 9 months.
- ✗ **B)** listed stocks and bonds.
- ✗ **C)** unlisted stocks and bonds.
- ✗ **D)** listed warrants.

Explanation

Options with expirations of less than 9 months must be fully paid without exception. With some exceptions, warrants, stocks, and bonds may be purchased on margin.

Reference: 6.1.3.1 in the License Exam Manual

Question #44 of 118

Question ID: 606102

Regulation T allows a customer to pay for securities with all of the following EXCEPT:

- ✗ **A)** cash.
- ✗ **B)** marginable securities.
- ✗ **C)** check.
- ✓ **D)** newly purchased mutual funds pledged as collateral.

Explanation

Regulation T does not allow mutual funds to be used as collateral until they have been owned fully paid for 30 days.

Reference: 6.1.3.1 in the License Exam Manual

Question #45 of 118

Question ID: 606168

Which of the following factors will affect SMA in a long account?

I. Sale of securities in the account.
II. Decline in market value of securities.
III. Cash deposited by the customers.
IV. Interest charged on debit balances.

- ✓ **A)** I and III.
- ✗ **B)** II and IV.
- ✗ **C)** I and II.
- ✗ **D)** I and IV.

Explanation

Whenever stock is sold, half of the sales proceeds are credited to SMA. Nonrequired cash deposits are credited to SMA in full. SMA only declines when a customer uses it to borrow from the account or to purchase securities; it is not affected by declines in market value or by interest charges.

Reference: 6.3 in the License Exam Manual

Question #46 of 118

Question ID: 606123

A margin account with a short credit balance of $39,000 will receive a margin call if the SMV rises above:

- ✗ **A)** 40000.
- ✗ **B)** 20000.
- ✗ **C)** 10000.
- ✓ **D)** 30000.

Explanation

With the margin call, the investor has to return the account to the margin maintenance requirement (30% of CMV here). Dividing the Cr by 1.30 will give the call level: $39,000 / 1.30 = $30,000.

Reference: 6.2.3.5 in the License Exam Manual

Question #47 of 118

Question ID: 606164

A customer receives a cash dividend of $1,000 in his margin account. How much of the dividend will be credited to SMA?

- ✗ **A)** $500.
- ✗ **B)** $0.
- ✗ **C)** $250.
- ✓ **D)** $1,000.

Explanation

Cash dividends and interest are considered nonrequired deposits to a margin account and are credited in full to SMA. Once credited to SMA, 100% of the deposit could be withdrawn unless doing so would create a margin call.

Reference: 6.3 in the License Exam Manual

Question #48 of 118

Question ID: 606136

Marking to the market is used to adjust the:

- ✓ **A)** positions in margin accounts based upon current market prices.
- ✗ **B)** maintenance level to Regulation T.
- ✗ **C)** margin requirement to Regulation T.
- ✗ **D)** contract price to the settlement price.

Explanation

Marking to the market means adjusting cost to current market value; all margin account positions are adjusted daily.

Reference: 6.2.1.1 in the License Exam Manual

Question #49 of 118

Question ID: 606176

A customer has a $10,000 debit balance. What is the maximum value of their securities that the broker/dealer can hypothecate?

- ✗ **A)** 2500.
- ✗ **B)** 5000.
- ✗ **C)** 10000.
- ✓ **D)** 14000.

Explanation

The broker/dealer can hypothecate 140% of the customer's outstanding balance.

Reference: 6.4 in the License Exam Manual

Question #50 of 118

Question ID: 786013

If a customer purchases $10,000 worth of stock in a cash account on Monday, May 15, under Regulation T how much must the customer deposit, and when must the deposit be made?

- ✗ **A)** $5,000 no later than Monday, May 22
- ✗ **B)** $5,000 no later than Thursday, May 18
- ✗ **C)** $10,000 no later than Thursday, May 18

✓ **D)** $10,000 no later than Friday, May 19

Explanation

Under Regulation T, payment in a cash account must be made in full within 4 business days (regular way settlement plus two additional business days) of the trade date.

Reference: 6.1.5 in the License Exam Manual

Question #51 of 118

Question ID: 606124

A customer shorts 200 shares of XYZ and buys 2 XYZ at the money calls as a hedge. These transactions can be done in:

✓ **A)** a margin account.
✗ **B)** a cash account, only if the calls are at-the-money.
✗ **C)** either a margin or a cash account.
✗ **D)** a cash account.

Explanation

When shorting stock under any circumstances, a margin agreement is required to borrow the stock. This transaction can be done only in a margin account.

Reference: 6.2.3 in the License Exam Manual

Question #52 of 118

Question ID: 606067

If a customer fails to meet a Regulation T margin call of $2,500, securities may be sold out of the account with a value of:

✗ **A)** 3333.
✗ **B)** 8000.
✓ **C)** 5000.
✗ **D)** 2500.

Explanation

Securities valued at twice the Regulation T cash call must be sold out if a customer fails to meet a Regulation T margin call ($2,500 × 2 = $5,000).

Reference: 6.1.5 in the License Exam Manual

Question #53 of 118

Question ID: 606151

The sale of securities in a restricted margin account affects all of the following EXCEPT:

✓ **A)** equity.
✗ **B)** debit balance.
✗ **C)** market value.
✗ **D)** SMA.

Explanation

Equity is not affected unless the customer elects to withdraw half the proceeds of the sale.

Reference: 6.2.1.7 in the License Exam Manual

Question #54 of 118

Question ID: 606172

How much would SMA's price increase if a customer bought $22,000 worth of marginable stock in the existing margin account and fully paid for the transaction?

✗ **A)** 22000.
✗ **B)** 0.

✓ **C)** 11000.
✗ **D)** 5500.

Explanation

Assuming the customer paid for the securities in full, he would generate $11,000 in SMA. Because the customer need pay only half of the securities' value ($11,000), the additional cash paid ($11,000) would be considered a nonrequired cash deposit and be credited to SMA. Another way to view the transaction is the customer has fully paid securities with a loan value of 50%, or $11,000.

Reference: 6.3 in the License Exam Manual

Question #55 of 118

Question ID: 606079

In a cash account, if a customer buys 300 XYZ at 48 and simultaneously writes 3 XYZ Jan 50 calls at 1, the customer must deposit:

✗ **A)** 14700.
✗ **B)** 14550.
✗ **C)** 14400.
✓ **D)** 14100.

Explanation

In a cash account, the customer must deposit 100% of the value of the stock purchased ($14,400). However, to determine the actual deposit, subtract the $300 in premium income received. By depositing $14,100, the customer will have $14,400 in the account-the difference being the premium income credited to the account on settlement date.

Reference: 6.1.3.1 in the License Exam Manual

Question #56 of 118

Question ID: 606171

All of the following statements about the special memorandum account (SMA) are true EXCEPT:

✓ **A)** SMA in a long margin account decreases when the market value decreases.
✗ **B)** nonrequired cash deposits generate SMA.
✗ **C)** it is a line of credit.
✗ **D)** the SMA balance may be used to meet the Regulation T requirement for purchases.

Explanation

The amount of SMA in a long account decreases only when it is used, and is unaffected by market value decreases.

Reference: 6.3 in the License Exam Manual

Question #57 of 118

Question ID: 606081

In a new margin account, if a customer buys 300 XYZ at 48 and simultaneously writes 3 XYZ Jan 50 calls at 1, the Regulation T margin requirement is:

✓ **A)** 7200.
✗ **B)** 7350.
✗ **C)** 7500.
✗ **D)** 6900.

Explanation

The Regulation T requirement for purchasing $14,400 (300 × 48) of stock is 50%; $7,200. The Regulation T requirement for writing covered calls is zero. Therefore, the Regulation T requirement for establishing both of these positions is $7,200. Note that this question asks for the regulation T requirement, not the deposit that must be made. The margin call (deposit) would be $6,900 because the requirement is reduced by the $300 premiums already received into the account for the calls. After depositing $6,900, the customer will have $7,200 in the account which meets the requirement.

Reference: 6.1.3.1 in the License Exam Manual

Question #58 of 118

Question ID: 606120

Pursuant to Federal Reserve Board Regulation T, cash dividends received in a customer's margin account:

- ✗ **A)** can only be withdrawn if the account is not restricted.
- ✓ **B)** can be withdrawn at any time within the first 30 days of receipt.
- ✗ **C)** must be removed within 30 days of receipt.
- ✗ **D)** cannot be removed.

Explanation

If a customer wishes to withdraw cash dividends, the customer must do so within 30 days of receipt. Otherwise, they become a permanent reduction of the debit balance. The customer does not lose the dividend; rather, the dividend amount is now reflected as increased equity in the account. As the debit balance falls, equity in the account goes up dollar for dollar.

Reference: 6.2.1.5 in the License Exam Manual

Question #59 of 118

Question ID: 606178

A broker/dealer can rehypothecate (repledge) up to:

- ✗ **A)** 140% of the equity in a customer’s margin account.
- ✓ **B)** 140% of the debit balance in a customer’s margin account.
- ✗ **C)** 50% of the equity balance in a customer’s margin account.
- ✗ **D)** 50% of the debit balance in a customer’s margin account.

Explanation

In a margin account, hypothecation is the pledging of customer securities as collateral for the margin loan the customer will receive. The broker/dealer re-pledges (rehypothecates) the securities as collateral to the lending bank. Broker/dealers are permitted to pledge up to 140% of the debit balance in the customer’s account.

Reference: 6.4 in the License Exam Manual

Question #60 of 118

Question ID: 606085

If a customer buys 1 ABC Jan 50 call at 2 and 1 ABC Jan 50 put at 4 when ABC is at 49, the customer must deposit:

- ✗ **A)** 200.
- ✗ **B)** 400.
- ✗ **C)** 500.
- ✓ **D)** 600.

Explanation

The customer purchased a straddle and must pay the full cost of both options ($200 + $400 = $600 total premium).

Reference: 6.1.3.1 in the License Exam Manual

Question #61 of 118

Question ID: 606160

If an investor opens a new margin account and sells short 100 shares of ABC at 32.50, with Regulation T at 50%, what is the investor's required deposit?

- ✗ **A)** 3250
- ✗ **B)** 1625
- ✗ **C)** 812.5
- ✓ **D)** 2000

Explanation

The Regulation T requirement is $1,625 ($3,250 × 50%). When selling stock short in a new account, an investor must meet the minimum requirement of $2,000 for any short sales of $4,000 or less. Above $4,000, the deposit is 50% of the short market value.

Reference: 6.2.3.3 in the License Exam Manual

Question #62 of 118

Question ID: 606116

Which of the following is always affected by a change in the market value of securities in a long margin account?

- ✗ **A)** Special memorandum account.
- ✗ **B)** Credit balance.
- ✗ **C)** Debit balance.
- ✓ **D)** Maintenance requirement.

Explanation

SMA is only affected if the CMV increases. In terms of dollars, the maintenance requirement will continuously fluctuate with the market value since it is a percentage of the CMV.

Reference: 6.2.1.3 in the License Exam Manual

Question #63 of 118

Question ID: 606083

In a margin account, if a client purchases $15,000 of LMN preferred shares, $15,000 of money-market mutual fund shares, and $2,500 of call options, what is the Regulation T call?

- ✗ **A)** 32500.
- ✗ **B)** 17500.
- ✓ **C)** 25000.
- ✗ **D)** 16250.

Explanation

The amounts that must be deposited are: $7,500 for the preferred shares, $15,000 for the mutual fund, and $2,500 for the options. Mutual fund shares cannot be hypothecated for 30 days and option purchases are never marginable.

Reference: 6.1.3.1 in the License Exam Manual

Question #64 of 118

Question ID: 606152

If a customer has a margin account with a long market value of $140,000 and a debit balance of $60,000, what is the buying power in the account?

- ✗ **A)** 5000.
- ✓ **B)** 20000.
- ✗ **C)** 0.
- ✗ **D)** 10000.

Explanation

The buying power of a margin account is twice the amount of SMA. This account has equity of $80,000, and the Regulation T requirement is $70,000. Therefore, the excess equity is $10,000 or SMA purchasing power equal to $20,000.

Reference: 6.2.1.6 in the License Exam Manual

Question #65 of 118

Question ID: 606090

Initial margin requirements on nonexempt securities are set by:

- ✗ **A)** the MSRB.
- ✓ **B)** the FRB.

- ✗ **C)** FINRA.
- ✗ **D)** the SEC.

Explanation

The FRB sets initial margin requirements for all nonexempt securities. Minimum maintenance requirements for nonexempt securities, as well as margin and maintenance requirements for exempt securities, are set by a firm's SRO.

Reference: 6.1.3 in the License Exam Manual

Question #66 of 118

Question ID: 606181

A broker/dealer has put customer’s securities in its own proprietary accounts. This is a violation of industry rules known as:

- ✗ **A)** refunding.
- ✗ **B)** freeriding.
- ✓ **C)** commingling.
- ✗ **D)** withholding.

Explanation

Mixing a customer's securities in with the accounts of the broker/dealer is commingling and is prohibited by securities industry regulations.

Reference: 6.4 in the License Exam Manual

Question #67 of 118

Question ID: 606117

Your client has a combined margin account. The value of the long stock position has increased by $5,000, and the value of the short stock position has dropped by $2,000. What is the net change to the equity in the account?

- ✗ **A)** $3,000 increase.
- ✓ **B)** $7,000 increase.
- ✗ **C)** $3,000 decrease.
- ✗ **D)** $7,000 decrease.

Explanation

An increase in position value in a long account will increase equity, and a decrease in value of the short positions will also increase equity.

Reference: 6.2.4 in the License Exam Manual

Question #68 of 118

Question ID: 606175

A member firm may commingle the securities of two or more customers:

- ✗ **A)** with FINRA's written permission.
- ✗ **B)** under no circumstances.
- ✓ **C)** with the customers' written permission.
- ✗ **D)** with the SEC's written permission.

Explanation

A member may commingle a customer's securities with those of other customers only if all of the customers involved have given their written consent.

Reference: 6.4 in the License Exam Manual

Question #69 of 118

Question ID: 606131

If a customer has a margin account with a long position worth $20,000 and a debit balance of $8,000, what is the purchasing power of this customer's account?

- ✓ **A)** 4000.
- ✗ **B)** 2000.
- ✗ **C)** 6000.
- ✗ **D)** 8000.

Explanation

The account has $12,000 of equity. If 50% of the market value is $10,000, the account has $2,000 of excess equity. When Regulation T is 50%, the purchasing power of excess equity is 2-for-1.

Reference: 6.2.1.5 in the License Exam Manual

Question #70 of 118

Question ID: 606103

Margin requirements on exempt securities (U.S. government securities and municipal securities) are set by:

- ✓ **A)** the DEA.
- ✗ **B)** the DOE.
- ✗ **C)** the FRB.
- ✗ **D)** the SEC.

Explanation

The FRB sets the initial margin requirements for nonexempt securities. The margin requirements for exempt securities, such as U.S. governments, are set by a firm's SRO or DEA (designated examining authority).

Reference: 6.1.3.2 in the License Exam Manual

Question #71 of 118

Question ID: 786015

If a customer does not pay for equity securities purchased within 2 business days of regular way settlement date, the broker/dealer may request a time extension from

- ✗ **A)** FINRA
- ✗ **B)** the Philadelphia Stock Exchange
- ✓ **C)** its designated examining authority
- ✗ **D)** the Chicago Stock Exchange

Explanation

A time extension may be requested from the broker/dealer's designated examining authority (DEA), which could be FINRA or one of the exchanges.

Reference: 6.1.5 in the License Exam Manual

Question #72 of 118

Question ID: 606153

In an existing margin account with SMA of $2,000, if a customer wishes to buy 300 shares of ABC at $20 per share, how much must the customer deposit?

- ✗ **A)** 3000.
- ✓ **B)** 1000.
- ✗ **C)** 2000.
- ✗ **D)** 2500.

Explanation

The customer wishes to purchase $6,000 worth of stock and the Regulation T requirement is $3,000. The SMA has buying power of 2-to-1 when Regulation T is 50%, so $2,000 of SMA will purchase $4,000 of stock. Of the remaining $2,000 balance, the broker will lend 50%, so the customer must deposit $1,000.

Reference: 6.2.1.6 in the License Exam Manual

Question #73 of 118

Question ID: 606082

In an existing margin account with no SMA, if a customer buys 300 ABC at 40 and simultaneously buys 3 ABC OCT 40 puts at 2.50, the customer must deposit:

- ✗ **A)** 6375.
- ✗ **B)** 5250.
- ✓ **C)** 6750.
- ✗ **D)** 6100.

Explanation

Buying 300 shares at 40 ($12,000) requires a deposit of $6,000. In addition, the customer is purchasing 3 puts with a total premium of $750 (3 × 2½). Most options have no loan value and must be paid in full. Adding $6,000 and $750 results in a deposit of $6,750.

Reference: 6.1.3.1 in the License Exam Manual

Question #74 of 118

Question ID: 606133

An investor has an established margin account with a current market value of $13,500 and a debit balance of $4,775 with Regulation T at 50%. How much excess equity does the investor have in the account?

- ✗ **A)** 8725.
- ✗ **B)** 13500.
- ✓ **C)** 1975.
- ✗ **D)** 4775.

Explanation

The Regulation T requirement is 50% of the current market value of $13,500 ($6,750). Equity is equal to the current market value of $13,500 minus the debit balance of $4,775 ($8,725). Excess equity is calculated by subtracting the Regulation T requirement of $6,750 from the equity of $8,725 ($1,975).

Reference: 6.2.1.5 in the License Exam Manual

Question #75 of 118

Question ID: 606182

Which of the following statements regarding a discretionary account is NOT true?

- ✗ **A)** A principal must review all trades in the account promptly after execution.
- ✓ **B)** Securities in a discretionary account may not be rehypothecated.
- ✗ **C)** A principal must review all account activity frequently.
- ✗ **D)** A principal must accept the account in writing.

Explanation

No limits are placed on the rehypothecation of securities in an account based solely on its discretionary status. Both cash and margin accounts may be discretionary.

Reference: 6.4 in the License Exam Manual

Question #76 of 118

Question ID: 606084

If a customer buys 200 shares of ABC at 40 and writes 2 ABC Oct 45 calls at 2 in a cash account, the customer must deposit:

- ✓ **A)** 7600.
- ✗ **B)** 8400.
- ✗ **C)** 400.
- ✗ **D)** 2000.

Explanation

The customer is required to deposit 100% of the stock purchase price ($8,000) in this cash account. However, the customer received $400 for writing the 2 calls at $200 each, and the calls are covered by the stock purchased. The deposit can be reduced by the premium income, which leaves a required deposit of $8,000 minus $400, or $7,600.

Reference: 6.1.3.1 in the License Exam Manual

Question #77 of 118

Question ID: 606150

If a customer has a restricted margin account with SMA of $2,500, how much must he deposit to purchase $10,000 worth of stock?

- ✗ **A)** 5000.
- ✗ **B)** 0.
- ✗ **C)** 10000.
- ✓ **D)** 2500.

Explanation

The purchase of $10,000 requires a $5,000 deposit, which can be reduced dollar for dollar by the existing SMA.

Reference: 6.2.1.6 in the License Exam Manual

Question #78 of 118

Question ID: 606089

Which of the following are acceptable forms of collateral in a margin account?

I. Listed bonds
II. Listed stocks
III. Listed put options
IV. Listed call options

- ✗ **A)** III and IV
- ✗ **B)** II and III
- ✓ **C)** I and II
- ✗ **D)** I and IV

Explanation

Listed equity and debt securities are acceptable forms of collateral for borrowing in a margin account. Put and call options have no loan value, and therefore are not acceptable as collateral in a margin account.

Reference: 6.1.3.1 in the License Exam Manual

Question #79 of 118

Question ID: 606155

If a customer has a long-margin account with a market value of $12,000, a debit balance of $8,000 and SMA of $2,000, how much can the customer withdraw from the account?

- ✗ **A)** 1500.
- ✗ **B)** 2000.
- ✓ **C)** 1000.
- ✗ **D)** 0.

Explanation

SMA is a line of credit with one restriction: it may not be used if account equity would fall below minimum maintenance. In this account, maintenance equity is $3,000 (25% of $12,000) and the current equity in the account is $4,000 ($12,000 MV − $8,000 DB). Therefore, only $1,000 may be withdrawn to keep the current equity at the minimum of $3,000.

Reference: 6.2.1.6 in the License Exam Manual

Question #80 of 118

Question ID: 606180

In a customer's margin account a broker/dealer must segregate:

- ✗ **A)** 100% of the long market value (LMV).
- ✓ **B)** The excess securities above 140% of the accounts debit balance.
- ✗ **C)** 140% of the debit balance.
- ✗ **D)** 50% of the equity balance.

Explanation

A broker/dealer may hypothecate (pledge) 140% of a customer's debit balance. Any customer securities in excess of 140% of the debit balance must be physically segregated.

Reference: 6.4 in the License Exam Manual

Question #81 of 118

Question ID: 606072

Your broker/dealer is not self-clearing but instead is an introducing broker/dealer. Therefore all extension requests made to your broker/dealers SRO on behalf of customers would be made by:

- ✓ **A)** The broker/dealers clearing agent.
- ✗ **B)** The customer.
- ✗ **C)** Any party who represents the customer such as an attorney.
- ✗ **D)** The broker/dealer.

Explanation

While extension requests are gotten on behalf of customers, the request to the SRO cannot come directly from the customer or anyone representing them. For self-clearing broker/dealers, the extension request will come from the broker/dealer. However, for introducing firms, those that do not clear their own trades, the request comes from the clearing agent.

Reference: 6.1.5 in the License Exam Manual

Question #82 of 118

Question ID: 606126

In a new margin account, a customer sells short $60,000 worth of ABC stock and deposits $30,000 to meet the Regulation T requirement. If the value of ABC falls to $55,000, the SMA balance in the account would be:

- ✗ **A)** 2500.
- ✓ **B)** 7500.
- ✗ **C)** 5000.
- ✗ **D)** 10000.

Explanation

For every $1 decrease in market value in a short account, $1.50 of SMA is created. Therefore, if the market value falls by $5,000, the SMA balance would be $7,500.

Reference: 6.2.3.5 in the License Exam Manual

Question #83 of 118

Question ID: 786014

If a customer wishes to purchase a nonexempt security in a cash account, Regulation T requires a broker/dealer to receive payment in full

- ✗ **A)** before the purchase
- ✓ **B)** within 4 business days
- ✗ **C)** within 10 business days
- ✗ **D)** within 3 business days

Explanation

Regulation T requires that a broker/dealer receive payment in full, from a customer making a purchase of this type in a cash account, no later than 4 business days after the trade date (regular way settlement plus two additional business days).

Reference: 6.1.5 in the License Exam Manual

Question #84 of 118

Question ID: 786017

If a customer buys $10,000 worth of stock in a cash account, then sells the shares for $12,000 without first paying for the buy side, and then requests the $2,000 profit, which of the following statements are TRUE?

I. The $2,000 profit cannot be sent to the customer until he pays for the buy side in full.
II. The $2,000 can be sent to the customer, but the account will be frozen for 90 days.
III. If the customer pays for the buy side in full on or before the fourth business day following trade date, status as a frozen account is lifted.
IV. Both trades must be switched to the customer's margin account, where buying and selling in this manner are acceptable practices.

- ✗ **A)** I and II
- ✗ **B)** III and IV
- ✓ **C)** II and III
- ✗ **D)** I and III

Explanation

Selling prior to paying is termed freeriding and is prohibited. The penalty for freeriding in a cash account is that the account will be frozen for 90 days, and orders will not be accepted without cash or securities on deposit in advance. Transactions in margin accounts are subject to the same basic rule.

Reference: 6.1.5 in the License Exam Manual

Question #85 of 118

Question ID: 606170

Each of the following can change the SMA balance in a long-margin account EXCEPT:

- ✗ **A)** sale of securities.
- ✗ **B)** cash dividends deposited.
- ✓ **C)** decrease in value of securities.
- ✗ **D)** market appreciation of securities.

Explanation

The sale of securities in the account results in an automatic release of funds to SMA. Nonrequired cash deposits, such as dividends, will also be automatically credited to SMA. An increase in the value of the securities will increase SMA. However, a decrease in the market value of the securities will not affect SMA.

Reference: 6.3 in the License Exam Manual

Question #86 of 118

Question ID: 606118

Your customer has purchased $40,000 of stock in a new margin account and deposits the required Regulation T amount into the account. At the end of the month, the broker/dealer charges the client interest on the monies borrowed in the amount of $133.00. At the end of the month, the value of the stock drops to $36,000. The month end statement for this client will show a debit balance of:

- ✓ **A)** 20133.
- ✗ **B)** 16133.
- ✗ **C)** 15867.
- ✗ **D)** 18867.

Explanation

A decrease in the value of the position will not affect the client's debit balance. The margin call on this account would be the Regulation T requirement of 50% of the purchase price. Any interest charges will be added to the client's debit balance.

Reference: 6.2.1 in the License Exam Manual

Question #87 of 118

Question ID: 606166

A customer opens a margin account by purchasing 300 shares of XYZ at $60 and deposits the required margin. The stock rises to $70 on the following day. On the third day, after the release of a disappointing earnings report, the stock falls to $50. Which of the following describes the account after the changes in market value?

- ✓ **A)** Equity of $6,000; SMA of $1,500.
- ✗ **B)** Equity of $6,000; SMA of $0.
- ✗ **C)** Equity of $9,000; SMA of $0.
- ✗ **D)** Equity of $12,000; SMA of $1,500.

Explanation

The account starts out as follows: $18,000 − $9,000 = $9,000 (LMV − DB = EQ). After the stock rises to 70, the account looks like this: $21,000 − $9,000 = $12,000; SMA = $1,500. For every $1 increase in market value, 50 cents of SMA is created. After the stock falls to 50, the account looks like this: $15,000 − $9,000 = $6,000; SMA = $1,500. An increase in market value creates SMA but a subsequent decline has no effect.

Reference: 6.3 in the License Exam Manual

Question #88 of 118

Question ID: 606071

In margin accounts, the interest rate charged to customers by a broker/dealer is *most* closely related to the:

- ✗ **A)** discount rate.
- ✓ **B)** call loan rate.
- ✗ **C)** federal funds rate.
- ✗ **D)** prime rate.

Explanation

The interest rate is directly related to the call loan rate, which is the rate banks charge broker/dealers for loans on their customers' hypothecated securities.

Reference: 6.1.2.1 in the License Exam Manual

Question #89 of 118

Question ID: 606163

Which of the following events will cause the special memorandum account to decrease?

I. An increase in the SMV.
II. A decrease in the LMV.
III. The purchase of long securities on margin.
IV. The short sale of securities.

- ✗ **A)** I and II.
- ✓ **B)** III and IV.
- ✗ **C)** I and III.
- ✗ **D)** II and IV.

Explanation

SMA, once created, does not go away until used. Using the SMA to buy more securities or sell more short will decrease the amount of SMA.

Reference: 6.3 in the License Exam Manual

Question #90 of 118

Question ID: 606088

Regulation T governs the purchase of all of the following EXCEPT:

- ✗ **A)** corporate convertible bonds.
- ✗ **B)** American depositary receipts.
- ✗ **C)** listed options.
- ✓ **D)** U.S. government bonds.

Explanation

Regulation T applies only to nonexempt securities. Because governments and municipals are exempt, there is no federal regulation.

Reference: 6.1.3.2 in the License Exam Manual

Question #91 of 118

Question ID: 606142

If an investor has an established margin account with a current market value of $4,400, and a debit balance of $1,750 with Regulation T at 50%, how much buying power does the investor have in the account?

- ✗ **A)** 2200.
- ✓ **B)** 900.
- ✗ **C)** 4400.
- ✗ **D)** 2650.

Explanation

The Regulation T requirement is 50% of the current market value of $4,400, which equals $2,200. Equity equals the current market value of $4,400 minus the debit balance of $1,750, which equals $2,650. Excess equity is calculated by subtracting the Regulation T requirement of $2,200 from the current equity of $2,650, which equals $450. Buying power is then calculated by multiplying the excess equity of $450 by 2, which equals $900.

Reference: 6.2.1.5 in the License Exam Manual

Question #92 of 118

Question ID: 606130

In an initial transaction in a margin account, a customer sells short 200 ABC at $18 per share and makes the initial required deposit. The credit balance in the account is

- ✗ **A)** 2000
- ✗ **B)** 5400
- ✓ **C)** 5600
- ✗ **D)** 2400

Explanation

The minimum equity requirement for short accounts is $2,000. The investor receives $3,600 from the proceeds of the sale and must deposit $2,000, therefore the credit balance is $5,600 ($3,600 + $2,000 = $5,600).

Reference: 6.2.3.3 in the License Exam Manual

Question #93 of 118

Question ID: 606107

A firm must provide a risk disclosure document to a customer before opening which of the following accounts?

- ✗ **A)** Custodial
- ✗ **B)** TOD
- ✓ **C)** Margin
- ✗ **D)** Partnership

Explanation

All customers opening margin accounts must receive a risk disclosure document describing the risks associated with trading on margin (e.g., that a customer could lose more than the initial investment, or that the firm could sell out securities in the account to meet a maintenance call without providing prior notice to the customer). This document must also be provided to customers on an annual basis.

Reference: 6.1.2.4 in the License Exam Manual

Question #94 of 118

Question ID: 606101

If a customer purchases stock in an existing margin account and fails to make payment within the time period specified under Regulation T, the broker/dealer carrying the account can take all of the following actions EXCEPT:

- ✓ **A)** Liquidate the entire account and remit any balance to the customer.
- ✗ **B)** Sell out the unpaid portion.
- ✗ **C)** Request an extension of time from its DEA.
- ✗ **D)** Use existing SMA to meet the requirement.

Explanation

If a customer does not meet a Fed call, the firm can use existing SMA to meet the call, request an extension of time from its designated examining authority, or liquidate the unpaid portion. The firm would not close out the account.

Reference: 6.1.5 in the License Exam Manual

Question #95 of 118

Question ID: 606110

As an initial transaction in a margin account, a customer sells short 1,000 shares of a capital market stock at $2 per share. If Regulation T is 50%, how much money will the customer be required to deposit?

- ✗ **A)** 2000.
- ✗ **B)** 1000.
- ✓ **C)** 2500.
- ✗ **D)** 3000.

Explanation

The industry requirement to short stocks below $5 per share is 100% of market value or $2.50 per share (whichever is greater).

Reference: 6.2.3.3 in the License Exam Manual

Question #96 of 118

Question ID: 606141

Although the Federal Reserve Board and FINRA have rules that set margin requirements, member firms may:

- ✗ **A)** choose to have 0 minimum maintenance requirements.
- ✗ **B)** increase or decrease these requirements through in-house rules.
- ✗ **C)** follow requirements that are less stringent.
- ✓ **D)** increase these requirements through in-house rules.

Explanation

Firms may set their own margin requirements at more stringent levels than the FRB and FINRA rules. However, a firm may never go below the FRB and FINRA margin requirements.

Reference: 6.2.1.3 in the License Exam Manual

Question #97 of 118

Question ID: 606154

A customer's long margin account has a market value of $60,000, a debit balance of $35,000, and SMA of $5,000. In order to eliminate the restriction, the customer can:

I. deposit $5,000 in cash.
II. borrow $5,000 from the account utilizing the SMA.
III. deposit $5,000 in fully-paid securities.
IV. sell $10,000 of securities in the account.

- ✓ **A)** I and IV.
- ✗ **B)** III and IV.
- ✗ **C)** I and III.
- ✗ **D)** I and II.

Explanation

When equity is between the initial (50% of LMV) requirement and the maintenance requirement (25% of LMV), an account is described as restricted. This account has $25,000 of equity which is $5,000 below the initial requirement. To bring the equity to 50% of the market value, the customer may deposit $5,000 in cash or sell $10,000 of securities. If $10,000 of securities are sold, LMV becomes $50,000, the debit falls to $25,000 and equity is at $25,000, exactly 50% of the LMV. However, if a customer is using securities to eliminate a restriction (either by selling or depositing fully-paid securities), the customer must sell or deposit an amount equal to twice the restriction.

Reference: 6.2.1.2 in the License Exam Manual

Question #98 of 118

Question ID: 606074

All of the following are advantages of a margin account EXCEPT:

- ✗ **A)** money is borrowed.
- ✓ **B)** losses are minimized.
- ✗ **C)** less cash is needed.
- ✗ **D)** leveraging is possible.

Explanation

Any losses on a short sale are magnified.

Reference: 6.1 in the License Exam Manual

Question #99 of 118

Question ID: 606077

A customer buys 100 shares of HEX at 52 and at the same time sells a HEX call for a premium of 4. What is his margin call deposit?

- ✗ **A)** 1300.
- ✗ **B)** 2600.
- ✗ **C)** 1560.
- ✓ **D)** 2200.

Explanation

The margin call for the purchase of the stock is $2,600, and this is reduced by the sale of the call ($400) for a net of $2,200.

Reference: 6.1.3.1 in the License Exam Manual

Question #100 of 118

Question ID: 606158

When using customer portfolio margining (CPM) to calculate margin, the requirements are

I. Based on the risk associated with the security having the highest volatility in a portfolio.
II. Based on the net risks associated with all the securities in a portfolio.
III. Higher than the margin requirements calculated conventionally.
IV. Lower than the margin requirements calculated conventionally.

- ✓ **A)** II and IV.
- ✗ **B)** II and III.
- ✗ **C)** I and IV.
- ✗ **D)** I and III.

Explanation

Customer portfolio margining (CPM) allows margin requirements to be calculated based on the net risk of a portfolio of securities rather than applying margin calculations separately to each position. While a number of criteria must be met before offering portfolio margining to a customer, generally it will result in lower margin requirements than when margin is calculated conventionally.

Reference: 6.2.5 in the License Exam Manual

Question #101 of 118

Question ID: 606068

If a customer places an order to buy 200 shares of ABC stock at $25, and he wants to meet the margin call by depositing fully-paid listed stock currently trading at $10, how many shares must he deposit?

- ✗ **A)** 600.
- ✗ **B)** 1000.
- ✗ **C)** 700.
- ✓ **D)** 500.

Explanation

To meet a margin call with marginable stock, an investor must deposit twice the value of the call. In this example, the margin call on the $5,000 purchase is $2,500. Because the customer must deposit $5,000 of marginable stock, at $10 per share, the customer must deposit 500 shares of the stock to meet the call.

Reference: 6.1.5 in the License Exam Manual

Question #102 of 118

Question ID: 606119

A margin account contains 500 shares of XYZ at $40 per share and 300 shares of ABC at $90 per share. The debit balance is $21,500 and the SMA balance is $2,000. If XYZ increases to $50 per share and ABC remains unchanged, the equity in the account would be:

- ✗ **A)** 27500.
- ✗ **B)** 25500.
- ✓ **C)** 30500.
- ✗ **D)** 32500.

Explanation

After the move in the price of XYZ, the long market value in the account is $52,000, computed as follows: 500 XYZ at $50 per share is worth $25,000; 300 shares of ABC at $90 per share is worth $27,000. The long market value of $52,000 minus the debit balance of $21,500 results in an equity balance of $30,500. SMA is not equity.

Reference: 6.2.1.1 in the License Exam Manual

Question #103 of 118

Question ID: 606139

A customer is long 200 shares of MTN at 30, and 400 shares of DWQ at 20 in a margin account. If the debit balance in the account is $8,000 and the customer sells 200 DWQ shares for $4,000, the credit to SMA is:

- ✓ **A)** 2000.
- ✗ **B)** 1000.
- ✗ **C)** 0.
- ✗ **D)** 4000.

Explanation

Because this account is below 50% margin, the account is restricted ($6,000 equity divided by $14,000 market value equals 42.8% equity). When securities are sold in a restricted account, 50% of the proceeds are released to SMA. Because $4,000 worth of securities were sold, $2,000 (50%) is credited to SMA.

Reference: 6.2.1.7 in the License Exam Manual

Question #104 of 118

Question ID: 606099

If an investor opens a new margin account and buys 200 shares of DWQ at 50, with Regulation T at 50%, what is the investor's initial margin requirement?

- ✗ **A)** 10000.
- ✓ **B)** 5000.
- ✗ **C)** 3000.
- ✗ **D)** 2500.

Explanation

The initial margin requirement is calculated by multiplying the market value of $10,000 by the Regulation T requirement of 50%, which equals $5,000.

Reference: 6.1.4 in the License Exam Manual

Question #105 of 118

Question ID: 606165

In a margin account, which of the following would be affected by a stock dividend?

- ✗ **A)** The available SMA balance in the account
- ✓ **B)** The number of shares held in the account
- ✗ **C)** The debit balance in the account
- ✗ **D)** The total portfolio market value of the account

Explanation

Stock dividends merely give an investor more shares of stock valued at less per share. The total value of the position does not change. Therefore the balances in the account remain unchanged as well.

Reference: 6.3 in the License Exam Manual

Question #106 of 118

Question ID: 606078

In his margin account, Mr. Williams exercises his DMF call at 50 and simultaneously sells the 100 shares at $60. What is the amount of his margin call?

- ✗ **A)** 2500.
- ✗ **B)** 2800.
- ✓ **C)** 0.
- ✗ **D)** 3000.

Explanation

Since the trades took place simultaneously, there is no margin required. The sale at $60 more than covers his cost at 50.

Reference: 6.1.3.1 in the License Exam Manual

Question #107 of 118

Question ID: 606140

A customer has a margin account with a market value of $20,000, a debit balance of $12,000, no SMA, and Regulation T is 50%. If the customer sells $2,000 worth of stock, the amount released to SMA is:

- ✗ **A)** 400.
- ✗ **B)** 300.
- ✗ **C)** 500.
- ✓ **D)** 1000.

Explanation

This is an example of a restricted account with equity below the 50% Regulation T requirement. In a restricted account, 50% of the sale proceeds is released to SMA (50% × $2,000 = $1,000).

Reference: 6.2.1.7 in the License Exam Manual

Question #108 of 118

Question ID: 606149

If a customer's margin account shows a long market value of $6,000 and a debit balance of $5,000, the maintenance margin call will be for:

- ✗ **A)** 3000.

✗ **B)** 1000.

✓ **C)** 500.

✗ **D)** 2000.

Explanation

The account equity is $1,000 which is below the minimum maintenance requirements of 25% of market value. The maintenance call will be an amount necessary to bring the account back to minimum, which is $1,500 (25% × $6,000), therefore, the call will be for $500.

Reference: 6.2.1.4 in the License Exam Manual

Question #109 of 118

Question ID: 606177

A customer requests that their broker/dealer hold their fully paid for stock. Which of the following are required?

I. A written stock power from the customer
II. Full power of attorney from the customer to the broker/dealer
III. The securities must be segregated from those of the firm and other customers.
IV. The customer must be informed that the securities may be withdrawn by him at any time.

✓ **A)** III and IV

✗ **B)** II and III

✗ **C)** II and IV

✗ **D)** I and II

Explanation

The broker/dealer is required to segregate customer fully paid for securities and inform the customer that the securities can be withdrawn at any time.

Reference: 6.4 in the License Exam Manual

Question #110 of 118

Question ID: 683435

An investor sells stock short to

✓ **A)** profit if prices decline

✗ **B)** establish a permanent tax loss

✗ **C)** defer taxes

✗ **D)** liquidate a long stock position

Explanation

Short sales are used to profit if prices fall.

Reference: 6.2.3 in the License Exam Manual

Question #111 of 118

Question ID: 606114

When a customer sells $20,000 of securities from a margin account, all of the following are affected EXCEPT:

✗ **A)** the debit balance.

✓ **B)** the equity.

✗ **C)** the SMA.

✗ **D)** the long market value.

Explanation

Equity is only affected by changes in market prices and never by sales of securities in the account.

Reference: 6.2.1 in the License Exam Manual

Question #112 of 118

Question ID: 606066

An initial Regulation T margin call may be met by depositing:

I. cash equal to the call.
II. listed marginable securities with a loan value equal to the call.
III. listed stock with a market value equal to the call.
IV. cash equal to 50% of the call.

✓ **A)** I or II.
✗ **B)** I or III.
✗ **C)** II or III.
✗ **D)** III or IV.

Explanation

An investor may meet a Regulation T margin call either by depositing cash or by sending in securities equal to the loan value of the call. With Regulation T at 50%, the investor would have to deposit securities with a value equal to twice the amount of the call.

Reference: 6.1.5 in the License Exam Manual

Question #113 of 118

Question ID: 606113

In a restricted margin account, if a customer fails to pay for a new purchase, the broker/dealer must sell out stock with a value of:

✗ **A)** $3\frac{1}{3}$ times the margin call.
✗ **B)** the margin call.
✓ **C)** twice the margin call.
✗ **D)** stock cannot be purchased if the account is restricted.

Explanation

Twice the value must be sold out of the account to meet a Regulation T margin call. Cash buys stock in a margin account at a 2:1 ratio; therefore, stock will cover a cash debt at the rate of $2 of stock market value to $1 of cash debt.

Reference: 6.2.1.7 in the License Exam Manual

Question #114 of 118

Question ID: 722171

Which of the following factors will NOT increase SMA in a customer's short margin account?

✓ **A)** An increase in current market value
✗ **B)** Receipt of dividends or interest into the account
✗ **C)** A deposit of cash
✗ **D)** A decrease in current market value

Explanation

An increase in current market value will cause a loss of equity in a short account. Short sellers hope markets go down. SMA represents excess equity.

Reference: 6.3 in the License Exam Manual

Question #115 of 118

Question ID: 606167

A customer is long 650 shares of DEF stock trading at $32 per share in a margin account, and the debit balance in the account is $9,200. If DEF pays a 10% stock dividend, what will the effect be on the customer's account?

✗ **A)** Market value will increase.
✗ **B)** The debit balance will be reduced.
✓ **C)** Equity will remain the same.

✗ **D)** Equity will increase.

Explanation

Even though the investor receives more shares, the price per share falls; there is no effect on the market value of the customer's holdings.

Reference: 6.3 in the License Exam Manual

Question #116 of 118

Question ID: 606086

Which two statements are TRUE regarding margin calls?

I. Customers are entitled to an extension of time.
II. Customers are not entitled to an extension of time.
III. Firms can sell securities without first contacting the customer.
IV. Firms cannot sell securities without first contacting the customer.

✗ **A)** II and IV.
✓ **B)** II and III.
✗ **C)** I and IV.
✗ **D)** I and III.

Explanation

Some customers mistakenly believe that a firm must contact them for a margin call to be valid, which is not the case. Most firms will attempt to notify their customers of margin calls, but are not required to do so. Also, there is no entitlement when it comes to an extension of time.

Reference: 6.1.5 in the License Exam Manual

Question #117 of 118

Question ID: 606070

Which of the following is (are) required to open a margin account for a trust?

✓ **A)** All of these.
✗ **B)** A margin agreement.
✗ **C)** Approval by the designated supervisory person.
✗ **D)** Margin approval as outlined in the trust agreement.

Explanation

A margin account allows the customer to borrow money from the broker/dealer in order to buy securities. Certain procedures must be followed, and forms and agreements must be completed upon opening margin accounts. All accounts require the approval of a broker/dealer principal before execution of the first trade.

Reference: 6.1.2 in the License Exam Manual

Question #118 of 118

Question ID: 606093

Under Regulation T, action by the broker/dealer is NOT required when the:

✗ **A)** amount due does not exceed $200.
✓ **B)** amount due does not exceed $1,000.
✗ **C)** amount due does not exceed $100.
✗ **D)** total amount of the transaction does not exceed $1,000.

Explanation

Regulation T permits a broker/dealer to disregard any amounts due less than $1,000.

Reference: 6.1.5 in the License Exam Manual