QBank Quiz December 1, 2017

Test ID: 59460116

Question #1 of 142

Question ID: 606221

Which of the following acts requires full and fair disclosure of all material information about equity and debt securities offered for the first time to the public?

- ✗ **A)** Securities Investor Protection Act of 1970.
- ✗ **B)** Trust Indenture Act of 1939.
- ✗ **C)** Securities Exchange Act of 1934.
- ✓ **D)** Securities Act of 1933.

Explanation

The Securities Act of 1933 regulates new issues of nonexempt securities sold to the public.

Reference: 7.2.1 in the License Exam Manual

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Question ID: 606222

When the SEC rules that an offering has become effective, the SEC has:

- ✗ **A)** not verified the accuracy of each statement in the registration statement but has approved of the offering.
- ✗ **B)** verified the accuracy of the statements in the registration statement.
- ✗ **C)** approved the offering for registration.
- ✓ **D)** cleared the offering for sale.

Explanation

An offering is effective when released by the SEC for sale. The SEC does not approve or disapprove of new offerings; it releases them for sale after determining that enough information is available for public investors to make sound investment decisions.

Reference: 7.2.2.5 in the License Exam Manual

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Question ID: 606286

SEC Rule 145 exempts which of the following from registration?
I. Stock resulting from a stock split.
II. Stock resulting from a stock dividend.
III. Stock issued in connection with an acquisition.
IV. IPO in which the entire amount is being sold by officers.

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

Explanation

Rule 145 exempts (from registration) additional shares resulting from stock splits or stock dividends. Stock issued in connection with an acquisition must be registered, as must stock in an IPO.

Reference: 7.6.2.6 in the License Exam Manual

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Question ID: 606268

Which of the following provisions govern the offering of restricted shares to the public without filing a Form 144?
I. The dollar amount is $1 million or less.

II. 100,000 shares or fewer are sold.
III. 5,000 shares or fewer are sold.
IV. The dollar amount is $50,000 or less.

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

Explanation

Under Rule 144, Form 144 need not be filed if 5,000 or fewer shares are sold and the dollar amount is $50,000 or less. This de minimis rule applies to sales in any 90-day period.

Reference: 7.6.2.4 in the License Exam Manual

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Question ID: 606190

The Act of 1933 applies to all of the following EXCEPT:

- ✗ **A)** prospectus preparation.
- ✗ **B)** full and fair disclosure.
- ✗ **C)** registration of new issues .
- ✓ **D)** regulation of insider trading.

Explanation

The regulation of insider trading is covered under the Act of 1934. The Act of 1933 deals with new issues and related disclosures.

Reference: 7.1.1.1 in the License Exam Manual

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Question ID: 721440

As defined by FINRA, all of the following are considered a restricted person EXCEPT

- ✓ **A)** the aunt of a member firm employee
- ✗ **B)** member firms
- ✗ **C)** the sibling of a member firm employee
- ✗ **D)** employees of member firms

Explanation

Member firms, their employees, and their immediate family members, such as parents and siblings, are considered restricted. Aunts, uncles, and grandparents are not considered immediate family and, therefore, not restricted unless they live in the same household as a restricted person.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 606253

If a customer purchases a new issue of stock from a syndicate member, the customer will pay the public offering price:

- ✗ **A)** plus a mark-up.
- ✗ **B)** plus a commission.
- ✗ **C)** plus the spread.
- ✓ **D)** with no mark-up or commission.

Explanation

New issues are sold at the public offering price without a commission or mark-up. In the secondary market, securities are traded on an agency basis (commission) or on a principal basis (mark-up or mark-down).

Reference: 7.5.4 in the License Exam Manual

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Question ID: 606270

A corporate insider may profitably sell the stock of his company, without penalty, after the stock has been held for more than:

- ✗ **A)** 12 months.
- ✓ **B)** 6 months.
- ✗ **C)** 3 months.
- ✗ **D)** 9 months.

Explanation

If corporate insiders sell their stock at a profit, they must do so after having held the stock for at least 6 months. This is termed the short swing profit rule. If they sell at a profit without having met the holding period requirement, any profit earned must be disgorged to the company.

Reference: 7.6.2.4 in the License Exam Manual

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Question ID: 739037

Under the intrastate offering rule (Rule 147), when may a resident purchaser of securities resell them to a nonresident?

- ✓ **A)** Six months after the purchase date
- ✗ **B)** Six months after the last sale made in that state
- ✗ **C)** Three months after the first sale made in that state
- ✗ **D)** None of these

Explanation

In an intrastate offering, a purchaser of the issue may not resell the securities to a resident of another state for at least six months after the purchase date.

Reference: 7.6.2.3 in the License Exam Manual

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Question ID: 606318

Which of the following securities issue is nonexempt, requiring registration under the Securities Act of 1933?

- ✓ **A)** Corporate bonds
- ✗ **B)** Debt instruments with maturities of 270 days or less
- ✗ **C)** Treasury bonds
- ✗ **D)** Municipal bonds

Explanation

Nonexempt means that under the act the securities are required to be registered with the SEC. Corporate bonds require registration. All of the remaining answer choices are exempt securities meaning that they do not require registration. In general, exempt issues include municipal securities, U.S. government securities, bank issues, short term debt issues, and nonprofit organization securities.

Reference: 7.6.1 in the License Exam Manual

Question #11 of 142

Question ID: 606186

The Act of 1934 applies to all of the following EXCEPT:

- ✗ **A)** registration of broker/dealers.
- ✗ **B)** the extension of credit on purchase of securities.
- ✗ **C)** secondary market trading.
- ✓ **D)** regulation of new issues.

Explanation

The Act of 1933 deals with new issues. The Act of 1934 created the SEC, required the registration of broker/dealers, empowered the Federal Reserve to control the extension of credit on securities transactions, and created rules dealing with secondary market trading.

Reference: 7.1.1.2. in the License Exam Manual

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Question ID: 606312

Under which of the following circumstances may a member firm sell a new equity issue to one of its nonregistered employees?

- ✓ **A)** Under no circumstances.
- ✗ **B)** Transaction is consistent with the employee's normal investment practice.
- ✗ **C)** Permission of a principal is obtained.
- ✗ **D)** Amount purchased is small and not disproportionate to the size of the issue.

Explanation

Member firms and employees of members (registered and nonregistered) are prohibited from buying a new equity issue at the public offering price.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 606259

Private placements

- ✗ **A)** can only be advertised when 35 or fewer of the investors are nonaccredited
- ✗ **B)** may be advertised under all circumstances
- ✓ **C)** may be advertised if all of those solicited are accredited investors
- ✗ **D)** may never be advertised under any circumstance

Explanation

In order to solicit or advertise private securities offerings, all purchasers of the advertised securities must be accredited investors or the business must reasonably believe that the investors are accredited investors at the time of the sale.

Reference: 7.6.2.2.1 in the License Exam Manual

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Question ID: 606205

Using a prospectus to sell a security eliminates a salesperson's responsibility to disclose:

- ✗ **A)** a company's poor growth potential.
- ✗ **B)** speculative factors about the security.
- ✗ **C)** a company's negative financial information.
- ✓ **D)** None of these.

Explanation

Distributing the prospectus may satisfy the prospectus delivery requirements of the Securities Act of 1933, but it does not negate the antifraud rules, or the provisions and regulations set forth under the Securities Exchange Act of 1934.

Reference: 7.2.2.4 in the License Exam Manual

Question #15 of 142

Question ID: 606260

If QRS, Inc., makes a new offering not registered with the SEC to accredited investors, this arrangement is called a(n):

- ✗ **A)** Rule 144 offering.

✗ **B)** intrastate offering.

✗ **C)** secondary offering.

✓ **D)** private placement.

Explanation

A private placement, which is exempt from registration with the SEC, is an offering of a new issue to an unlimited number of accredited investors and, for larger offerings, a maximum of 35 nonaccredited investors.

Reference: 7.6.2.2 in the License Exam Manual

Question #16 of 142

Question ID: 606287

All of the following identify exemptions from the registration statement and prospectus provisions of the Securities Act of 1933 EXCEPT:

✓ **A)** Regulation U.

✗ **B)** Regulation D.

✗ **C)** Regulation A.

✗ **D)** Rule 147.

Explanation

Regulation U regulates loans from lenders other than broker/dealers for the purpose of purchasing securities and is not related to exempt transactions under the Securities Act of 1933.

Reference: 7.6 in the License Exam Manual

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Question ID: 606314

A registered representative opens a new account for an investment club. His spouse is a member of the club and owns 15% of the club's assets. The registered representative wants to sell shares of a common stock IPO to the investment club. This is allowed:

✗ **A)** only if the IPO is suitable for the investment club.

✗ **B)** with written principal approval.

✓ **C)** under no circumstances.

✗ **D)** with written notice to the SEC.

Explanation

Rules prohibit member firms from selling common stock IPOs to restricted persons. Under the rules the account would not be restricted if the assets owned by the spouse composed less than 10% of the club's assets. Because the registered representative's spouse is a member of the investment club and owns more than 10% of the club's assets, the registered representative cannot sell shares of the IPO to the club.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 642522

Which of the following are TRUE regarding the two tiers of securities offerings under Regulation A+?

✗ **A)** Both tiers specify maximum investment limits per offering for investors

✗ **B)** Both tiers require that public investors be accredited

✗ **C)** Neither tier requires public investors to be accredited

✓ **D)** Both tiers are open to the public for investing

Explanation

While both tiers under Regulation A+ are open to the public with general solicitation permitted, investors wanting to invest in Tier 2 securities offerings must be "qualified" not accredited. Tier 1 offerings have no investment limits for investors but tier 2 offerings do. The maximum investment allowed for a Tier 2 offering is the greater of 10% of the investors net worth or 10% of their net income per offering.

Reference: 7.6.2.1 in the License Exam Manual

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Question ID: 606223

Which of the following characteristics describes a final prospectus?

- ✗ **A)** Filed with the SEC and not available to the general public.
- ✓ **B)** Complies with the full and fair disclosure requirements of the Securities Act of 1933.
- ✗ **C)** Used to solicit indications of interest in a new issue.
- ✗ **D)** Filed with the SEC semiannually.

Explanation

A prospectus is a disclosure document meant for distribution to the public. It must constitute full and fair disclosure of all material facts about the issuer and the security.

Reference: 7.2.2.4 in the License Exam Manual

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Question ID: 606274

Rule 144A regulates:

- ✗ **A)** companies traded on the NASDAQ Global Select Market.
- ✗ **B)** the sale of restricted stock by control persons.
- ✗ **C)** personal trading by research analysts.
- ✓ **D)** the sale of restricted stock to institutional investors.

Explanation

Rule 144A regulates the trading of restricted securities to institutional investors known as qualified institutional buyers (QIBs).

Reference: 7.6.2.5 in the License Exam Manual

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Question ID: 721434

A new issue has been filed with the SEC and a final prospectus can be found on the SEC website. This information has been made known to a customer interested in the securities. In this instance, the access equals delivery requirements regarding that prospectus

- ✗ **A)** have been met for mutual funds only
- ✗ **B)** have not been met as a prospectus must always be physically delivered
- ✓ **C)** have been met
- ✗ **D)** have been met for equity issues only

Explanation

A prospectus must precede or accompany a security for sale and will be deemed so if the final prospectus has been filed with the SEC. Because prospectuses filed with the SEC can be viewed on the SEC website, the access equals delivery requirement is satisfied.

Reference: 7.2.2.6 in the License Exam Manual

Question #22 of 142

Question ID: 606282

An intrastate offering is exempt from:

- ✓ **A)** federal registration.
- ✗ **B)** state registration.
- ✗ **C)** blue-sky registration.
- ✗ **D)** all registrations.

Explanation

An intrastate offering (Rule 147 exemption) is limited to companies that do business in one state and limit stock or bond sales to that state's residents. Even though this offering may be exempt from SEC registration, it is not exempt from registering with that one state. Blue-sky registration (Uniform Securities Act registration) means the same thing as state registration.

Reference: 7.6.2.3 in the License Exam Manual

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Question ID: 606266

Regarding Regulation D (Private Placement) offerings, which of the following statements is TRUE?

- ✗ **A)** Purchasers need not be provided or have access to offering information normally provided by a prospectus.
- ✗ **B)** The amount of capital that can be raised via a private placement is limited.
- ✓ **C)** Registration with the SEC is not required.
- ✗ **D)** The SEC requires no filings be made by the issuer.

Explanation

Regulation D offerings are exempt transactions and therefore no SEC registration is required. However, issuers must still file information with the SEC on Form D regarding the issue. This filing will contain all of the information a potential investor might want to know, similar to the information contained on a prospectus. There is no limit to the amount of capital that can be raised via a Regulation D private placement transaction.

Reference: 7.6.2.2 in the License Exam Manual

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Question ID: 606299

Rules regarding restricted persons state that each of the following is considered immediate family EXCEPT:

- ✗ **A)** parents-in-law.
- ✗ **B)** brothers and sisters.
- ✗ **C)** parents.
- ✓ **D)** aunts and uncles.

Explanation

Rules regarding restricted persons define "immediate family" as spouses, parents, brothers, sisters, in-laws, and children. Aunts and uncles are among those excluded.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 606241

The letter of intent in a corporate underwriting is typically signed by which of the following parties?

I. Issuer.
II. Managing underwriter.
III. Syndicate members.
IV. Selling group members.

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

Explanation

The letter of intent initiates the underwriting process and is signed by the issuer and managing underwriter.

Reference: 7.5.1 in the License Exam Manual

Question #26 of 142

Question ID: 606215

Which of the following two are NOT included in a preliminary prospectus?

I. Final public offering price
II. Effective (release) date.
III. Intended purpose for the funds being raised.
IV. Financial statements and history of the company.

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

Explanation

Neither, the final public offering price or the effective date (date the SEC releases the securities to be sold) are found in a preliminary prospectus.

Reference: 7.2.2.1 in the License Exam Manual

Question #27 of 142

Question ID: 606279

An offering of securities in compliance with Rule 144A is sold primarily to:

✗ **A)** foreign individual investors.
✗ **B)** All of these.
✗ **C)** American individual investors.
✓ **D)** qualified institutional buyers.

Explanation

Rule 144A allows securities to be sold to (qualified) institutional buyers without having to meet the holding period or volume requirements of Rule 144.

Reference: 7.6.2.5 in the License Exam Manual

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Question ID: 721439

A group of underwriters have agreed to engage in a mini-max underwriting for a new issue of equity securities with the issuer of those securities. Which of the following best describes this underwriting agreement?

✗ **A)** A mini-max agreement is a best-efforts underwriting setting a maximum amount the underwriters are willing to purchase from the issuer in the event all shares cannot be sold and a ceiling or maximum on the dollar amount of securities the issuer is willing to sell.
✗ **B)** A mini-max agreement is a firm underwriting setting a maximum amount the underwriters are willing to purchase from the issuer in the event all shares cannot be sold and a minimum dollar amount of securities the issuer is willing to sell.
✓ **C)** A mini-max agreement is a best-efforts underwriting setting a floor or minimum, which is the least amount the issuer needs to raise in order to move forward with the underwriting, and a ceiling or maximum on the dollar amount of securities the issuer is willing to sell.
✗ **D)** A mini-max agreement is a firm underwriting setting a floor or minimum, which is the least amount the issuer needs to raise in order to move forward with the underwriting, and a ceiling or maximum on the dollar amount of securities the issuer is willing to sell.

Explanation

A mini-max agreement is a type of best-efforts underwriting agreement. In a best-efforts agreement, the underwriters are not purchasing unsold shares from the issuer. There are two components to a mini-max agreement: the first component sets a floor or minimum amount the issuer needs to raise in order to move forward with the underwriting, and the other sets a ceiling or maximum dollar amount of securities the issuer is willing to sell.

Reference: 7.5.3.2 in the License Exam Manual

Question #29 of 142

Question ID: 606200

Where must the SEC's no-approval clause appear in a prospectus?

- ✗ **A)** It is not mandatory, but, if used, it must appear on the first page.
- ✗ **B)** On the last page, under the name of the fund.
- ✓ **C)** On the cover.
- ✗ **D)** Anywhere as long as it is conspicuous.

Explanation

The SEC wants investors to know that it does not approve or disapprove new issues. The disclaimer statement must appear on the cover of all prospectuses.

Reference: 7.2.2.5 in the License Exam Manual

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Question ID: 606206

Smith and Company, a FINRA member firm, is preparing to underwrite securities to be issued by KLC Corporation for a new business venture. For which of the following will Smith and Company be responsible?

I. Filing the registration statement with the SEC and state regulatory bodies.
II. Providing advice on the type of security to be issued.
III. Distributing the security to the public.
IV. Providing advice on how KLC can *best* utilize the funds raised.

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

Explanation

The issuer is ultimately responsible for filing registration statements with federal and state regulatory bodies and has already determined how the money will be used. The underwriter confines his activities and advice to the type and sale of the securities.

Reference: 7.2.1.1 in the License Exam Manual

Question #31 of 142

Question ID: 606289

All of the following would be excluded from raising capital under Regulation A+ EXCEPT

- ✗ **A)** a hedge fund specializing in small startup companies
- ✗ **B)** a private equity fund
- ✗ **C)** a venture capital firm raising money for small and medium size companies
- ✓ **D)** a small manufacturing company

Explanation

Under Reg. A+ intended to facilitate small to medium size companies raise investment capital, venture capital firms, private equity funds and hedge funds are specifically excluded.

Reference: 7.6.2.1 in the License Exam Manual

Question #32 of 142

Question ID: 606192

The Securities Act of 1933 covers all of the following EXCEPT:

- ✗ **A)** liabilities for misleading filings.
- ✓ **B)** blue-sky laws.
- ✗ **C)** prospectus requirements.
- ✗ **D)** full and fair disclosure.

Explanation

The purpose of the Securities Act of 1933 is to provide investors with full disclosure about a new securities issue. The act is federal in scope, whereas blue-sky laws refer to state securities regulations.

Reference: 7.1.1.1 in the License Exam Manual

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Question ID: 721441

Both the Securities Acts of 1933 and 1934 address fraud in the securities industry. Regarding the antifraud provisions outlined in these acts, which of the following statements is TRUE?

- ✗ **A)** Exempt issuers like the federal government are exempt from the provisions.
- ✓ **B)** No securities, issuers, or transactions are exempt from the antifraud provisions of these acts.
- ✗ **C)** Exempt transactions like those offered under Regulation A+ are exempt from the provisions.
- ✗ **D)** Exempt securities like those issued by municipalities are exempt from the provisions.

Explanation

No securities, issuers, or transactions are exempt from the antifraud provisions of either the Act of 1933 or the Act of 1934.

Reference: 7.6.3 in the License Exam Manual

Question #34 of 142

Question ID: 606235

Underwriters that reserve the right to stabilize the price of securities distributed to the public under an SEC registration statement may do so:

- ✗ **A)** under no circumstances.
- ✓ **B)** only if notice is given in the prospectus.
- ✗ **C)** only if the securities being distributed will be immediately listed for trading on the NYSE or other exchange.
- ✗ **D)** without restriction.

Explanation

Stabilizing transactions are permitted if the SEC is notified in the registration statement and the investing public is notified in the prospectus.

Reference: 7.3.5.3 in the License Exam Manual

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Question ID: 606202

A due diligence meeting occurs between:

- ✗ **A)** the FINRA member firm and FINRA's Corporate Finance Department to discuss the fairness of the underwriting spread on a pending public offering.
- ✗ **B)** All of these.
- ✓ **C)** the issuing corporation and the underwriters to review and reexamine the full details of the pending underwriting and negotiate final terms to be included in the formal underwriting contract.
- ✗ **D)** the underwriter and the SEC before the issuance of a final prospectus to insert the public offering price and make any last minute changes at the SEC's request.

Explanation

A due diligence meeting is held between the issuer and the underwriter before the effective date and is one of the final meetings held before the sale of the security so that each party may review all aspects of the issue.

Reference: 7.2.2.3. in the License Exam Manual

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Question ID: 606267

Under the provisions of Rule 144, what percentage of outstanding stock may a control person sell every 90 days?

- ✓ **A)** 0.01.
- ✗ **B)** 0.03.
- ✗ **C)** 0.05.
- ✗ **D)** 0.04.

Explanation

Rule 144 (sale of restricted or control stock) allows for the sale of 1% of the outstanding shares or the weekly average of the last 4 weeks' trading volume (whichever is greater), every 90 days.

Reference: 7.6.2.4 in the License Exam Manual

Question #37 of 142

Question ID: 606295

Which of the following securities is NOT exempt from the registration provisions of the Securities Act of 1933?

- ✗ **A)** An equity security issued in only one state solely to residents of that state.
- ✗ **B)** A high-quality corporate zero-coupon bond maturing in 180 days.
- ✓ **C)** A new stock being offered in three states.
- ✗ **D)** A U.S. government bond.

Explanation

Government securities, money-market instruments, and intrastate offerings are exempt from the registration provisions of the 1933 Act. A stock being offered in three states would have to register with the SEC and with those states.

Reference: 7.6 in the License Exam Manual

Question #38 of 142

Question ID: 606298

Underwriters and selling group members violate rules regarding sales of new equity issues to restricted persons when they do which of the following?

I. Sell a new issue to one of their own customers.
II. Sell blocks of the new issue to accounts of partners or officers of the member firm.
III. Sell to member firms that deal only in investment company products.
IV. Sell to brokers and dealers outside the selling group who position the securities for later resale at higher prices.

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

Explanation

Rules prohibit the sale of a new equity issue to other brokers, partners, officers, employees of firms in the syndicate or selling group offering the issue, and their supported family members. Firms selling only investment company products and/or direct participation programs, and their employees, are exempt from these rules.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 606310

Under FINRA rules, if a member firm receives an order to buy a new equity issue on behalf of an undisclosed principal from a bank, the member must:

- ✗ **A)** accept the order.
- ✗ **B)** reject the order.
- ✗ **C)** determine the identity of the purchaser.
- ✓ **D)** obtain a representation from the bank that the purchaser is not restricted.

Explanation

If a member receives an order from a conduit such as a bank, the member must make an inquiry as to whether the ultimate purchaser is restricted. It is not necessary to determine the identity and business affiliations of the purchaser.

Reference: 7.6.3.1 in the License Exam Manual

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Question ID: 606255

Each of the following persons is (are) accredited under Regulation D EXCEPT:

- ✗ **A)** an officer of the issuer.
- ✓ **B)** a person with a net worth of $200,000 or more.
- ✗ **C)** a person with annual income of $200,000 or more.
- ✗ **D)** an institution.

Explanation

Accredited investors include individuals with annual incomes of $200,000 or more, individuals with a net worth of $1 million or more not including net equity in a primary residence, officers or directors of the issuer, and institutions.

Reference: 7.6.2.2 in the License Exam Manual

Question #41 of 142

Question ID: 606265

Which of the following securities are exempt from the registration and disclosure provisions of the Securities Act of 1933?

I. Any interest in a railroad equipment trust certificate.
II. Municipal bonds.
III. U.S. government securities.
IV. Commercial paper maturing in 270 days or less.

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

Explanation

All the securities listed are exempt from the registration and disclosure provisions of the Securities Act of 1933.

Reference: 7.6.1 in the License Exam Manual

Question #42 of 142

Question ID: 606226

Which of the following activities are characteristic of a primary offering?

I. Raising additional capital for the company.
II. Selling previously issued securities.
III. Increasing the number of shares outstanding.
IV. Buying previously issued securities.

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

Explanation

A primary offering involves the sale of previously unissued securities. The issuing company receives the proceeds from the sale; once the securities are sold, more securities will be outstanding.

Reference: 7.3.3.3 in the License Exam Manual

Question #43 of 142

Question ID: 606237

The primary difference between an underwriting syndicate member and a selling group member in a firm commitment underwriting is that:

- ✓ **A)** the syndicate assumes liability for unsold shares; the selling group does not.
- ✗ **B)** the price per share paid by the public (POP) is more if purchasing new shares from a selling group member.
- ✗ **C)** the securities offered by each differs within the offering.
- ✗ **D)** the size of a syndicate member firm will always be larger than a selling group member firm.

Explanation

The underwriting syndicate makes a financial commitment in a firm underwriting to bring a new issue to market and to take liability for unsold shares. A member of a selling group only agrees to provide a sales service for a certain number of shares in exchange for a commission on shares it sells. It has no responsibility for any unsold shares. The securities offered are identical and the public offering price is the same. Both large and small firms can be either syndicate members or selling group members.

Reference: 7.4.1.3 in the License Exam Manual

Question #44 of 142

Question ID: 606252

Which of the following are TRUE of an over-allotment option or provision for a new issue?

I. One is found in every underwriting agreement.
II. It allows the underwriters to sell up to 15% more than the original number of shares offered.
III. It allows the underwriters to sell up to 2 times the original number of shares offered.
IV. It is a way for underwriters to address demand exceeding the number of shares originally offered.

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

Explanation

The over-allotment option found in the underwriting agreement is a process allowed by the SEC to handle demand for new issues exceeding the number of shares originally intended to be offered by the issuer. Not all underwriting agreements contain an over-allotment option, but for those that do, the option or provision allows the underwriters to sell up to 15% more than the original number of shares offered.

Reference: 7.5.5 in the License Exam Manual

Question #45 of 142

Question ID: 606209

A customer requests information on a new mutual fund and asks her registered representative to circle the important information in the prospectus and information he thinks will be of special interest to her. This is permitted:

- ✓ **A)** under no circumstances.
- ✗ **B)** if accompanied by an unmarked prospectus.
- ✗ **C)** if approved by a principal.
- ✗ **D)** without restriction.

Explanation

The prospectus is a legal document and may not be altered.

Reference: 7.2.2.6 in the License Exam Manual

Question #46 of 142

Question ID: 606251

Your customer is interested in purchasing shares of a new issue where the demand for shares has already exceeded the number of shares the issuer intends to offer. Which of the following options might you look for that could allow your customer to receive shares?

- ✗ **A)** Regulation A offering
- ✗ **B)** Firm commitment offering
- ✓ **C)** Over-allotment (Green Shoe Provision)
- ✗ **D)** Selling group

Explanation

An over-allotment option (Green Shoe Provision), if one exists in the underwriting agreement, will allow the underwriters to sell up to 15% more shares than the issuer had originally intended to offer when demand exceeds supply.

Reference: 7.5.5 in the License Exam Manual

Question #47 of 142

Question ID: 606191

The provisions of the Securities Act of 1933 include all of the following EXCEPT:

- ✗ **A)** requirement that an issuer provide full and fair disclosure about an offering.
- ✓ **B)** regulation of the secondary market.
- ✗ **C)** regulation of offerings of new securities.
- ✗ **D)** prohibition of fraud in the sale of new securities.

Explanation

The Securities Act of 1933 regulates new issues of corporate securities sold to the public and is designed to prevent fraud in the sale of newly issued securities. Trading and the secondary markets are regulated under the Securities Exchange Act of 1934.

Reference: 7.1.1.1 in the License Exam Manual

Question #48 of 142

Question ID: 606296

A Tier 1 securities offering under Regulation A+ allows small to medium sized companies to

- ✗ **A)** raise up to a maximum of $5 million in a 12-month period
- ✓ **B)** raise up to a maximum of $20 million in a 12-month period
- ✗ **C)** raise up to a maximum of $10 million in a 12-month period
- ✗ **D)** raise up to a maximum of $15 million in a 12-month period

Explanation

Tier 1 of Regulation A+ allows small to medium sized companies to raise up to a maximum of $20 million in a 12-month period

Reference: 7.6.2.1 in the License Exam Manual

Question #49 of 142

Question ID: 721442

A registered representative makes several statements to a customer considering an investment under Regulation D. All of them are accurate statements EXCEPT

- ✗ **A)** a special inscription or legend on the stock certificate indicates that its transfer is restricted
- ✗ **B)** investors agree to terms by signing an investment letter
- ✓ **C)** under no circumstances can more than 20 nonaccredited investors participate in the purchase of shares
- ✗ **D)** if the offering is advertised, all purchasers must be accredited

Explanation

A maximum of 35 nonaccredited investors may participate in the purchase of securities offered under a Regulation D exempt offering.

Reference: 7.6.2.2 in the License Exam Manual

Question #50 of 142

Question ID: 606232

Which of the following statements regarding a shelf offering are TRUE?

I. It can be used to distribute an initial public offering only.
II. It can be used to distribute an additional offering only.
III. Its maximum duration is 90 days.
IV. Its maximum duration is 3 years.

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

Explanation

Shelf offerings are used by publicly traded companies to issue additional equity or debt securities. The issuer must sell the securities within 3 years after the registration is declared effective.

Reference: 7.3.3.6 in the License Exam Manual

Question #51 of 142

Question ID: 606283

Regarding the purchase of a new issue, a customer would NOT be considered a restricted person if he were:

✗ **A)** the wife of a principal of a FINRA member firm.
✓ **B)** the retired uncle of a bank clerical employee.
✗ **C)** a registered representative working for the issuing firm's investment banker.
✗ **D)** a registered representative working for a FINRA member firm not involved in the issue.

Explanation

The definition of a restricted person includes FINRA members and their associated persons. Immediate family members of such persons are also included under the definition.

Reference: 7.6.3.1 in the License Exam Manual

Question #52 of 142

Question ID: 606236

A customer owns 1,000 shares of ABC corporation. Which of the following actions on the part of ABC would dilute her equity?

✗ **A)** 2-1 stock split.
✗ **B)** Payment of a 10% stock dividend.
✗ **C)** Registered secondary offering of shares.
✓ **D)** Registered primary offering of shares.

Explanation

An additional primary issue of shares would dilute a present shareholder's ownership, unless she personally purchases a portion of the new shares (as in a rights offering). In a secondary offering, ownership of existing outstanding shares is simply changing hands. With a stock dividend or stock split, percent equity does not change.

Reference: 7.3.3.3 in the License Exam Manual

Question #53 of 142

Question ID: 606243

Within a firm commitment underwriting, which document details the responsibilities and liabilities of each firm?

✗ **A)** Underwriting agreement.
✓ **B)** Agreement among underwriters.
✗ **C)** Registration statement.
✗ **D)** Letter of intent.

Explanation

The agreement among underwriters, also called the syndicate letter, is signed by representatives of all syndicate members and establishes a joint account to sell newly-issued securities.

Reference: 7.5.1 in the License Exam Manual

Question #54 of 142

Question ID: 606245

In which of the following types of offerings does a brokerage firm have no financial obligation for unsold securities?

I. All-or-none.
II. Best efforts.
III. Standby.

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

Explanation

In a best efforts underwriting, the underwriter serves as an agent with no financial obligation for unsold securities. In an all-or-none (AON) offering, the underwriter agrees to devote its best efforts to sell the issue, but the entire offering is canceled if all shares cannot be sold. In a standby underwriting, the underwriter agrees to purchase any unsold shares remaining after the expiration of a rights offering (firm commitment).

Reference: 7.5.3 in the License Exam Manual

Question #55 of 142

Question ID: 606211

If a member firm is underwriting an initial public offering of common stock for ABCD Corp., a new issue that qualifies for Nasdaq listing, a prospectus must be provided to all purchasers for how many days following the effective date?

- ✗ **A)** 60.
- ✓ **B)** 25.
- ✗ **C)** 40.
- ✗ **D)** 90.

Explanation

For new issues that qualify for listing on an exchange or Nasdaq, the prospectus delivery requirement period in the aftermarket is 25 days. For non-listed and non-Nasdaq securities the period is 40 days. If the new issue will be specifically quoted on the OTCBB or the electronic OTC Pink, the period is 90 days.

Reference: 7.2.2.5.1 in the License Exam Manual

Question #56 of 142

Question ID: 606273

An affiliate of an issuer sells shares using a Form 144. This form is valid for:

- ✗ **A)** 30 days.
- ✓ **B)** 90 days.
- ✗ **C)** 60 days.
- ✗ **D)** 180 days.

Explanation

Form 144, which is used for the sale of restricted and control stock, is valid for 90 days from the date of filing.

Reference: 7.6.2.4 in the License Exam Manual

Question #57 of 142

Question ID: 606231

Which of the following is least likely to impact an underwriter’s considerations when establishing the offering price for a new issue?

- ✗ **A)** Demand for the security by the investing public.
- ✓ **B)** Geographic location of the company headquarters.
- ✗ **C)** Earnings multiples for other companies in the market in the same industry.
- ✗ **D)** Projected earnings for the company.

Explanation

Of the choices given, unless the geographic location of the company was critical to its financial success in some way it is the least likely factor to be considered by underwriters when pricing the new issue. Indications of interest (demand for the securities), projected earnings and comparative financial data for similar companies in similar industries are much more likely to impact pricing of the new issue.

Reference: 7.3.5.2 in the License Exam Manual

Question #58 of 142

Question ID: 606204

The names of all of the following are included on tombstone ads EXCEPT:

- ✗ **A)** the issuer.
- ✗ **B)** a syndicate member.
- ✓ **C)** a member of the selling group.
- ✗ **D)** the syndicate manager.

Explanation

A tombstone ad lists the syndicate manager(s) in bold print and all syndicate members in smaller print. Selling group members are not included on the tombstone.

Reference: 7.2.2.2 in the License Exam Manual

Question #59 of 142

Question ID: 606238

An underwriting spread is the:

- ✗ **A)** amount a selling group receives.
- ✗ **B)** amount a syndicate receives.
- ✓ **C)** difference between an offering price and the proceeds to an issuer.
- ✗ **D)** amount a managing underwriter receives.

Explanation

A spread is the difference between the public offering price and the price an underwriter pays an issuer.

Reference: 7.5.4 in the License Exam Manual

Question #60 of 142

Question ID: 606195

Under SEC Rule 134, a tombstone advertisement includes all of the following EXCEPT:

- ✗ **A)** names of the syndicate members.
- ✗ **B)** number of shares to be sold.
- ✓ **C)** net proceeds to the issuer.
- ✗ **D)** the public offering price.

Explanation

Under SEC Rule 134, a tombstone advertisement may be placed by the syndicate manager on or before the offering's effective date and is limited to the name of the issuer, type of security being offered, number of shares to be sold, public offering price, and names of the syndicate members.

Reference: 7.2.2.2 in the License Exam Manual

Question #61 of 142

Question ID: 606193

The Securities Act of 1934 deals with all of the following EXCEPT:

- ✗ **A)** monitoring accounts for insider trading violations.
- ✓ **B)** filing an updated prospectus .
- ✗ **C)** marking sales long or short on an order ticket.
- ✗ **D)** filing of financial statements by broker/dealers.

Explanation

Prospectus filing is a requirement of the Securities Act of 1933.

Reference: 7.1.1.2 in the License Exam Manual

Question #62 of 142

Question ID: 606269

All of the following are required to be registered with the SEC EXCEPT:

- ✓ **A)** insurance companies offering fixed annuities to investors.
- ✗ **B)** securities analysts.
- ✗ **C)** securities associations, such as FINRA.
- ✗ **D)** national stock exchanges.

Explanation

Insurance companies are generally not required to be registered with the SEC.

Reference: 7.6.1 in the License Exam Manual

Question #63 of 142

Question ID: 606203

All of the following regarding a tombstone advertisement for a new issue are true EXCEPT

- ✓ **A)** They are used to offer the securities for sale
- ✗ **B)** Underwriters are not required to publish tombstone advertisements
- ✗ **C)** The advertisement is a statement of facts used to announce the new issue
- ✗ **D)** They are the only types of advertising allowed during the cooling off period

Explanation

Tombstone advertisements, though not required, are the only type of new issue advertisement that would be allowed during the cooling off period. While they are a statement of facts used primarily to announce the new issue, they may not offer the securities for sale.

Reference: 7.2.2.2 in the License Exam Manual

Question #64 of 142

Question ID: 721437

Top Notch Securities is the managing underwriter for a new issue of 1 million shares of ABC common on a firm-commitment basis. If part of the ABC issue remains unsold and results in a loss, the loss will be divided proportionately among the:

- ✗ **A)** underwriting firms and the selling group firms.
- ✓ **B)** underwriting firms.
- ✗ **C)** underwriting firms and the issuer.
- ✗ **D)** selling group firms.

Explanation

In a firm-commitment arrangement, any losses incurred are divided among the underwriters' syndicate members according to the terms in the agreement among underwriters.

Reference: 7.5.1 in the License Exam Manual

Question #65 of 142

Question ID: 606280

If a customer owns 7% of a publicly traded company's stock and his spouse owns 6% and wants to sell her shares, which of the following statements is TRUE?

- ✗ **A)** The spouse is an affiliate and Rule 144 does not apply.
- ✓ **B)** The spouse is an affiliate and Rule 144 applies.
- ✗ **C)** The spouse is not an affiliate and Rule 144 does not apply.
- ✗ **D)** The spouse is not an affiliate and Rule 144 applies.

Explanation

Together, the client and wife own 13% of the company's stock, so the spouse is considered an affiliate and is bound by Rule 144. If there is a 10% or more ownership interest among members of an immediate family, then all members are considered control persons (affiliates) subject to Rule 144.

Reference: 7.6.2.4 in the License Exam Manual

Question #66 of 142

Question ID: 606225

If an investment representative gave her retail customers copies of sales literature for a variable annuity she was recommending and promised to send the prospectus soon, which of the following statements are TRUE?

I. She should not have distributed sales literature without the prospectus.
II. It was okay to distribute the sales literature and send the prospectus later to those who were interested.
III. She should not have recommended a specific variable annuity without having the prospectus available.
IV. Because she only answered questions about the investment, she was not required to provide a prospectus.

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

Explanation

A prospectus must precede or accompany any solicitation, including distribution of sales literature to retail customers.

Reference: 7.2.2.4 in the License Exam Manual

Question #67 of 142

Question ID: 606307

Under the de minimis exemption, an initial public offering of common stock may be sold to an account where restricted persons have a beneficial interest as long as their interest in the account does NOT exceed:

- ✗ **A)** 0.05.
- ✗ **B)** 0.25.
- ✓ **C)** 0.1.
- ✗ **D)** 0.2.

Explanation

If the beneficial interests of restricted persons do not exceed 10% of an account, the account may purchase a new equity issue.

Reference: 7.6.3.1 in the License Exam Manual

Question #68 of 142

Question ID: 606288

Which of the following terms is used in connection with a municipal securities underwriting?

- ✗ **A)** Cooling-off period.
- ✓ **B)** Agreement among underwriters.
- ✗ **C)** Effective date.
- ✗ **D)** In-registration.

Explanation

The agreement among underwriters (or syndicate letter) details the participation and obligations of each syndicate member. "Cooling-off period", "registration period", and "effective date" are terms that apply to nonexempt issues that must be registered with the SEC in accordance with the Securities Act of 1933. Municipal issues are exempt from these registration requirements.

Reference: 7.6.1 in the License Exam Manual

Question #69 of 142

Question ID: 606198

All of the following must be part of a registration statement EXCEPT:

- ✗ **A)** a statement as to whether the company is involved in any legal proceedings.
- ✗ **B)** the signatures of CEO, CFO, CAO, and majority of the board.
- ✗ **C)** a prospectus.
- ✓ **D)** identification of investors who own 5% or more of the company.

Explanation

The registration statement must identify investors who own 10% or more of the company.

Reference: 7.2.1.1 in the License Exam Manual

Question #70 of 142

Question ID: 606309

Under the rules regarding the sales of new equity issues, which of the following are restricted purchasers?

I. Aunts and uncles.
II. In-laws.
III. Supported persons.
IV. Grandparents.

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

Explanation

Restricted purchasers include spouses, parents, children, siblings, and in-laws. Aunts and uncles, as well as grandparents, are excluded. A person supported by an employee of a member can never buy a new equity issue.

Reference: 7.6.3.1 in the License Exam Manual

Question #71 of 142

Question ID: 606284

SEC Rule 145 requires a corporation to receive approval of its stockholders for certain events. This rule does NOT require shareholder approval for:

I. new shares issued because of a stock split.
II. the offer of securities in one company for the surrender of securities in another.
III. the exchange of one company's assets for another company's securities.
IV. shares issued for a stock dividend.

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

Explanation

SEC Rule 145 protects shareholders by requiring their approval for a merger, consolidation, acquisition, reclassification of securities, or the transfer of corporate assets. The rule does not pertain to a stock split or stock dividends.

Reference: 7.6.2.6 in the License Exam Manual

Question #72 of 142

Question ID: 606210

During the 20-day cooling-off period for an initial public offering, all of the following are permitted EXCEPT:

- ✗ **A)** accepting indications of interest.
- ✗ **B)** publishing a tombstone advertisement.
- ✗ **C)** mailing a red herring to a customer.
- ✓ **D)** accepting a deposit from a customer to purchase the new issue.

Explanation

Accepting a deposit from a customer during the cooling-off period is tantamount to accepting an order, which is prohibited until the offering is effective.

Reference: 7.2.2 in the License Exam Manual

Question #73 of 142

Question ID: 606315

Which of the following investors would be exempt from filing form 144 when selling securities they own?

- ✗ **A)** An employee of the company selling unregistered shares.
- ✗ **B)** An investor selling shares acquired in a Regulation D private placement.
- ✓ **C)** An employee of the company selling registered shares purchased in the open market.
- ✗ **D)** An affiliated person selling unregistered shares.

Explanation

Rule 144 regulates the sale of control or restricted securities. Securities bought in a registered public offering are not restricted and therefore an employee of the company selling registered shares need not file form 144. Unregistered shares or securities purchased in a private placement are restricted and Rule 144 would apply.

Reference: 7.6.2.4 in the License Exam Manual

Question #74 of 142

Question ID: 606257

A company is offering a private placement with the intent of selling shares to nonaccredited investors up to the 35 allowed for in Regulation D. Which of the following is TRUE?

- ✓ **A)** The offering may not be advertised
- ✗ **B)** While the offering can be advertised to anyone, only accredited investors could be solicited to purchase shares
- ✗ **C)** The offering can be advertised to all except the 35 nonaccredited investors
- ✗ **D)** Anyone may be solicited

Explanation

Advertising private placements is considered a solicitation to sell. If the securities are advertised, all purchasers must be accredited or the company must reasonably believe they are. In this instance, the intent is to sell to up to 35 allowable nonaccredited investors and with that intent clearly stated the offering could not be advertised to anyone.

Reference: 7.6.2.2.1 in the License Exam Manual

Question #75 of 142

Question ID: 606234

Stabilizing bids may be entered at:

- ✗ **A)** any reasonable price necessary to support the public offering price.
- ✓ **B)** a price no higher than the public offering price.
- ✗ **C)** a price not exceeding 5% above the public offering price.
- ✗ **D)** whatever stabilizing price is stated in the prospectus.

Explanation

Stabilizing bids cannot be used to raise the market price of an issue. Stabilization may only be used to support a new issue security at or below the public offering price.

Reference: 7.3.5.3 in the License Exam Manual

Question #76 of 142

Question ID: 606242

Which of the following is typically the largest component of a corporate underwriting spread?

- ✓ **A)** Concession.
- ✗ **B)** Reallowance.
- ✗ **C)** Underwriting fee.
- ✗ **D)** Manager's fee.

Explanation

The concession tends to be the largest component of a corporate underwriting spread; the manager's fee is generally the smallest component.

Reference: 7.5.4 in the License Exam Manual

Question #77 of 142

Question ID: 606187

The Securities Exchange Act of 1934

I. requires registration of nonexempt securities
II. regulates trading in the secondary market
III. prohibits fraud in the distribution of new issues
IV. created the SEC

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

Explanation

The Securities Exchange Act of 1934 regulates secondary market activity and prohibits fraud in those markets. It created the SEC, which oversees all trading activity. The Securities Act of 1933 requires that nonexempt securities be registered and prohibits fraud in the distribution of new issues.

Reference: 7.1.1.2. in the License Exam Manual

Question #78 of 142

Question ID: 606220

Under the Securities Act of 1933, the Securities and Exchange Commission has the authority to:

I. issue stop orders regarding a new issue registration filing.
II. approve new issues.
III. review standard registration forms.
IV. guarantee the accuracy of the information contained in the registration forms.

- ✓ **A)** I and III.

✗ **B)** II and III.

✗ **C)** I and IV.

✗ **D)** II and IV.

Explanation

During the cooling-off period, the SEC reviews registration statements and can issue stop orders if the registration is not complete or was not filed properly. The SEC does not approve securities or guarantee that any information found within a prospectus is accurate; it only clears the securities for distribution (sale) to the public.

Reference: 7.2.2.5 in the License Exam Manual

Question #79 of 142

Question ID: 721438

Cutting Edge securities is the managing underwriter for a new issue of 1 million shares of ABC common. While the underwriter has agreed to sell as much stock as possible in the market, ABC will cancel the offering if any portion of the stock remains unsold. This arrangement is known as what type of underwriting?

✓ **A)** All-or-none.

✗ **B)** Standby.

✗ **C)** Mini-max.

✗ **D)** Best efforts.

Explanation

All-or-none underwritings require the underwriter to either sell the entire issue of stock or cancel the offering completely.

Reference: 7.5.3.1 in the License Exam Manual

Question #80 of 142

Question ID: 606244

XYZ Corporation is preparing a registration statement for a new issue consisting of 300,000 new shares and 200,000 existing shares held by officers. The offering price is $30 per share and the spread taken by the underwriters is $2 per share. After the offering is complete, XYZ will receive:

✓ **A)** 8400000.

✗ **B)** 9000000.

✗ **C)** 15000000.

✗ **D)** 14000000.

Explanation

XYZ Corporation will receive $28 per share for each of the 300,000 new shares being issued ($30 per share price less the $2 spread). The proceeds from the 200,000 shares sold by the officers will benefit the officers themselves, not XYZ Corporation.

Reference: 7.5.4 in the License Exam Manual

Question #81 of 142

Question ID: 606263

All of the following securities are exempt from the registration provisions of the Securities Act of 1933 EXCEPT:

✓ **A)** commercial bank holding company securities.

✗ **B)** state and municipal bonds.

✗ **C)** national and state bank securities.

✗ **D)** commercial paper and bankers' acceptances that have maturities of no more than 270 days.

Explanation

Commercial bank holding companies are corporations that have to register with the SEC. State and municipal bonds do not have to be registered under the Securities Act of 1933. Commercial paper and bankers' acceptances that have maturities of no more than 270 days are exempt from the registration provisions. National and state banks are regulated by various state and federal agencies.

Reference: 7.6.1 in the License Exam Manual

Question #82 of 142

Question ID: 606272

An affiliate of a corporation wants to sell 80 calls covered by 8,000 shares of Rule 144 stock she owns. This transaction is:

- ✗ **A)** allowed because the calls will be considered covered by the stock.
- ✗ **B)** allowed because the 8,000 shares of stock may be sold unrestricted.
- ✓ **C)** not allowed because Rule 144 stock may not be sold unrestricted by an affiliate.
- ✗ **D)** not allowed because an affiliate of a corporation may not trade options in the company's stock.

Explanation

Rule 144 stock is considered to be illiquid. It cannot be sold unrestricted by an affiliate and could, therefore, not be used to cover the calls in the event the calls were exercised.

Reference: 7.6.2.4 in the License Exam Manual

Question #83 of 142

Question ID: 606275

An affiliate or insider holding unregistered shares can sell under Rule 144:

- ✗ **A)** 1 time a year.
- ✗ **B)** 12 times a year.
- ✗ **C)** 2 times a year.
- ✓ **D)** 4 times a year.

Explanation

Rule 144 allows an affiliate to sell the greater of 1% of the outstanding shares or the average of the last four weeks' trading volume with each Form 144 filing. The filing is good for 90 days, which would allow for as many as four filings per year.

Reference: 7.6.2.4 in the License Exam Manual

Question #84 of 142

Question ID: 606303

If an officer of a bank wants to purchase new issues, which of the following statements is TRUE?

- ✓ **A)** He may not purchase a new issue because he is considered a restricted person.
- ✗ **B)** He may purchase a new issue because anyone is allowed to purchase new issues.
- ✗ **C)** He may not purchase a new issue unless the amount he wishes to purchase is considered small in relation to the total offering.
- ✗ **D)** He may purchase a new issue because no banking rules prohibit it.

Explanation

Under the rules regarding the purchase of new issues bank officers would be characterized as restricted persons. They may not, therefore, purchase new issues.

Reference: 7.6.3.1 in the License Exam Manual

Question #85 of 142

Question ID: 606248

The largest portion of an underwriting spread is the:

- ✗ **A)** manager's fee.
- ✗ **B)** underwriting fee.
- ✗ **C)** stabilizing bid.
- ✓ **D)** concession.

Explanation

The largest portion of the spread is the concession.

Reference: 7.5.4 in the License Exam Manual

Question #86 of 142

Question ID: 606185

All of the following are covered under the Securities and Exchange Act of 1934 EXCEPT:

- ✓ **A)** trust indentures.
- ✗ **B)** proxy solicitation.
- ✗ **C)** short sales.
- ✗ **D)** margin.

Explanation

Trust Indentures are covered under the trust indenture act of 1939.

Reference: 7.1.1.2 in the License Exam Manual

Question #87 of 142

Question ID: 606261

The maximum amount of securities that can be offered under Regulation A+ Tier 2 is:

- ✓ **A)** $50 million in a 12-month period
- ✗ **B)** $25 million in a 12-month period
- ✗ **C)** $40 million in a 2-year period
- ✗ **D)** $50 million over an indefinite period of time

Explanation

Under Reg. A+ a Tier 2 securities offering allows small to medium sized companies raise up to $50 million.

Reference: 7.6.2.1 in the License Exam Manual

Question #88 of 142

Question ID: 606258

Under which of the following circumstances will an investor be considered accredited under Regulation D?

- ✗ **A)** $1 million net worth including any equity in a primary residence and $100,000 annual income.
- ✗ **B)** $1 million net worth excluding net equity in a primary residence or $100,000 annual income.
- ✓ **C)** $1 million net worth excluding net equity in a primary residence or $200,000 annual income.
- ✗ **D)** $200,000 net worth and $200,000 annual income.

Explanation

Under Regulation D, the SEC defines an accredited investor as an individual who either has a net worth of at least $1 million (excluding net equity in a primary residence), or has had annual income of at least $200,000 ($300,000 joint return) in the last two years with the same or more expected this year.

Reference: 7.6.2.2 in the License Exam Manual

Question #89 of 142

Question ID: 606196

A prospectus must be delivered to customers who purchase which of the following new issues?

I. U.S. government bonds.
II. Corporate bonds.
III. Fixed annuities.
IV. Unit Investment Trusts.

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

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

Explanation

U.S. government bonds are exempt securities under the Act of 1933 and are not subject to the Act's registration and prospectus delivery requirements. Fixed annuities are not considered securities as the risk is borne by the insurance company issuer. Corporate bonds and UITs, however, are non-exempt securities and are subject to prospectus delivery requirements.

Reference: 7.2.2.4 in the License Exam Manual

Question #90 of 142

Question ID: 606230

Which of the following actions of XYZ Corporation would raise additional capital?
I. Issue callable preferred stock.
II. Declare a stock dividend.
III. Make a rights offering.
IV. Encourage convertible bondholders to convert to common stock.

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

Explanation

Issuing new stock either through an underwriting or a rights offering allows a corporation to raise capital. Stock dividends represent more shares given to existing shareholders, but no money is raised. Conversion results in the exchange of one security for another and no money is raised.

Reference: 7.3.2.2 in the License Exam Manual

Question #91 of 142

Question ID: 606228

If the customers of a selling-group member sell into a penalty stabilizing bid, the selling-group member must pay back to the underwriter the:

✗ **A)** spread.
✓ **B)** concession.
✗ **C)** reallowance.
✗ **D)** give up.

Explanation

If selling-group members liquidate into the stabilizing bid, they may be required to return the concession they were originally paid.

Reference: 7.3.5.3.1 in the License Exam Manual

Question #92 of 142

Question ID: 606207

Shortly before the end of the cooling-off period, the underwriters and representatives of the issuer have a meeting to review the status of the new issue. This is called a:

✗ **A)** pre-sales meeting.
✗ **B)** syndicate meeting.
✗ **C)** negotiation meeting.
✓ **D)** due diligence meeting.

Explanation

The final meeting before the end of the cooling-off period is known as a due diligence meeting and is always held before the effective date of the new offering.

Reference: 7.2.2.3 in the License Exam Manual

Question #93 of 142

Question ID: 606224

Which of the following statements regarding red herrings are TRUE?

I. They may be used to obtain indications of interest.
II. They may be sent out with sales literature.
III. They contain the final offering price.
IV. Their use ends when the offering becomes effective.

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

Explanation

A preliminary prospectus, or red herring, is used only during the cooling-off period. The red herring does not contain the final price; offerings are priced immediately before the effective date.

Reference: 7.2.2.1 in the License Exam Manual

Question #94 of 142

Question ID: 606297

An affiliate holding restricted stock wishes to sell shares under Rule 144. He has held the shares, fully paid, for 6 months, and the issuer has 2.4 million outstanding shares. Form 144 is filed on Monday, April 10, and the average weekly trading volume for the last four weeks is 24,500 shares per week. The maximum number of shares the customer can sell with this filing is:

- ✓ **A)** 24,500.
- ✗ **B)** 24,000.
- ✗ **C)** 23,000.
- ✗ **D)** 24,250.

Explanation

Under Rule 144, after holding the fully paid restricted shares for 6 months, the affiliate can begin selling. For affiliates, volume restrictions always apply. They can sell the greater of 1% of the total shares outstanding or the weekly average of the prior 4 weeks' trading volume (the 4 weeks preceding the Form 144 filing). In this case, 1% of the total shares outstanding is 24,000 (1% × 2.4 million). The weekly average of the prior 4 weeks' trading volume is 24,500. Therefore, the most the affiliate can sell during the 90 days following the Form 144 filing is 24,500 shares.

Reference: 7.6.2.4 in the License Exam Manual

Question #95 of 142

Question ID: 606302

If you are an associated person of a FINRA member, which of the following individuals is NOT considered a restricted person and may buy shares of a new issue?

- ✓ **A)** Your grandparent.
- ✗ **B)** Your parents.
- ✗ **C)** Your supervisor at the broker/dealer you are affiliated with.
- ✗ **D)** Your spouse.

Explanation

Of those listed, grandparents would not be considered a restricted person and would be allowed to buy shares of a new issue. Remember that while immediate family members are restricted, aunts, uncles and grandparents are not considered to be immediate family members under the FINRA rule.

Reference: 7.6.3.1 in the License Exam Manual

Question #96 of 142

Question ID: 606254

To be exempt under Regulation D of the Securities Act of 1933, the sale of securities must be limited with respect to the number of:

- ✗ **A)** shares issued.
- ✗ **B)** agents authorized to sell the security.
- ✗ **C)** broker/dealers who offer the securities.
- ✓ **D)** nonaccredited investors to whom the security is sold.

Explanation

Regulation D provides a private placement exemption for securities that are sold to no more than 35 nonaccredited investors. There is no limit to the number of shares that can be issued nor the number of accredited investors who may purchase the shares.

Reference: 7.6.2.2 in the License Exam Manual

Question #97 of 142

Question ID: 606194

During the cooling-off period, a registered representative (in order to highlight key points) marks a preliminary prospectus and sends it to a client. This action is:

- ✗ **A)** permitted if approved by a principal.
- ✗ **B)** permitted if the customer is an accredited investor.
- ✓ **C)** prohibited.
- ✗ **D)** permitted without restriction.

Explanation

Under no circumstances may a registered representative mark a preliminary or final prospectus.

Reference: 7.2.2 in the License Exam Manual

Question #98 of 142

Question ID: 606214

A registered representative may use a preliminary prospectus to:

- ✗ **A)** demonstrate SEC approval of the issue.
- ✓ **B)** obtain indications of interest from investors.
- ✗ **C)** accept nonbinding orders from investors for a specific number of shares at a specific price.
- ✗ **D)** solicit orders from investors for the purchase of a new issue.

Explanation

A preliminary prospectus is used to obtain indications of interest from investors.

Reference: 7.2.2.1 in the License Exam Manual

Question #99 of 142

Question ID: 606240

ABC Corporation is offering 500,000 units to the public at $5 per unit. Each unit consists of 2 shares of ABC preferred stock and 1 perpetual warrant for ½ common share of ABC exercisable at $5. How much capital was raised by the initial sale of the issue?

- ✗ **A)** $1.25 million.
- ✗ **B)** $5 million.
- ✓ **C)** $2.5 million.
- ✗ **D)** $7.5 million.

Explanation

Since the issuing corporation is offering 500,000 units to the public at $5 per unit, the total amount of capital to be raised by this sale will be $2.5 million (500,000 units x $5 per unit).

Reference: 7.5.4.1 in the License Exam Manual

Question #100 of 142

Question ID: 606250

To which of the following firms could a member grant concessions or other allowances?

I. Another member firm.
II. A suspended member firm.
III. A foreign nonmember broker/dealer ineligible for FINRA membership.
IV. A U.S. nonmember broker/dealer.

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

Explanation

A member can grant discounts and other concessions only to other member firms. A suspended member must be treated like a member of the general public (no discounts or concessions). The only exception is that a member firm can grant concessions to a foreign nonmember firm that is ineligible for FINRA membership.

Reference: 7.5.4 in the License Exam Manual

Question #101 of 142

Question ID: 606239

Which of the following factors is (are) considered when determining whether underwriting compensation is fair and reasonable?

I. The size of the offering.
II. The type of underwriting commitment.
III. The market conditions.
IV. The profitability of the underwriter.

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

Explanation

Relevant factors considered by FINRA in determining the fairness of underwriting compensation include the size of the offering (total dollar amount), the type of commitment (firm commitment or best efforts), the type of securities (i.e., stocks or bonds), the form of compensation (i.e., cash or stock), the total value of all forms of compensation, the underwriter's relationship to the issuer, and any form of potential conflicts of interest.

Reference: 7.5.4 in the License Exam Manual

Question #102 of 142

Question ID: 606308

An issuer may direct sales of a new issue to all of the following EXCEPT:

- ✓ **A)** officers of the managing underwriter.
- ✗ **B)** officers of its largest customer.
- ✗ **C)** officers of its largest supplier.
- ✗ **D)** officers of the issuer.

Explanation

Issuer-directed sales are permitted if the persons to whom the new issue is sold are not restricted. Officers of the managing underwriter are restricted.

Reference: 7.6.3.1 in the License Exam Manual

Question #103 of 142

Question ID: 693977

Registered Representative 1, employed by Member Firm 1, sells a new equity issue to Registered Representative 2, employed by Member Firm 2. Which of the following are responsible for violating the rules designed to protect the public and abide by restricted persons prohibitions?
I. Registered Representative 1
II. Member Firm 1
III. Registered Representative 2
IV. Member Firm 2

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

Explanation

Members and their associated persons may not take advantage of their insider status to gain access to new issues for their own benefit at the expense of the investing public. In this light, all of the parties are responsible for violating rules designed to protect the public regarding new issues public offerings. The member firms, as well as the designated supervisors, are included for failing to supervise.

Reference: 7.6.3.1 in the License Exam Manual

Question #104 of 142

Question ID: 606305

Regarding the sale of a new issue, a customer becomes a restricted person if he is:

- ✗ **A)** a salesperson who works for a supplier of the issuing corporation.
- ✓ **B)** a salesperson who works for the issuing firm's underwriter.
- ✗ **C)** a private investigator collecting information on one of the issuing firm's officers.
- ✗ **D)** the grandfather of an associated person of a member firm.

Explanation

Restricted persons include FINRA member firms and their associated persons, plus immediate family members.

Reference: 7.6.3.1 in the License Exam Manual

Question #105 of 142

Question ID: 606277

If a wife owns 9% of the common shares of XYZ, and her husband owns 2% and wishes to sell his shares, he:
I. is considered an affiliate.
II. is not considered an affiliate.
III. must file a Form 144 to sell.
IV. does not have to file a Form 144 to sell.

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

Explanation

If a husband and wife (either individually or jointly) own a combined total of 10% or more of a corporation's voting shares, they are considered affiliates and are subject to the requirements of SEC Rule 144.

Reference: 7.6.2.4 in the License Exam Manual

Question #106 of 142

Question ID: 606264

The Securities Act of 1933 requires securities issued by all of the following to register and be subject to prospectus provisions EXCEPT:

✓ **A)** the U.S. government.
✗ **B)** foreign governments with which the United States maintains diplomatic relations.
✗ **C)** investment companies.
✗ **D)** corporations involved in interstate commerce.

Explanation

The Securities Act of 1933 does not require U.S. government securities to be issued by prospectus. The act covers the issuance of securities by companies engaged in interstate commerce. Investment company shares must be sold by prospectus. The exemption for securities issued by foreign governments is found in the Uniform Securities Act, not the federal law.

Reference: 7.6.1 in the License Exam Manual

Question #107 of 142

Question ID: 606281

An investor and his father own 20% and 10%, respectively, of a corporation's outstanding shares, and the father wants to sell his holding. According to Rule 144, which of the following statements are TRUE?

I. He must file Form 144 to sell the shares.
II. He does not have to file Form 144 to sell the shares.
III. He is considered an affiliated person.
IV. He is not considered an affiliated person.

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

Explanation

Under Rule 144, an affiliate is a person in a control relationship with an issuer. Because the investors own at least 10% of the stock, they are control persons under Rule 144 and must sell in compliance with the rule.

Reference: 7.6.2.4 in the License Exam Manual

Question #108 of 142

Question ID: 606316

Securities issued outside the United States by US issuers and sold to non-US residents

✗ **A)** must be registered with the SEC
✓ **B)** are considered to be offered in an exempt transaction
✗ **C)** are considered to be offered in a nonexempt transaction
✗ **D)** are considered to be offered by an exempt issuer

Explanation

Regulation S, a type of exempt transaction allowed by the SEC, permits US issuers to offer securities offshore to non-US residents only, without being registered with the SEC.

Reference: 7.6.2.7 in the License Exam Manual

Question #109 of 142

Question ID: 606188

The Securities Exchange Act of 1934 regulates or mandates each of the following EXCEPT:

✗ **A)** creation of the SEC.
✗ **B)** manipulation of the secondary market.
✗ **C)** extension of credit to customers.
✓ **D)** full and fair disclosure on new offerings.

Explanation

The Securities Exchange Act of 1934 created the SEC and regulates the secondary market. The Securities Exchange Act of 1934 does not address full and fair disclosure issues; the Securities Act of 1933 addresses such issues.

Reference: 7.1.1.2 in the License Exam Manual

Question #110 of 142

Question ID: 606262

Which of the following exemption provisions of the Act of 1933 may NOT be used for an initial offering of securities?

- ✗ **A)** Rule 147.
- ✗ **B)** Regulation D.
- ✗ **C)** Regulation A.
- ✓ **D)** Rule 144.

Explanation

Rule 144 does not pertain to primary offerings; it affects secondary market transactions in restricted or control securities.

Reference: 7.6.2.4 in the License Exam Manual

Question #111 of 142

Question ID: 606276

Your customer informs you that he has shares of stock restricted under Rule 144. He suggests that he wants to sell covered calls against the shares he owns to bring additional income into his account. Which of the following should you advise?

- ✗ **A)** This is permitted because there is no restriction against using covered calls to bring income into any account.
- ✓ **B)** Selling calls against restricted (Rule 144) shares is prohibited because the restricted shares could not be delivered if the calls were exercised by the buyer.
- ✗ **C)** This is prohibited because the customer may need to sell the stock before the restriction is lifted.
- ✗ **D)** This is permitted, as the calls would be considered covered by the restricted shares.

Explanation

Restricted shares under Rule 144 are considered illiquid until the restriction is lifted. They may never be used to cover short calls because the shares, due to the restriction, could not be sold if the owner of the calls were to exercise the right to buy the stock.

Reference: 7.6.2.4 in the License Exam Manual

Question #112 of 142

Question ID: 606199

Your customer wishes to purchase shares of an IPO. During the cooling- off period, the customer can:

- ✗ **A)** enter an order to sell the new issue short upon the effective date.
- ✓ **B)** indicate an interest in the offering.
- ✗ **C)** pay in advance for shares to be purchased when the cooling-off period ends.
- ✗ **D)** purchase shares in limited amounts.

Explanation

During the cooling-off period, neither purchases or sales can be made, and orders for either cannot be accepted by the broker/dealer, However, indications of interest can be made by customers and accepted by broker/dealers. Indications of interest are non-binding for both parties.

Reference: 7.2.2 in the License Exam Manual

Question #113 of 142

Question ID: 606233

A corporate offering of 200,000 additional shares to existing stockholders may be made through a:

✓ **A)** rights offering.
✗ **B)** secondary offering.
✗ **C)** warrant.
✗ **D)** tender offer.

Explanation

A rights offering is an offering of additional shares of stock to existing shareholders.

Reference: 7.3.3 in the License Exam Manual

Question #114 of 142

Question ID: 606217

If a broker/dealer is assisting in the registration of a stock issue, a registered representative of the firm may:

✗ **A)** perform a private transaction for a customer.
✗ **B)** accept an order.
✗ **C)** promise a specific number of shares.
✓ **D)** accept an indication of interest.

Explanation

When an issue is in registration during the cooling-off period, no sales may take place. The registered representative may, however, distribute preliminary prospectuses and accept nonbinding indications of interest.

Reference: 7.2.2.1 in the License Exam Manual

Question #115 of 142

Question ID: 606213

If a company has filed a registration statement for an initial public offering of its common stock with the SEC, as a registered representative you may take which of the following actions?

I. Send out a research report on the company to your customers.
II. Take indications of interest from your customers.
III. Send a preliminary prospectus to each of your customers.
IV. Take orders for the stock from customers in cash accounts only.

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

Explanation

New issues may be sold only by prospectus. Indications of interest may be taken when the issue is in registration. During the registration period, only the preliminary prospectus may be sent to clients. Sales literature, such as research reports, may not be distributed while the IPO is in registration, nor may orders be taken.

Reference: 7.2.2 in the License Exam Manual

Question #116 of 142

Question ID: 606300

A customer must present a signed representation letter stating that he is not a restricted purchaser prior to buying a new issue of:

✗ **A)** corporate bonds.
✗ **B)** U.S. government bonds.
✓ **C)** common stock.
✗ **D)** municipal bonds.

Explanation

New issues of common stock may not be sold at the public offering price to any account in which a restricted person has a beneficial interest. Prior to buying an IPO, a customer must present a representation letter stating they are not a restricted person.

Reference: 7.6.3.1 in the License Exam Manual

Question #117 of 142

Question ID: 722204

A corporation wants to issue new shares in a primary offering. Included in the issue, existing shareholders are also offering shares that they own. This is known as

- ✗ **A)** a secondary offering exclusively
- ✗ **B)** a shelf offering
- ✓ **C)** a split offering
- ✗ **D)** a primary offering exclusively

Explanation

When a corporation issues a portion of the stock offered, and existing shareholders offer the balance of the shares offered, this is known as a split or combination offering. It combines elements of a primary offering (new shares offered by the issuer) and a secondary offering (existing shares offered by shareholders).

Reference: 7.3.3.5 in the License Exam Manual

Question #118 of 142

Question ID: 606304

An officer of a broker/dealer firm would be categorized as a restricted person if he attempted to purchase:

- ✗ **A)** call options on a stock he believed was going down in price.
- ✓ **B)** a new issue.
- ✗ **C)** a municipal bond in a state where he does not reside.
- ✗ **D)** closed-end funds on the secondary market.

Explanation

As restricted persons officers of broker/dealer firms or other institutional investors are prohibited from purchasing a new issue.

Reference: 7.6.3.1 in the License Exam Manual

Question #119 of 142

Question ID: 606249

If a corporation issues stock to the public at $10 per share, and the syndicate manager's fee is $.10 per share, the underwriting fee is $.25 per share, and the selling concession is $.45 per share, what is the spread?

- ✓ **A)** $.80.
- ✗ **B)** $.60.
- ✗ **C)** $.70.
- ✗ **D)** $.90.

Explanation

The spread is the sum of the manager's fee, the underwriting fee, and the selling concession.

Reference: 7.5.4 in the License Exam Manual

Question #120 of 142

Question ID: 606256

To be designated as an accredited investor under Regulation D, a married couple investing in a joint account must have income of at *least*:

- ✓ **A)** $300,000.
- ✗ **B)** $200,000.
- ✗ **C)** $100,000.

✗ **D)** $500,000.

Explanation

To be accredited, a couple must have at least $300,000 in annual income. For individuals, the income threshold is $200,000.

Reference: 7.6.2.2 in the License Exam Manual

Question #121 of 142

Question ID: 606216

If XYZ Corporation intends to offer stock in a public offering, it must do all of the following EXCEPT:

- ✗ **A)** register the securities with the SEC.
- ✗ **B)** issue a prospectus.
- ✓ **C)** publish a tombstone advertisement.
- ✗ **D)** file a registration statement.

Explanation

Tombstones are advertisements often appearing in business newspapers to publicize new issues and are generally placed by a syndicate manager. They are not required.

Reference: 7.2.2.2 in the License Exam Manual

Question #122 of 142

Question ID: 606313

A member firm broker/dealer wishing to go public may sell a new equity issue of its own securities to all of the following EXCEPT:

- ✗ **A)** public customers.
- ✗ **B)** family members of owners, officers, and employees of the firm.
- ✗ **C)** owners, officers, and employees of the firm.
- ✓ **D)** employees of other full-service member firms.

Explanation

Rules regarding restricted persons generally prohibit member firms from selling new issue securities to employees of member firms including their own. However, when member firms sell their own securities, rules regarding restricted persons do not apply to the issuer's own employees but still apply to the employees of other full-service member firms.

Reference: 7.6.3.1 in the License Exam Manual

Question #123 of 142

Question ID: 721436

The underwriting agreement is signed by

- ✗ **A)** the selling group members and the syndicate members
- ✗ **B)** the managing underwriter and the syndicate members
- ✓ **C)** the issuer and the managing underwriter
- ✗ **D)** the issuer and the SEC

Explanation

The underwriting manager represents all underwriting members, and on behalf of the underwriting group, signs the underwriting agreement with the issuer. The agreement among underwriters is the document signed by the managing underwriter and all syndicate members. The selling group members have no formal agreement with the underwriters to be signed.

Reference: 7.4.0.1 in the License Exam Manual

Question #124 of 142

Question ID: 739035

A resident of a state who acquires stock pursuant to Rule 147 (intrastate offerings) is prohibited from selling the stock to a nonresident of that state for how many months?

✓ **A)** 6
✗ **B)** 12
✗ **C)** 18
✗ **D)** 3

Explanation

Rule 147 stock cannot be sold to a nonresident of the state for a period of six months after the purchase date.

Reference: 7.6.2.3 in the License Exam Manual

Question #125 of 142

Question ID: 606212

Which of the following statements regarding a red herring is NOT true?

✓ **A)** An agent may accept funds to be placed in escrow until the effective date if the request to do so is made by a potential purchaser.
✗ **B)** The final offering price does not appear in a red herring.
✗ **C)** A red herring is used to accept indications of interest from investors.
✗ **D)** Additional information may be added to a red herring at a later date.

Explanation

An agent is not permitted to accept funds from potential purchasers of a new issue before the effective date.

Reference: 7.2.2.1 in the License Exam Manual

Question #126 of 142

Question ID: 606290

Under SEC Rule 145, which of the following events require(s) a corporation to receive the approval of its stockholders?
I. Merger.
II. Consolidation.
III. Acquisition.
IV. Transfer of assets.

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

Explanation

Rule 145 requires that a corporation have its stockholders' consent in the event of a merger, consolidation, acquisition, reclassification, or transfer of corporate assets.

Reference: 7.6.2.6 in the License Exam Manual

Question #127 of 142

Question ID: 606208

In the case of an unsolicited order, a prospectus must be delivered to the purchaser of a unit investment trust:

✗ **A)** before the purchase.
✗ **B)** between 45 days and 18 months following the initial deposit.
✓ **C)** with the purchase confirmation.
✗ **D)** before the month's end.

Explanation

A purchaser of newly issued securities must receive a prospectus no later than by receipt of the purchase confirmation. However, any solicitation must be preceded or accompanied by a prospectus.

Reference: 7.2.2.4 in the License Exam Manual

Question #128 of 142

Question ID: 606218

Before the filing of a registration statement for a new issue, an investment representative may NOT:

I. solicit indications of interest for the security.
II. solicit orders.
III. confirm the sale of the security to a customer.

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

Explanation

Before the registration statement is filed, no sale, solicitations, or indications of interest in the issue may occur.

Reference: 7.2.2 in the License Exam Manual

Question #129 of 142

Question ID: 606306

A member firm receives an order from an investment adviser to purchase shares in a common stock IPO. Regarding restricted persons, the member must:

✗ **A)** obtain a list of all of the adviser's clients to determine eligibility.
✗ **B)** refuse to accept the order.
✓ **C)** obtain a representation from the conduit that the purchaser is not a restricted person.
✗ **D)** obtain a list of the client(s) whose account(s) will be credited with the shares in order to determine eligibility.

Explanation

When receiving an order to buy a new equity issue from a bank, investment adviser, or other conduit, a member must obtain a representation from the conduit that all purchasers are in compliance with rules regarding sales of new issues to restricted persons (i.e., they are not restricted persons).

Reference: 7.6.3.1 in the License Exam Manual

Question #130 of 142

Question ID: 606201

All of the following are unlawful EXCEPT:

✓ **A)** giving written notification to a customer that the broker/dealer is acting as a principal for the trade.
✗ **B)** omitting a statement of a material fact.
✗ **C)** representing that the SEC has approved of a broker/dealer or a security being sold.
✗ **D)** selling new issues on margin.

Explanation

New issues may not be sold on margin. The Securities and Exchange Commission does not approve or disapprove of securities, broker/dealers, or registered representatives. It is always unlawful to make a fraudulent communication in connection with the sale or purchase of securities; making a fraudulent communication includes failing to state a material fact.

Reference: 7.2.2.5 in the License Exam Manual

Question #131 of 142

Question ID: 606184

Which of the following acts requires corporate public issuers to send annual reports to their shareholders?

✗ **A)** Securities Act of 1933.

✓ **B)** Securities Exchange Act of 1934.
✗ **C)** Securities Investors Act of 1970.
✗ **D)** Trust Indenture Act of 1939.

Explanation

The Securities Exchange Act of 1934 requires public issuers to inform the shareholders of their operations at least on an annual basis. Said reports should include a statement of the company's financial condition (i.e., balance sheet and income statements). The act further requires public companies to provide proxies to all shareholders regarding any action that requires a vote of the shares outstanding.

Reference: 7.1.1.2 in the License Exam Manual

Question #132 of 142

Question ID: 606285

All of the following are nonexempt securities EXCEPT a:

✗ **A)** variable annuity unit.
✓ **B)** fixed annuity.
✗ **C)** U.S. government bond mutual fund share.
✗ **D)** municipal unit investment trust share.

Explanation

A fixed annuity is an insurance product exempt from registration with the SEC. Variable annuities, which carry investment risk, are nonexempt securities under the Securities Act of 1933 and must be registered before public sale. Similarly, unit trusts and mutual funds are nonexempt even though the underlying securities may be exempt, such as municipals and U.S. government securities.

Reference: 7.6.1 in the License Exam Manual

Question #133 of 142

Question ID: 606189

Which of the following are defined as securities?

I. Fixed annuities.
II. Variable annuity units.
III. Investment company shares.
IV. Negotiable CDs insured by the FDIC.

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

Explanation

A security is any investment for profit with management performed by a third party, in which an element of risk is present.

Reference: 7.1.1.1 in the License Exam Manual

Question #134 of 142

Question ID: 606227

From the point of view of a corporate issuer, the *most* conservative means of raising capital would be the issuance of:

✓ **A)** common stock.
✗ **B)** convertible preferred stock.
✗ **C)** convertible bonds.
✗ **D)** preferred stock.

Explanation

Common stock issues add to the capital of a corporation and do not saddle it with additional cash flow demands. This approach is the most conservative. Because of the desire of bondholders and preferred stockholders to receive their interest and dividends, respectively, the issuance of preferred stock or bonds creates additional and ongoing demands on a corporation's cash flow.

Reference: 7.3.3.1 in the License Exam Manual

Question #135 of 142

Question ID: 606271

All of the following statements regarding corporate insiders are true EXCEPT

- ✗ **A)** only public information may be used to make transactions
- ✓ **B)** purchases may not be made through the exercise of options
- ✗ **C)** reports of changes in holdings must be filed with the SEC
- ✗ **D)** short selling of the company's stock is prohibited

Explanation

A corporate insider is defined as an officer, director, 10% stockholder, or family member of an insider. Insiders are required to report any changes in their holdings to the SEC within two business days. The Securities Exchange Act of 1934 also prohibits short selling of company shares by company insiders. They cannot use inside (nonpublic) information for their own benefit.

Reference: 7.6.2.4 in the License Exam Manual

Question #136 of 142

Question ID: 606229

Which of the following underwriting arrangements allows an issuer whose stock is already publicly traded to structure the timing of sales for an additional issue?

- ✗ **A)** Competitive.
- ✗ **B)** Standby.
- ✗ **C)** Negotiated.
- ✓ **D)** Shelf.

Explanation

A shelf registration with the SEC allows an issuer to sell the registered securities for up to 3 years from the effective date. This allows an issuer to time its sales with market conditions.

Reference: 7.3.3.6 in the License Exam Manual

Question #137 of 142

Question ID: 606219

In reviewing prospectuses and registration statements, the SEC:

- ✗ **A)** certifies the accuracy of the disclosures made in a prospectus.
- ✗ **B)** passes on the merits of a particular security covered by a registration statement.
- ✗ **C)** guarantees the adequacy of the disclosures made in a prospectus.
- ✓ **D)** does not approve or disapprove of the issue.

Explanation

The SEC requires full disclosure regarding a new issue so that investors can make informed decisions on the security. The SEC does not, however, guarantee the accuracy or adequacy of the information, nor does it approve or disapprove of the issue.

Reference: 7.2.2.5 in the License Exam Manual

Question #138 of 142

Question ID: 739036

Under one of the provisions allowing a company to qualify under Rule 147 for an intrastate exemption, what percentage of an issuer's gross business revenues must be derived from sales within the company's home state?

- ✗ **A)** 70%
- ✗ **B)** 100%
- ✗ **C)** 90%
- ✓ **D)** 80%

Explanation

Any one of the three 80% test provisions can be met to qualify for a Rule 147 Intrastate exemption. One of the provisions states that at least 80% of an issuer's gross revenue must be derived from the company's home state.

Reference: 7.6.2.3 in the License Exam Manual

Question #139 of 142

Question ID: 606197

All of the following may occur during the mandatory 20-day cooling-off period EXCEPT:

- ✓ **A)** soliciting transactions for the security.
- ✗ **B)** forwarding a preliminary prospectus to a customer.
- ✗ **C)** publishing a tombstone ad.
- ✗ **D)** the performance of due diligence by the underwriters.

Explanation

During the 20-day cooling-off period, only unsolicited requests for information may be honored. Soliciting sales is prohibited.

Reference: 7.2.2 in the License Exam Manual

Question #140 of 142

Question ID: 606317

A new client holds unregistered securities purchased offshore from a US issuer in an exempt Regulation S transaction. These securities

- ✗ **A)** may not be resold in the United States no matter how long they have been held
- ✓ **B)** must be held 1 year before they can be resold in the United States
- ✗ **C)** must be held 9 months before they can be resold in the United States
- ✗ **D)** may be resold in the United States unrestricted

Explanation

Securities offered under Regulation S in an exempt transaction (US issuers offering securities offshore to non-US residents) must be held for 12 months (1 year) before they can be resold in the United States.

Reference: 7.6.2.7 in the License Exam Manual

Question #141 of 142

Question ID: 606301

Regarding the purchase of new equity issues, restricted persons may:

- ✗ **A)** purchase shares of a new issue only if they work for a bank.
- ✗ **B)** purchase shares of a new issue only in amounts that are not substantial in relation to the total number of shares being issued.
- ✗ **C)** purchase shares of a new issue only if they are employed by a broker/dealer as a registered representative on a part-time basis.
- ✓ **D)** not purchase shares of a new issue.

Explanation

Persons characterized as restricted persons are prohibited from purchasing shares of new issues.

Reference: 7.6.3.1 in the License Exam Manual

Question #142 of 142

Question ID: 606278

Which of the following statements regarding a Rule 144 sale of restricted stock are TRUE?

I. Stock sold through a 144 sale is considered registered stock after the sale.
II. After holding the stock for 6 months, nonaffiliates may sell unrestricted.
III. After holding the stock for 6 months, there are no volume restrictions for affiliates.
IV. Form 144 must be filed with the SEC at *least* 10 business days before a 144 sale made by an affiliate.

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

Explanation

Stock sold through a 144 sale is considered registered stock after the sale. When required to be filed by affiliates or insiders, Form 144 must be filed with the SEC on or before the date of sale. After holding the stock fully paid for 6 months, nonaffiliates may sell unrestricted but affiliates are subject to the volume restrictions of Rule 144.

Reference: 7.6.2.4 in the License Exam Manual