

Question #1 of 142

Question ID: 607449

A registered representative wants to place advertisements in his daughters youth athletic league quarterly sponsorship booklet and in the weekly bulletin at his church describing that he specializes in retirement planning and 529 plans. Which of the following statements regarding these advertisements is TRUE?

- ✓ **A)** Pre-approval by a principal of the broker dealer is required.
- X **B)** The advertisement is considered institutional communications because it is placed in literature being distributed by organizations such as the youth athletic league and the church organization and therefore no principal pre-approval is required.
- X **C)** No approval is required because both the youth athletic league and the church would be recognized as bona-fide non-profit organizations by the IRS.
- X **D)** The piece will be regulated as correspondence because it is only being forwarded to two organizations.

Explanation

Any piece promoting securities services and / or products intended to be received by more than 25 retail customers within any 30 calendar-day period must be pre-approved by a principal before use. Given the intended placements of the piece there is no way to determine the exact number of retail customers who will be exposed to it and within what time frames and therefore it must be regulated as retail communications. It fits neither the definition of correspondence or institutional communications.

Reference: 17.5.2 in the License Exam Manual

Question #2 of 142

Question ID: 607319

All of the following would be included in a penny stock risk disclosure statement EXCEPT

- X **A)** definition of penny stock
- X **B)** investors' legal rights
- ✓ **C)** broker/dealer's statement of guarantee
- X **D)** risks of investing in penny stock

Explanation

Penny stock disclosure statements must be furnished to all buyers of unlisted, non-Nasdaq stocks of less than \$5 per share. The disclosure must include the risks of penny stock investing, the rights of the investors, and the responsibilities of the broker/dealer to the investor. There would be no statements regarding guarantees either implied or expressly written.

Reference: 16.1.9 in the License Exam Manual

Question #3 of 142

Question ID: 721505

A broker-dealer has asked a professional associate to give a testimonial on behalf of the member firm so that it can be distributed to potential clients. These types of testimonials require certain disclosures be made. Which of the following would NOT be required to be disclosed?

- X **A)** Compensation if paid for the testimonial in cash or material value above a specified threshold
- ✓ **B)** Length of time covered by the testimonial
- X **C)** That the returns and investment performance cited in the testimonial might not be duplicated
- X **D)** Qualifications of the person giving the testimonial if a specialized or an expert opinion is implied

Explanation

When a member firm uses a testimonial, the testimonial must be accompanied by a statement that this person's experience does not necessarily represent those of other customers; disclosure of compensation paid in cash or material value if above a specified threshold; and the testimonial giver's qualifications, if an expert opinion is implied. While the specific length of time the testimonial covers would likely be mentioned, it is not required.

Reference: 17.5.4.2 in the License Exam Manual

Question #4 of 142

Question ID: 638281

Which of the following statements could legally appear in mutual fund advertising or sales literature?

- ☐ A) Our management is unequalled in the investment industry.
- ☐ B) Our growth fund net asset value will increase faster than the market in general.
- ☐ C) The fund never yielded less than 8% and will continue at that rate in the future.
- ☒ D) Our managers are dedicated to giving you the very *best* service.

Explanation

A statement such as, "Our managers are dedicated to giving you the very best service," makes no promises and is, therefore, not in violation of the Conduct Rules. Exaggerated claims about the management's investment expertise are prohibited, as are predictions of future fund performance or unsubstantiated claims of superiority.

Reference: 17.5.3.1.2. in the License Exam Manual

Question #5 of 142

Question ID: 607350

Registered corporations are required to file certain reports with the SEC. All of the following statements regarding those reports are true EXCEPT:

- ☐ A) copies of the annual report must be sent to shareholders of record.
- ☐ B) the annual report contains both a balance sheet and income statement.
- ☐ C) the financial statements must be audited.
- ☒ D) the audit may be performed by the corporation's Chief Financial Officer.

Explanation

An independent auditor must perform the audit.

Reference: 16.1.2 in the License Exam Manual

Question #6 of 142

Question ID: 607404

Under the Code of Arbitration, all monetary awards must be paid within how many days of the decision date?

- ☐ A) 45.
- ☐ B) 60.
- ☐ C) 15.
- ☒ D) 30.

Explanation

All monetary awards in a Code of Arbitration decision must be paid within 30 days of the decision date. If payment is not made, the amount of the award begins to accrue interest as of the decision date.

Reference: 17.3.2.5 in the License Exam Manual

Question #7 of 142

Question ID: 607409

An arbitration proceeding involving a customer in an amount over \$100,000 has been agreed to. In such an arbitration dispute, which of the following is TRUE?

- ☐ A) Disputes in amounts greater than \$100,000 are always heard by a single arbitrator.
- ☒ B) The customer can request that all three of the arbitrators selected be from the public sector.
- ☐ C) Both parties must agree before three arbitrators can be used in disputes involving amounts greater than \$100,000.
- ☐ D) Only nonpublic (industry) arbitrators can be used for disputes in amounts greater than \$100,000

Explanation

In disputes involving a customer for amounts greater than \$100,000 three arbitrators will be used unless both parties agree to one. In the case where three arbitrators are used, the customer can request that all three arbitrators be selected from the public sector.

Question #8 of 142

Question ID: 607387

Continuing commissions in connection with the sale of investment company securities:

- ✓ **A)** may be paid to a retired employee provided a bona fide contract calling for such payment was entered into by the registered representative while employed by a member.
- X **B)** are a form of deferred compensation; therefore, when a registered representative resigns, the registered representative must be paid all commissions due.
- X **C)** is illegal.
- X **D)** must be paid by a member whether or not the person receiving the commissions is a registered representative of a member.

Explanation

FINRA rules permit the payment of continuing commissions to retired registered representatives in connection with the sale of investment company securities if a bona fide contract to do so exists between the firm and the registered representative.

Reference: 17.2.4.4 in the License Exam Manual

Question #9 of 142

Question ID: 607329

The chairman of XYZ Corporation confides to a neighbor that his company will be announcing a major acquisition the following week. As a result of this conversation, the neighbor buys call options on the target company in his personal account. Who violated the 1988 insider trading rules?

- X **A)** Neither the chairman nor the neighbor.
- X **B)** The neighbor.
- ✓ **C)** Both the chairman and the neighbor.
- X **D)** The chairman.

Explanation

Once inside information is used to trade for profit or to avoid a loss, both the person who gave the tip (the chairman) and the person who used the tip (the neighbor) have violated the 1988 insider trading rules.

Reference: 16.1.8.2 in the License Exam Manual

Question #10 of 142

Question ID: 607321

An officer of QRS, Inc. while talking to his next-door neighbor (a registered representative), mentions that QRS plans to announce its takeover of another corporation next week. Based on this information, what should the registered representative recommend that his customers do?

- X **A)** Purchase shares of QRS.
- ✓ **B)** No recommendation should be made based on this information.
- X **C)** Sell shares of QRS short.
- X **D)** Purchase shares of the target company.

Explanation

The registered representative may not act on information received from a corporate insider before the information is made public. The representative should report this knowledge to a principal.

Reference: 16.1.8.2 in the License Exam Manual

Question #11 of 142

Question ID: 721498

A member firm is allowing a registered representative to operate from his residence. Which of the following statements is TRUE?

- I. Prior consent of the member firm's self-regulatory organization (SRO) is required.
- II. Prior consent of the member firm's self-regulatory organization (SRO) is not required.
- III. The residence may be advertised as an office of the member firm.
- IV. The residence may not be advertised as an office of the member firm.

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

Explanation

Prior consent of the member firm's SRO is required when opening any office including that maintained in a private residence. The home address and telephone number may be advertised in any normal manner such as on business cards, stationary, newspapers, or websites.

Reference: 17.2.3.1.1 in the License Exam Manual

Question #12 of 142

Question ID: 721501

All of the following disputes may be resolved using arbitration under the Code of Arbitration EXCEPT

- X **A)** member against a person associated with a member
- ✓ **B)** class action suits against a member
- X **C)** member against another member
- X **D)** member against a public customer with consent of the customer

Explanation

Class actions brought against member firms are not subject to arbitration under the Code of Arbitration.

Reference: 17.3.2 in the License Exam Manual

Question #13 of 142

Question ID: 607356

A customer has \$150,000 in securities and \$300,000 in cash with his brokerage firm. If the firm were forced to liquidate, how much of the account would be covered by SIPC?

- X **A)** All of the securities and all of the cash.
- X **B)** All of the cash and \$300,000 of the securities.
- X **C)** All of the cash and \$250,000 of the securities.
- ✓ **D)** All of the securities and \$250,000 of the cash.

Explanation

SIPC covers cash and securities up to \$500,000, but only up to \$250,000 of the total can be cash.

Reference: 16.1.6.2 in the License Exam Manual

Question #14 of 142

Question ID: 607374

A registered representative in California opens an account for a resident of that state. The customer later moves to Ohio. The representative may sell securities to the client:

- X **A)** under no circumstances.
- X **B)** with written notification to FINRA that the representative will be selling out of state.
- X **C)** without restriction.
- ✓ **D)** if the representative is registered in Ohio.

Explanation

To sell securities in a state, the registration requirements must be met. State registration requirements apply to broker/dealers, investment advisers, investment adviser representatives, and registered representatives.

Question #15 of 142

Question ID: 607336

Characteristics common to penny stocks would include which of the following?

- I. Market price less than \$5 per share.
- II. Market price greater than or equal to \$5 per share.
- III. Nasdaq OTC stock
- IV. Non-Nasdaq OTC stock.

- ☐ A) I and III.
- ☐ B) II and III.
- ☒ C) I and IV.
- ☐ D) II and IV.

Explanation

Penny stocks are generally defined as those with a market price below \$5 per share that are not traded on any exchange or Nasdaq.

Reference: 16.1.9 in the License Exam Manual

Question #16 of 142

Question ID: 607375

If a broker/dealer with its principal office in New Jersey recently registered a branch office in Minnesota, which of the following statements regarding the broker/dealer is TRUE?

- ☐ A) Each representative is automatically registered in both states.
- ☐ B) Registered representatives working in the Minnesota branch office may solicit orders from New Jersey residents without registering in New Jersey.
- ☒ C) Each representative must be registered in every state in which he solicits orders.
- ☐ D) Registered representatives working in the broker/dealer's New Jersey office may solicit orders from Minnesota residents without registering in Minnesota.

Explanation

Registered representatives and broker/dealers must be registered in each state that they do business.

Reference: 16.2.1 in the License Exam Manual

Question #17 of 142

Question ID: 607448

Each of the following is a category of communications with the public designated by FINRA EXCEPT

- ☒ A) market letters
- ☐ B) correspondence
- ☐ C) institutional
- ☐ D) retail

Explanation

The three categories of communications with the public designated by FINRA are retail, correspondence, and institutional. Market letters, as all sales or advertising pieces would, can fall under any of the three communications categories depending on to whom they are sent or made available to, and the number of recipients.

Reference: 17.5 in the License Exam Manual

Question #18 of 142

Question ID: 607359

Each of the following statements about SIPC are true EXCEPT?

- ✓ **A)** it is an agency of the U.S. government.
- X **B)** coverage is limited to \$500,000 per customer.
- X **C)** it is a nonprofit membership corporation.
- X **D)** it is funded by broker/dealers.

Explanation

SIPC is a membership corporation formed to protect investors as of the Securities Investor Protection Act (SIPA) of 1970. It is not an agency of the U.S. government.

Reference: 16.1.6.1 in the License Exam Manual

Question #19 of 142

Question ID: 607334

The first stage of money laundering is known as:

- X **A)** implementation.
- X **B)** layering.
- X **C)** integration.
- ✓ **D)** placement.

Explanation

The first stage in cleansing illicit funds is placing them in the laundering system with little or no effort to disguise their illegal origins. The placement stage may involve the use of a financial institution but can also take place entirely outside the financial system.

Reference: 16.1.10.0.1 in the License Exam Manual

Question #20 of 142

Question ID: 607361

A customer has several accounts with a single brokerage firm. These include a single account in his own name, a joint account with his wife, and a custodial account for each of his two children. If this firm were to become insolvent, how would SIPC protect these accounts?

- X **A)** Only one account would be covered, but the client would be allowed to select which account would be covered.
- ✓ **B)** Each account would be treated separately.
- X **C)** The single account and the two custodial accounts would receive the coverage for cash and securities. The joint account would not be covered. However, he and his wife would become general creditors of the firm.
- X **D)** The single account would be treated first. If the maximum coverage were not reached, then the joint account would be covered and, finally, the two custodial accounts.

Explanation

SIPC provides coverage on a per-customer basis in the event of broker/dealer default. In this situation, there are four separate customers: the customer's individual account in his own name, his joint account, and the two custodial accounts. Each of these four customers is eligible for SIPC maximum coverage of \$500,000.

Reference: 16.1.6.2 in the License Exam Manual

Question #21 of 142

Question ID: 607440

Which of the following statements regarding recruiting advertising by FINRA member firms are TRUE?

- I. It must include the name of the broker/dealer.
- II. It may not contain exaggerated claims about opportunities in the securities business.
- III. Principal approval is not required.
- IV. During a firm's first year of business, it must be filed with FINRA.

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

Explanation

Recruitment advertising is treated as a form of retail communication. A firm in its first year of business must prefile all of its retail communications with FINRA. Furthermore, all retail communications must be approved by a principal before use. Recruitment advertisements may be placed as blind advertisements (i.e., without the name of the broker/dealer), but they may not contain exaggerated claims.

Reference: 17.5.4.6 in the License Exam Manual

Question #22 of 142

Question ID: 607402

Which of the following statements regarding the Code of Arbitration are TRUE?

- I. Simplified arbitration is available for claims of \$50,000 or less.
- II. Simplified arbitration is available for claims of \$25,000 or less.
- III. The statute of limitations for filing a claim is 3 years from the event.
- IV. The statute of limitations for filing a claim is 6 years from the event.

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

Explanation

Simplified arbitration is available for claims of \$50,000 or less. The statute of limitations for filing a claim is 6 years from the event giving rise to the claim.

Reference: 17.3.2.6 in the License Exam Manual

Question #23 of 142

Question ID: 607428

Regarding FINRA spot-checks of a member firm's communications with the public, which of the following statements is CORRECT?

- I. Only written communications are subject to spot-checks.
- II. Both written and electronic forms of communication are subject to spot-checks.
- III. Upon written request from FINRA, the member must submit the material requested within the time frame specified by FINRA.
- IV. Upon written request from FINRA, the member has 10 business days to submit the requested material.

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

Explanation

Each member's written and electronic communications may be subject to a spot-check procedure by FINRA. Upon written request from FINRA, each member must submit the material requested within the time frame specified by FINRA.

Reference: 17.5.2.3 in the License Exam Manual

Question #24 of 142

Question ID: 607411

A registered representative is preparing a power point slide presentation to be delivered in a live seminar for a group of invited institutional clients. To use the slides, they must be

- X **A) submitted to the SEC for review and approval**
- ✓ **B) reviewed by a principal of the broker/dealer**
- X **C) approved by FINRA in writing**
- X **D) submitted to both FINRA and the SEC for pre-use approval**

Explanation

Communications material that is intended for use with institutional customers only need be supervised and reviewed by a principal of the member firm. Though FINRA can request spot-checks of any material used to communicate with the public, submission of institutional communications to FINRA or the SEC for review or approval is not required.

Reference: 17.5.2 in the License Exam Manual

Question #25 of 142

Question ID: 607392

The regulatory element of continuing education must be completed:

- ☒ **A)** within 120 days of the 2nd registration anniversary and every 3 years thereafter.
- ☐ **B)** within 120 days of the 3rd registration anniversary and every 2 years thereafter.
- ☐ **C)** annually.
- ☐ **D)** every 3rd year.

Explanation

The regulatory element must be completed within 120 days of the person's 2nd registration anniversary and every 3 years thereafter.

Reference: 17.2.4.1.1 in the License Exam Manual

Question #26 of 142

Question ID: 721494

Which of the following would exclude a bond from being covered under the Trust Indenture Act of 1939?

- ☐ **A)** Interstate offering
- ☐ **B)** Offering over \$50 million
- ☐ **C)** Nonexempt debt securities
- ☒ **D)** Offering with a maturity of less than 9 months

Explanation

The Trust Indenture Act of 1939 is applicable to corporate debt issues that are nonexempt, are over \$50 million to be issued within 12 months, are offered interstate, and have maturities of 9 months or more. An offering made that would mature in less than 9 months would be excluded from coverage under the act.

Reference: 16.1.3 in the License Exam Manual

Question #27 of 142

Question ID: 721496

Registration at the state level is not always required. Which of the following would be exempt from state registration?

- ☐ **A)** Out-of-state salesperson doing business in that state
- ☐ **B)** In-state salesperson
- ☐ **C)** In-state broker-dealer
- ☒ **D)** Out-of-state broker-dealer not doing business in that state

Explanation

Any broker-dealer or salesperson doing business within any state must be registered in that state. Being located within a state constitutes doing business there. If a broker-dealer or salesperson is not doing business in a state, registration in that state is not required.

Reference: 16.2.1 in the License Exam Manual

Question #28 of 142

Question ID: 721497

A member firm has decided to allow a registered representative to operate from his residence. Which of the following statements are TRUE?

- I. Prior consent of the member's self-regulatory organization (SRO) is required.
- II. Prior consent of the member's self-regulatory organization (SRO) is not required.
- III. The residence may be advertised.
- IV. The residence may not be advertised.

- ☐ **A)** I and IV.
- ☐ **B)** II and III.
- ☐ **C)** II and IV.
- ☒ **D)** I and III.

Explanation

Prior approval of the member firm's SRO is required when opening any office, including a private residence. The home address and telephone number may be advertised in any normal manner such as business cards, stationery, local newspapers, and so forth.

Reference: 17.2.3.1 in the License Exam Manual

Question #29 of 142

Question ID: 607373

A new customer deposits three separate \$3,500 money orders with a broker/dealer on three consecutive days, then deposits \$7,000 into a variable annuity and wires \$3,000 to another broker/dealer. Which of these actions if any, would trigger a Suspicious Activity Report (SAR) be filed?

- ☒ **A)** The second deposit of \$3,500
- ☐ **B)** Wiring \$3,000 to another BD
- ☐ **C)** Depositing \$7,000 into a variable annuity
- ☐ **D)** None

Explanation

Broker/dealers are required to file suspicious activity reports (SARs) involving transactions of \$5,000 or more when financial behavior appears commercially illogical and serves no apparent purpose. The second deposit exceeds the \$5,000 threshold. A currency transaction report (CTR) would be triggered for transactions totaling \$10,000 or more within a single day.

Reference: 16.1.10.0.3 in the License Exam Manual

Question #30 of 142

Question ID: 607415

Your broker/dealer has prepared an advertising piece for general distribution to all of its retail customers regarding numerous option strategies. Filing the piece with FINRA is

- ☐ **A)** required within 10 business days of the time it is first used or published
- ☐ **B)** required to occur no later than the end of the month during which it was used
- ☒ **C)** required at least 10 business days prior to first use or publication
- ☐ **D)** not required

Explanation

Filing with FINRA is required at least 10 business days prior to first use or publication for retail communications having to do with options.

Reference: 17.5.2.2 in the License Exam Manual

Question #31 of 142

Question ID: 607370

The current market in XYZZ stock is 6.12 bid, offered at 6.18. A customer wants to bid 6.125 for 100 shares. How should the buy order ticket read?

- ☐ **A)** 6.125 bid
- ☐ **B)** offer at 6.12
- ☒ **C)** 6.12 bid
- ☐ **D)** offer at 6.125

Explanation

Because the order is to "buy" the ticket will reflect a bid, not an offer. Under the minimum increments pricing rule of Regulation NMS (National Market System) only stocks priced below \$1 can trade in sub-penny prices. Therefore the order ticket for this buy limit must reflect a price in increments of no less than \$.01, in this instance 6.12. Note that because the customer did not want to pay more than 6.125, rounding the order up to 6.13 would not be permitted.

Question #32 of 142

Question ID: 607423

A principal of a member firm with the responsibility of supervising registered representatives would perform all of the following EXCEPT

- ☐ A) approve each securities transaction whether for retail or institutional customers
- ☒ B) write all sales material and advertising copy intended to be used as a means of communicating with the public
- ☐ C) review a registered representative's correspondence with the firm's customers in accordance with the firm's written procedures
- ☐ D) approve the opening of all new accounts whether for retail or institutional customers

Explanation

There is no industry requirement that sales or advertising material intended to be used to communicate with the public be written by a principal of the firm. A principal must approve all retail communications before use, new accounts, and each transaction. All correspondence must be reviewed by a principal, but FINRA rules state that principal review of correspondence can take place before or after use in accordance with the member firm's written procedures.

Reference: 17.5.2 in the License Exam Manual

Question #33 of 142

Question ID: 607362

A securities industry professional reports several instances that he believes are ones where insider trading has occurred. His reports have led to the successful prosecution of those involved with substantial dollar amounts recovered. Which of the following applies?

- ☐ A) The tipper or "whistle blower" is guaranteed an award in an amount of at least 30% of any monies recovered.
- ☐ B) The tipper or "whistle blower" is not entitled to an informer bounty because there are no awards provided for under any U.S. Federal laws or securities industry regulations.
- ☒ C) The tipper or "whistle blower" is entitled to an informer bounty of 10–30% of any amounts recovered under federal legislation.
- ☐ D) The tipper or "whistle blower" is not entitled to any award because he is a securities industry insider.

Explanation

Under the Federal Dodd-Frank legislation, tippers or "whistle blowers" may be awarded up to 10–30% of amounts recovered for original information leading to successful prosecution of anyone who violates securities industry law. There are no limitations regarding securities industry professionals qualifying for the reward. While no bounty is guaranteed, when awarded it is based upon the monies recovered and the value of the information.

Reference: 16.1.8.4.1 in the License Exam Manual

Question #34 of 142

Question ID: 607352

To launder illicit funds effectively, the money must go through a process known as layering. Layering will typically involve:

- ☒ A) the use of transfers through several legal and governmental jurisdictions.
- ☐ B) the deposit of illegal funds in a financial institution willing to launder them.
- ☐ C) the use of illegal funds to purchase goods that can later be sold.
- ☐ D) over-invoicing techniques that commingle illegal funds with legitimate funds.

Explanation

The layering stage is where launderers attempt to conceal the source of the funds or assets. During this phase, launderers will wire transfer funds to multiple jurisdictions, deposit cash overseas, and resell assets in multiple jurisdictions. The key to successful layering is the crossing of several legal and governmental jurisdictions. This allows launderers to take full advantage of the varying degrees of regulation and the bureaucracy of different governmental cooperation laws.

Reference: 16.1.10 in the License Exam Manual

Question #35 of 142

Question ID: 607410

Once a broker/dealer receives an enrollment notification for an employee to test for the Series 7 licensing exam, the employee will have how long to successfully complete (pass) the exam?

- X **A)** 6 months.
- X **B)** 3 months.
- ✓ **C)** 4 months.
- X **D)** 2 months.

Explanation

Once notification of enrollment for testing has been received by the broker/dealer the candidate will have 120 days (4 months) to successfully complete (pass) the exam. This is commonly referred to as the "testing window".

Reference: 17.4.2.1 in the License Exam Manual

Question #36 of 142

Question ID: 607366

SIPC uses which of the following to determine the value of customer claims when a broker/dealer becomes insolvent?

- X **A)** Market value on the date the broker/dealer becomes insolvent.
- X **B)** Market value on the date the trustee pays the customers their balances.
- ✓ **C)** Market value on the date a federal court is petitioned to appoint a trustee.
- X **D)** Average market value from the time a trustee is appointed to the payment date.

Explanation

Under SIPC rules, customer claims are valued on the day a federal court is petitioned to appoint a trustee.

Reference: 16.1.6.1.1 in the License Exam Manual

Question #37 of 142

Question ID: 607377

A discussion referring to blue-sky laws would include all of the following EXCEPT:

- X **A)** state laws that are designed to protect the public against fraud in securities sales within a state.
- X **B)** a state securities law that grants state securities Administrators the power to deny or revoke a broker/dealer's or an agent's registration within its state.
- X **C)** forms requiring issuers selling securities in the state to comply with state securities laws.
- ✓ **D)** the Securities Act of 1933 and Securities Exchange Act of 1934.

Explanation

Blue-sky laws are state securities laws. The Securities Act of 1933 and the Securities Exchange Act of 1934 are federal securities laws.

Reference: 16.2.1 in the License Exam Manual

Question #38 of 142

Question ID: 607435

A prospect receives a cold call from a registered representative, and he tells the representative he is not interested in this investment or in making any future investments. Which of the following actions is required by the Telephone Consumer Protection Act of 1991?

- ✓ **A)** No calls may be made to the prospect by anyone at the firm.
- X **B)** A principal of the firm may call the prospect the next time.
- X **C)** The representative may never make cold calls again. .
- X **D)** The representative may send a fax regarding future recommendations.

Explanation

The prospect's name must be placed on the firm's Do-Not-Call list, and no one at the firm may call.

Reference: 17.5.6 in the License Exam Manual

Question #39 of 142

Question ID: 607367

Client coverage under SIPC is \$500,000 for:

- ☐ A) securities losses only.
- ☐ B) cash, commodities, and securities losses.
- ☐ C) securities losses and \$500,000 for cash losses .
- ☒ D) cash and securities, with cash coverage not to exceed \$250,000.

Explanation

SIPC coverage for each separate customer is \$500,000, with cash coverage not to exceed \$250,000.

Reference: 16.1.6.2 in the License Exam Manual

Question #40 of 142

Question ID: 607363

In a broker/dealer bankruptcy, a client has claims that go beyond SIPC coverage. Regarding the amount beyond SIPC coverage, the client:

- ☐ A) becomes a preferred creditor.
- ☐ B) loses that amount.
- ☐ C) becomes a secured creditor.
- ☒ D) becomes a general creditor.

Explanation

If a customer's claim exceeds SIPC's \$500,000/\$250,000 (cash) coverage limits, the customer becomes a general creditor of the bankrupt broker/dealer for the balance.

Reference: 16.1.6.2 in the License Exam Manual

Question #41 of 142

Question ID: 607397

According to MSRB rules, a dispute between 2 member firms concerning municipal securities is settled through:

- ☒ A) arbitration.
- ☐ B) litigation.
- ☐ C) delegation.
- ☐ D) administration.

Explanation

According to MSRB rules, a complaint between a customer and a member firm concerning municipal securities is settled through the Code of Arbitration. The MSRB does not have a Code of Procedure and, therefore, does not have the use of the Office of Hearing Officers and the NAC.

Reference: 17.3.2 in the License Exam Manual

Question #42 of 142

Question ID: 607344

As the result of a conversation with an officer of a publicly traded company, a registered representative comes into possession of material, nonpublic information indicating a high probability that the company's stock will increase substantially in value. If the following morning the registered representative buys call options on the stock, which of the following statements is TRUE?

- ☒ A) Both the officer and the registered representative violated insider trading rules.
- ☐ B) Neither the officer nor the registered representative violated insider trading rules.
- ☐ C) The officer violated insider trading rules.
- ☐ D) The registered representative violated insider trading rules.

Explanation

A violation occurs if insider information is used to trade for profit or to avoid a loss. In such cases, both the tipper and the tippee are liable.

Reference: 16.1.8.2 in the License Exam Manual

Question #43 of 142

Question ID: 607447

All of the following are included to represent communications with the public EXCEPT

- X **A)** billboards
- ✓ **B)** internal memos
- X **C)** research reports
- X **D)** market letters

Explanation

Each of the terms qualifies as either a form of advertising or sales literature except internal memos, which are communications pieces intended only for use within the broker/dealer and not for public distribution.

Reference: 17.5.1 in the License Exam Manual

Question #44 of 142

Question ID: 607386

Under FINRA rules, a member may pay continuing commissions to a retired representative:

- I. only if a written agreement is in effect.
- II. based on business generated while employed.
- III. based on business introduced after retirement.
- IV. only within 30 days of retirement.

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

Explanation

Continuing commissions may be paid to a retired representative only if a written agreement exists between the member and the retired representative and if payout is based only on business generated while employed.

Reference: 17.2.4.4 in the License Exam Manual

Question #45 of 142

Question ID: 607381

Employees of a FINRA member firm must be fingerprinted if involved in any of the following EXCEPT:

- ✓ **A)** customer account processing.
- X **B)** cashiering.
- X **C)** the transfer of securities.
- X **D)** sales.

Explanation

Under SEC Rule 17f-2, persons registered with FINRA, persons involved in handling customer funds or securities (including employees of transfer agents), and persons involved in preparing the firm's original books and records must be fingerprinted. Mere processing of customer accounts does not involve any of these.

Reference: 17.1.1.1.2 in the License Exam Manual

Question #46 of 142

Question ID: 607346

Which of the following statements regarding the Insider Trading and Securities Fraud Enforcement Act of 1988 is NOT true?

- ☐ A) Civil penalties for violations of the act may be handed down by the court system.
- ☒ B) A solicitation by a broker based on breaking news just aired on a financial network is a violation of the act.
- ☐ C) All broker/dealers are required to have written procedures concerning the misuse of inside information.
- ☐ D) Maximum penalties under the Act are 3 times the profit made or loss avoided, or \$5 million, and up to 20 years in prison.

Explanation

The Insider Trading and Securities Fraud Enforcement Act of 1988 requires that all broker/dealers have written supervisory procedures that address the misuse of inside information. Once information is publicly available (through a news media or a public filing, for example) it is no longer considered inside information and may be freely used.

Reference: 16.1.8.1 in the License Exam Manual

Question #47 of 142

Question ID: 607339

ABC Corp. announces a tender offer for XYZ common stock at \$50 per share. All of the following customers can tender their stock to ABC EXCEPT a customer who:

- ☒ A) borrows XYZ stock.
- ☐ B) is long XYZ stock in a cash account.
- ☐ C) is long XYZ stock in a margin account.
- ☐ D) exercises XYZ call options.

Explanation

Only customers with long positions in XYZ can tender their shares; SEC rules prohibit borrowing shares to tender those shares.

Reference: 16.1.2.1 in the License Exam Manual

Question #48 of 142

Question ID: 607442

All of the following would be considered either retail communications or correspondence EXCEPT

- ☐ A) a written communication to all of the firm's customers regarding a new mutual fund being offered
- ☒ B) an email to several municipalities sent out in a single day offering your firm's services for underwriting their municipal securities
- ☐ C) a letter to 10 individual investors within the past week regarding a new investment strategy
- ☐ D) an electronic communication distributed through the firm's website regarding potential opportunities with the firm as a registered representative

Explanation

Communications with government entities, which includes municipalities, fall under the heading of institutional communications. The others are all examples of either retail communications or correspondence depending on how many recipients there are within a 30 calendar-day period. (Retail—more than 25 retail investors within any 30 calendar-day period, and Correspondence—25 or fewer retail investors within any 30 calendar-day period.)

Reference: 17.5.1 in the License Exam Manual

Question #49 of 142

Question ID: 607441

If another member broker/dealer has already received clearance from FINRA for a retail communication, filing the piece with FINRA so that your broker/dealer can now use it

- ☐ A) must be done 10 days before your broker dealer can use it, even if unaltered
- ☒ B) is not necessary if unaltered and used as originally intended
- ☐ C) must be done before publication by your broker dealer whether it is altered or unaltered
- ☐ D) must be done within 3 days after use by your broker dealer, even if unaltered

Explanation

If unaltered and used as it was originally intended, re-filing with FINRA is not required. If the piece had been altered or was intended to be used in a manner inconsistent with how it had been originally intended to be used, filing with FINRA would be required.

Reference: 17.5.2.4 in the License Exam Manual

Question #50 of 142

Question ID: 607351

Which of the following events would require public disclosure and a corporation to file a report with the SEC?

- ☐ A) The number of registered market makers in the company's stock increases.
- ☐ B) The value of the company's shares rises by more than 1% in a single day.
- ☒ C) The company's employees strike.
- ☐ D) The company is featured in a trade journal.

Explanation

A strike would materially impair the ability of the company to perform. This is a significant event requiring public disclosure.

Reference: 16.1.2 in the License Exam Manual

Question #51 of 142

Question ID: 607419

Under the terms of the Telephone Consumer Protection Act, all of the following statements are true EXCEPT:

- ☐ A) calls made to parties with whom the caller has an established business relationship are exempt.
- ☐ B) calls made on behalf of tax-exempt nonprofit organizations are exempt.
- ☒ C) cold calls may be made between 8:00 am and 9:00 pm in the time zone from which the representative is making the call.
- ☐ D) the firm must maintain a Do-Not-Call list.

Explanation

Any solicitation made must occur between 8:00 am and 9:00 pm in the recipient's time zone. Firms must maintain a Do-Not-Call list, and the act exempts calls made on behalf of tax-exempt nonprofit organizations and calls made to parties with whom the caller has an established business relationship.

Reference: 17.5.6 in the License Exam Manual

Question #52 of 142

Question ID: 607408

During a period of suspension, a suspended member must:

- ☐ A) restrict its securities activities to mutual funds.
- ☐ B) restrict its securities activities to investment banking.
- ☒ C) be treated as a nonmember by other members.
- ☐ D) have no securities dealings of any kind.

Explanation

A member firm under suspension is essentially a nonmember during the period of suspension. Accordingly, during that time period, other FINRA members must treat the suspended firm as a nonmember. For example, during the period of suspension, other firms may sell new issues to the suspended firm only at the public offering price.

Reference: 17.3.1.3.1 in the License Exam Manual

Question #53 of 142

Question ID: 607388

A registered representative who leaves the industry must requalify by examination to return to the industry if he is unaffiliated with a broker/dealer for more than:

- ☐ A) 3 years.
- ☒ B) 2 years.
- ☐ C) 10 years.

X **D)** 5 years.

Explanation

All securities licenses become null and void once an individual is unaffiliated for more than 2 years.

Reference: 17.2.4.3 in the License Exam Manual

Question #54 of 142

Question ID: 607427

Under what circumstances may a member firm use a fictional name or DBA (doing business as) in its communications?

- X **A)** The name is filed with FINRA.
- ✓ **B)** The name is filed with both FINRA and SEC.
- X **C)** Fictional names may not be used.
- X **D)** The name is filed with the Securities Information Center.

Explanation

A fictional name or DBA may be used, provided the name is filed with both FINRA and the SEC.

Reference: 17.5.4.5.2 in the License Exam Manual

Question #55 of 142

Question ID: 607335

At which stage of the money-laundering process are illicit funds *most* susceptible to detection?

- ✓ **A)** Placement.
- X **B)** Layering.
- X **C)** Relocation.
- X **D)** Integration.

Explanation

Placement, the first step in laundering money, when no attempt is made to hide its origins, is recognized as the step during which the illegal funds are most vulnerable to detection. There is no step called relocation.

Reference: 16.1.10.0.1 in the License Exam Manual

Question #56 of 142

Question ID: 607434

In making unsolicited cold calls to prospects, a registered representative must disclose all of the following to the called party EXCEPT

- X **A)** the name of the member firm
- X **B)** the caller's name
- X **C)** the address at which the caller may be contacted
- ✓ **D)** the corporate address of any securities issuer mentioned

Explanation

In making cold calls, the caller must disclose his name and the name of the member firm, the telephone number or address at which the caller may be contacted, and that the purpose of the call is to solicit the purchase of securities. If securities of a particular issuer are mentioned in the call, there is no disclosure requirement for the address of the issuer.

Reference: 17.5.6 in the License Exam Manual

Question #57 of 142

Question ID: 607380

If a member firm suspends a registered representative, the member firm must report the suspension to the:

- X **A)** state securities Commissioner.
- ✓ **B)** designated examining authority.
- X **C)** SEC.
- X **D)** news media.

Explanation

If a member firm suspends a registered representative, the firm must report the suspension to its designated examining authority (DEA), which typically is FINRA or the exchanges where the firm is a member. Each DEA is a self-regulatory organization. The notice must be made within 10 business days of the suspension.

Reference: 17.1.1.1.1 in the License Exam Manual

Question #58 of 142

Question ID: 607331

Your firm uses unregistered personnel to make cold calls to prospects. When contacting a friend with money to invest, the cold caller is permitted to:

- X **A)** open the new account on the phone.
- ✓ **B)** ask the prospect if one of the firm's registered representatives can contact the person about opening an account.
- X **C)** recommend stocks, but only those on the firm's recommended list.
- X **D)** write an order ticket, pending receipt of the new account forms being sent to the new client.

Explanation

Unregistered personnel may make cold calls, but any further actions such as opening a new account, writing order tickets or making recommendations could only be performed by registered personnel.

Reference: 16.1.9 in the License Exam Manual

Question #59 of 142

Question ID: 607439

All of the following must be included in a testimonial made on behalf of a member firm and distributed to potential clients EXCEPT:

- X **A)** qualifications of the person giving the testimonial if a specialized or an expert opinion is implied.
- ✓ **B)** length of time the testimonial covers.
- X **C)** whether compensation of more than \$100 in cash or value was paid to the person giving the testimonial.
- X **D)** that the returns and investment performance cited in the testimonial may not be duplicated.

Explanation

When a member firm uses a testimonial, it must be accompanied by a statement that this person's results do not necessarily represent those of other customers; a disclosure regarding compensation paid; and the testimonial giver's qualifications if an expert opinion is implied. There is no time-of-coverage requirement.

Reference: 17.5.4.2 in the License Exam Manual

Question #60 of 142

Question ID: 607396

If a registered representative is suspended by FINRA's Department of Enforcement, his first appeal would be to:

- ✓ **A)** the National Adjudicatory Council.
- X **B)** the SEC.
- X **C)** a federal court.
- X **D)** the SIPC.

Explanation

A registered representative may appeal decisions of the DOE to FINRA's National Adjudicatory Council. Appeals may then go to the SEC and finally to the federal appellate court system.

Reference: 17.3.1.4 in the License Exam Manual

Question #61 of 142

Question ID: 607382

A statutory disqualification applies to an employee or an officer of a broker/dealer who, within the past 10 years, has:

- ✓ **A)** been convicted of securities-related fraud.
- X **B)** been convicted of a misdemeanor and then sued in civil court regarding the same charge.
- X **C)** been convicted of a minor traffic violation.
- X **D)** been charged with driving under the influence (DUI).

Explanation

Anyone who has been convicted within the past 10 years of any felony or any securities- or money-related misdemeanor is subject to statutory disqualification. A mere charge is not enough.

Reference: 17.2.6.1 in the License Exam Manual

Question #62 of 142

Question ID: 607376

A registered representative is registered in Iowa. One of his customers moves to Texas, where neither the employing broker/dealer nor the representative are registered. Under these circumstances, which of the following statements are TRUE?

- I. The representative may solicit trades for this customer.
- II. The representative may not solicit trades for this customer.
- III. The representative may accept an isolated unsolicited order from this customer.
- IV. The representative may not accept an isolated unsolicited order from this customer.

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

Explanation

Registered representatives may not solicit business in states in which they are not registered. However, isolated unsolicited transactions are exempt from state registration requirements, so an isolated unsolicited trade can be accepted.

Reference: 16.2.1 in the License Exam Manual

Question #63 of 142

Question ID: 721502

When making cold calls which of the following actions is NOT required?

- X **A)** Informing the prospect of the name and telephone number or address of the broker/dealer.
- X **B)** Limiting calls to between the hours of 8:00 am and 9:00 pm in the prospect's time zone.
- ✓ **C)** Asking the recipient of the call if they would like to be placed on the Do-Not-Call list.
- X **D)** Immediately recording the names and telephone numbers of those who ask not to be called again.

Explanation

The Telephone Consumer Protection Act (TCPA) requires that representatives contact prospects between 8:00 am and 9:00 pm in their time zone and disclose the member broker dealer's name and phone number or address. If a prospect asks not to be called again, their name and telephone number must be added to the firm's "Do-Not-Call" list. There is no requirement that the recipient of the call be asked if they would like to be placed on the "Do-Not-Call" list.

Reference: 17.5.6 in the License Exam Manual

Question #64 of 142

Question ID: 607345

A registered representative accepts and places an order from a customer to buy 4000 shares of GHJ Corp. stock. The RR, while waiting for the execution report, mentions to the customer that this transaction is somewhat larger than he normally trades. The customer goes on to explain that he heard from the neighbor of the GHJ Corp. comptroller that the earnings report coming out later in the week would be far better than analysts were expecting. What should the RR's first course of action be?

- X **A)** The FINRA Department of Market Regulation should receive written notification directly from the RR.
- X **B)** The issuer of the security, GHJ Corp., should be contacted immediately by the RR.
- X **C)** The RR should further question the client to try and determine if this was inside information.
- ✓ **D)** The RRs principal should be informed immediately.

Explanation

When use of inside information is suspected in any trade, registered representatives must immediately inform their principal. All broker/dealers are required to have written supervisory procedures in place to address this situation which would include following industry rules regarding any required notifications.

Reference: 16.1.8.2 in the License Exam Manual

Question #65 of 142

Question ID: 721499

Which of the following best describes the disciplinary actions a self-regulatory organization (SRO) such as FINRA or an exchange can impose upon a registered representative who has violated its rules?

- ✓ **A)** The SRO has authority to censure, fine, or expel the registered representative.
- X **B)** The SRO has full authority to impose a jail sentence if warranted.
- X **C)** The SRO can only recommend disciplinary actions that must then be imposed by the SEC.
- X **D)** The SRO must coordinate all disciplinary actions with the employing member firm who must then impose them on the registered representative.

Explanation

A self-regulatory organization (SRO) such as FINRA or an exchange may censor, fine, or expel a representative directly, but it cannot impose a jail sentence.

Reference: 17.3.1.3 in the License Exam Manual

Question #66 of 142

Question ID: 607430

All of the following communications are exempt from filing with FINRA EXCEPT

- X **A)** retail communications previously filed with FINRA
- ✓ **B)** retail communications that make a financial or investment recommendation
- X **C)** communications that refer to an investment solely as part of a listing of products offered by the member
- X **D)** prospectuses and preliminary prospectuses

Explanation

Retail communications previously filed with FINRA, prospectuses and preliminary prospectuses, as well as communications that refer to an investment solely as part of a listing of products offered by the member, are all exempt from filing with FINRA. Any retail communication that makes a financial or investment recommendation would require filing.

Reference: 17.5.2.4 in the License Exam Manual

Question #67 of 142

Question ID: 607320

Prior to effecting an initial penny stock transaction for a new customer, the registered representative must:

- I. confirm whether the person is an established customer.
- II. obtain a signed risk disclosure document from the customer.
- III. obtain a signed suitability statement from the customer.
- IV. determine suitability based on financial condition, investment experience, and investment objectives.

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

Explanation

According to penny stock rules, registered representatives must provide disclosure information to all penny stock buyers which customers must sign. In addition, they must determine suitability based on financial information, investor experience, and objectives supplied by the buyer. If an investor is not considered an established customer they must sign a suitability statement as well.

Reference: 16.1.9 in the License Exam Manual

Question #68 of 142

Question ID: 607315

Unregistered personnel making cold calls for your firm may be compensated by which of the following methods?

- ✓ **A)** An hourly rate plus overtime.
- X **B)** A percentage of commissions generated from their leads.
- X **C)** On the basis of the number of leads generated from their calls.
- X **D)** A percentage of the total assets generated from their leads.

Explanation

Cold callers may not be compensated in any way that is directly or indirectly related to the success of their calls. Straight salary or hourly wages and overtime are permitted.

Reference: 16.1.9 in the License Exam Manual

Question #69 of 142

Question ID: 721504

Which of the following statements regarding FINRA member broker-dealer's websites is TRUE?

- X **A)** Only mention of being a FINRA member is required.
- X **B)** A hyperlink to FINRA's BrokerCheck is required as well as mention of the FINRA membership.
- ✓ **C)** A hyperlink to FINRA's BrokerCheck is required.
- X **D)** Neither mention of FINRA membership nor a hyperlink to FINRA's BrokerCheck is required.

Explanation

While there is currently no requirement for a FINRA member broker-dealer to note or mention membership on the broker-dealer's website, it is required that all FINRA member firms provide a hyperlink to BrokerCheck. BrokerCheck is a free tool that is part of FINRA's ongoing efforts to help investors make informed choices about brokers and brokerage firms. BrokerCheck also provides information about formerly registered brokers who, although no longer registered in the securities industry, may work in other financial services industries.

Reference: 17.5.4.4 in the License Exam Manual

Question #70 of 142

Question ID: 607337

The receipt of all of the following would raise concern about the possibility of money laundering EXCEPT:

- X **A)** currency.
- ✓ **B)** personal check.
- X **C)** travelers' check.
- X **D)** postal money order.

Explanation

Personal checks are the means by which the vast majority of securities purchases are paid for.

Reference: 16.1.10.1 in the License Exam Manual

Question #71 of 142

Question ID: 607341

Which of the following entities was created to protect investors who have money and/or securities on deposit at member firms?

- ✓ **A)** SIPC.
- X **B)** AGA.
- X **C)** CU.S.IP.
- X **D)** ERISA.

Explanation

The Securities Investor Protection Act of 1970 created the Securities Investor Protection Corporation (SIPC) to protect securities investors against losses resulting from the financial failure of broker/dealers. SIPC does not provide protection against securities losses arising from decreases in market value.

Reference: 16.1.6 in the License Exam Manual

Question #72 of 142

Question ID: 607413

Communications with the public include all of the following EXCEPT:

- X **A)** television appearances by an officer of the firm.
- X **B)** institutional sales material.
- ✓ **C)** informational material on a new mutual fund intended for sales personnel.
- X **D)** independently prepared reprints forwarded to your firm's customers.

Explanation

Material intended for internal use only is not considered a communication with the public.

Reference: 17.5 in the License Exam Manual

Question #73 of 142

Question ID: 607383

A registered person leaves the securities industry and 18 months later reassociates with another member firm. FINRA requires that this person's cycle for determining the dates for the regulatory element portion of continuing education be based on:

- X **A)** his date of reassociation with his new firm.
- ✓ **B)** his initial registration date.
- X **C)** the date on his application for reregistration.
- X **D)** his original hire date.

Explanation

If reassociation occurs within 2 years, the cycle date remains associated with his original registration date. If it occurs after 2 years have elapsed, the new cycle is based on the reassociation date.

Reference: 17.2.4.1 in the License Exam Manual

Question #74 of 142

Question ID: 607328

A client with \$315,000 cash and \$35,000 in securities in his account is protected to what extent in the event a SIPC trustee is appointed?

- X **A)** 250,000.
- X **B)** 315,000.
- ✓ **C)** 285,000.
- X **D)** 350,000.

Explanation

SIPC covers cash up to \$250,000 and a total of cash and securities up to \$500,000. The total covered in this question is \$285,000 (\$250,000 of the cash plus the \$35,000 in securities).

Reference: 16.1.6.2 in the License Exam Manual

Question #75 of 142

Question ID: 607325

The Trust Indenture Act of 1939 covers all of the following securities transactions EXCEPT:

- ☐ A) a corporate bond issue worth \$55 million sold interstate.
- ☐ B) a sale of an equipment trust bond issue worth \$62 million.
- ☒ C) a sale of an issue of \$5 billion worth of Treasury bonds maturing in 2025.
- ☐ D) a public issue of debentures worth \$60 million sold by a single member firm throughout the United States.

Explanation

The Trust Indenture Act of 1939 requires all corporate debt issues of \$50 million or more sold interstate to have a trust indenture; U.S. governments are exempt.

Reference: 16.1.3 in the License Exam Manual

Question #76 of 142

Question ID: 607424

The legislation that required SRO's to establish research analyst conflict of interest rules for its members is:

- ☐ A) Securities Act of 1933.
- ☒ B) Sarbanes-Oxley.
- ☐ C) Regulation D.
- ☐ D) Securities Investors Protection Act.

Explanation

The research analyst conflict of interest rules were mandated by the Sarbanes-Oxley Act.

Reference: 17.5.5.1 in the License Exam Manual

Question #77 of 142

Question ID: 607347

Inside information is considered public when it is:

- ☐ A) reviewed by industry SROs.
- ☒ B) available for public evaluation.
- ☐ C) declared so by the SEC.
- ☐ D) available to the national financial publications.

Explanation

The law states that inside information is considered public information when the public has had a chance to evaluate it.

Reference: 16.1.8.1 in the License Exam Manual

Question #78 of 142

Question ID: 607420

All of the following records must be kept for 6 years EXCEPT

- ☐ A) customer account records, like monthly statements
- ☐ B) blotters
- ☐ C) the general ledger
- ☒ D) communications with the public

Explanation

Of the answer choices listed, it is important to recognize that communications with the public must be maintained on file for 3 years by a member firm, and therefore, would not fall under the 6-year record retention requirement.

Reference: 17.5.3.1 in the License Exam Manual

Question #79 of 142

Question ID: 607317

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

- ☐ A) Securities Investor Protection Act of 1970.
- ☒ B) Securities Act of 1933.
- ☐ C) Trust Indenture Act of 1939.
- ☐ D) Securities Exchange Act of 1934.

Explanation

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

Reference: 16.1.1 in the License Exam Manual

Question #80 of 142

Question ID: 607378

A registered representative who is NOT licensed in Utah but whose firm is registered in Utah:

- ☐ A) need not be licensed in that state until after he writes his third order ticket.
- ☒ B) must be licensed in Utah to conduct securities business in that state.
- ☐ C) need not be licensed provided his firm's registration remains effective.
- ☐ D) need not be licensed if he solicits only state-registered securities.

Explanation

State law requires the broker/dealer and the representative to register before securities business is transacted in the state.

Reference: 16.2.1 in the License Exam Manual

Question #81 of 142

Question ID: 607389

Under FINRA rules, a registered representative must complete the regulatory element of continuing education within how many days of a registration anniversary date?

- ☒ A) 120.
- ☐ B) 60.
- ☐ C) 30.
- ☐ D) 90.

Explanation

The regulatory element requires that all registered persons complete a computer-based training session within 120 days of their second registration anniversary and every third anniversary thereafter.

Reference: 17.2.4.1.1 in the License Exam Manual

Question #82 of 142

Question ID: 607403

Penalties resulting from a Code of Procedure hearing may include all of the following EXCEPT:

- ☐ A) suspension.
- ☐ B) censure.
- ☐ C) expulsion.
- ☒ D) prison sentence.

Explanation

Penalties under the Code of Procedure may include censure, expulsion, suspension, and/or fines but not a prison sentence.

Question #83 of 142

Question ID: 607426

Your firm is doing interviews of the top candidates from among those who responded to a recruiting advertisement. FINRA communications with the public rules for recruitment advertisements require that

- ☐ A) the broker dealer's name be clearly shown in the advertisement
- ☒ B) both the job opportunity and the industry itself be represented honestly
- ☐ C) the successful candidate be promised that she will hold the position for at least one year after being hired
- ☐ D) at least 2 positions be offered to successful candidates, so that they may make a choice

Explanation

In recruitment interviews or advertisements, false or extravagant claims may not be made but the advertisements are permitted to be blind ads (those that do not list the firm's name). Both the job opportunity and the industry must be represented honestly. There are no requirements that candidates be offered or promised anything.

Reference: 17.5.4.6 in the License Exam Manual

Question #84 of 142

Question ID: 607398

A customer has filed a serious complaint against your firm and is threatening to take the firm to court. When informed that he has signed a predispute arbitration agreement, he demands to see a copy of it. How long does your firm have to supply the customer with a copy of the signed agreement upon receipt of his request?

- ☐ A) 7 business days.
- ☐ B) 5 business days.
- ☐ C) 3 business days.
- ☒ D) 10 business days.

Explanation

Upon receiving a customer request for a copy of the signed predispute arbitration agreement, the member firm has 10 business days to supply it.

Reference: 17.3.2 in the License Exam Manual

Question #85 of 142

Question ID: 607406

Rulings under the Code of Arbitration Procedure:

- ☐ A) are binding on members but not on customers.
- ☒ B) are binding on all parties.
- ☐ C) may be appealed to the FINRA National Adjudicatory Council.
- ☐ D) may be appealed to the SEC.

Explanation

A customer or member who chooses to submit a claim or dispute to arbitration under the Code of Arbitration Procedure is bound by the arbitration decision, which is not subject to appeal by either party.

Reference: 17.3.2.5 in the License Exam Manual

Question #86 of 142

Question ID: 607330

A transaction that transforms the proceeds from illegal activities into legitimate circulation is *best* described as:

- ☐ A) reverse repos.
- ☒ B) money laundering.
- ☐ C) a breakpoint sale.

- ☐ D) a wash sale.

Explanation

Firms are responsible for identifying and reporting transactions that may be construed as suspicious, and money laundering schemes involve illegal activity; otherwise, the laundering would not be necessary.

Reference: 16.1.10 in the License Exam Manual

Question #87 of 142

Question ID: 607333

Which of the following items would NOT be considered a suspicious activity?

- ☐ A) A client's monthly account activity triples without any real justification.
- ☒ B) A client transfers funds to a beneficiary account on behalf of his niece.
- ☐ C) A client who has a pattern of wiring money to your firm then redirects the funds to other offshore accounts.
- ☐ D) A new client, operating an import/export firm, wire transfers \$75,000 to an account in Malaysia.

Explanation

Transferring to a beneficiary account on behalf of his niece, the client appears to be conducting a normal transfer of funds to a legitimate beneficiary. Each of the remaining choices could be construed as suspicious activity.

Reference: 16.1.10.1 in the License Exam Manual

Question #88 of 142

Question ID: 721503

In making a sales presentation to a prospective customer, a registered representative selling open-end investment company shares should do all of the following EXCEPT

- ☒ A) disclose only the breakpoint the customer may qualify for regarding sales charges instead of maximum sales charges to avoid confusion
- ☐ B) differentiate between dividend return and capital gains when making statements about returns
- ☐ C) utilize charts or graphs showing a fund's performance over at least a ten year period when the fund has been in existence that long
- ☐ D) reveal the source of any charts or graphics used in the presentation

Explanation

When discussing sales charges for investment company products only referring to breakpoint discounts the customer may qualify for rather than potential maximum sales charges is considered misleading. Charts and graphs should always encompass at least a ten year period so as to be long enough to reflect variations in value and when used the source of those resources must be disclosed. When speaking to dividend returns a statement should be made concerning the variable amounts of dividend return and they should be differentiated from capital gains and total return.

Reference: 17.5.3.1.2. in the License Exam Manual

Question #89 of 142

Question ID: 607433

A registered representative has been giving monthly lectures to various civic organizations on the pros and cons of investing in fixed-income securities. For what period must the employing broker/dealer keep records of these lectures?

- ☐ A) 1 year.
- ☒ B) 3 years.
- ☐ C) 6 years.
- ☐ D) 5 years.

Explanation

Speeches and lectures are considered to be forms of communication with the public and must be kept for at least a period of three years in a format and media that complies with regulations.

Reference: 17.5.3.1 in the License Exam Manual

Question #90 of 142

Question ID: 607379

State securities laws address the:

- I. regulation of securities exchanges within the state.
- II. laws of each state governing the sale of new issues.
- III. revocation of the broker/dealer's registration.
- IV. registration of regional exchanges.

- ☐ A) I and IV.
- ☐ B) I and III.
- ☐ C) II and IV.
- ☒ D) II and III.

Explanation

State securities laws (blue-sky laws) address registration of securities, broker/dealers, and registered representatives at the state level. The Securities Exchange Act of 1934 addresses the regulation of securities exchanges.

Reference: 16.2.1 in the License Exam Manual

Question #91 of 142

Question ID: 607348

Which of the following are defined as penny stocks?

- I. Nasdaq stock trading at \$4 per share.
- II. Bulletin Board stock trading at \$4 per share.
- III. Listed stock trading at \$4 per share.
- IV. "OTC Pink" stock trading at \$4 per share.

- ☒ A) II and IV.
- ☐ B) I and IV.
- ☐ C) II and III.
- ☐ D) I and III.

Explanation

A penny stock is a non-Nasdaq (Bulletin Board or "OTC Pink") stock trading under \$5 per share. If a stock is listed on an exchange or is on Nasdaq, it is not a penny stock regardless of price.

Reference: 16.1.9 in the License Exam Manual

Question #92 of 142

Question ID: 607422

Which of the following statements regarding communications with the public are CORRECT?

- I. Correspondence does not include email.
- II. Prior principal approval is required for all correspondence.
- III. Correspondence can include communications sent to existing customers.
- IV. Correspondence can include communications sent to prospective customers.

- ☐ A) I and IV
- ☒ B) III and IV
- ☐ C) I and II
- ☐ D) II and III

Explanation

Correspondence includes both written and electronic forms of communications, such as email, and includes communications sent to existing or prospective retail customers. It must be supervised and reviewed by a principal but does not require prior principal approval.

Reference: 17.5.2 in the License Exam Manual

Question #93 of 142

Question ID: 607360

A customer has a margin account with RTQ Securities, Inc. in which he has securities with a market value of \$400,000 and a debit balance of \$110,000. In the event of the bankruptcy of RTQ, SIPC covers:

- ☐ A) 500000.
- ☒ B) 290000.
- ☐ C) 400000.
- ☐ D) 100000.

Explanation

SIPC protects each separate customer to a maximum of \$500,000 in equity. This account has equity of \$290,000 (\$400,000 LMV minus \$110,000 Dr).

Reference: 16.1.6.2 in the License Exam Manual

Question #94 of 142

Question ID: 607364

A broker/dealer has just declared bankruptcy. A customer has a margin account with a \$300,000 equity balance. His wife has \$300,000 in equity in her account and they have a joint account with \$400,000 in equity. Under SIPC, they receive each of the following EXCEPT:

- ☐ A) they will get \$400,000 from the joint account.
- ☐ B) the wife will get \$300,000.
- ☐ C) the customer will get \$300,000.
- ☒ D) they will get a total of \$100,000 each.

Explanation

SIPC covers each separate customer. Each account has coverage of up to \$500,000 in securities and cash (with a \$250,000 maximum in cash). In margin accounts, the equity, not the market value, is used for securities coverage purposes.

Reference: 16.1.6.2 in the License Exam Manual

Question #95 of 142

Question ID: 607323

The antifraud provisions of the Securities Exchange Act of 1934 apply to all of the following EXCEPT

- ☐ A) municipal bonds
- ☐ B) options
- ☒ C) commodities
- ☐ D) Nasdaq and exchange listed securities

Explanation

All securities are subject to the antifraud provisions of federal securities law. It should be recognized that commodities such as wheat or oil are not securities.

Reference: 16.1.2 in the License Exam Manual

Question #96 of 142

Question ID: 607418

Which of the following accurately depicts communications with the public designated as correspondence?

- I. Review by a principal must occur before use
- II. Review by a principal can occur either before or after use in accordance with the firm's written procedures
- III. Filing with FINRA is required
- IV. Filing with FINRA is not required

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

Explanation

Correspondence review by a principal can occur either before or after use in accordance with the firm's written procedures. Filing of correspondence with FINRA is not required.

Reference: 17.5.2 in the License Exam Manual

Question #97 of 142

Question ID: 607353

For a registered representative, civil penalties under the Insider Trading and Securities Fraud Enforcement Act of 1988 may include

- ✓ **A)** the greater of \$1 million, or 300% of the profits made or losses avoided
- X **B)** 200% of any profits realized
- X **C)** no more than \$1 million
- X **D)** any monetary penalty deemed appropriate and up to 20 years in jail

Explanation

For controlling persons such as a registered representative or a broker dealer, the Insider Trading and Securities Fraud Enforcement Act of 1988 sets civil penalties at the greater of \$1 million or 300% of the profits made or losses avoided. Criminal penalties can be up to \$5 million and carry a jail term of up to 20 years.

Reference: 16.1.8.3.1 in the License Exam Manual

Question #98 of 142

Question ID: 607443

Which of the following observations may a registered representative make when giving a sales presentation based on performance statements and charts?

- X **A)** The fund has consistently outperformed the market and should continue to do so.
- ✓ **B)** The fund has had a positive performance in the last few years.
- X **C)** Yield over the last 5 years has fluctuated between 6% and 8%, indicating it will continue at 6% or better.
- X **D)** The portfolio's broad diversification will ensure the continuation of the 6% yield.

Explanation

Predictions are strictly prohibited and conjecture about future trends or occurrences must be labeled as such.

Reference: 17.5.4.1 in the License Exam Manual

Question #99 of 142

Question ID: 607327

Under the Insider Trading and Securities Fraud Enforcement Act of 1988, which of the following are insiders for purposes of insider trading?

- I. Attorney who writes an offering circular for a company.
- II. An investor holding 4% of the company's stock.
- III. The next-door neighbor of a board member of a company.
- IV. Brother of a company's president.

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

Explanation

The Securities Exchange Act of 1934 defines an insider as an officer, director, or stockholder owning more than 10% of a company's outstanding voting equity. The definition also includes anyone else who has or could have access to insider information, such as immediate family members. Merely being someone's neighbor does not automatically classify

someone as an insider. Any professional who takes part in preparing the registration statement is automatically considered to have insider information.

Reference: 16.1.8.1 in the License Exam Manual

Question #100 of 142

Question ID: 607400

Arbitration and mediation are 2 services provided by FINRA to settle disputes between members. Regarding these services, which of the following statements are NOT true?

- I. Mediation is mandatory; arbitration is not.
- II. Arbitration always results in a binding decision; mediation may not.
- III. If arbitration is unsuccessful, the dispute moves on to mediation.
- IV. A mediator in a dispute may not serve as an arbitrator in the same dispute.

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

Explanation

Arbitration is mandatory in disputes between members. If mediation takes place and is not successful, the dispute moves on to arbitration. The person who served as mediator may not be an arbitrator in the same dispute.

Reference: 17.3.2.2 in the License Exam Manual

Question #101 of 142

Question ID: 607431

All research reports issued by a member firm must disclose certain information. Regarding those disclosures, all of the following statements are true EXCEPT

- X **A)** the price at the time the original recommendation was made must be disclosed
- ✓ **B)** whether the member firm has any position in the security must be disclosed
- X **C)** the name of the member firm providing the recommendation must be disclosed
- X **D)** any control relationship with the issuer must be disclosed

Explanation

The source of the recommendation, the security's price, and that the member firm is a market maker in the security, as well as if a control relationship exists between the member and the company being recommended, must be disclosed in the research report. However, only positions in the issuers securities of 1% or more need be disclosed.

Reference: 17.5.5.1.3 in the License Exam Manual

Question #102 of 142

Question ID: 607438

Correspondence, one of the three categories of communication with the public, is defined as

- X **A)** communications that are targeted only at individuals who currently maintain accounts with the broker dealer
- ✓ **B)** any written or electronic communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period
- X **C)** electronic communications only, that have been made available to 25 or fewer retail investors within the past 6 months
- X **D)** written communications only, that have been made available to 25 or fewer retail investors within the past 6 months

Explanation

Correspondence can be written or electronic and targeted at either account holders or non-account holders of the broker/dealer. The criteria that makes the communication correspondence is that it is distributed to 25 or fewer retail customers within any 30 calendar-day period.

Reference: 17.5.1 in the License Exam Manual

Question #103 of 142

Question ID: 607412

Which of the following is NOT a factor when a communication to be distributed to the public is either being reviewed or approved within the broker/dealer?

- ☐ A) Whether achieving past performance results has been implied
- ☐ B) The nature of the audience to which the communication is intended to be distributed
- ☐ C) Whether statements of benefits are balanced with statements of potential risks
- ☒ D) Whether the piece will be distributed in written form or via electronic media

Explanation

FINRA holds BDs to certain general standards regarding all member firm communications. Consideration must be given to whether all statements in a communication are clear and not misleading, are balanced regarding the representation of risk and reward, do not omit material facts or make exaggerated claims, and do not imply that past performance can be projected to future outcomes. These standards would apply, and be the same, whether the communication was distributed in written or electronic form.

Reference: 17.5.3 in the License Exam Manual

Question #104 of 142

Question ID: 607414

The latest issue of a newsletter your firm subscribes to is especially relevant to one of your firm's investment products. If you decide to send it to clients and prospects, you must disclose that:

- ☐ A) the newsletter discusses only those products which you have available through your firm .
- ☒ B) the newsletter is written and produced by a third party.
- ☐ C) the newsletter's purpose is to provide your clients with a choice of products that are suitable for all of their portfolios.
- ☐ D) future articles sent will provide similar discussions and information.

Explanation

If a third party is the creator of the newsletter, that fact must be disclosed together with the name of the third party and the date of publication.

Reference: 17.5.3.1 in the License Exam Manual

Question #105 of 142

Question ID: 607368

The determination of a broker/dealer's financial failure is made under the provisions of the

- ☐ A) Securities Act of 1933
- ☐ B) Bank Secrecy Act
- ☒ C) Securities Investor Protection Act of 1970
- ☐ D) 1939 Trust Indenture Act

Explanation

Determination of financial failure is made under the Securities Investor Protection Act of 1970.

Reference: 16.1.6 in the License Exam Manual

Question #106 of 142

Question ID: 607338

Which of the following are signs that a customer may be engaged in money laundering?

- I. Excessive journal entries between related accounts.
- II. Excessive journal entries between unrelated accounts.
- III. Lack of concern for risk, commissions, and other transaction costs.
- IV. Excessive concern for risk, commissions, and other transaction costs.

- ☒ A) II and III.
- ☐ B) I and III.
- ☐ C) II and IV.
- ☐ D) I and IV.

Explanation

Examples of red flags include a lack of concern regarding risk, commissions, and other costs, and a large number of wire transfers to, or journal entries between, unrelated third parties.

Reference: 16.1.10.1 in the License Exam Manual

Question #107 of 142

Question ID: 607417

If an investment representative hosts an investment seminar and intends to discuss general investment concepts and a specific mutual fund for which he has performance charts, which of the following are TRUE?

- I. He may discuss the investment returns of the mutual fund in general, provided he does not use a specific time frame.
- II. He may discuss the investment returns of the mutual fund using a specific time frame.
- III. He must disclose all material facts regarding the mutual fund to the audience.
- IV. He may emphasize the positive aspects of the mutual fund and refer prospective investors to the prospectus for further details.

- ☐ A) II and IV.
- ☐ B) I and IV.
- ☐ C) I and III.
- ☒ D) II and III.

Explanation

He may discuss the investment returns of the mutual fund as long as he uses a specific time frame. When discussing an investment, he must disclose all material facts pertaining to the investment, both negative and positive.

Reference: 17.5.3.1.2 in the License Exam Manual

Question #108 of 142

Question ID: 607322

In which of the following situations must a broker/dealer registered with the SEC under the Act of 1934 also be registered as an investment adviser under the Investment Advisers Act of 1940?

- ☒ A) It charges a fee specifically for investment advice.
- ☐ B) Its publications make purchase and sale recommendations without charge.
- ☐ C) Its registered representatives provide investment advice as part of its service.
- ☐ D) It collects a commission specifically for the trades it executes.

Explanation

A broker/dealer that receives compensation specifically for providing investment advice (separate from any commissions, markups, or markdowns) must register as an investment adviser.

Reference: 16.1.5 in the License Exam Manual

Question #109 of 142

Question ID: 607401

You have just received a statement of claim from the Director of Arbitration. One of your customers is claiming that your failure to follow his instructions led to a loss of \$36,000. Under FINRA rules, you must respond within:

- ☐ A) the business day the claim was received.
- ☒ B) 45 days.
- ☐ C) 60 days.
- ☐ D) 24 business hours.

Explanation

Under the Code of Arbitration, a respondent has 45 days to respond to both the director and the claimant.

Reference: 17.3.2.1 in the License Exam Manual

Question #110 of 142

Question ID: 607405

If a member wishes to appeal an adverse decision in a Code of Procedure hearing, the member first must appeal to the National Adjudicatory Council within how many days of the decision date?

- ☐ A) 30.
- ☐ B) 40.
- ☐ C) 45.
- ☒ D) 25.

Explanation

If either side is displeased with a Code of Procedure decision, an appeal must be made within 25 days of the decision date.

Reference: 17.3.1.4 in the License Exam Manual

Question #111 of 142

Question ID: 607390

If an individual fails a FINRA qualification exam three consecutive times, a fourth attempt may NOT be made for:

- ☐ A) 30 days.
- ☐ B) 90 days.
- ☒ C) 6 months.
- ☐ D) 60 days.

Explanation

If a qualification exam is failed three consecutive times, a fourth attempt may not be made for 6 months.

Reference: 17.2.5 in the License Exam Manual

Question #112 of 142

Question ID: 607357

If a customer has a securities account worth \$220,000 and a money market account worth \$260,000, what is this customer's coverage under SIPC?

- ☒ A) 480,000.
- ☐ B) 220,000.
- ☐ C) 250,000.
- ☐ D) 470,000.

Explanation

Coverage under SIPC is up to \$500,000 per separate customer. Of that total, SIPC covers no more than \$250,000 in cash. Because a money market share is considered an investment company security, not cash, this customer's coverage is \$480,000.

Reference: 16.1.6.2 in the License Exam Manual

Question #113 of 142

Question ID: 607354

Your customer has received insider information about a company. He has asked you what he may do with it. After cautioning him not to disclose it to anyone or use it in trades, you tell him which of the following?

- I. He may use the information as soon as you disclose it to a principal of your broker/dealer.
- II. As long as it is not known to the public, he may not use the information.
- III. He may use the information when it becomes available for evaluation by the general public.
- IV. The information may never be used in trades even after it is made public.

- ☒ A) II and III.
- ☐ B) II and IV.

- X **C)** I and III.
- X **D)** I and IV.

Explanation

Insider information may be used only after it is no longer insider information. Any method of dissemination may result in information becoming known to the general public.

Reference: 16.1.8.2 in the License Exam Manual

Question #114 of 142

Question ID: 607365

Under SIPC, when a trustee is appointed, customer claims are filed with the:

- X **A)** failed broker/dealer's SRO.
- ✓ **B)** court-appointed trustee.
- X **C)** Securities and Exchange Commission.
- X **D)** Securities Investor Protection Corporation.

Explanation

Customer claim forms are filed with the trustee.

Reference: 16.1.6.1.1 in the License Exam Manual

Question #115 of 142

Question ID: 607444

Which of the following statements are accurate interpretations of FINRA rules governing the use of retail communications?

- I. Copies of all retail communications must be kept on file for 3 years.
- II. All retail communications must be approved by a principal.
- III. All retail communications must be filed with FINRA before first use.
- IV. Sales and product promotion materials distributed to registered representatives and other employees are retail communications and must be submitted for FINRA review, even though such materials are not intended for public distribution.

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

Explanation

A broker/dealer's retail communications must be approved by a principal of the firm before use or filing with FINRA when filing is required, and must be kept on file for at least three years. Pre-filing with FINRA can depend on a number of factors, such as the product. For example, pre-filing of retail communications is required for certain pieces having to do with investment companies and VAs, but not for pieces having to do with DPPs or CMOs.

Reference: 17.5.2 in the License Exam Manual

Question #116 of 142

Question ID: 607446

Which of the following would NOT be considered institutional communications with the public?

- ✓ **A)** An internal memo promoting a new product that will be offered to your firm's institutional customers only
- X **B)** A letter to a municipality offering your firm's services as an underwriter
- X **C)** A letter to another broker/dealer
- X **D)** A communication with an individual designated to act on behalf of your institutional customer

Explanation

Institution communications specifically exclude internal communications. Communications with another member firm, a government entity, such as a municipality or with someone designated to act on behalf of one of your firm's institutional customers, would all fall within the definition of institutional communications.

Question #117 of 142

Question ID: 681966

FINRA fees paid by a member firm are based on which of the following?

- I. Number of registered representatives employed
- II. Number of trades carried out per year
- III. Gross income
- IV. Number of branch offices registered with FINRA

- ☐ A) II and IV
- ☐ B) II and III
- ☒ C) I and IV
- ☐ D) I and III

Explanation

The answer choices in this question are distinguishing between fees and assessments. Besides a basic membership fee, other fees paid by member firms to FINRA are based on the number of branch offices, registered representatives and principals. Assessments paid by member firms are transaction based coming from the firms income.

Reference: 17.2.1.1 in the License Exam Manual

Question #118 of 142

Question ID: 607358

For which of the following investments does SIPC provide coverage to customers?

- I. Commodity futures contracts
- II. Unregistered stock
- III. Foreign currencies
- IV. Municipal bonds

- ☐ A) II and III
- ☐ B) I and III
- ☐ C) I and IV
- ☒ D) II and IV

Explanation

SIPC coverage only applies to cash and securities. Commodity futures contracts and foreign currencies are not considered securities.

Reference: 16.1.6.2 in the License Exam Manual

Question #119 of 142

Question ID: 607421

A registered representative has reproduced a research report prepared by an independent research analyst on his broker/dealer's letterhead, with no mention of the party who prepared the report. If this literature is forwarded to a select group of clients only, the registered representative's action is:

- ☐ A) allowed with the written approval of a principal of the broker/dealer.
- ☐ B) allowed only if the research report has been filed with FINRA.
- ☒ C) not allowed.
- ☐ D) allowed.

Explanation

A broker/dealer is prohibited from presenting to a client research reports, analyses, or recommendations prepared by other persons or firms without disclosing that they were prepared by a third party.

Reference: 17.5.3.1 in the License Exam Manual

Question #120 of 142

Question ID: 721495

Which of the following would NOT be covered under the anti-fraud provisions of the Securities Exchange Act of 1934?

- ✓ **A)** Fixed annuities
- X **B)** Nasdaq-listed securities
- X **C)** National exchange-listed securities
- X **D)** Municipal bonds

Explanation

While all securities are subject to the antifraud provisions of the Securities Exchange Act of 1934, fixed annuities are insurance company products not deemed to be securities. Variable annuities would be covered.

Reference: 16.1.2 in the License Exam Manual

Question #121 of 142

Question ID: 607445

When an agent explains mutual funds to a prospective investor, which of the following statements may be made?

- ✓ **A)** The redemption value of mutual fund shares fluctuates according to the fund's portfolio value.
- X **B)** Mutual funds must make payment within 7 days of a redemption request and guarantee a return of the original investment.
- X **C)** Mutual fund shares are liquid and may be switched from fund to fund without tax liability.
- X **D)** A fund always redeems shares at NAV, with little chance of a financial loss.

Explanation

Mutual fund redemption values fluctuate according to the value of the securities in the portfolio. The tax liabilities associated with mutual fund switching may not be glossed over. While the redemption rules of the Investment Company Act of 1940 do make mutual funds liquid, investors are not guaranteed to receive an amount equal to the original investment.

Reference: 17.5.3.1.2 in the License Exam Manual

Question #122 of 142

Question ID: 607407

One of the benefits of using arbitration to settle disputes between member firms is that it:

- X **A)** gives more time to prepare arguments.
- X **B)** is not binding on both parties.
- ✓ **C)** is relatively inexpensive.
- X **D)** does not allow for arguments from parties outside the industry.

Explanation

Arbitration is a method for settling disputes between member firms that is less costly than litigation. In addition, all decisions are final and binding on all parties.

Reference: 17.3.2 in the License Exam Manual

Question #123 of 142

Question ID: 607425

A brokerage firm's research department has issued a buy recommendation on XYZ Corporation common stock. The report must contain all of the following information EXCEPT:

- X **A)** that the partners of the firm hold options to purchase the stock.
- X **B)** that the firm makes a trading market in the stock.
- X **C)** that the firm was the managing underwriter in a recent public offering of the stock.
- ✓ **D)** that the firm was part of the selling group in a recent public offering of the stock.

Explanation

Disclosure of participation as a selling group member is not required.

Question #124 of 142

Question ID: 607340

A large amount of cash deposits into an account may indicate that a customer is engaged in:

- ☐ A) front-running.
- ☐ B) capping.
- ☒ C) money laundering.
- ☐ D) pegging.

Explanation

While depositing cash into a brokerage account is not illegal, a large number of these transactions indicate the possibility that the customer is engaged in money laundering.

Reference: 16.1.10.1 in the License Exam Manual

Question #125 of 142

Question ID: 607326

If a representative possesses material inside information about a publicly traded company, under which of the following circumstances may he communicate this information to a customer?

- ☐ A) If the information will be made public the next day.
- ☒ B) Under no circumstances.
- ☐ C) If the customer enters an unsolicited order.
- ☐ D) If the customer knows that it is inside information.

Explanation

Inside information may never be divulged to a client. Violations are punishable with both civil and criminal penalties.

Reference: 16.1.8.2 in the License Exam Manual

Question #126 of 142

Question ID: 607342

A customer has a cash account that has securities with a market value of \$300,000 and \$300,000 in cash. The customer also has a joint account with his wife that has securities with a market value of \$400,000 and \$80,000 in cash. If the firm were to go bankrupt, the customer would be covered under SIPC for cash and securities of:

- ☐ A) \$300,000 cash for his account and \$80,000 cash for the joint account.
- ☒ B) \$500,000 cash and securities for his account and \$480,000 cash and securities for the joint account.
- ☐ C) \$600,000 cash and securities in his account and \$480,000 cash and securities in the joint account.
- ☐ D) \$500,000 cash and securities for both accounts combined.

Explanation

There are two separate customers, each entitled to the \$500,000 SIPC protection, but since SIPC only covers up to \$250,000 in cash, the customer will not get full coverage for the \$300,000 cash in his account. All of the securities and cash will be covered in the joint account.

Reference: 16.1.6.2 in the License Exam Manual

Question #127 of 142

Question ID: 607324

Under MSRB rules, which of the following statements regarding a fidelity bond is TRUE?

- ☐ A) It is contained in the trust indenture.
- ☐ B) It insures brokerage firm customers in the event the brokerage firm must liquidate.
- ☐ C) It will insure against the price decline of a security.
- ☒ D) It insures against loss due to theft.

Explanation

MSRB members are required to have a fidelity bond which protects against loss due to employee theft.

Reference: 16.1.6.4 in the License Exam Manual

Question #128 of 142

Question ID: 721493

Which of the following mandates the creation of an information barrier to thwart the flow of sensitive or nonpublic information between departments within a broker dealer?

- X **A)** Securities Exchange Act of 1934
- X **B)** Securities Act of 1933
- ✓ **C)** Insider Trading and Securities Fraud Enforcement Act of 1988
- X **D)** U.S.A. PATRIOT Act

Explanation

The Insider Trading and Securities Fraud Enforcement Act of 1988 requires firms to create information barriers between departments so that sensitive or non-public information does not flow between them. Typically this is required between departments handling mergers and acquisitions or IPOs, and retail or market making departments.

Reference: 16.1.8.3 in the License Exam Manual

Question #129 of 142

Question ID: 607399

The Code of Arbitration Procedure would be mandatory to settle disputes between:

- I. a member and a registered clearing corporation.
- II. a member and one of its associated persons.
- III. an associated person with a statutory discrimination claim against a member.
- IV. a member and a client who has signed a predispute arbitration clause.

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

Explanation

Disputes between anyone in the industry, including registered clearing corporations, must go to arbitration, with the exception of statutory discrimination claims, which are claims alleging sexual harassment or discrimination on the basis of, among other things, age, sex, or ethnicity. Such claims may be taken to court instead of arbitration. When a client has signed a predispute arbitration agreement, arbitration is mandatory.

Reference: 17.3.2 in the License Exam Manual

Question #130 of 142

Question ID: 721492

If a registered representative is found to have engaged in insider trading, under criminal penalties the registered representative can be

- X **A)** fined up to \$1 million and receive a jail sentence
- ✓ **B)** fined up to \$5 million and receive a jail sentence
- X **C)** fined up to \$25 million, but jail sentences cannot be imposed
- X **D)** fined up to \$500,000, but jail sentences cannot be imposed

Explanation

If a registered representative is found to have engaged in insider trading, under criminal penalties the registered representative can be fined up to \$5 million and receive a jail sentence. The member firm, which must have procedures in place to prevent insider trading, can be fined up to 3 times the profit gained or loss avoided, or \$25 million, whichever is greater.

Reference: 16.1.8.3.1 in the License Exam Manual

Question #131 of 142

Question ID: 607355

Which of the following customers would be fully protected under SIPC?

- ☐ A) A customer with a cash balance of \$170,000 in his cash account and a cash balance of \$160,000 in his margin account.
- ☒ B) A customer with \$600,000 par value corporate bonds trading at 80.
- ☐ C) A customer with municipal bonds valued at \$280,000 and \$320,000 in cash.
- ☐ D) A customer with \$200,000 of a sugar futures contracts.

Explanation

Coverage under SIPC is up to \$500,000 per separate customer in securities and cash. Of that total, SIPC will cover no more than \$250,000 in cash. Of the choices given, only the customer with \$600,000 par value municipal bonds trading at 80 will be fully covered ($\$600,000 / \$1,000 \text{ Par} = 600 \text{ bonds}$, $600 \text{ bonds} \times \$800 = \$480,000$). The customer with \$320,000 cash will have \$70,000 left uncovered. The customer with both a margin and a cash account will have them combined for SIPC coverage ($\$170,000 + \$160,000 = \$330,000$) and will be left with \$80,000 uncovered. Commodities and futures contracts are not considered securities and therefore not covered.

Reference: 16.1.6.2 in the License Exam Manual

Question #132 of 142

Question ID: 607372

All of the following are TRUE of the limit up/limit down rule EXCEPT

- ☐ A) it utilizes specified price bands which prevent trades in stocks from occurring outside of those bands
- ☐ B) it is a rule designed to address severe and sudden price movements
- ☐ C) the mechanism employs trading pauses or halts for prolonged price movements
- ☒ D) price band parameters are the same from the opening through the close of the trading day

Explanation

The limit up/limit down rule is designed to address severe and sudden price movements. It utilizes specified price bands (expressed as percentages depending on the current price of the stock) which prevent trades in stocks from occurring outside of those bands and employs trading pauses or halts for prolonged price movements. To account for increased volatility during market openings and closings the percentage parameters governing the price bands are doubled during those times.

Reference: 16.1.12 in the License Exam Manual

Question #133 of 142

Question ID: 607318

Which of the following legislative acts exclusively regulates debt securities?

- ☐ A) Securities Act of 1933.
- ☐ B) Investment Advisers Act of 1940.
- ☐ C) Securities Exchange Act of 1934.
- ☒ D) Trust Indenture Act of 1939.

Explanation

The Trust Indenture Act of 1939 protects investors in corporate bonds should the issuing company default. While the Acts of 1933 and 1934 both impact debt securities, the Trust Indenture Act of 1939 is the only act that regulates them exclusively.

Reference: 16.1.3 in the License Exam Manual

Question #134 of 142

Question ID: 607371

A new customer makes several deposits into a new account with a broker/dealer. Regarding potential money laundering, of the deposits made which would be of least concern?

- ☐ A) A large denomination travelers' check issued by a foreign financial institution.
- ☒ B) A large denomination personal check drawn from a U.S. bank account.
- ☐ C) A large denomination wire transfer from an offshore account.
- ☐ D) A large denomination cashiers' check issued by a foreign bank.

Explanation

While all large denomination deposits should be of some concern the one of least concern is the one where the source of funds would be the easiest to track; of the choices offered a personal check from a U.S. bank account would be the easiest to check regarding the source of the funds.

Reference: 16.1.10.1 in the License Exam Manual

Question #135 of 142

Question ID: 607369

All of the following are characteristics of the Securities Investor Protection Corporation (SIPC) EXCEPT:

- ☐ A) investors are insured up to \$500,000 in assets, up to which only \$250,000 may be for cash.
- ☐ B) it is not a regulatory authority.
- ☐ C) it is non-profit corporation funded by members.
- ☒ D) it protects against losses produced by fluctuations in the market.

Explanation

SIPC does not protect against losses produced by fluctuations in the market. SIPC a member funded corporation insures against broker default.

Reference: 16.1.6.1 in the License Exam Manual

Question #136 of 142

Question ID: 607432

All retail communications should be retained by the member firm for at least a period of

- ☒ A) three years and for the first two years be in a readily accessible location
- ☐ B) three years and for the first six months be in a readily accessible location
- ☐ C) four years and be readily accessible for that period
- ☐ D) four years and for the first year be in a readily accessible location

Explanation

To comply with all record keeping requirements, communications should be retained for at least a period of three years in a format and media that complies with regulations and for the first two years be in a readily accessible location.

Reference: 17.5.3.1 in the License Exam Manual

Question #137 of 142

Question ID: 721500

All of the following would be considered nonpublic arbitrators EXCEPT

- ☐ A) Joel, an attorney who frequently represents and solicits clients in disputes concerning investment accounts
- ☒ B) Susan, a corporate vice president working for a tech company listed on the NYSE
- ☐ C) Grace, a banking executive overseeing lending services
- ☐ D) Daniel, a mutual fund portfolio advisor for several years before retirement last month

Explanation

Nonpublic arbitrators are any persons who have worked in the financial industry for any duration during their careers including persons associated with a mutual fund or a hedge fund, and persons associated with an investment adviser. Additionally, any financial industry professionals who regularly represent or provide services to investor parties in disputes concerning investment accounts or transactions including attorneys and accountants will also be considered non-public arbitrators if the activity has taken place within the past 5 years.

Reference: 17.3.2.3 in the License Exam Manual

Question #138 of 142

Question ID: 607349

The securities of KLC Corporation are listed on a national exchange. Which of the following details must it provide in regular reports?

- ✓ **A)** The firm's financial status.
- X **B)** Total domestic market share of each of its products.
- X **C)** Proposed changes in the duties of the board of directors.
- X **D)** Proposed changes in the organization of the workforce.

Explanation

Publicly traded issuers must report their financial status to the SEC annually on Form 10K and quarterly on Form 10Q. The SEC has no interest in the company's organization or market share.

Reference: 16.1.2 in the License Exam Manual

Question #139 of 142

Question ID: 607393

A registered representative who does not complete the regulatory element of continuing education within the prescribed time frame:

- ✓ **A)** cannot function as a representative until the CE requirement is met.
- X **B)** is required to take a 120-day leave of absence .
- X **C)** is limited to accepting unsolicited orders only until the CE requirement is met.
- X **D)** can continue to function as a representative with the written permission of a principal.

Explanation

If a registered person does not complete the regulatory element of CE within the prescribed time frame, the representative's license will be suspended by FINRA until the CE is completed.

Reference: 17.2.4.1.1 in the License Exam Manual

Question #140 of 142

Question ID: 607391

If an individual is convicted of a money- or securities-related fraud, FINRA will deny registration to that individual for how many years from the conviction date?

- X **A)** 5.
- X **B)** 2.
- ✓ **C)** 10.
- X **D)** 1.

Explanation

Conviction within the past 10 years for any felony or securities-/money-related misdemeanor will lead to statutory disqualification of an applicant for registration with a FINRA member firm.

Reference: 17.2.6.1 in the License Exam Manual

Question #141 of 142

Question ID: 607332

Broker dealers must establish what is commonly referred to as a firewall or barrier. This is required to prevent

- X **A)** orders from being transmitted to a trading floor or market for execution that are clearly being entered for the purpose of either supporting a price (pegging) or holding a price down (capping)
- X **B)** any type of retail advertising or sales information from being conveyed over social or professional media websites
- ✓ **C)** the passing of potentially sensitive material and sensitive nonpublic information between a firm's departments
- X **D)** the execution of trades through an established bid price or offer price

Explanation

All broker/dealers must establish written supervisory procedures specifically prohibiting the misuse of inside information. Aligning with this, they must establish policies that restrict the passing of potentially sensitive material, nonpublic information between a firm's departments known as a **firewall**, or an **information barrier**.

Reference: 16.1.8.3 in the License Exam Manual

Question #142 of 142

Question ID: 607416

Compensation paid to research analysts may:

- I. be tied to specific investment banking transactions.
- II. not be tied to specific investment banking transactions.
- III. be tied to the firm's investment banking revenue.
- IV. not be tied to the firm's investment banking revenue.

✓ **A)** II and III.

X **B)** I and III.

X **C)** I and IV.

X **D)** II and IV.

Explanation

Compensation may never be tied to a specific investment banking transaction because the conflict of interest is too severe. However, compensation may be tied to the firm's overall investment banking revenue, but it must be disclosed in research reports.

Reference: 17.5.5.1 in the License Exam Manual