

Question #1 of 172

Question ID: 606469

Under the 5% markup policy, which of the following determines the amount of markup in a principal transaction?

- X **A)** Lowest bid.
- ✓ **B)** Lowest ask.
- X **C)** Highest bid.
- X **D)** Highest ask.

Explanation

Markups are always based on the inside offer which is the lowest ask price in a particular security. Markdowns are based on the inside bid which is the highest bid price for a particular security.

Reference: 8.10.2.6 in the License Exam Manual

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Question ID: 606387

Establishing short positions is typical for all of the following EXCEPT:

- ✓ **A)** municipal bonds.
- X **B)** listed stock.
- X **C)** preferred stock.
- X **D)** OTC common stock.

Explanation

Even though there is no regulation that prohibits short sales of municipal bonds, this is rarely done. To short a security, it must be borrowed and later covered. The general illiquidity of the municipal market makes this difficult.

Reference: 8.4.4 in the License Exam Manual

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Question ID: 606425

An order ticket is marked as follows: Buy 20M GGZ 9% Debentures at 95 AON GTC. All of the following statements regarding this order are true EXCEPT:

- X **A)** this is a buy limit order.
- X **B)** if executed, the customer will pay \$19,000 or less for the bonds.
- X **C)** the trade will be filled in its entirety or not at all.
- ✓ **D)** the order will expire at the end of the day.

Explanation

The customer has placed a limit order to buy 9% debentures issued by GGZ. The limit the customer is willing to pay is 95% of \$20,000 worth of bonds, or \$19,000 or lower. AON means all-or-none (either fill the order in its entirety or do not execute the order). GTC is a good-till-canceled order, not a day order.

Reference: 8.4.3.2 in the License Exam Manual

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Question ID: 606394

The specialist (designated market maker) has all of the following responsibilities EXCEPT:

- X **A)** acting as broker for orders placed on the book.
- ✓ **B)** preventing the stock price from falling.
- X **C)** handling odd-lot market orders.

- ☐ D) providing liquidity.

Explanation

Although designated market makers buy and sell as principals to maintain a fair and orderly market and provide liquidity, they are not obligated nor do they have a responsibility to prevent a decline in price.

Reference: 8.4.1 in the License Exam Manual

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Question ID: 606454

A firm 1-sided quote is permitted for:

- ☒ A) Over-the-counter Bulletin Board stocks.
- ☐ B) Nasdaq Global Select stocks.
- ☐ C) Nasdaq Capital Market stocks.
- ☐ D) Nasdaq Global Market stocks.

Explanation

Any quote displayed over the OTCBB is acceptable as long as it is properly identified. For Nasdaq stocks, market makers must maintain firm 2-sided quotes.

Reference: 8.9.1.1 in the License Exam Manual

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Question ID: 721445

A supplemental liquidity provider is

- ☐ A) located on the exchange trading floor and is required to maintain a two sided market at least 10% of the trading day
- ☒ B) located off floor and is required to maintain a bid or offer at least 10% of the trading day
- ☐ C) located on the exchange trading floor and is required to be available if needed to make a two-sided market throughout the trading day
- ☐ D) located off floor and is required to maintain a bid or an offer throughout the trading day

Explanation

A supplemental liquidity provider is located off floor and is required to maintain a bid or an offer at least 10% of the trading day.

Reference: 8.4.1.1.1 in the License Exam Manual

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Question ID: 606319

The KPL Corporation is considering having its stock listed on the New York Stock Exchange. Who will make the final decision as to whether it will be listed?

- ☐ A) FINRA.
- ☐ B) The Board of Directors of KPL.
- ☒ C) The New York Stock Exchange.
- ☐ D) The SEC.

Explanation

The New York Stock Exchange has certain requirements that a company must meet before its stock can be considered for listing. Since the Exchange sets the requirements, it must make the final decision.

Reference: 8.2.1.1 in the License Exam Manual

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Question ID: 606333

Which of the following statements regarding the third market is TRUE?

- X **A)** It refers to the block trading of unlisted securities.
- X **B)** The services of a brokerage firm are not used.
- X **C)** It is composed only of unlisted securities.
- ✓ **D)** It is composed of listed securities traded OTC.

Explanation

The third market refers to the trading of listed securities in the over-the-counter market.

Reference: 8.2.1.3 in the License Exam Manual

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Question ID: 606368

Which of the following applies to an open order to buy 600 WXYZ at 44?

- I. The order may be partially filled at the limit price or better.
- II. The order is entered in the order book.
- III. This is considered a market order.
- IV. It must be executed at the price specified or better.

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

Explanation

Unless the order is specified as AON or FOK, it may be partially filled. Finally, it is a limit order, which must be executed at the specified price or better.

Reference: 8.4.2.3 in the License Exam Manual

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Question ID: 606414

Which of the following orders is reduced on the order book on the ex-dividend date for a cash dividend?

- ✓ **A)** Limit order to buy.
- X **B)** Buy stop limit order.
- X **C)** Sell limit order.
- X **D)** Buy stop order.

Explanation

Only orders placed below the market price are reduced for cash dividends on the order book. Buy limits and sell stops are entered below the market price.

Reference: 8.4.2.6 in the License Exam Manual

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Question ID: 606439

A customer enters an order to purchase 1000 shares of XYZ common stock at the market when the quote is 18.22 bid, 18.30 ask. If the transaction is executed at the market and the broker charges a \$.10 mark-up how will the price be reported to the consolidated tape system?

- X **A)** 18.40
- X **B)** 18.22
- ✓ **C)** 18.30
- X **D)** 18.32

Explanation

When transaction prices are reported to the consolidated tape system they do not include the amount of any commission, mark-up or mark-down. In this instance 1000 shares were purchased at the market meaning the buyer paid the ask price of 18.30. This is the price that would be reported to the consolidated tape system (CTS).

Reference: 8.7.0.2 in the License Exam Manual

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Question ID: 606379

A buy stop order is elected (triggered) when the underlying stock trades

- ✓ **A)** at or above the stop price
- X **B)** through the stop price only
- X **C)** anywhere below the stop price
- X **D)** at or below the stop price

Explanation

A buy stop order is placed above the prevailing market price and is elected (triggered), becoming a market order to buy when the stock trades at or through (above) the stop price.

Reference: 8.4.2.4.1 in the License Exam Manual

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Question ID: 606419

A customer sold 100 shares of QRS short when the stock was trading at 19. If QRS is now trading at 14, and he wants to protect his gain, which of the following orders should he place?

- X **A)** Sell stop at 13.75.
- ✓ **B)** Buy stop at 14.25.
- X **C)** Sell limit at 14.
- X **D)** Buy limit at 14.

Explanation

A buy limit order is used to buy at a lower price (when the market moves down). A buy stop order is used to buy in a short position at a higher price (when the market moves up). To protect the gain, a buy stop order would be placed just above where the stock is currently trading.

Reference: 8.4.2.4.1 in the License Exam Manual

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Question ID: 606351

A customer has sold short 100 GM at 70. GM is selling for 81. The customer had previously placed a GTC buy stop order at 83. GM announces a stock split and an increase in the dividend. The stock starts to move up and the customer decides to cover the short sale at a loss and instructs his broker to buy 100 shares of GM at the market. The registered representative will:

- X **A)** sell 100 GM at 83.
- ✓ **B)** buy 100 GM at the market and cancel the order to buy 100 GM at 83 stop GTC.
- X **C)** buy 100 GM at the market.
- X **D)** sell 100 GM at the market.

Explanation

It is incumbent upon the registered representative to cancel the old order.

Reference: 8.4.2.4.1 in the License Exam Manual

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Question ID: 606408

Which of the following orders are NOT placed on the order display book?

- I. Buy stop limit.
- II. Buy stop.

- III. Market.
- IV. Not held.

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

Explanation

Market orders are executed immediately and are not placed on the order book. Not held orders are not presented to the order book.

Reference: 8.4.2.5 in the License Exam Manual

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Question ID: 606463

Failure to honor a firm quote is called:

- X **A)** trading ahead.
- ✓ **B)** backing away.
- X **C)** interpositioning.
- X **D)** front running.

Explanation

Failure to honor a stated quote is a rules violation called backing away.

Reference: 8.9.1.1.1 in the License Exam Manual

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Question ID: 606336

FINRA's Trade Reporting Facility (TRF) electronically facilitates the reporting of trade data such as price and volume for

- X **A)** trades in NYSE-listed securities occurring on the NYSE
- ✓ **B)** trades in Nasdaq-listed securities and exchange-listed securities when they occur off of the exchange trading floor
- X **C)** brokers executing orders as agents in an auction market on any exchange trading floors
- X **D)** brokers acting as agents in all order execution scenarios

Explanation

FINRA's Trade Reporting Facility (TRF) is an automated electronic system that facilitates the reporting of data for transactions that occur in Nasdaq-listed stocks or in exchange-listed stocks when they occur off of the exchange trading floor. It is used for transactions that are negotiated between brokers, therefore acting as a dealer, rather than as an agent.

Reference: 8.2.2.5 in the License Exam Manual

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Question ID: 606376

SEC regulation SHO mandates a locate requirement for short sales that is applicable to

- I. corporate bonds.
- II. NYSE issues.
- III. Nasdaq securities.
- IV. Municipal bonds.

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

Explanation

This regulation mandates a locate requirement: before the short sale of any equity security, firms must locate the securities for borrowing to ensure that delivery will be made on settlement date.

Reference: 8.4.4.1 in the License Exam Manual

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Question ID: 606409

At 2:15 pm EST, a customer gives his registered representative a market order to buy 100 shares of ABC at the close. What should the registered representative do with the order?

- ✓ **A)** Send the order to the floor immediately.
- X **B)** Send in the order after the close to ensure receiving the closing price.
- X **C)** Hold it at his desk until just before market close.
- X **D)** Execute the order at the closing price first thing next morning.

Explanation

The registered representative should mark the order ticket at close. His firm's floor broker will take on the responsibility for proper execution.

Reference: 8.4.3.3 in the License Exam Manual

Question #20 of 172

Question ID: 606428

According to the multi-tiered market making system of NYSE Euronext, a Supplemental Liquidity Provider may:

- I. never compete with the specialist.
- II. make markets in NYSE listed securities from an off-floor location.
- III. never receive rebates of transaction fees from the exchange.
- IV. make a one-sided market.

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

Explanation

Under the multi-tiered market maker system employed by NYSE Euronext a Supplemental Liquidity Provider may compete with the on-floor Specialist (Designated Market Maker) and receive rebates of exchange transaction fees. Unlike a Designated Market Maker the Supplemental Liquidity Provider makes markets from an off-floor location and is permitted to make a one-sided market.

Reference: 8.4.1.1.1 in the License Exam Manual

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Question ID: 606395

All open orders must be confirmed to the order book:

- X **A)** once a year on the anniversary of the order.
- X **B)** every 6 months after the order has been entered.
- ✓ **C)** the last business days of April and October.
- X **D)** April 1 and October 1.

Explanation

All open orders must be confirmed the last business day of April and the last business day of October.

Reference: 8.4.3.2 in the License Exam Manual

Question #22 of 172

Question ID: 606374

The locate requirement for short sales applies to:

- ✓ **A)** All of these.
- X **B)** Nasdaq global select and global market securities.
- X **C)** over-the-counter securities.
- X **D)** securities traded on the NYSE.

Explanation

The locate requirement is applicable to all short sales.

Reference: 8.4.4.1 in the License Exam Manual

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Question ID: 606475

The 5% markup policy applies to:

- ✓ **A)** principal OTC trades.
- X **B)** All of these.
- X **C)** new issues.
- X **D)** mutual funds.

Explanation

The 5% markup policy applies to agency and principal nonexempt securities and transactions both exchange and OTC traded. It does not apply to prospectus offerings (mutual funds and new issues).

Reference: 8.10.2.1 in the License Exam Manual

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Question ID: 606354

A customer places an order to sell short 100 DEF 52.50 STOP. After placing the order, DEF trades as follows: 53, 52.60, 52.20, 53 SLD, 52.10, 52.25. At which trade can the order be executed?

- X **A)** 52.25.
- ✓ **B)** 52.1.
- X **C)** 53.
- X **D)** 52.5.

Explanation

After the sell stop order is triggered (at 52.20), it becomes a market order to sell at the next price in the trade sequence. The trade at 53 is qualified by SLD, which indicates a delayed report of a previous trade and is not part of the tick sequence. Therefore, the order will be executed at 52.10.

Reference: 8.4.2.4.2 in the License Exam Manual

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Question ID: 606331

If ALFA Securities, a broker/dealer, is a position-trading firm, which of the following statements is TRUE?

- ✓ **A)** It is trading for its own account.
- X **B)** It is acting as a broker for customers.
- X **C)** It is underwriting securities in the primary market.
- X **D)** It is violating NYSE rules.

Explanation

Position trading is simply trading as principal, or dealer, for a firm's own account. The opposite role is that of a broker, or an agent, purchasing or selling securities in the secondary market for customers.

Reference: 8.2.3.2 in the License Exam Manual

Question #26 of 172

Question ID: 606424

At 2PM ET a customer enters an order to buy GGZ at the close on the NYSE. GGZ traded between 70 and 71 all day. Then, after a last-minute rally, it closed up 4 points at 74. The customer should expect to pay the:

- X **A)** price as near to the close as possible, at the floor broker's discretion.
- X **B)** average price calculated for the entire day.
- X **C)** opening price the next morning.
- ✓ **D)** closing price.

Explanation

When an order is placed market at the close (MOC) on an exchange, a customer should expect execution at the closing price.

Reference: 8.4.3.3 in the License Exam Manual

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Question ID: 606337

Dark pools of liquidity

- I. enhance market transparency for public retail customers
- II. diminish market transparency for public retail customers
- III. accommodate small transactions for institutional traders
- IV. accommodate large-volume transactions for institutional traders

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

Explanation

Dark pools, sometimes referred to as dark pools of liquidity, is trading volume that occurs or liquidity that is not openly available to the public. The bulk of this volume represents large trades engaged in by institutional traders and trading desks away from the exchange markets and is not visible to the public. This diminishes market transparency for public retail customers.

Reference: 8.2.2.4 in the License Exam Manual

Question #28 of 172

Question ID: 606453

The Three Contact Rule does NOT apply to the purchase or sale of a non-Nasdaq security provided there is at *least*:

- X **A)** 4 priced quotations available electronically .
- X **B)** 3 priced quotations available electronically .
- X **C)** 1 priced quotation available electronically.
- ✓ **D)** 2 priced quotations available electronically .

Explanation

Provided there are at least 2 priced quotations available electronically, the Three Contact Rule does not apply.

Reference: 8.9.2.3 in the License Exam Manual

Question #29 of 172

Question ID: 606352

A fill-or-kill order (FOK)

- I. must be executed in its entirety.
- II. may be executed in part or in full.
- III. must be executed in one attempt.

IV. may be executed after several attempts.

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

Explanation

A fill-or-kill order is one where the firm handling the order can make one attempt to fill the order in its entirety. If unable to do so, the order is canceled.

Reference: 8.4.3.5 in the License Exam Manual

Question #30 of 172

Question ID: 606482

Which of the following describes a quote on Nasdaq Level 1?

- ☐ A) Nominal.
- ☐ B) Lowest bid/highest offer.
- ☐ C) Available to traders only.
- ☒ D) Inside market.

Explanation

Nasdaq Level 1 quotes represent the highest bid and lowest asking prices of all dealers. This is known as the inside market.

Reference: 8.11.1 in the License Exam Manual

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Question ID: 606457

Last-sale information is always available for all of the following securities EXCEPT

- ☐ A) CBOE listed option contracts
- ☐ B) NYSE-listed
- ☒ C) OTC, non-Nasdaq
- ☐ D) Nasdaq

Explanation

Last-sale information is available for listed (exchange traded) securities and for all Nasdaq securities. While there are a number of sources for last sale information in general, it may not always be available for a security that is OTC non-Nasdaq.

Reference: 8.9.2.3 in the License Exam Manual

Question #32 of 172

Question ID: 606441

All of the following are included in Nasdaq EXCEPT:

- ☒ A) U.S. government securities.
- ☐ B) convertible bonds.
- ☐ C) closed-end investment companies.
- ☐ D) ADRs.

Explanation

Nasdaq is an equity market and includes common stock, preferred stock, ADRs, and convertible bonds. Publicly traded funds can be quoted over Nasdaq. U.S. government securities are not part of Nasdaq, although they do trade OTC.

Reference: 8.8.1 in the License Exam Manual

Question #33 of 172

Question ID: 606396

A customer has his broker enter an order to buy GHI stock at the opening. Though transmitted promptly, the order does not reach GHI's trading post in time to be filled at the opening. How is the order handled?

- ☐ A) The order is handled as a market order.
- ☐ B) The order automatically becomes an at-the-open order in the following trading session.
- ☒ C) The order is canceled.
- ☐ D) The order is executed in the day, at a price as close to the opening price as possible.

Explanation

An at-the-open order is to be filled at the opening price or not at all. An at-the-open order arriving later must be canceled.

Reference: 8.4.3.3 in the License Exam Manual

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Question ID: 606471

All of the following considerations apply to the 5% markup policy EXCEPT:

- ☐ A) the services rendered by the broker/dealer.
- ☐ B) the cost of executing the transaction.
- ☒ C) the customer's ability to pay.
- ☐ D) the availability of the security.

Explanation

The 5% policy is a guideline for markups and commissions for exchange and OTC trades. A firm cannot charge a higher commission or markup to a customer on the basis of the customer's ability to pay. Factors relevant in determining the fairness of a commission or markup include the type of security, the services rendered by the firm, and the expenses and difficulty of executing a particular trade.

Reference: 8.10.2.6 in the License Exam Manual

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Question ID: 606413

A client asks his broker to enter a day order to buy 100 shares of COW at 36. Later in the day, he changes the order to a GTC order at the same price and for the same number of shares. What happens to the position of the order on the order book?

- ☒ A) It loses its original position.
- ☐ B) The entire order is canceled until the next trading day.
- ☐ C) It stays in the same position.
- ☐ D) It cannot be changed until the next trading day.

Explanation

When an order is changed, it loses its priority standing on the order display book.

Reference: 8.4.2.5 in the License Exam Manual

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Question ID: 606458

A member receives an order to buy non-Nasdaq OTC securities and sees no published quotes. To determine the prevailing market, the member must contact a minimum of

- ☐ A) 1 dealer
- ☐ B) 2 dealers
- ☒ C) 3 dealers
- ☐ D) 4 dealers

Explanation

A member must contact a minimum of 3 dealers (or all dealers making a market in the security if 3 or less) to determine the prevailing market. If 2 or more quotations can be found, the requirement to contact dealers is waived.

Reference: 8.9.2.3 in the License Exam Manual

Question #37 of 172

Question ID: 606363

An immediate-or-cancel order (IOC):

- I. must be executed in its entirety.
- II. may be executed in part or in full.
- III. must be executed in one attempt.
- IV. may be executed after several attempts.

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

Explanation

In an immediate-or-cancel order, the firm handling the order has one attempt to fill the order but a partial execution is binding on the customer.

Reference: 8.4.3.6 in the License Exam Manual

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Question ID: 606357

KLP common stock has been trading at or near to \$25 per share all day. Your client would like to buy 500 shares of KLP at 25, but he is willing to accept fewer shares at that price. Which of the following orders fulfills his intentions?

- ☐ A) Market order to buy 500 shares of KLP.
- ☐ B) Limit order to buy 500 shares of KLP at 25 AON (all-or-none).
- ☒ C) Limit order to buy 500 shares of KLP at 25 IOC (immediate-or-cancel).
- ☐ D) Limit order to buy 500 shares of KLP at 25 FOK (fill-or-kill).

Explanation

Partial execution is permissible on an IOC (immediate-or-cancel) order.

Reference: 8.4.3.6 in the License Exam Manual

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Question ID: 606335

For individual public investors, dark pools of liquidity

- ☐ A) allow them to give an order to their broker/dealer to buy or sell securities while only referencing an account known by a number and not their name
- ☒ B) lessen the transparency of the overall market as volume, quote and price information, and market participant identity is unknown
- ☐ C) allow them to enter orders that are sent directly to the trading floors of stock exchanges
- ☐ D) prevent them from having their own orders entered on exchanges for execution

Explanation

For individual public investors, dark pools of liquidity lessen the transparency of the overall market place. The pools refer to transactions that take place primarily amongst institutional traders or trading desks in large block transactions away from stock exchange floors, where volume, quote and price information, and participant identity are unknown. Though the existence of dark liquidity pools detracts from market transparency, it does not prevent individual public investors from having their own orders executed on listed exchanges.

Reference: 8.2.2.4 in the License Exam Manual

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Question ID: 606355

A customer sells short 100 shares of XYZ Corporation at \$78 per share. The support and resistance levels for XYZ are at \$70 and \$80, respectively. If he wishes to protect his position, which of the following is the *best* place to put in a buy stop order?

- ✓ **A)** 80.1.
- X **B)** 78.1.
- X **C)** 69.85.
- X **D)** 70.1.

Explanation

The client will want to place a buy stop a little above the resistance level to protect himself against an upside breakout. Entering a buy stop order too close to the purchase price (78.10) would not afford the client an opportunity for gain.

Reference: 8.4.2.4.1 in the License Exam Manual

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Question ID: 606481

All of the following statements regarding Nasdaq Level 3 are true EXCEPT that:

- X **A)** quotes are entered by market makers.
- X **B)** the system shows the inside quote.
- X **C)** actual interdealer quotes are displayed.
- ✓ **D)** this level is used by registered representatives only.

Explanation

Nasdaq Level 3 is the interactive level of the Nasdaq system through which market makers enter and update their quotes. The best quote available (the inside market) is also shown on the Level 3. Registered representatives use the Nasdaq Level 1, which displays the inside market quote only.

Reference: 8.11.1 in the License Exam Manual

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Question ID: 606406

Sell orders sent to an exchange:

- ✓ **A)** must be marked long or short.
- X **B)** do not need to be marked, only executed in accordance with the appropriate rules.
- X **C)** must be marked only if they are long sales.
- X **D)** must be marked only if they are short sales.

Explanation

Every sell order must be marked as either a long sale or a short sale.

Reference: 8.4.4.3 in the License Exam Manual

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Question ID: 606358

Which of the following orders would NOT be reduced on the order book on the ex-dividend date for a cash dividend?

- I. Buy limit order.
- II. Open sell stop order.
- III. Buy stop order.
- IV. Sell limit order.

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

X **D)** I and IV.

Explanation

Open sell limit orders and open buy stop orders, which are placed above the current market will not be reduced on the order book when a stock goes exdividend for a cash dividend.

Reference: 8.4.2.6 in the License Exam Manual

Question #44 of 172

Question ID: 606362

If a customer with an unrealized gain on a short stock position wishes to protect his profit, he should enter a:

- X **A)** sell stop order.
- ✓ **B)** buy stop order.
- X **C)** sell limit order.
- X **D)** buy limit order.

Explanation

A buy stop order can be placed above the current market to protect the short stock position. If the stock trades at or above the stop price, the order is elected and becomes a market order to buy the stock, which will be used to cover the short position.

Reference: 8.4.2.4.1 in the License Exam Manual

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Question ID: 721446

The SEC regulation requiring that firms holding customer limit orders not trade through or ahead of those orders is

- X **A)** the locate requirement of regulation SHO
- X **B)** the Trust Indenture Act
- X **C)** the telephone consumer protection act (TCPA)
- ✓ **D)** the order protection rule of the national market security system, regulation NMS

Explanation

The order protection rule, which comes under the broad sweeping regulation NMS (National Market System) mandates that firms holding customer limit orders do not trade through or ahead of those limits with other customer orders or with the firm's own proprietary orders.

Reference: 8.4.2.3.2 in the License Exam Manual

Question #46 of 172

Question ID: 606447

Stock prices in the over-the-counter market are determined by:

- X **A)** open outcry for the securities at a central marketplace.
- X **B)** buyers and sellers bidding directly against each other in a double auction market.
- ✓ **C)** negotiation between buyers and sellers.
- X **D)** the 5% markup policy.

Explanation

The OTC market is a negotiated market (not an auction market as is the case with an exchange) in which dealers negotiate stock trades with each other.

Reference: 8.8.1.1 in the License Exam Manual

Question #47 of 172

Question ID: 606369

If a customer gives his broker/dealer an order to sell his stock if it falls to or below 69 and will not accept a price below 69, the order is:

- X **A)** a buy limit order.
- X **B)** a sell limit order.
- ✓ **C)** a stop limit order.
- X **D)** a stop order.

Explanation

When an order is entered this way, the client has specified that it should not be triggered until the stock is at or below 69, a stop order. Because the client will not accept an execution below 69 it is a stop limit order.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #48 of 172

Question ID: 606404

Last week one of your customers placed a GTC order to sell 200 shares of ABC with an 18 stop when the stock was trading at 18.85. It is now the ex-date for a \$.55 dividend and the order has not yet been executed. What has happened to your customer's stop order?

- X **A)** It is canceled.
- X **B)** It is increased to 18.55.
- X **C)** It remains at 18.
- ✓ **D)** It is reduced to 17.45.

Explanation

Unless the customer has given DNR, (do not reduce) instructions, open buy limit orders and open sell stop orders are reduced on the ex-dividend date by the amount of the dividend.

Reference: 8.4.2.6 in the License Exam Manual

Question #49 of 172

Question ID: 606435

Trade reports made to the Consolidated Tape:

- I. include commissions.
- II. do not include commissions.
- III. include markups.
- IV. do not include markups.

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

Explanation

Trade reports never include commissions, markups, or markdowns.

Reference: 8.7.0.2 in the License Exam Manual

Question #50 of 172

Question ID: 606445

The over-the-counter (OTC) market is:

- ✓ **A)** a negotiated market.
- X **B)** an auction market.
- X **C)** the first market.
- X **D)** All of these.

Explanation

The OTC market is a negotiated market. Registered market makers compete among themselves to post the best bid and ask prices.

Reference: 8.8.1.1 in the License Exam Manual

Question #51 of 172

Question ID: 746110

When any specification of an order placed on the Designated Market Maker's book is changed, which of the following is TRUE?

- ☐ A) It is changed through a cancel and replace process where the new order will maintain the original orders priority on the book.
- ☒ B) It is changed through a cancel and replace process where the new order will lose the replaced orders priority on the book.
- ☐ C) Only the specification noted for change is amended on the existing order and the amended order loses its original priority on the book.
- ☐ D) Only the specification noted for change is amended on the existing order with no order priority on the book changed.

Explanation

Any change to any order specifications for an order on the DMM's book (price, size) would require utilizing a cancel / replace process. The original order is cancelled and replaced with a wholly new order on the book. The new order will not maintain the original (cancelled) orders priority on the book. That priority on the book is lost with the cancellation and the new order will be re-prioritized on the book.

Reference: 8.4.2.5 in the License Exam Manual

Question #52 of 172

Question ID: 606415

An order designated FOK means that the order must be executed:

- ☒ A) immediately and in its entirety .
- ☐ B) immediately but not necessarily entirely.
- ☐ C) in its entirety but not immediately.
- ☐ D) at the opening of trading.

Explanation

Fill-or-kill (FOK) orders must be executed immediately in their entirety or they are canceled.

Reference: 8.4.3.5 in the License Exam Manual

Question #53 of 172

Question ID: 606446

A Nasdaq market maker buys 1,000 shares of stock from a customer at its bid to satisfy a customer order. This is an example of a(n):

- ☐ A) riskless principal trade.
- ☐ B) agency trade.
- ☐ C) block trade.
- ☒ D) principal trade.

Explanation

The market maker is acting in a principal (dealer) capacity.

Reference: 8.8.2 in the License Exam Manual

Question #54 of 172

Question ID: 606365

What type of order provides that market activity can cause activation, but it is possible that the trade itself may or may NOT be executed?

- ☐ A) A stop order.
- ☐ B) A market order.

- X **C)** An open buy order.
- ✓ **D)** A stop limit order.

Explanation

With a stop limit order, if the stock price trades at or through the specified stop price, the order will be triggered or activated and become a limit order. But remember, a limit order may not be executed since the limit price may never be reached.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #55 of 172

Question ID: 606434

Transactions involving which of the following would NOT be reported to the Consolidated Tape System (CTS) by an exchange or FINRA?

- ✓ **A)** Listed options.
- X **B)** NYSE-listed securities traded on the Chicago and Philadelphia exchanges.
- X **C)** NYSE-listed rights and warrants.
- X **D)** Listed securities traded through an electronic communication network (ECN).

Explanation

The Consolidated Tape System (CTS) receives and validates the last sale price and size of listed equity securities transactions on the NYSE and other regional exchanges and FINRA. Options transactions are not reported to the CTS.

Reference: 8.7 in the License Exam Manual

Question #56 of 172

Question ID: 606467

Which of the following transactions would NOT be subject to the 5% markup policy?

- X **A)** A client sells shares of an OTC stock and uses the proceeds to purchase shares from your firm's inventory account.
- ✓ **B)** Your client enters trades to purchase 2 different mutual funds in the same fund family. The combined purchases do not qualify for any breakpoints. The client is charged a sales charge of 6.5%.
- X **C)** Your firm agrees to do an agency cross-transaction between 2 of your clients. Each client has been charged a commission.
- X **D)** A client enters an order to purchase 1 share of a stock to be put in the name of her grandchild. You charge the client the minimum commission for your firm (\$45) even though the stock is currently trading at \$26 per share.

Explanation

Transactions in securities that are sold by a prospectus are not subject to the 5% markup policy. A mutual fund will disclose its cost to the client in the prospectus and is therefore not subject to the rule. Five percent is a guideline, and markups can exceed it.

Reference: 8.10.2.2 in the License Exam Manual

Question #57 of 172

Question ID: 606378

A customer, concerned about a possible pull-back in XYZ stock, instructs his broker, to "Sell my XYZ stock if it falls to 40, but I don't want less than 39.75 for my shares." The broker should enter a:

- X **A)** market order to sell.
- X **B)** sell limit order.
- ✓ **C)** sell stop limit order.
- X **D)** sell stop order.

Explanation

A sell stop limit order would be appropriate (sell 100 XYZ 40 stop 39.75). Once the price of XYZ trades at or through (below) 40, the order is elected and becomes a limit order to sell at 39.75 or better (higher).

Reference: 8.4.2.4.3 in the License Exam Manual

Question #58 of 172

Question ID: 606381

If a customer places an order to sell 500 ABC at 46 stop limit, which of the following statements are TRUE?

- I. The order will be elected at 46 or lower.
- II. The order will be elected at 46 or higher.
- III. The order can be executed at 46 or higher.
- IV. The order can be executed at 46 or lower.

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

Explanation

Sell stop limits are placed below the current market and will be elected when the stock trades at or through (lower than) the stop price. Once elected, the order becomes a limit order to sell at 46 or better (higher).

Reference: 8.4.2.4.3 in the License Exam Manual

Question #59 of 172

Question ID: 606328

Which of the following securities may be traded over the counter?

- I. Listed registered.
- II. Unlisted nonexempt.
- III. Registered unlisted.
- IV. Unregistered exempt.

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

Explanation

Registered securities not listed on an exchange constitute the bulk of the volume trading in the OTC market. Municipal bonds and government securities are exempt from SEC registration requirements, so the major market for these securities is the OTC market. The third market is the over-the-counter trading market for exchange-listed securities.

Reference: 8.2.1.2 in the License Exam Manual

Question #60 of 172

Question ID: 606483

Which of the following can you find on the Level 1 service of Nasdaq?

- ☐ A) Firm bids and offers.
- ☒ B) Inside bids and offers.
- ☐ C) The names of firms making markets.
- ☐ D) Markups.

Explanation

No Nasdaq service displays markups. Levels 2 and 3 display firm bids and offers and the names of the market makers. Level 1 only indicates the highest bid and the lowest offer, known as an inside quote.

Reference: 8.11.1 in the License Exam Manual

Question #61 of 172

Question ID: 606477

Which of the following transactions is subject to the 5% markup policy on markups and markdowns?

- ☐ **A)** New issue corporate equity securities sold in a public offering.
- ☐ **B)** Municipal bond transactions.
- ☒ **C)** NYSE-listed stock traded in the third market.
- ☐ **D)** Mutual fund shares sold to the public.

Explanation

The 5% policy applies to all exchange and OTC transactions in nonexempt securities. It does not apply to prospectus offerings (new issues and mutual funds). It does, however, apply to third-market trades.

Reference: 8.10.2.1 in the License Exam Manual

Question #62 of 172

Question ID: 606341

On the basis of a major decline occurring within a few minutes of the close, trading is halted on all markets for the remainder of the trading day. Under the market wide circuit breaker (MWCBS) rules, market-on-close (MOC) orders pending at the time trading is halted

- ☐ **A)** are converted to market orders and executed at the opening on the following trading day
- ☐ **B)** should be held for execution on the following trading day
- ☐ **C)** should be held for execution on the following trading day unless canceled by the customer
- ☒ **D)** must be canceled

Explanation

During shorter market-wide trading halts that will allow trading to resume on that same trading day, pending and new incoming orders should be forwarded to the appropriate market for execution upon the resumption of trading. If a halt closes the market for the remainder of the trading day, market-on-close (MOC) orders pending at the time trading is halted should be canceled. MOC orders received after trading is halted should be declined.

Reference: 8.3.4 in the License Exam Manual

Question #63 of 172

Question ID: 721443

Which if the following is NOT addressed under the Securities Exchange Act of 1934?

- ☐ **A)** Manipulation of the market
- ☐ **B)** Creation of the SEC
- ☒ **C)** Full and fair disclosure on new offerings
- ☐ **D)** Margin requirements on securities

Explanation

The Securities Exchange Act of 1934 created the SEC as mandated by the Act of 1933. It regulates the secondary market, gave the Federal Reserve Board the authority to determine margin requirements, and addressed market manipulation. The Securities Exchange Act of 1934 does not address full and fair disclosure for new issues which was addressed under the Act of 1933.

Reference: 8.1.1 in the License Exam Manual

Question #64 of 172

Question ID: 606386

One of your clients enters a sell stop order at \$42.40, limit \$42.15. Assume that the trades occur in the following sequence: 42.45, 42.40, 42.75, 42.27, and 41.91. At which of the following prices could this order be executed?

- I. \$41.91.
 - II. \$42.27.
 - III. \$42.40.
 - IV. \$42.75.
-
- ☐ **A)** I and II.

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

Explanation

As a sell stop order with a limit of \$42.15, no order may be executed below the limit price of \$42.15. This order will be triggered at the price of \$42.40. The only remaining prices that will meet the limit requirement after it is triggered are \$42.27 and \$42.75. Remember, it takes two trades for any stop order: one to trigger the order, the other for execution.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #65 of 172

Question ID: 751674

A specialist (designated market maker) is permitted to do all of the following EXCEPT

- X **A)** buy and sell for a proprietary account
- X **B)** accept a limit order
- ✓ **C)** accept a not-held order
- X **D)** represent a bid and offer simultaneously

Explanation

A specialist (designated market maker) on the floor does not deal directly with the public. Therefore, a DMM cannot accept any order that requires the exercise of discretion. A not-held order is one in which the floor broker can choose the price or time of execution.

Reference: 8.4.1 in the License Exam Manual

Question #66 of 172

Question ID: 606468

All of the following may be cited to justify a markup on a stock sold from a broker/dealer's inventory EXCEPT:

- X **A)** the security's price.
- X **B)** availability.
- ✓ **C)** dealer's cost.
- X **D)** overall value of the transaction.

Explanation

The dealer's cost is not a legitimate factor in determining the markup on a stock.

Reference: 8.10.2.3 in the License Exam Manual

Question #67 of 172

Question ID: 606325

The secondary trading of securities is comprised of how many markets?

- X **A)** 2
- X **B)** 5
- X **C)** 3
- ✓ **D)** 4

Explanation

The secondary trading of securities takes place in four markets: the first market is listed securities traded on an exchange floor; the second market deals with unlisted securities; the third market is where listed securities trade over the counter; and the fourth market is where financial institutions trade directly with each other, utilizing electronic communications networks (ECNs).

Reference: 8.2.1 in the License Exam Manual

Question #68 of 172

Question ID: 606431

Which of the following is applicable to the NASDAQ OMX PHLX?

- I. Regional exchange operated by Nasdaq
- II. Offers trading in equity securities and options contracts
- III. Is a completely electronic exchange with no physical trading floor
- IV. Regional exchange operated by FINRA for the execution of OTC stocks only

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

Explanation

The OMX PHLX is a regional exchange operated by Nasdaq where equity securities and options contracts are traded both electronically and on floor.

Reference: 8.5.1.1 in the License Exam Manual

Question #69 of 172

Question ID: 606375

Under NYSE rules, a not-held order:

- ☐ A) requires discretionary authority from the customer.
- ☐ B) is a limit order.
- ☐ C) is good until canceled.
- ☒ D) is good for the day only.

Explanation

Under NYSE rules, a not-held order where a customer gives you authority over the price or timing of the order is good for that day only.

Reference: 8.4.3.4 in the License Exam Manual

Question #70 of 172

Question ID: 606484

Nasdaq Level I service:

- ☐ A) displays the bid and ask quotes, with size, for each market maker in a particular listed security.
- ☐ B) enables market makers to update their quotes.
- ☒ C) displays the inside market; highest bid and lowest ask.
- ☐ D) displays the bid and ask quotes, with size, for each market maker in a particular unlisted security.

Explanation

Level I service provides subscribers with the inside market. The inside market is the highest bid price anyone is displaying and the lowest ask price anyone is displaying, via the Nasdaq quotation system.

Reference: 8.11.1 in the License Exam Manual

Question #71 of 172

Question ID: 606417

A customer entered an order to sell short 100 shares of ABC. The stock closed on Friday at 48.00. The stock will trade ex-dividend \$.50 on Monday. At what price can the order be executed at the opening?

- ☐ A) 47.5.
- ☐ B) 47.49.
- ☐ C) 47.51.
- ☒ D) Any price.

Explanation

The stock's price is adjusted for the dividend at its opening the next morning. The adjustment in the stock does not limit where the short sale can be executed.

Reference: 8.4.4 in the License Exam Manual

Question #72 of 172

Question ID: 606330

Which of the following statements regarding transactions in the different securities markets are TRUE?

- I. Transactions in listed securities occur mainly in the OTC market.
- II. Transactions in unlisted securities occur in the OTC market.
- III. Transactions in listed securities that occur in the OTC market are said to take place in the fourth market.
- IV. Transactions in listed securities that occur directly between institutions without the use of broker/dealers as intermediaries are said to take place in the fourth market.

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

Explanation

Listed securities traded on exchanges constitute the exchange market. Unlisted securities traded over the counter (OTC) make up the OTC market. Listed securities traded OTC compose the third market. Securities traded directly between institutions constitute the fourth market.

Reference: 8.2.1 in the License Exam Manual

Question #73 of 172

Question ID: 606347

A customer enters an order to buy 1,000 ABC at 50, good for the week only. How will this order appear on the order book?

- X **A)** Buy 1000 ABC 50 GTW.
- X **B)** Buy 1000 ABC 50 GTM.
- X **C)** Buy 1000 ABC 50 Day.
- ✓ **D)** Buy 1000 ABC 50 GTC.

Explanation

Limit orders and stop orders are entered on the order book as either GTC or day orders. Orders that are good for only a particular time frame (good for the week) will appear as GTC. It is the responsibility of the broker/dealer that entered the order to cancel it at the end of the week, if unexecuted.

Reference: 8.4.3.2 in the License Exam Manual

Question #74 of 172

Question ID: 606392

A New York Stock Exchange specialist (designated market maker) is employed by:

- X **A)** the OCC.
- ✓ **B)** a member of the exchange.
- X **C)** the NYSE.
- X **D)** the SEC.

Explanation

Designated market makers are employed by firms which must be exchange members.

Reference: 8.4 in the License Exam Manual

Question #75 of 172

Question ID: 606486

Consider the following Nasdaq system quotes:

Bid Offer

Market Maker 1: 14.75 - 15.15

Market Maker 2: 15 - 15.50

Market Maker 3: 14.85 - 15.50

The inside market is:

- ✓ **A)** 15 - 15.15.
- X **B)** 14.75 - 15.50.
- X **C)** 14.85 - 15.15.
- X **D)** 15 - 15.50.

Explanation

The inside market is the highest bid and the lowest offer available.

Reference: 8.11.2.2. in the License Exam Manual

Question #76 of 172

Question ID: 606324

Which of the following is a third-market trade?

- ✓ **A)** 12,000 shares of XYZ, a stock listed on the New York Stock Exchange, are sold over the counter.
- X **B)** 10,000 shares of XYZ, a stock listed on the New York Stock Exchange, are sold on the Chicago Stock Exchange floor.
- X **C)** 10,000 shares of LMNO, a stock listed on Nasdaq, are traded between two financial institutions via an electronic communications network (ECN).
- X **D)** 12,000 shares of PQ, a stock listed on the Philadelphia Stock Exchange are sold on the Chicago Stock Exchange floor.

Explanation

A third-market trade occurs when exchange-listed securities are traded over the counter.

Reference: 8.2.1.3 in the License Exam Manual

Question #77 of 172

Question ID: 606393

On the morning of the ex-date for a cash dividend which of the following orders on the order book will be reduced?

- ✓ **A)** All of these.
- X **B)** Sell stop limit.
- X **C)** Buy limit.
- X **D)** Sell stop.

Explanation

Those orders entered below the prevailing market (unless marked DNR) are reduced on the morning of the ex-date by the amount of the cash dividend. Those orders are buy limits and sell stops including sell stop limits.

Reference: 8.4.2.6 in the License Exam Manual

Question #78 of 172

Question ID: 606421

All of the following statements regarding a market not-held order are true EXCEPT:

- X **A)** it may be filled a small portion at a time.
- X **B)** it gives the floor broker discretion over the price or time of execution.
- X **C)** the order ticket must be marked not held.
- ✓ **D)** it is given to a specialist (designated market maker).

Explanation

In a market not-held order, the client agrees not to hold the broker responsible if he cannot fill the complete order. Such an order allows the floor broker to use his judgment on the best execution strategy. Specialists (designated market makers) cannot accept market not-held orders.

Reference: 8.4.3.4 in the License Exam Manual

Question #79 of 172

Question ID: 606366

A buy stop order may be used for all of the following EXCEPT:

- ☐ **A)** to acquire a long position as a stock breaks through resistance.
- ☐ **B)** to protect a profit in a short position.
- ☐ **C)** to protect against loss in a short position.
- ☒ **D)** to protect a profit in a long position.

Explanation

Buying can only protect short positions, not long positions.

Reference: 8.4.2.4.1 in the License Exam Manual

Question #80 of 172

Question ID: 606474

In a proceeds transaction for a customer where the proceeds from the liquidation of one stock are used to purchase another stock, the 5% markup policy is computed on the basis of:

- ☒ **A)** a combination of both the buy side and the sell side.
- ☐ **B)** the markup on the buy side only.
- ☐ **C)** the markdown on the sell side only.
- ☐ **D)** each side of the transaction separately.

Explanation

In a proceeds transaction (sell one position; take the proceeds and buy another), the 5% markup is computed by adding the compensation made by the dealer on the sell side to that made by the dealer on the buy side and applying the total to the inside market on the buy side.

Reference: 8.10.2.5 in the License Exam Manual

Question #81 of 172

Question ID: 606371

Which of the following orders may be used to acquire a security at a specific price or better?

- I. A buy stop limit.
- II. A buy limit.
- III. A sell stop.
- IV. A sell limit.

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

Explanation

Only buy orders can acquire stock. Only buy limit orders can acquire stock at a specific price or better.

Reference: 8.4.2.3 in the License Exam Manual

Question #82 of 172

Question ID: 606422

A customer places an order to buy 300 DWQ at 140 stop, but not over 140.25. This is a:

- ✓ **A)** buy stop limit order.
- X **B)** buy stop order.
- X **C)** market not held order.
- X **D)** buy limit order.

Explanation

The customer has entered a stop limit order. If the stock rises to the stop price of \$140, the order is elected then becomes a buy limit order at 140.25, meaning an order to buy at 140.25 or lower.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #83 of 172

Question ID: 606432

A customer has entered an option order with your broker/dealer. At which of the following locations could such an order be executed?

- I. NYSE/AMEX
- II. CBOE
- III. Nasdaq OMX PHLX
- IV. None of the listed choices

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

Explanation

Options orders can be executed on the NYSE/AMEX, the CBOE, and the Nasdaq OMX PHLX, which offers a hybrid of electronic and on-floor execution availability.

Reference: 8.5.1.1 in the License Exam Manual

Question #84 of 172

Question ID: 606334

The Nasdaq market includes securities in the:

- I. Global select market.
- II. Global market.
- III. Bulletin Board listings.
- IV. Electronic OTC Pink listings.

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

Explanation

The Nasdaq Market includes securities in 3 market tiers; global select, global, and capital markets. Bulletin Board securities (OTCBB) are issues that are not listed on Nasdaq or any U.S. exchange. OTC Pink issues are unlisted and, like Bulletin Board stocks, are referred to as non-Nasdaq.

Reference: 8.2.1.2 in the License Exam Manual

Question #85 of 172

Question ID: 606322

Stocks that are listed on the NYSE can also be listed on

- X **A)** the OTCBB (over-the-counter bulletin board).
- X **B)** the CBOE (Chicago Board Options Exchange).
- X **C)** Nasdaq.
- ✓ **D)** the Chicago Stock Exchange.

Explanation

NYSE-listed securities can be listed on and trade on other U.S. exchanges. Listed securities can also be traded in the OTC market and when they do, are known to be trading in the third market. Nasdaq is for unlisted securities, whereas the CBOE trades listed options, not stock.

Reference: 8.2.1.1 in the License Exam Manual

Question #86 of 172

Question ID: 606338

Which of the following individuals normally trade on the floor of an exchange?

- I. Two-dollar broker.
- II. Registered market maker.
- III. Allied member.
- IV. Stock lending representative.

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

Explanation

Only bona fide traders such as two-dollar brokers, registered market makers, and specialists (designated market maker) may trade on the floor.

Reference: 8.3.2 in the License Exam Manual

Question #87 of 172

Question ID: 606448

All of the following securities trade in the over-the-counter market EXCEPT:

- X **A)** Nasdaq securities.
- ✓ **B)** Open-end investment companies.
- X **C)** Government and agency securities.
- X **D)** American depositary receipts.

Explanation

Municipal bonds, government and agency securities, and corporate securities (listed and unlisted) all trade in the OTC market. Foreign securities trade in the United States if the companies comply with SEC registration and disclosure requirements. Mutual fund shares (open-end companies) do not trade.

Reference: 8.8.1 in the License Exam Manual

Question #88 of 172

Question ID: 606451

To fill a customer buy order for 800 WXYZ shares, your firm requests a quote from a market maker for 800 shares. The response is "bid 15, ask 15.25." If the order is placed, the market maker must sell:

- X **A)** 800 shares at \$15 per share.
- X **B)** 100 shares at \$15.25 per share.
- ✓ **C)** 800 shares at \$15.25 per share.
- X **D)** 800 shares at no more than \$15 per share.

Explanation

A market maker is responsible for honoring a firm quote. If no size is requested by the inquiring trader, a quote is firm for 100 shares. In this example, the trader requested an 800-share quote, so the market maker is responsible for selling 8 round lots of 100 shares at the ask price of \$15.25 per share.

Reference: 8.9.1.1 in the License Exam Manual

Question #89 of 172

Question ID: 653000

Each of the following types of orders will remain open (working orders) until certain conditions are met EXCEPT

- ☐ A) good-till-canceled orders
- ☒ B) market orders
- ☐ C) stop limit orders
- ☐ D) stop orders

Explanation

A market order is executed immediately at the prevailing market price. A stop, or stop limit, order is not triggered until a set price is hit or passed through. A good-till-canceled order remains open until executed or canceled.

Reference: 8.4.2.2 in the License Exam Manual

Question #90 of 172

Question ID: 606440

All of the following statements regarding the over-the-counter market are true EXCEPT:

- ☐ A) more issues trade OTC than on the exchanges.
- ☐ B) it trades listed securities.
- ☐ C) it trades unlisted securities.
- ☒ D) it is an auction market.

Explanation

The OTC market is a negotiated market. The exchanges are auction markets.

Reference: 8.8.1.1 in the License Exam Manual

Question #91 of 172

Question ID: 606321

A securities firm that holds stock rather than sells the stock is:

- ☐ A) churning.
- ☐ B) pegging.
- ☒ C) taking a position.
- ☐ D) commingling.

Explanation

A firm that acts as principal by holding stock is taking a long position. The firm purchases the stock, hoping to sell at a later date at a higher price.

Reference: 8.2.3.4 in the License Exam Manual

Question #92 of 172

Question ID: 606382

A significant increase in which of the following types of orders may cause a bull market to accelerate?

- ☐ A) Short sales.
- ☐ B) Buy limits.
- ☐ C) Sell stops.
- ☒ D) Buy stops.

Explanation

If the market is rising, only those orders on the order book above the current market will be executed. Buy stops and sell limits are both entered above the prevailing market price. Of these two, only buy orders (in this case buy stops) will accelerate a rise in the market.

Reference: 8.4.2.4.1 in the License Exam Manual

Question #93 of 172

Question ID: 606466

The 5% markup policy would apply to all of the following equity transactions EXCEPT:

- ☐ **A)** agency trade done on an exchange.
- ☐ **B)** riskless principal transaction.
- ☒ **C)** primary market transaction.
- ☐ **D)** proceeds transaction.

Explanation

The 5% markup policy applies to secondary market transactions in nonexempt securities.

Reference: 8.10.2.2 in the License Exam Manual

Question #94 of 172

Question ID: 606465

The 5% markup policy applies to which of the following?

- I. Exempt transactions.
- II. Agency transactions.
- III. Principal secondary market trade.
- IV. New issues.

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

Explanation

The 5% markup policy applies to all secondary market transactions. It does not apply to exempt transactions, transactions requiring the delivery of a prospectus, or issues sold at a fixed offering price.

Reference: 8.10.2.2 in the License Exam Manual

Question #95 of 172

Question ID: 606430

If a customer wishes to change a day order to a GTC order in the middle of the day, the registered representative should:

- ☐ **A)** enter a change notice immediately.
- ☒ **B)** allow the day order to expire at the end of the day and put in the GTC order before the next day's opening.
- ☐ **C)** enter the new GTC order immediately and do nothing about the day order.
- ☐ **D)** enter the new order as GTC and immediately cancel the day order.

Explanation

The GTC order is treated as a new order. The registered representative should wait until the close of trading so as not to lose the time priority of the original order that day.

Reference: 8.4.3.2 in the License Exam Manual

Question #96 of 172

Question ID: 606401

All of the following orders could be placed on the specialist (designated market maker) order display book EXCEPT:

- X **A)** stop orders.
- ✓ **B)** market orders.
- X **C)** stop limit orders.
- X **D)** limit orders.

Explanation

Market orders are executed immediately. The order display book is for orders that are away from the current market, such as stop and limit orders.

Reference: 8.4.2.5 in the License Exam Manual

Question #97 of 172

Question ID: 606444

OTC trading practices in corporate securities are supervised by

- I. SIPC
 - II. the SEC
 - III. FOMC
 - IV. FINRA
-
- ✓ **A)** II and IV
 - X **B)** I and IV
 - X **C)** II and III
 - X **D)** I and III

Explanation

The Securities and Exchange Commission (SEC) is responsible for regulating securities trading throughout the United States. FINRA is the authorized SRO for the OTC market. The Securities Investors Protection Corporation (SIPC) is a nonprofit member sponsored entity to protect customer assets in the event a broker/dealer fails. The Federal Open Market Committee (FOMC) determines the course of open market purchases and sales by the Fed in effecting monetary policy.

Reference: 8.8 in the License Exam Manual

Question #98 of 172

Question ID: 606442

The Nasdaq stock market permits listing for all of the following EXCEPT:

- X **A)** common stock.
- ✓ **B)** nonconvertible debt securities.
- X **C)** warrants.
- X **D)** convertible bonds.

Explanation

The Nasdaq stock market is an equity and equity equivalent market. Listed are common stock, preferred stock, warrants, limited partnerships, ADRs, and convertible bonds. Straight debt securities are not part of Nasdaq.

Reference: 8.8.1 in the License Exam Manual

Question #99 of 172

Question ID: 606400

Under SEC rules, a customer short sale on an exchange floor can be executed on which of the following?

- I. Plus tick.
 - II. Zero-plus tick.
 - III. Minus tick.
 - IV. Zero-minus tick.
-
- X **A)** II and IV.

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

Explanation

On an exchange floor, a customer short sale can be executed at any time in the trade sequence.

Reference: 8.4.4 in the License Exam Manual

Question #100 of 172

Question ID: 606420

An investor enters a day order to buy 200 shares of GGZ at 63. Three hours later, with GGZ trading above that price, he calls his registered representative wanting to change the order to a good-till-canceled order. The registered representative should:

- I. immediately cancel the existing order.
- II. leave the existing order on the order book.
- III. immediately enter a new limit order to buy 200 shares of GGZ at 63 GTC.
- IV. enter a new limit order to buy 200 shares of GGZ at 63 GTC before the next day's opening if the day order was unexecuted.

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

Explanation

The representative should not cancel the existing order because it would lose priority on the order book. However, the representative should not enter a GTC order that day because it could be filled twice. Instead, the representative should let the order stay for the day, when it would be canceled automatically if not executed. Then, the representative could enter a GTC order the next morning.

Reference: 8.4.3.2 in the License Exam Manual

Question #101 of 172

Question ID: 606450

A customer of your broker/dealer is questioning the timeliness in which one of her equity orders for a stock listed on Nasdaq was handled and executed. A source providing the most complete order entry and execution details for the customer's order could be found

- X **A)** on the SEC's Website
- X **B)** on FINRA's Website
- X **C)** at the broker/dealer's order entry desk
- ✓ **D)** with the Order Audit Trail System (OATS)

Explanation

For an equity stock listed on Nasdaq, the source that would provide the most complete information regarding the handling of the order and its execution, including a timeline of all relevant entry and execution events, would be the Order Audit Trail System (OATS).

Reference: 8.8.1.1 in the License Exam Manual

Question #102 of 172

Question ID: 606473

All of the following statements regarding the 5% markup policy are true EXCEPT:

- X **A)** the markup policy does not apply to securities sold at a specific price and with a prospectus.
- X **B)** a transaction in common stock customarily has a higher percentage markup than a bond transaction of the same size.
- ✓ **C)** a riskless transaction is not generally covered by the 5% markup policy.
- X **D)** the type of security is a factor to consider.

Explanation

Riskless transactions are covered by the 5% markup policy.

Reference: 8.10.2.4 in the License Exam Manual

Question #103 of 172

Question ID: 606423

Your client feels that GGZ, currently trading around 39, would be a good buy at 38. Therefore, he places an order to buy 200 GGZ at 38 GTC. On the ex-date, when the stock splits 2-for-1, the order is still on the order book. How is the order adjusted on the ex-date?

- ☐ A) Buy 100 GGZ at 76 GTC.
- ☐ B) Buy 200 GGZ at 19 GTC.
- ☐ C) Buy 400 GGZ at 38 GTC.
- ☒ D) Buy 400 GGZ at 19 GTC.

Explanation

In a stock split, the number of shares is increased and the price is reduced proportionately on the ex-date (200 shares x 2 = 400 shares; the new price is 38 x .5, or 19).

Reference: 8.4.2.6.2 in the License Exam Manual

Question #104 of 172

Question ID: 722172

All of the following events would cause FINRA to terminate quotations in a SmallCap stock EXCEPT

- ☒ A) having only 2 broker/dealers making a market in the stock
- ☐ B) FINRA deeming termination to be in the public's best interest
- ☐ C) the issuer declaring bankruptcy
- ☐ D) the issuer's independent auditor rendering a disclaimer opinion

Explanation

Although 3 market makers are required initially for an issue to be included on Nasdaq, only 2 market makers are needed to continue being quoted on the system. The other answers, bankruptcy, a disclaimer opinion being rendered by auditors, or any reason FINRA deems termination to be in the general public's interest, are sufficient reason for termination of quotations.

Reference: 8.9.2.3 in the License Exam Manual

Question #105 of 172

Question ID: 606478

The 5% policy applies to:

- I. commissions charged when executing customer agency (broker) transactions.
- II. riskless and simultaneous transactions.
- III. markups on stock sold from inventory.
- IV. markdowns on stocks bought for inventory.

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

Explanation

The 5% policy applies to both commission charges on agency transactions and to markups and markdowns on principal transactions, including riskless principal trades.

Reference: 8.10.2.1 in the License Exam Manual

Question #106 of 172

Question ID: 606370

Your client has entered a limit order to buy 600 shares of DMF at \$50 per share. DMF declares a 10% stock dividend. How would this order be adjusted on the ex-date?

- ☐ A) 600 shares at \$50.
- ☐ B) 660 shares at \$46.50.
- ☐ C) 660 shares at \$46.37.
- ☒ D) 600 shares at \$45.45.

Explanation

In this example, adjust only the share price: $\$50 \div (1 + .10) = \45.45 . The number of shares in the order is not adjusted unless the shares can be increased by a full round lot (100 shares).

Reference: 8.4.2.6.2 in the License Exam Manual

Question #107 of 172

Question ID: 606372

An agency cross transaction in the OTC market occurs when a broker/dealer:

- ☐ A) matches a customer buy order with a customer sell order on the same stock at the same price and charges each side a mark-up and mark-down, respectively.
- ☐ B) buys stock on an exchange and immediately sells it in the third market.
- ☒ C) matches a customer buy order with a customer sell order on the same stock at the same price and charges each side a commission.
- ☐ D) invests the proceeds of a customer sale in another OTC stock.

Explanation

When a broker/dealer crosses stock between 2 customers, it does so at the same price. For example, if one customer wants to buy 500 WXYZ at 36 and another customer wants to sell 500 WXYZ at 36, the firm could cross 500 at 36, charging each side a commission (agency).

Reference: 8.4.1.5 in the License Exam Manual

Question #108 of 172

Question ID: 606452

A quote on Nasdaq is as follows:

Bid Ask 10 10.50, 1300 x 1500

The market maker is obligated to execute all of the following customer transactions in their entirety EXCEPT:

- ☐ A) buy 1,400 shares at 10.50.
- ☒ B) sell 1,500 shares at 10.
- ☐ C) buy 1,500 shares at 10.50.
- ☐ D) sell 1,300 shares at 10.

Explanation

This market maker has quoted a size of market of 1,300 – 1,500, which means it stands ready to buy a maximum of 1,300 shares at \$10 and sell a maximum of 1,500 shares at 10.50. A sale of 1,500 shares at 10 is outside the size of this quote.

Reference: 8.9.1 in the License Exam Manual

Question #109 of 172

Question ID: 606388

During a trading halt, an investor can:

- ☐ A) execute a market order.
- ☐ B) execute a limit order.
- ☐ C) close an existing position.
- ☒ D) cancel an order placed before the halt.

Explanation

If trading is halted in a security, investors cannot buy or sell the security. An open order can be canceled during a trading halt.

Reference: 8.4.3.1 in the License Exam Manual

Question #110 of 172

Question ID: 606476

The 5% markup policy applies to all of the following EXCEPT:

- ☐ A) principal transactions in the OTC market.
- ☒ B) municipal bond transactions.
- ☐ C) agency transactions on an exchange.
- ☐ D) agency transactions in non-exempt unlisted securities.

Explanation

The 5% policy does not apply to exempt securities transactions such as municipal bond trades. The policy applies to nonexempt securities and transactions on an exchange and in the OTC market, and it applies to both agency and principal trades.

Reference: 8.10.2.1 in the License Exam Manual

Question #111 of 172

Question ID: 606437

Trading is halted on a listed security on the NYSE because a large volume of orders created an order imbalance. A report of a transaction in the stock taking place on another exchange, will appear on the consolidated tape system (CTS):

- ☐ A) only after trading is resumed on the NYSE.
- ☐ B) never, because trading is halted on the NYSE.
- ☒ C) as it occurs, despite the trading halt on the NYSE.
- ☐ D) None of these.

Explanation

A trading halt on one exchange does not mean that trading must halt on other exchanges; therefore, subsequent reporting of such trades to the Consolidated Tape System (CTS) would continue.

Reference: 8.7.0.3.1 in the License Exam Manual

Question #112 of 172

Question ID: 606438

The symbol OPD appearing on the Consolidated Tape System indicates:

- ☐ A) short sale.
- ☒ B) a delayed opening print.
- ☐ C) an execution of a block trade.
- ☐ D) a cross.

Explanation

The OPD symbol appears on the Consolidated Tape System (CTS) with first transactions of the day for securities that had delayed openings.

Reference: 8.7.0.3.1 in the License Exam Manual

Question #113 of 172

Question ID: 606320

Which of the following terms are associated with over-the-counter trading?

- I. Market maker.

- II. Specialist.
- III. Auction market.
- IV. Negotiated market.

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

Explanation

The over-the-counter market is a negotiated market. Within it, market makers are broker/dealer firms that provide a source for stock that customers wish to buy and a repository for stock that customers wish to sell.

Reference: 8.2.1.2 in the License Exam Manual

Question #114 of 172

Question ID: 606384

A short sale of stock directed to an exchange must observe all of the following EXCEPT:

- X **A)** the locate requirement for borrowed shares.
- X **B)** a minimum maintenance requirement of 30%.
- X **C)** a margin requirement of 50%.
- ✓ **D)** the symbol "ss" on the consolidated tape.

Explanation

The symbol "ss" does not designate "short sale." It is used to identify stocks traded in 10-share units.

Reference: 8.4.4 in the License Exam Manual

Question #115 of 172

Question ID: 606327

Which of the following describe a securities exchange?

- I. Prices are set by negotiation between interested parties.
- II. The highest bid and the lowest offer prevail.
- III. Only listed securities can be traded.
- IV. Minimum prices are established at the beginning of the day.

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

Explanation

An exchange is not a negotiated market but an auction market in which securities listed on that exchange are traded. No minimum price is set for securities. Rather, the highest bid and the lowest offer prevail.

Reference: 8.2.1.1 in the License Exam Manual

Question #116 of 172

Question ID: 606459

When referring to a stock, the term "spread" refers to the:

- ✓ **A)** difference between the bid and asked prices.
- X **B)** dealer's markup.
- X **C)** range between the high and low price for a particular year.
- X **D)** range between the high and low price for a particular trading day.

Explanation

The term "spread" refers to the difference between the bid and asked prices.

Reference: 8.9.2.1 in the License Exam Manual

Question #117 of 172

Question ID: 606342

All of the following are minimum requirements for listing on the NYSE EXCEPT:

- ✓ **A)** earnings per share.
- X **B)** number of shareholders.
- X **C)** number of publicly held shares.
- X **D)** market value of publicly held shares.

Explanation

While the numerical values are not tested, it is important to know that there is no minimum earnings per share requirement. However, there is a minimum earnings requirement.

Reference: 8.3.1 in the License Exam Manual

Question #118 of 172

Question ID: 606326

The over-the-counter market could be characterized as what type of market?

- ✓ **A)** Dealer.
- X **B)** Auction.
- X **C)** First.
- X **D)** Primary.

Explanation

The OTC market is a dealer market.

Reference: 8.2.1.2 in the License Exam Manual

Question #119 of 172

Question ID: 606385

Which of the following order types is permitted in Nasdaq markets but NOT in NYSE equity markets?

- X **A)** Market.
- X **B)** Immediate or cancel (IOC).
- ✓ **C)** Fill or kill (FOK).
- X **D)** Limit.

Explanation

Fill-or-kill (FOK) and all-or-none (AON) orders may no longer be entered in the NYSE equity market but are still accepted in both the bond market and Nasdaq.

Reference: 8.4.3.5 in the License Exam Manual

Question #120 of 172

Question ID: 606470

All of the following are subject to the 5% markup policy EXCEPT:

- X **A)** markups.
- ✓ **B)** spreads in new stock offerings.
- X **C)** commissions.

X **D)** markdowns.

Explanation

The 5% markup policy applies to markups, markdowns, and commissions. New offerings sold by prospectus are exempt from this rule.

Reference: 8.10.2.2 in the License Exam Manual

Question #121 of 172

Question ID: 606389

The opening quote for issues listed on the NYSE is set by the:

- ✓ **A)** specialist (designated market maker).
- X **B)** floor brokers based on the level of opening orders.
- X **C)** exchange.
- X **D)** third-market makers.

Explanation

The specialist (designated market maker) is responsible for setting the opening quote for issues listed on the NYSE. The set quote is based on orders in hand.

Reference: 8.4.1 in the License Exam Manual

Question #122 of 172

Question ID: 606353

Which of the following orders are reduced on the ex-dividend date for a cash dividend?

- I. Buy 100 XYZ 60 DNR.
- II. Sell 100 XYZ 70.
- III. Sell 100 XYZ 60 STOP.
- IV. Buy 100 XYZ 70 STOP.

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

Explanation

Orders placed below the market (buy limits and sell stops) are automatically reduced on the ex-date. The exception to this rule is for orders marked DNR (do not reduce).

Reference: 8.4.2.6 in the License Exam Manual

Question #123 of 172

Question ID: 606340

On the trading floor, the highest bid and offer receive first consideration. When several bids at the same price occur, the trade will be awarded based on:

- ✓ **A)** priority, precedence, then parity.
- X **B)** parity, precedence, then priority.
- X **C)** priority then precedence.
- X **D)** priority then parity.

Explanation

When there are several bids or offers at the same price, the order in which they are filled is based upon time entered and size of order. This is known as priority, precedence and parity on the NYSE.

Reference: 8.3.3.1 in the License Exam Manual

Question #124 of 172

A customer tells a broker to buy 1,500 shares of ABCD at 33.60 immediately for the full 1,500 shares. This is a(n):

- ☐ A) good-till-canceled order.
- ☐ B) all-or-none order.
- ☒ C) fill-or-kill order.
- ☐ D) immediate-or-cancel order.

Explanation

In a fill-or-kill order, the instruction is to fill the entire order immediately at the limit price or better. If this cannot be done, the order will be canceled (killed). An immediate-or-cancel order is similar, except that partial execution is acceptable. An all-or-none order must be filled in its entirety. However, it can be filled over time; it does not require immediate execution.

Reference: 8.4.3.5 in the License Exam Manual

Question #125 of 172

Question ID: 606344

A customer enters an order to sell 100 TCB at 49 stop limit. Prior to the order, TCB was trading at 49.25. Subsequent trades are reported on the Tape as follows:

TCB 48.75, 48.85, 49, 49.25

Which trade triggered the order?

- ☒ A) 48.75.
- ☐ B) 49.25.
- ☐ C) 48.85.
- ☐ D) 49.

Explanation

This is an order where the stop price and limit price (Stop, Limit) are the same. A sell stop limit order is triggered (elected) by the first trade that is at, or below the stop price. It is subsequently executed at a price at, or better than the limit price.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #126 of 172

Question ID: 606416

An investor believes that ICBS, a Nasdaq security, is overpriced at 40. He can sell ICBS short in the over-the-counter market under which of the following circumstances?

- ☐ A) Only at a price higher than the current inside bid.
- ☐ B) Under no circumstances.
- ☒ C) With no restrictions.
- ☐ D) Only if he has an outstanding long position.

Explanation

As on exchanges, short sales in the OTC market can occur at any time in the trade sequence.

Reference: 8.4.4 in the License Exam Manual

Question #127 of 172

Question ID: 606377

Which of the following order types are available to customers for use in NYSE equity markets?

- I. Fill or kill. (FOK)
- II. Immediate or cancel. (IOC)
- III. All or none. (AON)
- IV. Order cancels other. (OCO)

- ☐ A) I and III.

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

Explanation

IOC and OCO orders are available to customers for use in the NYSE equity markets. FOK and AON orders are no longer permitted in NYSE equity markets.

Reference: 8.4.3 in the License Exam Manual

Question #128 of 172

Question ID: 606411

Which of the following would be the usual use of a stop order?

- I. To protect the profit on a long position
- II. To prevent loss on a short position
- III. To buy at a specific price only
- IV. To guarantee execution at or near the close.

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

Explanation

A buy stop could be used to protect an investor who is short, and a sell stop could be used to protect an investor who is long. Stop orders never guarantee execution price.

Reference: 8.4.2.4 in the License Exam Manual

Question #129 of 172

Question ID: 606479

A customer sells securities and uses the proceeds to buy more securities at the same cost. Under the 5% markup policy, the markup is calculated on:

- X **A)** the buy side only.
- ✓ **B)** the total of both sides.
- X **C)** the sell side only.
- X **D)** each side separately.

Explanation

The firm must consider the entire transaction (a proceeds transaction) when calculating the markup.

Reference: 8.10.2.5 in the License Exam Manual

Question #130 of 172

Question ID: 606364

A sell limit order is executed when a stock is:

- I. rising.
- II. falling.
- III. at or below the limit price.
- IV. at or above the limit price.

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

Explanation

A sell limit order is placed above the prevailing market price. Therefore, it may be executed if the market is rising. If executed, limit orders will be filled at the limit price or better, which in the case of a sell limit is the limit price or higher.

Reference: 8.4.2.3 in the License Exam Manual

Question #131 of 172

Question ID: 606359

An order to sell at 38.65 stop limit is entered before the opening. The subsequent trades are 38.85, 38.50, and 38.35. The order:

- ✓ **A)** has not yet been executed.
- X **B)** was executed at 38.65.
- X **C)** was executed at 38.85.
- X **D)** was executed at 38.50.

Explanation

A stop limit order is a stop order that becomes a limit order once the stop price has been triggered. When the limit price is the same as the stop price on a stop limit order, the order may be executed only at, or better than, the limit price. In this case, the order has not yet been executed because no transaction has occurred at, or above, 38.65 since the stop was triggered at 38.50.

Reference: 8.4.2.4.3 in the License Exam Manual

Question #132 of 172

Question ID: 606398

A specialist (designated market maker) must refuse:

- I. not-held orders.
- II. good-for-a-month orders.
- III. stop limit orders.
- IV. market orders.

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

Explanation

Specialists (designated market makers) cannot accept not-held orders or good-for-a-month orders. Not-held orders are the responsibility of floor brokers (commission brokers); these orders give the floor broker discretion as to time and price. Good-for-a-month orders are not standard orders. A time-qualified order must be day or GTC.

Reference: 8.4.2.5 in the License Exam Manual

Question #133 of 172

Question ID: 606367

A representative enters a customer's immediate or cancel order to sell 1,000 shares at \$12. If only 500 shares can be sold at \$12, which of the following will occur?

- X **A)** Because the entire order cannot be filled, the entire order will be canceled unexecuted.
- X **B)** None of these.
- X **C)** Because 500 shares can be sold, the balance of the order will remain as a sell limit order for 500 shares at \$12.
- ✓ **D)** The 500 shares will be sold at \$12; the remainder of the order will be canceled unexecuted.

Explanation

An immediately or cancel order will take a partial fill. Time is the limiting factor in an IOC.

Reference: 8.4.3.6 in the License Exam Manual

Question #134 of 172

Question ID: 606323

Which of the following market tiers are included in Nasdaq?

- I. Nasdaq Regional exchange-listed securities.
- II. Nasdaq Global Market.
- III. Nasdaq MidCap Market.
- IV. Nasdaq Capital Market.

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

Explanation

Nasdaq consists of three market tiers: Nasdaq Global Select Market, Global Market, and Capital Market.

Reference: 8.2.1.2 in the License Exam Manual

Question #135 of 172

Question ID: 606456

Which of the following statements regarding quotes and information for stocks on the electronic "OTC Pink" are TRUE?

- I. Quotes are firm.
- II. Quotes are not firm.
- III. Updates are made throughout the trading day and quotes are kept current.
- IV. Updates may not be current or made intra-day.

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

Explanation

With updates made infrequently, quotes found on the electronic OTC Pink are never firm. Quotes on such systems are for informational purposes only; subject to change.

Reference: 8.9.2.3 in the License Exam Manual

Question #136 of 172

Question ID: 606391

Which of the following orders on the order book will NOT be filled if the stock rises?

- X **A)** Buy stop limit.
- X **B)** Sell limit.
- ✓ **C)** Sell stop.
- X **D)** Buy stop.

Explanation

Those orders on the book which are above the current market will be executed if the stock rises. Those open orders above the current market are buy stops (including buy stop limits) and sell limits.

Reference: 8.4.2.4.2 in the License Exam Manual

Question #137 of 172

Question ID: 606380

Which of the following orders would be executed in a rising market?

- I. Buy stops.
- II. Buy limits.
- III. Sell limits.

IV. Sell stops.

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

Explanation

Buy limits and sell stops are entered below the current market and would be executed if the market were falling. Sell limits and buy stops are entered above the current market and would be executed if the market were rising.

Reference: 8.4.2.4.1 in the License Exam Manual

Question #138 of 172

Question ID: 606449

Stock prices in the over-the-counter market are determined by:

- ✓ **A)** negotiation.
- X **B)** a competitive bid.
- X **C)** an auction.
- X **D)** the 5% markup policy.

Explanation

The OTC market is considered to be a negotiated market in contrast to a stock exchange, which is an auction market. The 5% markup policy regulates commissions and markups, not prices and competitive bids are a type of underwriting agreement for new issues.

Reference: 8.8.1.1 in the License Exam Manual

Question #139 of 172

Question ID: 606407

In which of the following situations may a broker/dealer enter an order for a customer to sell a stock long?

- I. The broker/dealer has reason to believe that the customer owns the stock and will deliver it promptly.
- II. The security is carried in the customer's account at the broker/dealer.
- III. The customer owns a bond convertible into the stock and has issued conversion instructions.
- IV. The customer owns a call option on the stock and has exercised the call.

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

Explanation

To note that a sell order is long, a broker/dealer must either have the stock in its possession or have reasonable assurance that the customer owns the stock and will deliver it promptly. Regarding a convertible bond or a call option, to be considered long the stock a customer must have tendered the bond for conversion or have given notice to exercise the call.

Reference: 8.4.4.3.1 in the License Exam Manual

Question #140 of 172

Question ID: 606460

Which of the following quotations are expressions of firm quotes?

- I. "It is 30-31."
- II. "Last I saw was 30-31."
- III. "We can trade it 30-31."
- IV. "30-31 work out."

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

Explanation

Examples of firm quotes include: "It is 30-31," "We can trade it 30-31," "The market is 30-31," and "We will do it 30-31."

Reference: 8.9.1.1 in the License Exam Manual

Question #141 of 172

Question ID: 606329

After the market closed yesterday, ABC announced that it would file for bankruptcy under Chapter 11. The NYSE decides not to open trading in ABC. In response to the NYSE's announcement, which of the following statements regarding the OTC market is TRUE?

- X **A)** It continues to trade ABC with the NYSE specialist's (Designated Market Maker) permission.
- X **B)** It applies to the SEC for a decision within 30 minutes of the opening.
- X **C)** It halts all trading in ABC until the NYSE reopens it.
- ✓ **D)** It may either halt or continue trading as it sees fit.

Explanation

The over-the-counter market is not bound by actions of the NYSE or other exchanges, and third-market trading may continue in the stock.

Reference: 8.2.2 in the License Exam Manual

Question #142 of 172

Question ID: 606485

Level I Nasdaq service provides subscribers with all of the following information EXCEPT:

- ✓ **A)** bid and ask quotes for each market maker.
- X **B)** volume information.
- X **C)** the inside market.
- X **D)** last sale information.

Explanation

Level I Nasdaq service provides subscribers with information on the inside market, last sale, and volume. The bid and ask quotes of each market maker in a particular security are shown over Level II.

Reference: 8.11.1 in the License Exam Manual

Question #143 of 172

Question ID: 606436

The following appears on the consolidated tape: T SLD 45. What does the symbol SLD indicate?

- X **A)** Shares of American Telephone (T) were sold short at \$45.
- X **B)** This is the last transaction for American Telephone to be reported on this day.
- X **C)** Shares of American Telephone (T) traded cash settlement.
- ✓ **D)** Shares of American Telephone (T) were sold previously but were not printed on the tape at the time of the trade and are now being printed out of sequence.

Explanation

"SLD" means that this trade, which occurred sometime earlier, is being reported on the Consolidated Tape System (CTS) out of sequence (late).

Reference: 8.7.0.3.1 in the License Exam Manual

Question #144 of 172

Question ID: 606433

Super Display Book (SDBK) is the electronic order processing system used by which of the following markets for trading common stocks?

- ☐ A) OTC market.
- ☒ B) New York Stock Exchange.
- ☐ C) Chicago Board Options Exchange.
- ☐ D) Philadelphia Stock Exchange.

Explanation

The NYSE uses the Super Display Book system for processing orders.

Reference: 8.6.1 in the License Exam Manual

Question #145 of 172

Question ID: 606443

All of the following statements regarding OTC markets are true EXCEPT

- ☒ A) the OTC market is an auction market
- ☐ B) an offer is the lowest price a dealer will accept when selling
- ☐ C) a bid is the highest price a dealer will pay when buying
- ☐ D) securities traded OTC include ADRs and municipal bonds

Explanation

The OTC market is a negotiated market in which market makers post their quotes in order to facilitate negotiating price. A bid is the highest price a buyer is willing to pay, and an offer is the lowest price a seller is willing to accept. Among the securities traded OTC, both American Depositary Receipts (ADRs) and municipal securities would be included.

Reference: 8.8.1.1 in the License Exam Manual

Question #146 of 172

Question ID: 606472

Riskless and simultaneous transactions by a broker/dealer are:

- ☐ A) permissible only in new issue underwritings.
- ☐ B) permissible only if there's profit for a customer.
- ☐ C) not permissible under any circumstances.
- ☒ D) permissible if they comply with the 5% policy.

Explanation

The 5% policy applies to all types of nonexempt secondary market transactions, including riskless and simultaneous transactions.

Reference: 8.10.2.4 in the License Exam Manual

Question #147 of 172

Question ID: 606488

NASDAQ market makers are required to report trades

- ☒ A) within 10 seconds of the transaction
- ☐ B) no later than the end of the business day in the time zone of the seller
- ☐ C) no later than the end of the business day in the time zone of the buyer
- ☐ D) within 1 minute of the transaction

Explanation

NASDAQ market makers are required to report trades within 10 seconds of the transaction.

Reference: 8.11.2.1 in the License Exam Manual

Question #148 of 172

Question ID: 606343

All of the following may transact business on the trading floor of the NYSE EXCEPT:

- X **A)** designated market maker
- X **B)** floor brokers.
- ✓ **C)** allied members.
- X **D)** two-dollar brokers.

Explanation

Allied members are executive officers, directors, or holders of more than 5% of an NYSE member firm's voting stock. They are not allowed to trade on the exchange floor.

Reference: 8.3.2 in the License Exam Manual

Question #149 of 172

Question ID: 606373

An investor places an order to sell short ABCD at the open. The opening bid of 15.25 is the same as the prior day's close. At what price may the investor sell short at the open?

- X **A)** 15.24.
- ✓ **B)** 15.25.
- X **C)** The investor is prohibited from selling short at the open.
- X **D)** 15.26.

Explanation

Short sales can occur any time during the trading day, including the opening and the close. In this case, the sale would take place at the best bid, which is 15.25.

Reference: 8.4.4 in the License Exam Manual

Question #150 of 172

Question ID: 606418

For a client to get immediate execution on an order, it should be placed as which of the following?

- X **A)** Good-till-canceled.
- X **B)** Stop.
- X **C)** All-or-none.
- ✓ **D)** Market.

Explanation

A market order is executed immediately at the best available market price.

Reference: 8.4.2.2 in the License Exam Manual

Question #151 of 172

Question ID: 702175

Which of the following acts requires publicly traded corporations to issue annual reports?

- X **A)** Investment Company Act of 1940
- X **B)** Securities Act of 1933
- X **C)** Trust Indenture Act of 1939
- ✓ **D)** Securities Exchange Act of 1934

Explanation

The Securities Exchange Act of 1934 mandates that public issuers file annual and quarterly reports with the SEC.

Reference: 8.1.1.2 in the License Exam Manual

Question #152 of 172

Question ID: 606464

If a Nasdaq market maker is selling stock to a customer from inventory and the firm has held the shares to be sold for several months, what price should the dealer use as a basis for a markup?

- ☐ A) Broker/dealer's own current offer price.
- ☐ B) Offer price shown in the electronic "OTC Pink" on the day of the current sale.
- ☐ C) Price at which it purchased the securities.
- ☒ D) Best offering price quoted in the interdealer market.

Explanation

FINRA rules require that a dealer's markup to a customer be based on the current market rather than the dealer's cost in an active, competitive market. The dealer's potential loss on inventory is considered to be a risk of making a market.

Reference: 8.10.2.1 in the License Exam Manual

Question #153 of 172

Question ID: 606360

Each of the following is true about stop orders EXCEPT they:

- ☐ A) can limit a loss in a declining stock.
- ☐ B) become market orders when there is a trade at, or the market passes through, a specific price.
- ☒ C) are the same as limit orders.
- ☐ D) can accelerate the advance or decline of a stock's price if executed.

Explanation

A stop order becomes a market order once the market price reaches or passes through the stop price. An investor in a long position can use the sell stop order for protection against a market decline. When a large number of stop orders are triggered at a particular price, the advance or decline of the market at that point can be magnified.

Reference: 8.4.2.4 in the License Exam Manual

Question #154 of 172

Question ID: 606429

Earlier in the day, you entered a customer order to buy 300 XYZ at 26.45 GTC. By late afternoon, you notice that XYZ is trading at your customer's limit price. At the close of trading, you contact the order desk and get a Nothing Done report because of

- ☐ A) the small size of the order
- ☒ B) stock ahead
- ☐ C) the normal time delay between execution and execution reports
- ☐ D) the order was canceled at the close of trading

Explanation

All limit orders stand in time priority.

Reference: 8.4.2.3.1 in the License Exam Manual

Question #155 of 172

Question ID: 606403

All of the following kinds of orders may be turned over to the specialist (designated market maker) for execution EXCEPT:

- ☒ A) not-held.
- ☐ B) limit.
- ☐ C) market.
- ☐ D) stop.

Explanation

A not-held order (NH) is a market order in which the investor has given the authority to choose the price and time to the floor broker to achieve the best possible execution.

Reference: 8.4.3.4 in the License Exam Manual

Question #156 of 172

Question ID: 606487

Which of the following market maker practices is strictly prohibited under FINRA rules?

- ☐ A) Charging a markup of more than 5%.
- ☐ B) Paying dealers a nominal amount for retail orders sent for execution.
- ☒ C) Delaying the report of a transaction at the customer's request.
- ☐ D) Failing to display a limit order at the customer's request.

Explanation

FINRA rules strictly prohibit delaying the reporting of a trade at the customer's request. A customer may make a no-display request, in which case the limit order need not be displayed. A markup of more than 5% is allowed if it can be justified. Paying another broker/dealer to direct trades is not prohibited if the practice is disclosed to the customer (payment for order flow).

Reference: 8.11.2.1 in the License Exam Manual

Question #157 of 172

Question ID: 606402

You receive a not-held order from a customer who wants you to buy 1,000 shares of ABC when the price is right. Under NYSE rules, this order is a:

- ☐ A) limit order.
- ☒ B) day order.
- ☐ C) GTC order.
- ☐ D) FOK order.

Explanation

Unless the customer instructs you otherwise, not-held orders must be executed on the day received.

Reference: 8.4.3.1 in the License Exam Manual

Question #158 of 172

Question ID: 606383

Which of the following orders on the order book would be reduced for a cash dividend on the ex-date?

- ☐ A) Buy 100 XYZ at 50 DNR.
- ☐ B) Sell 100 XYZ at 60.
- ☒ C) Sell 100 XYZ at 50 stop.
- ☐ D) Buy 100 XYZ at 60 stop.

Explanation

Orders on the book adjusted on the ex-date for a cash dividend are those below the current market: buy limits and sell stops. The buy limit at 50 is marked DNR (do not reduce) so the only order reduced is the sell stop at 50.

Reference: 8.4.2.6 in the License Exam Manual

Question #159 of 172

Question ID: 606412

Each of the following statements concerning fill-or-kill orders and all-or-none orders are TRUE except:

- ☐ A) an FOK order must be filled in its entirety.
- ☐ B) an AON order must be filled in its entirety.
- ☐ C) an FOK order must be canceled if the whole order cannot be executed immediately.

- ✓ **D)** an AON order must be canceled if the whole order cannot be executed immediately. .

Explanation

A fill-or-kill (FOK) order must be executed immediately in its entirety or else it is canceled. An all-or-none (AON) order must be executed in its entirety but is not canceled if the whole order cannot be executed immediately.

Reference: 8.4.3 in the License Exam Manual

Question #160 of 172

Question ID: 606348

A technical analyst has been charting ABC stock and notes that the support/resistance levels are \$20 and \$30 respectively. If the analyst expects ABC to fall through support, which of the following orders should he enter?

- ✓ **A)** Sell 100 ABC 19.50 stop.
X **B)** Buy 100 ABC 30.25 stop.
X **C)** Sell 100 ABC 29.75 stop.
X **D)** Buy 100 ABC 20.50 stop.

Explanation

An analyst who expects a stock to fall through support is anticipating that the stock will decline. He can take advantage of this trend by establishing a short position at the top of the decline. He will enter a sell stop order just below the support price.

Reference: 8.4.2.4.2 in the License Exam Manual

Question #161 of 172

Question ID: 606350

Stop orders may be used for each of the following EXCEPT:

- X **A)** protect profits on long positions.
X **B)** establish positions.
X **C)** protect profits on short positions.
✓ **D)** lock in a specific price to close out a position.

Explanation

Stop orders are contingent orders that are triggered when the stock trades at or through a stated price. When triggered, they become market orders to buy or sell. They are used by technical traders to establish positions above or below resistance and support levels, respectively. Stop orders never guarantee a specific execution price.

Reference: 8.4.2.4 in the License Exam Manual

Question #162 of 172

Question ID: 606480

Which of the following describes Nasdaq Level 3 service?

- X **A)** Displays the representative bid and ask quotations on a security in which a minimum of 2 market makers exist.
X **B)** Shows the quotations from all registered market makers entering quotes into the system.
X **C)** Displays the representative bid and ask quotations on a security in which a minimum of 3 market makers exist.
✓ **D)** Allows market makers to enter quotations into the system for a security in which they are registered.

Explanation

Nasdaq Level 3 service allows market makers to enter and update quotations on securities in which the market makers are registered with FINRA.

Reference: 8.11.1 in the License Exam Manual

Question #163 of 172

Question ID: 606339

A customer enters a day order to sell 300 XYZ stock at 34.60. XYZ continues to trade in a 33 to 33.60 range. An hour before the close, he considers changing the order to a GTC order. You respond that he might consider allowing the order to remain on the books as a day order, and if it remains unexecuted at the close, to re-enter it the next day as a GTC order. You would have based this recommendation on concern for which of the following?

- ☐ A) Weakening the customer's risk tolerance by encouraging him to change orders frequently.
- ☐ B) Day orders are less risky than GTC orders.
- ☐ C) Additional cost to the firm of changing the order twice in a day.
- ☒ D) An existing order has precedence over a new order when it comes to execution.

Explanation

Time priority (first come, first served) of an order is lost if there are any changes in the terms of an order.

Reference: 8.3.3.1 in the License Exam Manual

Question #164 of 172

Question ID: 606356

A day order is entered to buy 500 LMN at 24.35. By the close of the trading day the firm has been able to purchase 100 shares at 24.25 and 200 shares at 24.35. If the remainder of the order is unfilled, what is the outcome?

- ☐ A) The customer may demand that the firm deliver the remaining shares at 24.35.
- ☐ B) The customer may reject the incomplete order unless the remainder can be filled within 3 business days.
- ☒ C) The customer must accept the execution for 300 shares, and the remainder of the order is canceled after the close.
- ☐ D) The customer may reject the incomplete order unless the broker/dealer can guarantee filling the remainder by the end of the day.

Explanation

The customer must accept the order for 300 shares. The representative cannot guarantee that the order will be filled by the end of day.

Reference: 8.4.2.3 in the License Exam Manual

Question #165 of 172

Question ID: 879513

A customer has an order entered to buy 400 ABC at 60. ABC declares a 25% stock dividend. On the ex-date, the order on the order book will read

- ☒ A) buy 500 shares at 48
- ☐ B) buy 425 shares at 50
- ☐ C) buy 500 shares at 30
- ☐ D) buy 400 shares at 60

Explanation

For stock dividends, buy limit orders on the book are adjusted and the order value must be the same before and after the adjustment. Before the adjustment 400 ABC at 60 Stop = \$24,000 total value. After the adjustment total shares on the buy order will be 500 ($400 \times 25\% = 100$ new shares, $400 + 100 = 500$). To arrive at the new price divide the total order value by the new number of shares ($\$24,000 / 500 \text{ shares} = 48$). After the adjustment the new order will read; buy 500 shares at 48.

Reference: 8.4.2.6.2 in the License Exam Manual

Question #166 of 172

Question ID: 606346

A technical analyst has been charting XYZ stock and notes that it fluctuates between \$36 and \$41. If the analyst expects a breakout through resistance, which of the following orders should be placed?

- ☐ A) Buy XYZ 35 Stop GTC.
- ☒ B) Buy XYZ 42 Stop GTC.
- ☐ C) Buy XYZ 42 GTC.
- ☐ D) Buy XYZ 35 GTC.

Explanation

A buy stop order is placed above a resistance level. It is triggered if and when the stock trades at or above the stop price. This allows an investor to participate in a bullish breakout through resistance.

Reference: 8.4.2.4.1 in the License Exam Manual

Question #167 of 172

Question ID: 606399

Traders can sell short:

- I. when a stock ticks up.
- II. when a stock ticks down.
- III. unrestrictedly in both exchange and OTC markets.

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

Explanation

In both exchange and OTC markets, traders can sell short at any time in the trade sequence.

Reference: 8.4.4 in the License Exam Manual

Question #168 of 172

Question ID: 606462

An OTC quote that must be reconfirmed with the OTC trading room before a broker/dealer takes action is:

- X **A)** representative.
- ✓ **B)** subject.
- X **C)** third party.
- X **D)** firm.

Explanation

Before a trade can take place, a subject quote always must be reconfirmed with the OTC trader or market maker that provided it. Subject quotes are typically used in conjunction with thinly traded securities or before filling large block orders.

Reference: 8.9.1.3 in the License Exam Manual

Question #169 of 172

Question ID: 606332

If a municipal firm purchases a block of municipal bonds in anticipation of a price increase, the firm is engaged in:

- X **A)** arbitrage.
- X **B)** hedging.
- ✓ **C)** position trading.
- X **D)** short selling.

Explanation

The dealer is buying for its inventory (position trading).

Reference: 8.2.3.2 in the License Exam Manual

Question #170 of 172

Question ID: 606349

A customer sells short 1,000 XYZ at 60. Three months later, XYZ is at 44. Which of the following strategies might the customer employ to protect his unrealized gain?

- I. Sell 1,000 XYZ 45 stop.

- II. Buy 1,000 XYZ 45 stop.
- III. Buy 10 XYZ Mar 45 calls.
- IV. Buy 1,000 XYZ 45 stop limit.

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

Explanation

In this short position, the customer currently has an unrealized gain of 16. He stands to see his unrealized gain begin to erode if the stock price rises, so he could enter a buy stop order above 44 to allow him to buy and cover his position if a price rise occurs. Purchasing calls would also be effective, since the right to exercise would allow the investor to buy stock at 45 and protect a gain of 15 points less the premium paid.

Reference: 8.4.2.4.1 in the License Exam Manual

Question #171 of 172

Question ID: 606410

Which of the following would accelerate a decline in a bear market?

- X **A)** Sell limit.
- X **B)** Buy limit.
- ✓ **C)** Sell stop.
- X **D)** Buy stop.

Explanation

Sell stops, placed below the current market, become market orders to sell when the stock trades at or through (below) the stop price. Market sell orders can accelerate declines in the price of the stock.

Reference: 8.4.2.4.2 in the License Exam Manual

Question #172 of 172

Question ID: 606461

An OTC trader's quote of "60 to 63, work out," in response to a broker holding a customer order to sell a block of stock, indicates which of the following?

- X **A)** The quote is firm and the customer can sell an unlimited amount of stock at 60 or buy at 63.
- ✓ **B)** The quote is tentative (nominal) merely suggesting a range in which the order is likely to be filled.
- X **C)** The quote is firm but the market maker must be given discretion over when the transaction will take place.
- X **D)** The market maker guarantees that a customer buy order can be filled no higher than 60.

Explanation

The term "work out" means that the quote is approximate, or nominal. As with a subject quote, the OTC trader that supplied the quote will most likely negotiate with a number of market makers to get the customer's securities sold or bought.

Reference: 8.9.1.4.1 in the License Exam Manual