

**Question #1 of 132**

Question ID: 605471

The dollar price used to compute the yield to call must be recorded on the confirmation of which of the following callable municipal bonds?

- ✓ **A)** 9s 15 quoted at 7.0.
- X **B)** 7s 05 quoted at 9.5.
- X **C)** 8s 08 quoted at 8.0.
- X **D)** 6s 07 quoted at 7.5.

Explanation

For callable premium bonds quoted on a yield basis, the yield computed to the near term in-whole call is used. The confirmation shows the call date and call price as the expected maturity. The only bond shown quoted at a premium is 9s 15 quoted at 7.0.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #2 of 132**

Question ID: 605505

A centralized online site intended for use by retail, non-professional investors to locate key information about municipal securities including real-time access to prices is known as:

- X **A)** Municipal securities rulemaking board (MSRB)
- X **B)** Moody's Investor grade (MIG)
- X **C)** National association of securities dealers automated quotation system (Nasdaq)
- ✓ **D)** Electronic municipal market access (EMMA)

Explanation

EMMA is a centralized online site to locate key information about municipal securities presented for retail, non-professional investors. Available on the site are official statements for most new municipal bond offerings, 529 college savings plans and other municipal securities as well as real-time access to prices for municipal bonds trading in the secondary market.

**Reference:** 3.6.1 in the License Exam Manual

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**Question #3 of 132**

Question ID: 605436

Which of the following activities can occur in the municipal bond secondary market?

- I. Bidding on a new issue
- II. Retail and institutional transactions
- III. Establishing the underwriting spread
- IV. Trades done by a broker's broker

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

Explanation

Sales to retail investors, trading between institutions, trading between dealers, and trading on behalf of other brokers all occur in the municipal secondary market. Bidding on new issues and establishing underwriting spreads have to do with the primary market (new issues).

**Reference:** 3.4.2.1 in the License Exam Manual

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**Question #4 of 132**

Question ID: 605502

A municipal finance professional (MFP) is

- ☐ A) an employee of the MSRB specializing in seeing that broker/dealers adhere to the MSRB rules and regulations regarding the sales of municipal bonds to retail customers
- ☒ B) an employee of a broker/dealer engaged in municipal security representative activities other than retail sales or who solicits municipal securities business for the broker/dealer
- ☐ C) employed by a municipality to oversee the issuance of municipal bonds
- ☐ D) an elected official of a municipality having some decision-making authority regarding new municipal bond issues

Explanation

As per the Municipal Securities Rulemaking Board (MSRB) a municipal finance professional (MFP) is an associated person of a broker/dealer who is primarily engaged in municipal securities representative activities other than retail sales to individuals, who solicits municipal securities business for the broker/dealer, or who is in the supervisory chain above MFPs as described.

**Reference:** 3.5.1.0.2 in the License Exam Manual

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**Question #5 of 132**

Question ID: 605453

A commercial bank purchasing qualified GO bonds may deduct what percentage of the interest cost necessary to fund the purchase?

- ☐ A) 20%.
- ☐ B) 100%.
- ☒ C) 80%.
- ☐ D) 50%.

Explanation

A bank-qualified municipal bond issue is a small issue, generally a GO issue of \$10 million or less. If a bank were to purchase any part of a qualified issue, 80% of the annual costs necessary to fund the purchase would be tax deductible to the bank.

**Reference:** 3.4.8.2.1 in the License Exam Manual

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**Question #6 of 132**

Question ID: 605487

Under MSRB rules, what is the maximum amount of business-related gratuities and gifts that a registered representative may give to one person per year?

- ☐ A) 200.
- ☐ B) 25.
- ☐ C) 50.
- ☒ D) 100.

Explanation

MSRB rules permit business-related gratuities and gifts not exceeding \$100 per year.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #7 of 132**

Question ID: 605393

Municipal bonds known as dollar bonds are generally quoted:

- ☐ A) yield to maturity
- ☒ B) as a percentage of par
- ☐ C) net yield
- ☐ D) yield to call

Explanation

Although municipal bonds are usually quoted on a yield basis, actively traded bonds known as dollar bonds are often quoted as a percentage of par (price). The term dollar bond comes from the quote being in made in dollars. Remember that a percentage of par value (\$1,000) equals a dollar price.

**Reference:** 3.4.1.1 in the License Exam Manual

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### Question #8 of 132

Question ID: 605416

Under MSRB rules, which of the following yields for a callable bond would be shown on a confirmation?

- ☐ A) Yield based on farthest in-whole call
- ☐ B) Yield based on in-part call
- ☐ C) Yield based on catastrophe call
- ☒ D) Yield based on nearest in-whole call

#### Explanation

MSRB rules require that yield to call based on the nearest (near-term) entire issue (in-whole call) be disclosed on a customer's confirmation. With a partial call, the bond being purchased may or may not be included in the call, and with a catastrophe call provision, a call would only occur if an unpredictable event requires the issuer to call the bonds.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #9 of 132

Question ID: 605466

Trade confirmations must show yield to call on which of the following bonds?

- ☒ A) 5-½%, 5% basis, maturing 2008.
- ☐ B) 6-½%, at par, maturing 2012.
- ☐ C) 5-½%, at par, maturing 2008.
- ☐ D) 6-½%, 7% basis, maturing 2008.

#### Explanation

Bond confirmations must disclose the lower of the yield to maturity or yield to call. On a premium bond, the yield to call is the lower of the two. The 5-½% bond with a 5% basis is the only bond trading at a premium because the yield to maturity (or basis) is lower than the coupon.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #10 of 132

Question ID: 605485

According to the MSRB rules, a registered representative can do all of the following EXCEPT:

- ☒ A) train other registered representatives.
- ☐ B) participate in underwriting municipal bonds.
- ☐ C) trade municipal bonds.
- ☐ D) sell municipal bonds.

#### Explanation

Registered representatives must be trained as well as supervised by a registered principal. They may participate in new municipal bond underwritings and both sell and trade municipal bonds in the secondary markets.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #11 of 132

Question ID: 605405

A municipal bond subject to a refunding call must be quoted at yield-to-call in which of the following instances?

- ☒ A) A bond at a premium callable at par.
- ☐ B) A bond at par callable at par.

- X **C)** A bond at par callable at a premium.
- X **D)** A bond at a discount callable at par.

Explanation

An investor's yield would be less on a premium bond if called at par, rather than if allowed to mature. Thus, a registered representative must quote the lower potential yield scenario (in this case, yield-to-call).

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #12 of 132**

Question ID: 605498

How may a municipal firm retail customer gain access to an MSRB rule book?

- X **A)** Only with the verbal permission of a registered branch manager (sales supervisor).
- X **B)** Only by writing the MSRB directly with a specific question involving an MSRB rule.
- ✓ **C)** Upon request to the broker/dealer; no restrictions exist.
- X **D)** Only with the written permission of a principal.

Explanation

MSRB rules require that an MSRB manual be on-site at all municipal firms. Customers are entitled to see the manual without restriction.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #13 of 132**

Question ID: 605483

Which of the following responsibilities did the MSRB receive through the Securities Acts Amendments of 1975?

- I. Regulation of municipal issuers.
- II. Establishment of recordkeeping requirements for municipal broker/dealers.
- III. Enforcement of any municipal regulations it adopts.
- IV. Creation of regulations for participants in the municipal securities secondary market.

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

Explanation

The MSRB creates rules for municipal trading and issues interpretations of its rules. It does not regulate issuers or have any enforcement capability. For broker/dealers, MSRB rules are enforced by FINRA.

**Reference:** 3.5.1 in the License Exam Manual

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**Question #14 of 132**

Question ID: 605407

What is a bank-qualified municipal issue?

- X **A)** One considered safe enough for a bank to invest in-same as investment grade.
- ✓ **B)** One that receives preferential treatment by allowing a bank to exclude from gross income 80% of the interest expense incurred to carry the bonds.
- X **C)** An escrow receipt.
- X **D)** One in which the bank guarantees the payment of interest and principal.

Explanation

A bank-qualified municipal issue is one that receives preferential treatment by allowing a bank to exclude from gross income 80% of the interest expense incurred to carry (issue) the bonds. An issue is qualified if it is for a public purpose and the issuer issues no more than \$10 million in the calendar year of the issue. Bank qualified has no bearing on the quality of the issue.

### Question #15 of 132

Question ID: 605491

An investor wishes to purchase a new issue municipal bond. Which two of the following terms describe the form of the bond?

- I. Bearer.
- II. Registered as to principal only.
- III. Fully registered.
- IV. Book entry.

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

#### Explanation

All new municipal bonds are issued either in fully registered or book entry form.

Reference: 3.5.1.1 in the License Exam Manual

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### Question #16 of 132

Question ID: 605492

A customer has written a letter of complaint to the dealer. On receipt of the complaint, a municipal securities dealer must first:

- ☐ A) notify the examining regulatory authority.
- ☐ B) submit to arbitration.
- ☒ C) accept the complaint and record the action taken.
- ☐ D) refund any money to the customer making the complaint .

#### Explanation

On receipt of a customer complaint, the municipal securities dealer must accept the complaint, record the action taken, put it in a complaint file, and respond. Responses also become part of the complaint file.

Reference: 3.5.1.1 in the License Exam Manual

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### Question #17 of 132

Question ID: 786005

An investor is considering purchasing a bond. He has decided on either a 6% municipal bond offered by the state in which he lives or an 8% corporate bond offered by a company with headquarters in his state. He would like you to help him decide which bond will get him the greatest return for his investment. Which of the following items of information must you obtain before you can make a specific recommendation?

- ☐ A) His net worth
- ☒ B) His tax bracket
- ☐ C) How long he has been a resident of his state
- ☐ D) What other securities he owns

#### Explanation

To make the recommendation, you must do a tax-equivalent yield or tax-free equivalent yield calculation, for which you need the investor's tax bracket. The other items listed do not have a bearing.

Reference: 3.4.8 in the License Exam Manual

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### Question #18 of 132

Question ID: 605412

A bank purchases a municipal bond that is bank qualified. This allows the bank to deduct what percentage of the interest expense incurred to carry the bond?

- ✓ **A)** 0.8.
- X **B)** 0.1.
- X **C)** 0.2.
- X **D)** 1.

Explanation

The expenses associated with purchasing or holding municipal bonds are not deductible. However, the exception is when banks purchase certain issues of municipal GO bonds (i.e., bank qualified), for which the rules allow the bank to deduct 80% of the interest-carrying cost.

**Reference:** 3.4.8.2.1 in the License Exam Manual

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**Question #19 of 132**

Question ID: 605382

All of the following MSRB Rules of Uniform Practice requirements may be altered by mutual agreement between dealers EXCEPT the:

- X **A)** payment of shipping expenses.
- X **B)** price and time of delivery.
- ✓ **C)** content of confirmations.
- X **D)** terms of delivery.

Explanation

The MSRB regulates the contents of confirmations to standardize information. There must be an original record of the agreement even though dealers may mutually agree to change the terms.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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**Question #20 of 132**

Question ID: 605488

Which of the following is NOT under governance of the MSRB?

- I. Issuers of municipal fund securities.
- II. Broker/dealers that sell municipal fund securities.
- III. Issuers of municipal bonds.
- IV. Banks that sell municipal securities.

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

Explanation

Issuers of municipal or municipal fund securities are exempt issuers and are not regulated or under the guidance of the MSRB or any other SRO.

**Reference:** 3.5.1 in the License Exam Manual

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**Question #21 of 132**

Question ID: 605452

A registered representative mentions a particular 6% municipal bond quoted on a 6.5% basis. Which of the following is correct?

- I. 6% is the bond's coupon.
- II. 6% is the bond's current yield.
- III. 6.5% is the bond's yield to maturity.
- IV. 6.5% is the bond's current yield.

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

✓ **D)** I and III

Explanation

When a bond is referred to by a yield percentage, it is the coupon (nominal or stated) yield being referenced. Basis yield refers to yield to maturity (YTM). Hence, a 6% bond currently trading with a 6.5% YTM is correct.

**Reference:** 3.4.1 in the License Exam Manual

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**Question #22 of 132**

Question ID: 605474

All of the following municipal bonds are callable at par. Which confirmation will show yield to call?

- X **A)** 5-½%, at par, maturing 2014.
- X **B)** 6-½%, 7% basis, maturing 2014.
- ✓ **C)** 5-½%, 5% basis, maturing 2010.
- X **D)** 6-½%, 7% basis, maturing 2010.

Explanation

Bond confirmations must disclose the lower of the yield to maturity or yield to call. On a premium bond, the yield to call is the lower of the two.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #23 of 132**

Question ID: 605411

All of the following are used to determine the suitability of recommendations made to a municipal bond customer EXCEPT the:

- X **A)** customer's state of residence.
- X **B)** structure of the customer's existing portfolio.
- X **C)** customer's tax bracket.
- ✓ **D)** customer's marital status.

Explanation

To determine suitability when recommending municipal bonds, an agent would consider the customer's tax bracket, state of residence (intrastate issues may be double or triple tax exempt), and existing portfolio structure.

**Reference:** 3.4.3.2 in the License Exam Manual

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**Question #24 of 132**

Question ID: 605389

You sell a municipal bond that has been advance refunded. It will be called at 102 four years from now. On the confirmation, the yield must be stated as the yield to:

- X **A)** maturity or yield to call, whichever is higher.
- X **B)** maturity or yield to call, whichever is lower.
- X **C)** maturity.
- ✓ **D)** call.

Explanation

MSRB rules require that, when a call date has been fixed by a prerefunding, the yield to call so fixed must be reflected on the confirmation statement. Because of the prerefunding, this bond issue will be called at the call date. There is no uncertainty surrounding this event. Therefore, it is appropriate to price the bond to the call date. The old maturity on the bond has no further significance.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #25 of 132**

Question ID: 721412

Which of the following municipal bond investors would be allowed to deduct margin interest on an income tax return that had been charged to borrow funds used to purchase the bonds?

- ✓ **A)** Banks purchasing certain general obligation (GO) issues
- X **B)** Individuals in a high income tax bracket purchasing revenue bonds
- X **C)** Individuals in low income tax brackets purchasing general obligation bonds
- X **D)** Mutual funds purchasing municipal bonds for money market portfolios

Explanation

Margin interest charged for loans to purchase municipal bonds is generally not deductible on a tax return. However, for certain GO municipal issues (known as bank qualified municipal issues) the IRS allows a bank to deduct up to 80% of the margin interest charged for funds borrowed to purchase the bonds.

**Reference:** 3.4.8.2.1 in the License Exam Manual

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**Question #26 of 132**

Question ID: 605484

A municipal finance professional eligible to vote in a municipality which frequently issues debt securities has made a contribution to the political campaign of one of the issuer's elected officials. More than which amount would disqualify the firm from engaging in certain municipal businesses with that issuer for 2 years?

- X **A)** 5000.
- X **B)** 1000.
- ✓ **C)** 250.
- X **D)** 100.

Explanation

\$250 is the maximum political contribution allowed under MSRB rules for those eligible to vote in the municipality issuing debt on a negotiated basis.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #27 of 132**

Question ID: 605419

Which of the following *best* describes a nominal municipal bond quotation?

- X **A)** Likely bid or offer.
- X **B)** Subject bid or offer that must be reconfirmed before a trade.
- ✓ **C)** Approximate price reflecting current market value with no bid or offer.
- X **D)** Firm bid or offer.

Explanation

A nominal quote is an indication of the approximate market value of a municipal bond, provided for informational purposes only. A nominal quote does not represent an actual bid or offer.

**Reference:** 3.4.1.3 in the License Exam Manual

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**Question #28 of 132**

Question ID: 605419

According to MSRB rules, if a municipal securities broker/dealer receives an advisory fee from an issuer, it must notify in writing any of its customers purchasing bonds issued by that municipality of

- X **A)** All of these.
- X **B)** the placement ratio.
- ✓ **C)** any advisory relationship existing between itself and the issuing municipality.
- X **D)** a negative outlook from Standard & Poor's.

Explanation



MSRB rules require that if a broker/dealer has an advisory relationship with a municipality, that relationship must be disclosed to any of the broker/dealer's clients who are buying bonds issued by the municipality.

**Reference:** 3.4.7.1 in the License Exam Manual

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### Question #29 of 132

Question ID: 605429

An investor purchased a municipal bond at par to yield 5.5% to maturity. If, two years later, he sold the bond at a price equivalent to a 5% yield to maturity, the investor incurred:

- ✓ **A)** a capital gain.
- X **B)** no taxable result at this time.
- X **C)** taxable interest income.
- X **D)** a capital loss.

#### Explanation

Because the investor sold the bond at a price that will yield less than the yield when he purchased the bond, the bond must have been sold for more than the investor paid for it. Therefore, the investor incurred a capital gain-lower yield, higher price.

**Reference:** 3.4.1 in the License Exam Manual

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### Question #30 of 132

Question ID: 605408

Any branch office employee who refers customers to municipal securities registered representatives and is compensated for any transactions that result must be a:

- X **A)** financial and operations principal.
- ✓ **B)** registered representative.
- X **C)** municipal securities dealer employee.
- X **D)** general securities principal.

#### Explanation

An employee who receives compensation based on sales must be registered as a sales representative.

**Reference:** 3.4.4.2 in the License Exam Manual

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### Question #31 of 132

Question ID: 605383

Under MSRB rules, which of the following would indicate a control relationship between a municipal dealer and an issuer?

- X **A)** The principal of the dealer lives within the municipality. .
- X **B)** The dealer was an underwriter of the municipality's last issue.
- ✓ **C)** A dealer's officer sits on the issuer's board of trustees.
- X **D)** The dealer is engaged as an underwriter for the issuer.

#### Explanation

A control relationship exists if someone represents both an issuer and municipal securities dealer.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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### Question #32 of 132

Question ID: 605437

All of the following items of information must be included in a municipal securities confirmation EXCEPT:

- X **A)** the date of maturity that has been fixed by a call notice.
- X **B)** the capacity in which the broker/dealer acted.
- X **C)** whether the securities are fully registered or book entry.
- ✓ **D)** an extraordinary call provision.

#### Explanation

MSRB rules require that certain information be included on all municipal confirmations, including the capacity in which the firm acted in filling the order, whether the bonds are in registered or book entry form, and any relevant call provisions. Information on catastrophe or extraordinary call provisions is not included on a confirmation because catastrophes have no planned dates of occurrence.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #33 of 132

Question ID: 605390

If an investor in the 27% federal marginal income tax bracket invests in municipal general obligation public purpose bonds nominally yielding 4.5%, what is the tax equivalent yield?

- X **A)** 0.1667.
- X **B)** 0.0329.
- X **C)** 0.0572.
- ✓ **D)** 0.0616.

#### Explanation

The formula for computing tax equivalent yield is: nominal yield divided by  $(1 - \text{federal marginal income tax rate})$   $.045 / (1 - .27) = 6.16\%$ .

**Reference:** 3.4.8.1.1 in the License Exam Manual

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### Question #34 of 132

Question ID: 605415

MSRB rules prohibit dealers from entering into which of the following transactions with a mutual fund?

- X **A)** Purchasing the fund's shares to fill customers' orders.
- ✓ **B)** Accepting portfolio trades from the fund as compensation for sales of the fund's shares.
- X **C)** Acting as a broker's broker for a large block of bonds the fund wishes to sell.
- X **D)** Accepting orders from a fund to buy a new municipal issue.

#### Explanation

This prohibited practice is known as "reciprocal dealing" between a broker/dealer and an investment company. The other examples are routine practices.

**Reference:** 3.4.3.1 in the License Exam Manual

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### Question #35 of 132

Question ID: 605475

All of the following statements about municipal brokers' brokers are true EXCEPT that they:

- X **A)** do not maintain inventories.
- X **B)** do not perform retail trades with individual investors.
- X **C)** perform specialized trades for institutions.
- ✓ **D)** perform trades on a principal basis only.

#### Explanation

A broker's broker does not maintain an inventory of bonds. Therefore, they do not act as principals; they act as agents only in trades between dealers or between institutions. They do no retail business.

**Reference:** 3.4.2.1 in the License Exam Manual

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### Question #36 of 132

Question ID: 605381

Under MSRB rules, a broker/dealer must disclose control relationships:

- X **A)** never.

- X **B)** only for new issues.
- X **C)** only for secondary market transactions.
- ✓ **D)** in all customer transactions.

Explanation

MSRB rules require disclosure to clients of any control relationship that exists between the broker/dealer and the issuer. The rule applies to all customer transactions including research reports.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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**Question #37 of 132**

Question ID: 605449

Which of the following are TRUE of a municipal bond broker's broker?

- I. Protects customer identity.
- II. Must disclose the identity of customers.
- III. Has no inventory.
- IV. Maintains an inventory.

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

Explanation

Municipal brokers' brokers generally purchase and sell securities on an anonymous basis for institutional clients. They are not in the business of making a market; therefore, they maintain no inventory.

**Reference:** 3.4.2.1 in the License Exam Manual

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**Question #38 of 132**

Question ID: 605497

A registered representative is attempting to close a large municipal bond sale, but the customer voices concern about a potential increase in interest rates. Which of the following actions are permitted by MSRB rules?

- X **A)** Personally offering to buy the bonds back at a specified price and date.
- X **B)** Offering to share in profits or losses resulting from the transaction.
- X **C)** Guaranteeing the customer against any loss.
- ✓ **D)** Selling the customer a put or entering into a repurchase agreement.

Explanation

MSRB rules prohibit a municipal securities dealer from guaranteeing a customer against loss, or promising to repurchase securities at a set price for their own account. MSRB rules permit the sale of bona fide put options or repurchase agreements to customers by municipal securities dealers. Sharing in any profits or losses is prohibited.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #39 of 132**

Question ID: 605451

A quotation on a municipal security between dealers is assumed to be a(n):

- X **A)** indication of interest.
- X **B)** workable quote.
- X **C)** nominal quote.
- ✓ **D)** bona fide quote.

Explanation

Municipal bond quotations between dealers are required to be bona fide, or firm, quotes. They are required to be fair and reasonably related to the current market.

**Reference:** 3.4.1.2 in the License Exam Manual

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### Question #40 of 132

Question ID: 605489

New issues of municipal securities are available in which of the following forms?

- I. Bearer.
- II. Book entry.
- III. Registered.
- IV. Registered as to principal only.

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

#### Explanation

Although municipal bonds used to be issued in bearer form, this is no longer permitted. The same is true of bonds registered as to principal only. Newly issued bonds can either be fully registered or book entry, which is a certificateless form of ownership.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #41 of 132

Question ID: 605478

All of the following municipal securities are quoted on a yield basis EXCEPT:

- ☐ A) secured bonds.
- ☐ B) tax-anticipation notes.
- ☐ C) serial bonds.
- ☒ D) term bonds.

#### Explanation

Term bonds, or dollar bonds, are quoted like corporate bonds as a percentage of par. All other municipals are quoted in basis.

**Reference:** 3.4.1.1 in the License Exam Manual

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### Question #42 of 132

Question ID: 721413

A bank doing which of the following would NOT be required to register as a municipal broker-dealer with FINRA?

- ☐ A) Underwriting municipal securities for municipal issuers
- ☒ B) Holding municipal securities as custodian for public customers
- ☐ C) Providing investment research regarding municipal securities to public investors
- ☐ D) Engaging in transactions to purchase or sell municipal securities for public customers

#### Explanation

A bank simply holding municipal securities as custodian for public customers need not register as a municipal securities broker-dealer with FINRA.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #43 of 132

Question ID: 605427

A customer purchases a noncallable municipal bond at a discount in the secondary market. All of the following must be on the customer's confirmation EXCEPT:

- ☐ A) yield to maturity.

- X **B)** capacity in which the dealer acted.
- X **C)** CU.S.I.P number.
- ✓ **D)** rating.

Explanation

Rating is not a required disclosure. However, if the bond is not rated, this fact must be disclosed. The symbol NR (not rated) is generally used.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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**Question #44 of 132**

Question ID: 605395

A municipal bond is offered at a discount. It has a 30-year maturity and is callable in 20 years at par. It is callable in 5 years at a premium and is puttable in 10 years at par. Which of the following yields would be quoted on this basis?

- X **A)** Yield to the 5-year call at a premium.
- X **B)** Yield to the 10-year put at par.
- ✓ **C)** Yield to the 30-year maturity.
- X **D)** Yield to the 20-year call at par.

Explanation

Bonds that sell at a discount are always quoted as yield-to-maturity. This is the lowest possible net yield that the investor would make by holding the bonds until the issuer redeems them.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #45 of 132**

Question ID: 605391

A customer purchases New York State GOs at a discount in the secondary market. The bonds mature in 10 years and are callable in 5 years at par. Under MSRB rules, the customer's confirmation will show

- X **A)** either the YTM or YTC.
- X **B)** both the YTM and YTC.
- X **C)** YTC.
- ✓ **D)** YTM.

Explanation

With callable municipal bonds, the confirmation must show the lower of the YTM or YTC. For a bond bought at a discount, the YTM is lower than YTC.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #46 of 132**

Question ID: 605490

The MSRB is authorized under the Securities Exchange Act of 1934 to make rules about all of the following EXCEPT:

- X **A)** municipal dealer recordkeeping.
- ✓ **B)** information provided by municipal issuers.
- X **C)** the dissemination of price and yield quotes by municipal dealers.
- X **D)** dealers obtaining fair and reasonable prices for customers.

Explanation

The MSRB governs the practices of underwriting and trading municipal bonds. It does not govern municipal issuers.

**Reference:** 3.5.1 in the License Exam Manual

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**Question #47 of 132**

Question ID: 605404

An outstanding municipal bond issue has the following characteristics: 7.50% coupon; maturity in 20 years; puttable in 5 years at 100; callable at 102 in 10 years; declining in a straight-line to maturity; yield-to-maturity is 6.50%. The issues should now be quoted:

- X **A)** yield-to-call at par.
- ✓ **B)** yield-to-call at 102.
- X **C)** yield-to-put.
- X **D)** yield-to-maturity.

Explanation

Since the bond issue is selling at a premium, the yield-to-call is less than the yield-to-maturity. The bonds must be quoted as yield-to-call at the earliest maturity, which would be the 10-year call at 102. If the bonds were selling at a discount, yield-to-maturity would be the proper quote. Yield-to-put is not required to be quoted.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #48 of 132**

Question ID: 605394

Mr. Smith borrows the funds to purchase municipal bonds. Which of the following is TRUE concerning the interest on the loan?

- X **A)** The interest expense is fully deductible.
- ✓ **B)** The interest is a nondeductible expense.
- X **C)** He may only deduct as interest expense, the excess of his interest expense over the nominal tax-free interest income on the bond.
- X **D)** He may deduct both the income from the bond and his interest expense.

Explanation

Interest on funds borrowed to purchase municipal bonds is not tax deductible.

**Reference:** 3.4.8.2 in the License Exam Manual

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**Question #49 of 132**

Question ID: 605424

According to MSRB rules, if a customer purchases a municipal bond from your firm, the confirmation must disclose

- I. where your firm acquired the bonds.
- II. whether your firm acted as agent or principal.
- III. your firm's address.
- IV. the price your firm paid for the bonds.

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

Explanation

Customer trade confirmations must make explicit disclosures regarding the terms of the transaction and the parties involved. The broker/dealer must always disclose the capacity in which it acted (i.e., principal or agent.) The confirmation must show the name of the person for whom the trade was executed (i.e., the customer). The name, address, and telephone number of the broker/dealer must be shown so a customer may contact the firm easily. The settlement date is also required, but the broker/dealer is not required to disclose where it acquired the bonds or the price it paid.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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**Question #50 of 132**

Question ID: 765626

Which of the following quotes represents a municipal dollar bond quote?

- X **A)** 0.085
- X **B)** \$850 - \$870

X **C)** 8.20 - 8.00

✓ **D)** 85½

Explanation

Dollar bond quotes are based on a percentage of face amount (Par \$1,000). Therefore, a quote of 85½ is 85½% of \$1,000, or \$855.

**Reference:** 3.4.1.1 in the License Exam Manual

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**Question #51 of 132**

Question ID: 605455

Interest on loans to purchase securities is generally a deductible item on one's tax return unless the purchase is for

✓ **A)** a municipal bond

X **B)** warrants

X **C)** stock

X **D)** a corporate bond

Explanation

Because the interest received from municipal bond investments is tax-free, the IRS does not allow interest paid for loans to purchase municipal bonds as a deductible item on one's tax return, as it would for other securities purchased with loans (margin).

**Reference:** 3.4.8.2 in the License Exam Manual

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**Question #52 of 132**

Question ID: 605379

Under MSRB rules regarding municipal securities, a control relationship exists when

I. officers or employees of a broker/dealer hold positions of authority over the municipal issuer.

II. officials of the municipal issuer hold policymaking positions at the broker/dealer.

III. the municipal issuer is a public finance client of the broker/dealer.

IV. an employee of the broker/dealer lives in the issuer's municipality.

✓ **A)** I and II.

X **B)** II and III.

X **C)** I and III.

X **D)** III and IV.

Explanation

MSRB rules state that a control relationship exists when a broker/dealer controls, is controlled by, or is under common control with the issuer of the security.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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**Question #53 of 132**

Question ID: 605397

A municipal firm acts in an agency capacity to execute a purchase order for a customer. All of the following are required to be on the customer's confirmation of purchase EXCEPT:

X **A)** a description of the securities.

✓ **B)** the identity of the contra broker.

X **C)** the capacity of the broker/dealer.

X **D)** the settlement date.

Explanation

The identity of the contra party is not necessary as long as it is stated that the name is available upon request.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #54 of 132

Question ID: 605459

Which of the following statements regarding the interest deduction for bank-qualified municipal bonds is TRUE?

- ✓ **A)** Banks are entitled to an 80% deduction of interest expense associated with buying the bonds.
- X **B)** Banks are entitled to a 20% deduction of interest expense associated with buying the bonds.
- X **C)** Investors are entitled to a 20% deduction of interest expense associated with buying the bonds.
- X **D)** Investors are entitled to an 80% deduction of interest expense associated with buying the bonds.

#### Explanation

When an individual buys municipal bonds on margin, the interest on the debit balance is not deductible because the debt incurred is used to purchase bonds generating tax-free interest income. However, when a bank purchases qualified municipals (any part of a GO issue of \$10 million or less), 80% of the annual cost necessary to finance the purchase is deductible to the bank.

**Reference:** 3.4.8.2.1 in the License Exam Manual

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### Question #55 of 132

Question ID: 605401

Advertising relating to municipal securities must be approved by which of the following?

- ✓ **A)** A general securities principal or municipal securities principal.
- X **B)** A designated supervisory analyst.
- X **C)** The SEC.
- X **D)** The MSRB.

#### Explanation

According to MSRB rules, advertising (communications with the public) must be approved by either a municipal securities principal or a general securities principal.

**Reference:** 3.4.6 in the License Exam Manual

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### Question #56 of 132

Question ID: 605413

When a member firm sells municipal bonds to a customer out of its inventory, it must:

- X **A)** disclose the amount of commission on the customer's confirmation.
- ✓ **B)** take into consideration the total dollar amount of the transaction when determining the markup.
- X **C)** comply with the 5% markup policy.
- X **D)** indicate the amount of markup on the customer's confirmation.

#### Explanation

Under the MSRB Rule G-30, the amount of markup charged by a dealer must take into consideration a number of relevant factors, including the total dollar amount of the transaction. In a principal transaction (out of its inventory) the markup need not be disclosed on a confirmation and because it is a principal transaction, commissions would not apply. The 5% markup policy does not cover exempt securities.

**Reference:** 3.4.4.1 in the License Exam Manual

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### Question #57 of 132

Question ID: 605465

The marketability of a block of bonds being sold by participants in a secondary market joint trading account can be affected by all of the following EXCEPT:

- X **A)** rating.
- X **B)** block size.
- X **C)** maturity.
- ✓ **D)** denominations.

#### Explanation



The denominations of the bonds in the block will not affect its marketability. The block size is generally the reason a secondary market joint account would be formed and with rating and maturity will affect the liquidity and, hence, the marketability of a block of bonds.

**Reference:** 3.4.1.5 in the License Exam Manual

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### Question #58 of 132

Question ID: 605409

Disclosure to customers of control relationships is required in:

- ☐ A) primary distributions.
- ☐ B) principal transactions.
- ☐ C) agency transactions.
- ☒ D) all of these.

#### Explanation

The nature of any control relationship or conflict of interest must be disclosed to customers. This includes both primary (new issue) and secondary transactions, whether the firm acts as agent or principal.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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### Question #59 of 132

Question ID: 605482

According to MSRB rules, may a municipal securities representative give \$50 crystal vases to 10 of his favorite clients?

- ☐ A) The representative is not allowed to give gifts to customers.
- ☒ B) Yes, he is permitted.
- ☐ C) No, the aggregate amount exceeds the permissible annual limit.
- ☐ D) Only with written permission from the MSRB.

#### Explanation

If each gift meets the \$100 annual gift limitation, then they are permitted.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #60 of 132

Question ID: 605378

Under MSRB rules, if a municipal securities dealer has a financial advisory relationship with an issuer, which of the following statements is NOT true?

- ☐ A) The contract must set forth the basis of compensation.
- ☒ B) The relationship need not be disclosed in communications with the public pertaining to that issuer's securities.
- ☐ C) The relationship must be disclosed to purchasing customers.
- ☐ D) The contract must be in writing.

#### Explanation

When a financial advisory relationship exists, it must be disclosed to all buyers of that issuer's securities, and in any advertising (communications with the public) relating to that issuer.

**Reference:** 3.4.7.2 in the License Exam Manual

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### Question #61 of 132

Question ID: 605445

A resident of Minnesota is in the 28% federal tax bracket and the 4% state tax bracket. This person must pay both federal and state taxes on:

- ☐ A) Federal Home Loan Bank notes.
- ☐ B) Treasury bills.
- ☒ C) Federal National Mortgage Association pass-throughs.

- ☐ **D)** Minneapolis Housing Authority bonds.

Explanation

The interest income from most U.S. government and agency securities is exempt from state and local, but not federal, taxes. Mortgage-backed securities (such as FNMA and GNMA obligations) are subject to federal, state, and local taxes. The interest on municipal issues (like the Minneapolis housing authority bonds) is exempt from federal taxes and, because this investor is a Minnesota resident, state taxes.

**Reference:** 3.4.8.1 in the License Exam Manual

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**Question #62 of 132**

Question ID: 605385

A confirmation to a customer purchasing a new issue of municipal securities must disclose all of the following EXCEPT:

- ☐ **A)** settlement date.
- ☒ **B)** current yield.
- ☐ **C)** customer's name.
- ☐ **D)** coupon rate and maturity date.

Explanation

MSRB confirmations must include the customer's name, trade and settlement dates, coupon rate and maturity, and the yield to maturity or yield to call (whichever is lower). The current yield (annual interest/current market price) is not included on confirmations.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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**Question #63 of 132**

Question ID: 605461

A municipal dollar bond is quoted at 98¼ to 98¾. The municipal dealer's spread is equal to

- I. \$5.00.
- II. \$50.00.
- III. 5 basis points.
- IV. 50 basis points.

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

Explanation

The spread is ½ point. In each point, which is worth \$10, there are 100 basis points. Therefore, ½ point is worth \$5 and represents 50 basis points.

**Reference:** 3.4.1.1 in the License Exam Manual

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**Question #64 of 132**

Question ID: 605501

Which of the following describes the responsibilities of a municipal finance professional (MFP)?

- I. An associated person of a broker/dealer engaged in municipal securities representative activities other than retail sales
- II. A registered representative engaged in the retail sale of municipal securities to individual investors
- III. Is subject to the political contribution rules as outlined in MSRB Rule G-37
- IV. Is not subject to the political contribution rules as outlined in MSRB Rule G-37

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

Explanation

As defined by the Municipal Securities Rulemaking Board (MSRB), a municipal finance professional is an associated person of a broker/dealer who is primarily engaged in municipal securities representative activities other than retail sales to individuals, who solicits municipal securities business for the broker/dealer, or who is in the supervisory chain above MFPs as described. MFPs are subject to the political contribution reporting rules as outlined in MSRB Rule G-37. Though there are exceptions for de minimis contributions, exceeding the allowable contribution limits may trigger restrictions on engaging in municipal securities business by the broker/dealer for 2 years.

**Reference:** 3.5.1.0.2 in the License Exam Manual

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### Question #65 of 132

Question ID: 605431

If a customer buys bonds that have already been called, the confirmation must disclose all of the following EXCEPT the:

- ✓ **A)** yield to original maturity.
- X **B)** redemption date.
- X **C)** redemption price.
- X **D)** yield to redemption.

#### Explanation

A customer who has purchased a called bond has probably purchased one that has been pre-refunded. The yield to original maturity is no longer a factor.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #66 of 132

Question ID: 605392

Your client is considering 2 bonds: an ABC Corporation mortgage bond with a yield to maturity of 9% and a municipal bond issued by his state. If your client is in the 32% tax bracket, what is the tax-free equivalent yield for the municipal bond?

- X **A)** 0.0215.
- ✓ **B)** 0.0612.
- X **C)** 0.041.
- X **D)** 0.0822.

#### Explanation

The tax-free equivalent yield is calculated as follows: corporate rate  $\times$  (1 – investor's tax bracket). In this case  $.09 \times (1 - .32) = .0612$  or 6.12%.

**Reference:** 3.4.8.1.1 in the License Exam Manual

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### Question #67 of 132

Question ID: 605422

A customer's confirmation for a municipal bond callable at par and quoted higher than the nominal yield would show:

- X **A)** coupon yield.
- ✓ **B)** yield to maturity (YTM).
- X **C)** current yield.
- X **D)** yield to call (YTC).

#### Explanation

Because the quoted yield is higher than the nominal yield, the bond is offered at a discount; the lower of YTM or YTC is the bond's yield to maturity.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #68 of 132

Question ID: 605472

A customer buys a 20-year 7% bond on a 7.35 basis. The bond is callable in 6 years at 103, in 8 years at 102, in 10 years at 101, and at par beginning in the 12th year. The customer's confirm will show yield to the:

- X **A)** 6-year call.

- X **B)** 10-year call.
- X **C)** 12-year put.
- ✓ **D)** 20-year maturity.

Explanation

The confirmation of a bond trade must disclose the lower of yield to call or yield to maturity. This bond is being bought at a discount because the basis is higher than the coupon. Because the yield to maturity on a discount bond is lower than the yield to call, this is the yield that will be shown on the confirmation.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #69 of 132**

Question ID: 605425

All of the following are suitability considerations when a registered representative recommends a municipal bond purchase to a customer EXCEPT

- X **A)** the issuer's debt rating
- X **B)** the customer's tax bracket
- X **C)** the customer's state of residence being the same as the location of the issuer
- ✓ **D)** whether or not the bond is in the broker dealers inventory to sell

Explanation

The customer's state of residence and tax bracket are important because these factors help establish the tax benefits offered by the municipal bond. The issuer's debt rating are important in evaluating the credit risk assumed by the investor. The bond's availability in the dealer's inventory is not a suitability factor.

**Reference:** 3.4.3.2 in the License Exam Manual

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**Question #70 of 132**

Question ID: 605377

A registered municipal securities representative may never:

- X **A)** act as a buyer's agent.
- X **B)** act as a broker.
- X **C)** act as a sales agent.
- ✓ **D)** approve advertising.

Explanation

Advertising or sales pieces are considered to be a form of communication with the public. All such pieces must be approved by a principal of the member firm.

**Reference:** 3.4.6 in the License Exam Manual

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**Question #71 of 132**

Question ID: 605458

Which of the following callable municipal bonds trading on a 7% basis is *most* likely to be called?

- X **A)** 7.5% coupon, callable at 105 in 2010.
- X **B)** 6.5% coupon, callable at 100 in 2010.
- X **C)** 6.5% coupon, callable at 105 in 2010.
- ✓ **D)** 7.5% coupon, callable at 100 in 2010.

Explanation

An issuer will call the higher coupon bonds before calling the lower coupon bonds. Of the two bonds with coupons of 7.5%, the one with the lower call price will likely be called first.

**Reference:** 3.4.1.1 in the License Exam Manual

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**Question #72 of 132**

Question ID: 605443

All of the following must be considered by an investment adviser representative before recommending a municipal security to a customer EXCEPT:

- ☐ **A)** Municipal security's rating.
- ☐ **B)** Customer's tax status.
- ☐ **C)** Customer's state of residence.
- ☒ **D)** The municipality's coverage ratio.

Explanation

The coverage ratio is specific to revenue bonds only and tells how many times annual revenue from that issue will cover the debt service of the issue. It is not a factor of suitability to be considered when recommending a municipal bond but more of a factor to consider when comparing two municipal revenue bonds. The customer's state of residence and tax status are essential when determining suitability for a municipal security. The security's rating is also important because it measures the overall safety and quality of the bond.

**Reference:** 3.4.3.2 in the License Exam Manual

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**Question #73 of 132**

Question ID: 605481

MSRB rules for NYSE member firms are enforced by:

- ☒ **A)** FINRA.
- ☐ **B)** the NYSE.
- ☐ **C)** the SEC.
- ☐ **D)** the MSRB.

Explanation

The board's rules are enforced by FINRA for securities firms. The MSRB has rule-making authority but no enforcement or examination authority.

**Reference:** 3.5.1.0.1 in the License Exam Manual

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**Question #74 of 132**

Question ID: 605473

A municipal bond dealer is making a bona fide quote. Which of the following statements regarding such a quote is TRUE?

- I. The quote must have a reasonable relationship to fair market value.
- II. The quote may take into consideration any anticipated market movement.
- III. The quote cannot represent an offer to sell bonds the dealer does not currently own.
- IV. The quote need not be one that the dealer is prepared to act upon (buy or sell).

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

Explanation

A bona fide quote is one the dealer is prepared to buy or sell on, as opposed to a workable, nominal or subject quote. A bona fide quote must have a reasonable relationship to fair market value and can be made in consideration of any anticipated market movement. On the offer side of a bona fide quote a dealer may make an offer to sell bonds that it does not hold in its own inventory but must know where to obtain the bonds if they are needed to complete the transaction.

**Reference:** 3.4.1.2 in the License Exam Manual

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**Question #75 of 132**

Question ID: 605456

If the dollar price of a municipal bond is 101 and, at that price, the basis is 6.10, the nominal yield is:

- ☒ **A)** greater than 6.10.
- ☐ **B)** equal to the YTC.
- ☐ **C)** less than 6.10.
- ☐ **D)** 6.1.

#### Explanation

For bonds trading at a premium, the nominal yield (or coupon) is higher than the basis (YTM). For bonds at a premium, yields from lowest to highest are: yield to call, yield to maturity, current yield, and nominal yield.

**Reference:** 3.4.1.1 in the License Exam Manual

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### Question #76 of 132

Question ID: 605418

If a bond is sold to a customer at par, under MSRB rules, all of the following must be disclosed to the customer on his confirmation EXCEPT

- ☐ A) total monies due
- ☐ B) number of bonds purchased
- ☐ C) information on call features
- ☒ D) yield based on price

#### Explanation

Information on call features, total monies due, and the number of bonds purchased are all important disclosure items for a confirmation. For a bond sold at par, there is no requirement to show yield.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #77 of 132

Question ID: 605423

If a broker/dealer is acting as a financial advisor to a municipality, which of the following statements is TRUE?

- I. MSRB rules prohibit the broker/dealer from acting as an underwriter for the issuer unless they meet the criteria of specific allowable exceptions.
- II. The broker/dealer can act as both financial advisor and underwriter with no limitations.
- III. The broker/dealer may only act in an underwriting capacity if the underwriting agreement was done as a negotiated underwriting.
- IV. There are some underwriting functions that the broker/dealer in their advisory capacity may be allowed to participate in such as assisting with the preparation of the official statement.

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

#### Explanation

If a broker/dealer has a formal advisory relationship with an issuer it may not generally act as underwriter for the issuers bonds. This applies regardless of whether the underwriting is a negotiated or competitive bid underwriting. There are exceptions, and some functions associated with underwriting that the MSRB rules do allow, but in those instances the broker/dealer could only be compensated for their advisory services and not be compensated for any underwriting services or related functions.

**Reference:** 3.4.7.2 in the License Exam Manual

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### Question #78 of 132

Question ID: 605463

Municipal bonds would be considered the most suitable for which of the following customer scenarios?

- ☐ A) An investor in a low income bracket wanting income in their IRA
- ☒ B) An investor in a high income tax bracket wanting income for their investment account
- ☐ C) An investor in a high income bracket wanting growth for their investment account
- ☐ D) An investor in a moderate income tax bracket seeking growth in their employer-sponsored 401k plan

#### Explanation

Interest received from bonds make them more appropriate for investors with income objectives rather than growth objectives. Because interest from municipal bonds is tax free, they benefit those in higher tax brackets the most. Lastly because the interest is tax free they have no place in a tax-favored account such as an IRA or 401k plan.

**Reference:** 3.4.3.2 in the License Exam Manual

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### Question #79 of 132

Question ID: 605384

Of the following callable bonds, which confirmation must show yield to call?

- ✓ **A)** 6% municipal, basis 5.5%, due 2018.
- X **B)** 6% municipal, par, due 2028.
- X **C)** 6% municipal, basis 7%, due 2028.
- X **D)** 6% municipal, basis 6.5%, due 2018.

#### Explanation

The only bond priced at a premium is 6% municipal, basis 5.5%, due 2018. On a premium bond, the yield to call will be lower than the yield to maturity.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #80 of 132

Question ID: 605396

A broker's broker does all of the following EXCEPT:

- ✓ **A)** makes a market in securities.
- X **B)** conceals the identity of the principals.
- X **C)** acts as agent for dealers.
- X **D)** assists in placing securities.

#### Explanation

A broker's broker acts as agent in transactions by facilitating the movement of blocks of bonds. The broker's broker is allowed to conceal the identities of the contra-parties, thus protecting investment strategies. A broker's broker does not make a market in securities.

**Reference:** 3.4.2.1 in the License Exam Manual

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### Question #81 of 132

Question ID: 605433

If a customer buys callable municipal bonds, MSRB rules state that the confirmation sent to the customer must disclose the:

- ✓ **A)** lower of either the yield to call or yield to maturity.
- X **B)** higher of either the yield to call or yield to maturity.
- X **C)** nominal yield only.
- X **D)** yield that would result if the bonds were called midway between the date they become eligible to be called and their maturity date.

#### Explanation

MSRB Rule G-15 states that the confirmation must indicate the lowest possible yield.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #82 of 132

Question ID: 605440

An investor in the 28% income tax bracket is considering purchasing either a 4% municipal bond or a 5% corporate bond. Which of the following statements regarding the two bonds' after-tax yields is TRUE?

- ✓ **A)** The municipal bond's yield is higher than the corporate bond's yield.
- X **B)** The yield difference cannot be determined.
- X **C)** The two bonds' yields are equivalent.
- X **D)** The corporate bond's yield is higher than the municipal bond's yield.

#### Explanation

Investors should invest in municipal bonds if the return after taxes is higher than comparable taxable bonds. To compare the two bonds, use the tax-free equivalent yield formula: (taxable yield) x (100% - tax bracket) = (tax-free equivalent yield). In this case, 5% x (100% - 28%) = 5% x .72 = 3.6%. Because the municipal bond yields 4% tax free, the investor should buy it; after taxes have been paid, the corporate bond yields only 3.6%.

**Reference:** 3.4.8.1.1 in the License Exam Manual

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### Question #83 of 132

Question ID: 605479

A municipal securities principal must approve all of the following EXCEPT:

- X **A)** each transaction in municipal securities.
- X **B)** the handling of written customer complaints.
- X **C)** the opening of new customer accounts.
- ✓ **D)** legal opinions.

#### Explanation

Municipal securities principals are required to approve all new customer accounts, all municipal transactions, and the handling of customer complaints. Legal opinions are prepared by bond counsel to determine the authority of an issuer and tax treatment of new municipal issues.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #84 of 132

Question ID: 605494

All of the following are regulated by the MSRB EXCEPT:

- X **A)** sales representatives.
- X **B)** dealers.
- ✓ **C)** issuers.
- X **D)** quotes.

#### Explanation

Quotes, dealers, and sales representatives are regulated by the MSRB; issuers are not.

**Reference:** 3.5.1 in the License Exam Manual

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### Question #85 of 132

Question ID: 605468

When acting as an agent for a customer, MSRB rules require the broker to make a reasonable effort to obtain which of the following?

- I. A fair price in relation to prevailing market conditions.
- II. The best price.
- III. A reasonable price in relation to prevailing market conditions.
- IV. Quotes from at least three municipal dealers or one broker's broker.

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

#### Explanation

MSRB rules require only that municipal securities dealers effect trades for customers at prices that are fair and reasonable in current market conditions.

**Reference:** 3.4.4.2 in the License Exam Manual

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### Question #86 of 132

Question ID: 605480



According to MSRB rules, a separately identifiable division of a bank engaging in the sale and /or underwriting of securities issued by state and local governments is acting as a(n):

- ☐ A) investment banker.
- ☐ B) broker's broker.
- ☒ C) municipal securities dealer.
- ☐ D) mutual fund.

Explanation

A municipal securities bank dealer is a separately identifiable division within a bank that conducts municipal securities business such as underwriting and/or sales, acting as either an agent or principal. This dealer must comply with all MSRB regulations.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #87 of 132**

Question ID: 605493

Gifts exceeding \$100 may NOT be given by a municipal securities representative to:

- ☐ A) a customer of the representative.
- ☒ B) All of these.
- ☐ C) a municipal securities employee of another dealer.
- ☐ D) a treasurer for an issuer of municipal securities.

Explanation

There are no restrictions on giving gifts to colleagues employed by the same firm.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #88 of 132**

Question ID: 605375

Which of the following statements regarding yield shown on a bond confirmation for a bond that has been called is TRUE?

- ☐ A) A bond confirmation will show the higher of YTC or YTM if a bond has been called under an in-part call provision.
- ☒ B) A bond confirmation will show YTC if the bond has been called under an in-whole call provision.
- ☐ C) A bond confirmation will show the lower of YTC or YTM if the bond has been called under an in-whole call provision.
- ☐ D) A bond confirmation will show YTM if the bond has been called under an in-whole call provision.

Explanation

A bond confirmation for a bond called under an in-whole call provision will show YTC as the bond being called away is certain. However, in the event of an in-part call, there is uncertainty as to whether that particular bond will be called. Therefore, the lower of the YTC or YTM would be shown on the confirmation.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #89 of 132**

Question ID: 605470

A customer purchases a municipal bond that has been advance refunded. It will be called at 102 four years from now. On the confirmation, the yield that must be stated is the yield to:

- ☐ A) maturity.
- ☒ B) the 102 call.
- ☐ C) maturity or yield to call, whichever is higher .
- ☐ D) maturity or yield to call, whichever is lower .

Explanation

MSRB rules require that when a call date has been fixed by a prerefunding, the resulting yield to call must be reflected on the confirmation. Because of the prerefunding, this bond issue will be called at the call date. There is no uncertainty surrounding this event; therefore, it is appropriate to price the bond to the call date. The original maturity on the bond has no further significance.

### Question #90 of 132

Question ID: 605439

A resident of New York City purchases an Albany, New York general obligation bond and receives \$600 of interest from that bond during the year. How is that \$600 taxed?

- ☐ A) Taxation is deferred until the bond matures.
- ☐ B) It is subject to federal income tax at ordinary rates.
- ☐ C) It is subject to state income tax at ordinary rates.
- ☒ D) It is not subject to federal income tax.

#### Explanation

Interest from public purpose municipal bonds is exempt from federal income tax and most states have chosen to make interest on their municipal bonds exempt from state income tax to residents of their states.

Reference: 3.4.8.1 in the License Exam Manual

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### Question #91 of 132

Question ID: 605499

A person with no prior industry experience is hired by a municipal dealer to work as a clerk in its back office. Three months later this person is promoted to the firms sales desk to be trained in institutional sales. Under MSRB rules they are:

- ☐ A) required to have been in the position with the employing firm at least one year when previously employed in a clerical capacity only.
- ☐ B) required to serve a 30-day apprenticeship and may not yet be promoted to sales training.
- ☒ C) not required to serve an apprenticeship period and may be promoted for sales training.
- ☐ D) required to serve a 60-day apprenticeship and having fulfilled that time may be promoted to sales training.

#### Explanation

While the person will be required to pass an MSRB licensing exam in order to be active in sales there is no apprenticeship period required under MSRB rules.

Reference: 3.5.1.1 in the License Exam Manual

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### Question #92 of 132

Question ID: 605376

Which of the following would be of least concern to a registered representative recommending a municipal security to a customer?

- ☐ A) Customer's state of residence.
- ☐ B) Municipal security's rating.
- ☒ C) Availability of the security.
- ☐ D) Customer's tax status.

#### Explanation

The customer's state of residence and tax status are essential when determining suitability of a municipal security. The security's rating is also important because it measures the bond's safety and quality and should align with the customers risk tolerance. While the availability may pose a challenge for the broker dealer and could potentially add to the cost of the transaction it would be of the least concern regarding suitability unless the cost was in some way prohibitive.

Reference: 3.4.3.2 in the License Exam Manual

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### Question #93 of 132

Question ID: 605444

Interest received on a California general obligation bond purchased by a San Francisco resident is exempt from:

- ☐ A) state income tax only.
- ☐ B) capital gains taxes only.

- ✓ **C)** state and federal income taxes.
- ✗ **D)** federal income tax only.

Explanation

A municipal bond is generally exempt from federal and state income taxes in the state in which it was issued. The exemption, or lack thereof, applies to interest, not capital gains.

**Reference:** 3.4.8.1 in the License Exam Manual

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**Question #94 of 132**

Question ID: 605441

You are a municipal bond trader and have been given an out firm quote with five-minute recall. If, 45 minutes later, the quoting dealer gives you a fill or kill, what does this mean?

- ✓ **A)** You have five minutes to fill the order or lose the securities.
- ✗ **B)** The five-minute recall is canceled; you must take the securities immediately or lose the trade.
- ✗ **C)** You have placed the order with the quoting dealer and it will now attempt to fill it.
- ✗ **D)** The quoting dealer wants five minutes' advance notice if you fill the trade.

Explanation

A five-minute recall means that the quoting dealer will hold the securities while you attempt to find a buyer or seller at the price the dealer quoted, but it reserves the right to cut the amount of time you have to five minutes if another trader comes in with a firm order.

**Reference:** 3.4.1.4 in the License Exam Manual

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**Question #95 of 132**

Question ID: 605400

An abstract of a municipal securities issue official statement must be maintained on file for:

- ✗ **A)** 12 months.
- ✓ **B)** 3 years.
- ✗ **C)** There is no requirement to file abstracts of official statements.
- ✗ **D)** 5 years.

Explanation

The MSRB requires firms to retain abstracts of official statements for 3 years, the same as all pieces intended to communicate with the public.

**Reference:** 3.4.6 in the License Exam Manual

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**Question #96 of 132**

Question ID: 605448

A broker/dealer that is a financial advisor to a municipal issuer:

- I. cannot act as an underwriter of the issuers bonds in a negotiated underwriting and receive compensation for both services.
- II. cannot act as an underwriter of the issuers bonds in a competitive bid underwriting and receive compensation for both services.
- III. may always act as an underwriter of the issuers bonds in a negotiated underwriting and receive compensation for both services.
- IV. may always act as an underwriter of the issuers bonds in a competitive bid underwriting and receive compensation for both service.

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

Explanation

Broker/dealers acting as financial advisors to a municipality regarding a municipal issue are prohibited by MSRB Rule G-23 to also act as underwriters for the same issue regardless of whether the underwriting process has been done by competitive bid or was negotiated. In the event that an exception is allowed, or the broker dealer performs an advisory function specifically associated with the underwriting, the broker/dealer would be limited to accepting fees for the advisory service only and not be allowed to accept fees for any underwriting services.

### Question #97 of 132

Question ID: 605426

A client is trying to decide between a par value corporate bond carrying a coupon rate of 6.25% per year and a par value municipal bond that pays an annual coupon rate of 4.75%. Assuming all other factors are equal and your client is in a 28% marginal income tax bracket, which bond do you tell the client to purchase and why?

- ☐ A) The municipal bond because its equivalent taxable yield is 6.3%.
- ☒ B) The municipal bond because its equivalent taxable yield is 6.6%.
- ☐ C) The corporate bond because the after-tax yield is 4.5%.
- ☐ D) The corporate bond because the after-tax yield is 6.25%.

#### Explanation

This is calculated using the tax-equivalent yield formula; Municipal yield / (100% – investors tax bracket)  $4.75 / (1 - .28) = 6.6\%$ . By comparison, the 6.6% tax-equivalent yield of the municipal bond is higher than the 6.25% yield of the taxable corporate bond making the municipal bond the higher yielding investment given the investors 28% tax bracket.

Reference: 3.4.8.1.1 in the License Exam Manual

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### Question #98 of 132

Question ID: 605503

In a negotiated municipal bond underwriting all of the following are true EXCEPT:

- ☐ A) the underwriter works with the issuer to establish the interest rate.
- ☒ B) the underwriters may also be financial advisors to the municipality and receive both advisory fees and underwriting fees.
- ☐ C) the municipality appoints an investment banker or broker/dealer to underwrite the offering.
- ☐ D) the underwriter works with the issuer to establish the offering price.

#### Explanation

In a negotiated underwriting, the municipality appoints an investment banker or broker/dealer to underwrite the offering. The underwriter works with the issuer to establish the interest rate and the offering price in light of the issuer's financial needs and market conditions. Generally those acting in the capacity of financial advisor to a municipality may not simultaneously act as underwriters. This is true of both negotiated and competitive bid underwritings. While the MSRB rules do allow for certain exceptions, the fees collected would be limited to only those already agreed to for the advisory services and not include any additional fees for performing underwriting functions or services.

Reference: 3.5.1.1 in the License Exam Manual

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### Question #99 of 132

Question ID: 605402

An investor in a high income tax bracket owns a number of municipal bonds and wants to add some to a 401k plan he participates in and perhaps his IRA. As a registered representative, you would advise that this is

- ☐ A) suitable because the investor already understands the advantages of owning tax-free interest paying instruments without any further suitability qualifications needed
- ☒ B) not suitable because the interest payments from municipal bonds are tax-free already and have no place in a tax-advantaged (tax-deferred) account such as a 401k plan or IRA
- ☐ C) suitable due to his high income tax bracket
- ☐ D) not suitable because the investor already owns municipal bonds, and this would be a duplication of the same asset class in his tax-advantaged accounts

#### Explanation

While municipal bonds can be suitable for those in higher income tax brackets, they have no place in tax-advantaged (tax-deferred) accounts such as 401k plans or IRAs because the interest paid is already tax free.

Reference: 3.4.3.2 in the License Exam Manual

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### Question #100 of 132

Question ID: 605406

The MSRB rules that require uniformity of business practices by municipal dealers may be altered or modified by a mutual agreement between the dealers concerned EXCEPT:

- ✓ **A)** the rules regarding the content of confirmations.
- X **B)** the rules regarding the terms of delivery.
- X **C)** the rules regarding the payment of shipping costs.
- X **D)** the rules regarding the price and date of delivery.

Explanation

The contents of confirmations are specified by the MSRB and cannot be altered by a mutual agreement.

**Reference:** 3.4.5 in the License Exam Manual

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**Question #101 of 132**

Question ID: 605410

When a registered representative recommends a municipal bond purchase to a customer, which of the following would be of LEAST consideration regarding suitability?

- X **A)** Customer's tax bracket.
- X **B)** Bond's rating.
- X **C)** Customer's state of residence.
- ✓ **D)** The intended use of funds raised by the issue.

Explanation

The customer's state of residence and tax bracket are important because these factors help establish the tax benefits offered by the municipal bond. The bond's rating is important in evaluating the credit risk assumed by the investor. While the intended use of the funds may be of interest to the customer it would be of little consideration when making a purchase recommendation.

**Reference:** 3.4.3.2 in the License Exam Manual

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**Question #102 of 132**

Question ID: 605504

All of the following are allowable municipal dealer quotes EXCEPT

- X **A)** requests for offers only
- ✓ **B)** an unidentified nominal quote
- X **C)** requests for bids only
- X **D)** bona fide quotes

Explanation

MSRB Rule G-13 requires municipal brokers and dealers to give bona fide bids and offers for municipal securities (bona fide quotes are those good for trading). It also allows for requests for bids (BW = bids wanted) and requests for offers (OW = offers wanted). A nominal quote (those for informational purposes only) is permissible, but only if it is identified as such.

**Reference:** 3.5.1.1 in the License Exam Manual

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**Question #103 of 132**

Question ID: 605447

Before a firm distributes a prepared summary official statement for a new issue of municipal bonds to customers, it must have the written approval of the:

- X **A)** MSRB.
- X **B)** issuer.
- X **C)** bond attorney.
- ✓ **D)** firm's municipal securities principal.

Explanation

A person qualified as a general securities or municipal securities principal must give prior written approval for municipal securities advertising or sales pieces that are intended to be used as communications with the public. Abstracts and summaries of official statements are included in the MSRB's definition of advertising.

### Question #104 of 132

Question ID: 605387

All of the following are required by the MSRB on customer confirmations EXCEPT:

- ☐ A) whether the bond is registered or in book-entry form.
- ☒ B) the amount of markdown or markup on a principal transaction.
- ☐ C) the amount of any commission received on an agency transaction.
- ☐ D) the source of any commission received on an agency transaction.

#### Explanation

The amount of markup or markdown must be fair and reasonable, but need not be disclosed.

Reference: 3.4.5.1.2 in the License Exam Manual

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### Question #105 of 132

Question ID: 605380

Which of the following are TRUE of municipal securities quotations?

- I. A quotation can be an indication of interest.
- II. A quotation cannot be an indication of interest.
- III. A quotation can be a one-sided request for a bid or offer (bids wanted and offers wanted).
- IV. A quotation cannot be a one-sided request for a bid or offer (bids wanted and offers wanted).

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

#### Explanation

MSRB rules pertaining to quotations cover all bona fide bids and offers including one-sided requests for bids wanted and offers wanted which are considered indications of interest.

Reference: 3.4.1 in the License Exam Manual

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### Question #106 of 132

Question ID: 605414

A registered municipal bond salesperson at your firm has obtained discretionary power for the account of a physician in Gloucester County, New Jersey. The customer is conservative, avoids investment risk, and seeks principal with long-term growth potential. Given the following choices, the salesperson would *most* appropriately invest the customer's money in:

- ☒ A) New Jersey Turnpike revenue bonds rated Aa.
- ☐ B) Delaware Wetlands Developments municipal bonds rated Aa.
- ☐ C) high-yield municipal bonds rated BB.
- ☐ D) Michigan Upper Peninsula revenue bonds rated AA .

#### Explanation

The Michigan revenue bonds, the sub-investment grade municipal bonds, and the Delaware municipal bonds have possible state disadvantages or are less than investment grade.

Reference: 3.4.3.2 in the License Exam Manual

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### Question #107 of 132

Question ID: 605417

All of the following statements regarding municipal advertising are true EXCEPT:

- ☐ A) copies must be kept for 3 years.

- X **B)** it must not be misleading.
- X **C)** it must be approved by a principal.
- ✓ **D)** copies must be sent to the MSRB.

Explanation

All municipal advertising must be approved in writing by an appropriate principal before the first use and kept on file for 3 years. It need not be filed with the MSRB because the MSRB has no enforcement authority.

**Reference:** 3.4.6 in the License Exam Manual

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**Question #108 of 132**

Question ID: 605467

According to MSRB rules, a municipal securities dealer participating in a secondary market joint account may NOT:

- ✓ **A)** provide quotes (while participating in a joint account) that indicate more than one market for the securities that are the subject of the account.
- X **B)** charge a markup of more than 3%.
- X **C)** respond to quote inquiries with nominal quotations that are clearly indicated as such.
- X **D)** sell a quantity of bonds exceeding its participation in a joint account.

Explanation

Dealers participating in a joint account (either syndicate or secondary) are not allowed to distribute quotes relating to the securities in the account that indicate more than one market for the same securities.

**Reference:** 3.4.1.5 in the License Exam Manual

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**Question #109 of 132**

Question ID: 605450

A municipal revenue bond has a catastrophe call feature but otherwise is not callable. Which of the following statements regarding the features of this bond that must be described on a customer's confirmation is TRUE?

- X **A)** It must be designated as callable.
- ✓ **B)** It need not be designated as callable.
- X **C)** It must be designated as subject to eminent domain. .
- X **D)** It must be designated as callable in the event of an act of God.

Explanation

Catastrophe call provisions associated with municipal revenue bond issues are not included on customer confirmations. Only call provisions with specific dates are included on confirmations.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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**Question #110 of 132**

Question ID: 605486

Application for registration as a municipal securities registered representative must be accompanied by all of the following personal information EXCEPT:

- X **A)** date of birth.
- X **B)** residences over the past 5 years.
- X **C)** employment record for the previous 10 years.
- ✓ **D)** bank references.

Explanation

The request for registration must include the applicant's employment record for the past 10 years and residences over the past 5 years, among other information. Bank references are not required.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #111 of 132

Question ID: 605432

In municipal bond language, what is a workable indication?

- ☐ A) Indication that the issuer will probably award the winning bid to your underwriting syndicate.
- ☒ B) Likely bid.
- ☐ C) Indication that the managing underwriter will probably award your firm the number of bonds that it has requested.
- ☐ D) Likely offer.

#### Explanation

A municipal dealer wishing to dispose of a block of bonds will seek a workable indication from another municipal dealer. The workable indication from another municipal dealer is not a firm bid but a range.

**Reference:** 3.4.1.3 in the License Exam Manual

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### Question #112 of 132

Question ID: 605469

A retail customer purchases a municipal bond from your firm. According to MSRB rules, the confirmation must disclose which of the following?

- I. Where your firm acquired the bonds.
- II. Whether your firm acted as agent or principal.
- III. Your firm's address.
- IV. The price your firm paid for the bonds.

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

#### Explanation

The broker/dealer must always disclose the capacity in which it acted (principal or agent). The confirmation must show the name of the person for whom the trade was executed (the customer). The name, address, and telephone number of the broker/dealer must be shown so the customer may easily contact the firm. The settlement date is also required. The broker/dealer is not required to disclose where it acquired the bonds or the price it paid.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #113 of 132

Question ID: 605398

Which of the following does the MSRB require on customer confirmations?

- I. Name and telephone number of the broker/dealer
- II. Amount of markdown or markup on a principal transaction
- III. Amount of any commission received on an agency transaction
- IV. The current credit rating of the issuer

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

#### Explanation

MSRB rules require that customer confirmations provide the name, address, and telephone number of the broker/dealer and the capacity of the firm in the trade (agent or principal). Amount of commission is required if the firm acted as agent, but the markup or markdown is not required if the firm acted as principal. Issuer credit ratings are not required information on a confirmation.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #114 of 132

Question ID: 605442

The interest from which of the following bonds is subject to federal income tax?

- I. State of Nebraska.
- II. City of Duluth.
- III. Treasury notes.
- IV. FNMA.

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

#### Explanation

Direct federal debt, such as a Treasury note, is subject to federal income tax but exempt from state tax. FNMA bonds are subject to federal, state, and local taxes. State and city bonds, being municipals, are exempt from federal income tax.

**Reference:** 3.4.8.1 in the License Exam Manual

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### Question #115 of 132

Question ID: 605495

If a customer wants to place an order for a specific municipal bond and provides the bond's issuer, coupon, maturity date, and C.U.S.I.P number, but has not disclosed his financial objectives or tax status, the representative must:

- ✓ **A)** execute the order and mark it "unsolicited".
- X **B)** determine whether the transaction is suitable.
- X **C)** refuse the order.
- X **D)** recommend a different bond of the same issuer with a higher rating.

#### Explanation

When a customer wants to buy a specific municipal bond and possesses all of the bond's material information, MSRB Rule G-19 allows the representative to execute the order and mark it "unsolicited." The representative may not recommend any municipal bond without first knowing the customer's financial objectives and tax status.

**Reference:** 3.5.1.1 in the License Exam Manual

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### Question #116 of 132

Question ID: 605457

Municipal brokers' brokers deal with all of the following EXCEPT:

- X **A)** municipal dealers.
- X **B)** institutions.
- ✓ **C)** individuals.
- X **D)** bank dealers.

#### Explanation

As the term suggests, a municipal broker's broker deals with other dealers and institutions, not with the general public.

**Reference:** 3.4.2.1 in the License Exam Manual

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### Question #117 of 132

Question ID: 605446

The function of a broker's broker in the municipal bond business is to do which of the following?

- I. Help sell municipal bonds that a syndicate has been unable to sell.
- II. Protect the identity of the firm on whose behalf the broker's broker is acting.
- III. Help prepare bids for an underwriting syndicate.
- IV. Serve as a wholesaler, offering bonds at a discount from the current bid and offer.

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

Explanation

A broker's broker helps sell any bonds a syndicate has left and does not disclose the identity of the firm on whose behalf it is acting. Brokers' brokers do not charge fees for quoting a security, do not maintain inventory, and act solely as agents.

**Reference:** 3.4.2.1 in the License Exam Manual

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**Question #118 of 132**

Question ID: 605403

The City of Podunk has an outstanding 25-year maturity issue that is callable in 7 years. It has prerefunded the issue and established an escrow account containing the proper government securities with face amounts and maturities approximating the call provisions of the original issue. In quoting the original issue, which of the following must be used?

- X **A)** The lower of the yield-to-call or the yield-to-maturity.
- X **B)** Current yield.
- X **C)** Yield-to-maturity.
- ✓ **D)** Yield-to-call.

Explanation

When a bond issue is prerefunded, the issuer is going to redeem the bond on the first call date. The yield must be quoted to call.

**Reference:** 3.4.5.1 in the License Exam Manual

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**Question #119 of 132**

Question ID: 605477

A registered representative with discretionary authority requires customer authorization before purchasing:

- X **A)** junk bond funds.
- ✓ **B)** municipal bonds where a control relationship exists.
- X **C)** noninvestmentgrade bonds.
- X **D)** noncallable zerocoupon bonds.

Explanation

Even though the representative has discretionary authority to trade the account, the MSRB requires that the representative receive customer permission prior to purchasing bonds where the firm has a control relationship with the issuer.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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**Question #120 of 132**

Question ID: 605386

Municipal securities advertisements must be approved by:

- X **A)** the MSRB.
- X **B)** the SEC.
- ✓ **C)** a municipal securities principal.
- X **D)** a financial and operations principal.

Explanation

Municipal security advertisements can be approved by a general or a municipal securities principal.

**Reference:** 3.4.6 in the License Exam Manual

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### Question #121 of 132

Question ID: 605399

A municipal securities dealer informed XYZ municipal bond fund that it was the leading retailer of XYZ shares and that, in return, XYZ should employ the dealer in effecting more transactions for the fund's portfolio. Which of the following statements regarding the request is TRUE?

- ☐ A) It is permissible because MSRB rules do not cover municipal bond issuers or funds.
- ☐ B) It is not permissible because municipal securities dealers are not allowed to execute trades for the portfolios they underwrite.
- ☐ C) It is permissible because it suggests a more reciprocal arrangement between the two parties.
- ☒ D) It is not permissible because it violates the MSRB anti-reciprocal rule.

#### Explanation

An investment company must select a dealer to execute its portfolio transactions based on services provided. It is a violation of the anti-reciprocal rule (MSRB Rule G-31) for an investment company to choose a firm to trade its portfolio based solely on sales of units or shares of the fund.

**Reference:** 3.4.3.1 in the License Exam Manual

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### Question #122 of 132

Question ID: 605430

All of the following will be included on a confirmation for noncallable municipal bonds purchased on a yield basis EXCEPT:

- ☐ A) par value.
- ☐ B) dollar price.
- ☐ C) yield to maturity.
- ☒ D) taxable equivalent yield.

#### Explanation

As investors' tax brackets vary, taxable equivalent yield is never required to be shown.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #123 of 132

Question ID: 605464

A bond with 25 years to maturity, 7% coupon, quoted on a 6.25% basis is callable in 10 years at 103, 15 years at 102, and 20 years at par. On the customer's confirmation, the dollar price quoted must be based on:

- ☒ A) 10 years to call.
- ☐ B) 15 years to call.
- ☐ C) 25 years to maturity.
- ☐ D) 20 years to call.

#### Explanation

This is a premium bond. With premiums, the YTC will be lower than the YTM. The question becomes which call date should be used. As a rule of thumb, always use the near term (first) in-whole call date.

**Reference:** 3.4.5.1 in the License Exam Manual

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### Question #124 of 132

Question ID: 765629

A customer in the 28% tax bracket owns a 9% ABC Corporation 20-year bond that currently is yielding 8.7%. He is considering buying tax-exempt securities. What is the comparable yield for a municipal bond?

- ☒ A) 0.06264
- ☐ B) 0.125
- ☐ C) 0.1208
- ☐ D) 0.0648

### Explanation

When comparing the yield of a taxable corporate bond to a tax-free municipal bond, use the formula: interest on corporate bond  $\times$  (100% – tax bracket). In this case,  $8.7\% \times .72 = 6.264\%$ . Remember to use the yield to maturity, not the coupon rate. The bond is currently priced to yield 8.7%. In this case, a tax-exempt bond yielding more than 6.264% will provide a higher after-tax return.

**Reference:** 3.4.8.1.1 in the License Exam Manual

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## Question #125 of 132

Question ID: 605500

A Municipal Finance Professional (MFP) is

- ☒ **A)** an associate of a broker dealer engaged in municipal securities representative activities, other than retail sales.
- ☐ **B)** a registered representative engaged in the sale of municipal securities to public customers.
- ☐ **C)** an elected official of a municipality with decision making responsibilities regarding municipal issues.
- ☐ **D)** an employee of the Municipal Securities Rule Making Board (MSRB) responsible for broker dealer compliance regarding MSRB rules.

### Explanation

A Municipal Finance Professional (MFP) is an associate of a broker dealer engaged in municipal securities representative activities, other than retail sales. Those activities can include the solicitation of municipal bond business. MFPs are subject to the MSRB reporting rules regarding gifts to elected officials and political parties (MSRB Rule G-37).

**Reference:** 3.5.1 in the License Exam Manual

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## Question #126 of 132

Question ID: 605476

The confirmation for the purchase of a callable municipal bond would show yield to call for which of the following bonds?

- ☐ **A)** A 7% bond priced at par.
- ☐ **B)** A 7% bond priced to yield 8%.
- ☒ **C)** A 9% bond priced to yield 6.5%.
- ☐ **D)** A 9% bond priced to yield 10%.

### Explanation

Confirmations for municipal bonds that are callable will show yield to call for premium bonds. Of the choices given only the 9% bond currently trading at a price to yield 6.5% is a premium bond. Therefore because we know the bond is callable, the 6.5% represents the yield to the nearest call date and this would be shown on the confirmation. Remember if the yield is down, the price is up; premium.

**Reference:** 3.4.5.1 in the License Exam Manual

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## Question #127 of 132

Question ID: 605388

A representative wishes to execute an order for a customer's discretionary account. The municipal dealer has a control relationship with the issuer of the security to be purchased. Under MSRB rules, the representative:

- ☐ **A)** may not execute the order.
- ☒ **B)** must have specific authorization from the customer.
- ☐ **C)** must wait until the firm terminates the control relationship.
- ☐ **D)** may refer the customer to a firm that has no control relationship.

### Explanation

Even in a discretionary account, a registered representative may not exercise discretion when a control relationship exists between the issuer and the dealer without first receiving the customer's permission.

**Reference:** 3.4.3.2.2 in the License Exam Manual

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### Question #128 of 132

Question ID: 605438

MSRB rules state that a customer confirmation must indicate which of the following?

- I. Whether the trade was made as an agency transaction
- II. Whether the sale was made from the dealer's inventory
- III. The amount of the dealer's markup or markdown
- IV. The location of the trust indenture.

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

#### Explanation

MSRB rules require that all confirmations include the firm's capacity in the trade (agent/principal). The amount of the dealer's markup or markdown on a principal trade need not be disclosed. The commission on an agency trade must be disclosed. The official statement must include the location of the trust indenture and a statement that bondholders may review it if they choose.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #129 of 132

Question ID: 605421

All of the following information must be disclosed on a municipal bond confirmation of sale EXCEPT:

- ☐ A) the name of the guaranteeing corporation in an industrial development revenue bond issue.
- ☐ B) the source of revenue backing a municipal revenue bond.
- ☒ C) the dated date on a municipal bond that has been outstanding for two years.
- ☐ D) in-whole call dates.

#### Explanation

On the dated date new issue interest starts to accrue. Once the issue makes its first interest payment to bond holders, the dated date is no longer used to compute accrued interest because there is a prior interest payment date.

**Reference:** 3.4.5.1.2 in the License Exam Manual

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### Question #130 of 132

Question ID: 605462

A workable indication for a block of municipal bonds is a:

- ☒ A) likely bid.
- ☐ B) firm offer.
- ☐ C) likely offer.
- ☐ D) firm bid.

#### Explanation

A bid is the price at which a dealer states its willingness to purchase securities from another broker/dealer. A dealer soliciting a workable indication is often working to satisfy a customer's order to sell securities. A dealer giving a workable indication is free to revise its bid if market conditions change.

**Reference:** 3.4.1.3 in the License Exam Manual

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### Question #131 of 132

Question ID: 605496

The MSRB is authorized to adopt rules concerning all of the following EXCEPT the:

- ☒ A) information to be provided by municipal issuers.
- ☐ B) regulation of municipal securities advertising.
- ☐ C) sale of new issues to related portfolios.

- X **D)** form and content of price quotations.

Explanation

The MSRB does not regulate issuers. Rather, it regulates the underwriting of municipal securities and subsequent secondary market trading. Disclosure requirements for issuers are mandated by the SEC.

**Reference:** 3.5.1 in the License Exam Manual

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**Question #132 of 132**

Question ID: 605420

With respect to municipal discretionary accounts, all of the following statements are true EXCEPT

- X **A)** unless a customer gives their express authorization, the broker/dealer cannot effect transactions to the customer's account for securities in which it has a control relationship with the securities' issuer
- X **B)** all activity in the account must be reviewed at frequent intervals by a municipal securities principal
- ✓ **C)** if a control relationship exists between the broker/dealer and issuer, that relationship must first be terminated in order for the BD to effect transactions of the issuers securities in their customer's discretionary account
- X **D)** a municipal securities principal must approve all transactions in the account promptly after execution

Explanation

As with all discretionary accounts, a principal must approve transactions promptly after execution and the account must be reviewed frequently by a principal. Because this is a discretionary account which allows municipal securities to be traded in it, these functions must be performed by a municipal securities principal. Without the customer's consent, the broker/dealer cannot effect transactions in the customer's account for municipal securities in which a control relationship exists between the broker/dealer and the issuer. To effect such transactions, the broker/dealer must make full disclosure of the relationship and obtain the customers consent, but termination of the relationship is not required.

**Reference:** 3.4.3.2.2 in the License Exam Manual