

## Question #1 of 239

Question ID: 604771

Which of the following statements regarding ADRs are TRUE?

- I. They are issued by large domestic commercial banks.
- II. They are issued by foreign banks.
- III. They facilitate U.S. trading in foreign securities.
- IV. They facilitate a foreign investor who wants to trade U.S. securities.

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

### Explanation

ADRs are issued by large domestic commercial banks to facilitate U.S. investors who want to trade in foreign securities.

**Reference:** 1.8.1 in the License Exam Manual

## Question #2 of 239

Question ID: 605994

All of the following characteristics describe a joint tenants with right of survivorship account EXCEPT

- ☒ A) orders may be given only by the party listed first on the account
- ☐ B) mail may be sent to either party with the permission of the other party
- ☐ C) in the event of the death of one of the tenants, the surviving party assumes control of the entire account
- ☐ D) checks must be made out in the name of the account

### Explanation

In a JTWRROS account, where the surviving party assumes control of the entire account in the event of death of one of the tenants, any party named on the account may enter orders for the account. While distributions from the account must be sent in the names of all of the owners, mail could be sent to one party only with the permission of all other parties to the account.

**Reference:** 5.2.1.2.2 in the License Exam Manual

## Question #3 of 239

Question ID: 604738

While looking at a stock listing in the financial section of your local newspaper, you notice that the dividend is indicated by the notation ".15q." If you owned 1,000 shares, you could anticipate annual dividends of:

- ☐ A) 60.
- ☐ B) 150.
- ☒ C) 600.
- ☐ D) 15.

### Explanation

The notation .15q indicates a quarterly dividend of \$.15. Therefore, the annual dividend is \$.60 per share. 1,000 shares  $\times$  .60 = the annual dividend of \$600.

**Reference:** 1.6.1.5 in the License Exam Manual

## Question #4 of 239

Question ID: 604761

ABC Corporation, whose common stock is trading at \$32, has issued \$40 million of 8-1/8% debentures due 10-1-14. Each bond issued with a \$1,000 PAR value has a warrant attached enabling the holder to buy 4 shares of ABC common at \$40 per share. If all of the warrants are exercised, ABC Corporation will receive:

- X **A)** \$10 million.
- X **B)** \$20 million.
- ✓ **C)** \$6.4 million.
- X **D)** \$12.8 million.

Explanation

There are a total of 40,000 warrants outstanding (\$40 million of debentures / \$1,000 par value per bond). Each warrant entitles the holder to buy 4 shares of common stock. Therefore, if all warrants are exercised, holders will be purchasing 160,000 shares ( $4 \times 40,000$ ) at \$40 per share.  $160,000 \times \$40 = \$6.4$  million.

**Reference:** 1.7.2 in the License Exam Manual

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### Question #5 of 239

Question ID: 604768

Which of the following taxes does NOT impact the holder of an ADR?

- X **A)** State income tax.
- X **B)** Federal income tax.
- ✓ **C)** Excise tax.
- X **D)** Foreign income tax.

Explanation

Dividends on ADRs are subject to both federal and state income tax. In addition, the country of origin will frequently levy a tax which may be used as a credit on the investor's federal income tax return.

**Reference:** 1.8 in the License Exam Manual

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### Question #6 of 239

Question ID: 604711

A similarity between common and preferred stock is:

- ✓ **A)** the dividend must be declared by the board of directors.
- X **B)** both are evidence of corporate indebtedness.
- X **C)** they have an equal vote.
- X **D)** the dividend is fixed.

Explanation

All dividends, both common and preferred, must be declared by the board of directors. Preferred shares usually have a fixed dividend rate and usually have no (or very limited) voting powers. Both types of stock are equity, not debt, securities.

**Reference:** 1.3.1.1 in the License Exam Manual

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### Question #7 of 239

Question ID: 604692

A stockholder owns 200 shares of common stock in a corporation that features statutory voting. If an election is being held in which 6 candidates are running for 3 seats on the board, the stockholder could cast the votes in which of the following ways?

- ✓ **A)** 200 votes for each of 3 directors.
- X **B)** 100 votes for each of 6 directors.
- X **C)** 300 votes for each of 2 directors.
- X **D)** 600 votes for any 1 director.

Explanation

A stockholder has 1 vote per seat for each share of stock he owns. Thus, in this case, the stockholder has a total of 600 votes. Under the statutory voting method, he must allocate an equal number to each seat, or 200 for each of 3 seats.

**Reference:** 1.2.3.1.1 in the License Exam Manual

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### Question #8 of 239

Question ID: 604707

A corporation must have stockholder approval to:

- ☐ A) repurchase 100,000 shares of stock for its treasury.
- ☐ B) declare a 15% stock dividend.
- ☐ C) declare a cash dividend.
- ☒ D) issue convertible bonds.

#### Explanation

Stockholders are entitled to vote on the issuance of additional securities that would dilute shareholders' equity (the shareholder's proportionate interest). Conversion of the bonds would cause more shares to be outstanding, thus reducing the proportionate interest of current stockholders. Decisions that are made by the board of directors and do not require a stockholder vote include the repurchase of stock for its treasury, declaration of a stock dividend, and declaration of a cash dividend.

**Reference:** 1.2.3.1 in the License Exam Manual

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### Question #9 of 239

Question ID: 604756

Which of the following securities CANNOT pay a dividend?

- ☐ A) ADR.
- ☐ B) Class B common stock.
- ☐ C) Convertible preferred stock.
- ☒ D) Warrant.

#### Explanation

Warrants represent long-term options to buy stock at a fixed price, and, like options, cannot pay dividends.

**Reference:** 1.7.2 in the License Exam Manual

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### Question #10 of 239

Question ID: 604769

Which of the following statements regarding ADRs are TRUE?

- I. Dividends are payable in the underlying foreign currency.
- II. Dividends are payable in U.S. dollars.
- III. Holders have voting rights.
- IV. Holders do not have voting rights.

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

#### Explanation

The holder of an ADR does not hold the shares of the underlying security but instead holds a receipt for those shares and therefore does not have voting rights. ADRs are U.S. securities traded in U.S. markets in U.S. dollars, with dividends payable in U.S. dollars as well.

**Reference:** 1.8.1 in the License Exam Manual

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### Question #11 of 239

Question ID: 606044

Which of the following statements regarding UGMA accounts are NOT true?

- I. Only one custodian may be appointed for an UGMA account in the name of a minor.
- II. A gift under UGMA can be revoked.
- III. A custodian is liable for imprudence.
- IV. Short sales are permitted in an UGMA account.

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

Explanation

An UGMA account is allowed only one custodian and one minor. Short selling is prohibited in UGMA accounts. Once a gift is given, it is irrevocable. The custodian has fiduciary responsibility toward the minor to invest conservatively, and the custodian is liable for imprudence in handling the entrusted funds.

**Reference:** 5.3.1.5 in the License Exam Manual

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**Question #12 of 239**

Question ID: 735927

An employee of a FINRA member firm wishes to open an account at another member firm. The employee opening the account must

- X **A)** obtain prior written consent from FINRA before opening the account
- X **B)** notify FINRA in writing of the intent to open the account
- X **C)** make written notification to the SEC before the account can be opened
- ✓ **D)** receive prior written consent from their employer

Explanation

Persons associated with one FINRA member firm may open securities accounts at other member firms as long as prior written notice was made to, and prior written consent was received from, the employing broker/dealer before the account is opened. Neither notification nor consent is required from FINRA or the SEC.

**Reference:** 5.1.5.1 in the License Exam Manual

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**Question #13 of 239**

Question ID: 604722

If GHI currently has earnings of \$3 and pays an annual dividend of \$1.75 and GHI's market price is \$35, the current yield is

- X **A)** 3%.
- X **B)** 8.6%.
- ✓ **C)** 5%.
- X **D)** 1.75%.

Explanation

The current yield is calculated by dividing the annual dividend by the current market value ( $\$1.75 / \$35 = 5\%$ ).

**Reference:** 1.4.1.3 in the License Exam Manual

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**Question #14 of 239**

Question ID: 605998

All of the following could open a joint account EXCEPT:

- X **A)** a mother and 22-year-old daughter.
- X **B)** Two business partners.
- X **C)** a married couple.
- ✓ **D)** a father and 10-year-old son.

Explanation

Joint accounts can only be opened between adults.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #15 of 239

Question ID: 735926

Which of the following individuals could most likely open an account at a FINRA member firm without notifying or receiving permission from their employer?

- ☐ A) A government security trader employed by a member
- ☒ B) A bank employee selling fixed annuities only
- ☐ C) An agent who sells variable annuities
- ☐ D) A purchases and sales clerk of a member

#### Explanation

Whenever an employee of a FINRA member wants to open a securities account with another FINRA member firm or financial institution, the employee must give prior written notice to his employer, and receive prior written consent from his employer, before the account can be opened. Someone selling fixed annuities only (not a security like variable annuities) is most likely not associated with a member.

**Reference:** 5.1.5.1 in the License Exam Manual

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### Question #16 of 239

Question ID: 606059

Under the Uniform Transfer to Minors Act, all of the following statements are true EXCEPT:

- ☐ A) an UTMA account may have only one custodian for only one minor.
- ☒ B) the maximum amount of money an adult may give to a minor in any one year is an amount indexed for inflation.
- ☐ C) only an adult may make a gift to a minor in a custodial account.
- ☐ D) once a gift is given to a minor, it may not be reclaimed.

#### Explanation

Any adult may give a gift to a minor in a custodial account. There is no limitation on the size of the gift. Gifts in excess of the indexed maximum may be subject to a gift tax.

**Reference:** 5.3 in the License Exam Manual

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### Question #17 of 239

Question ID: 606012

Which of the following individuals may NOT open a joint account?

- ☐ A) Two spouses.
- ☐ B) Two business partners.
- ☒ C) Parent and a minor.
- ☐ D) Three sisters.

#### Explanation

A minor may not be a party in a joint account because a minor cannot legally exercise control over the account. A custodial account may be set up for the minor.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #18 of 239

Question ID: 604765

Investors should always be aware of taxes applicable to investments they own. Which of the following taxes might be associated with income derived from ADRs but not income from other investments?

- ☐ A) State income tax.
- ☐ B) Excise tax.
- ☒ C) Foreign income tax.

- ☒ **D)** Federal income tax.

#### Explanation

In most countries, a withholding tax on dividends is taken at the source. To the holder of an ADR, this would be a foreign income tax. The foreign income tax paid may be taken as a credit against U.S. income taxes owed.

**Reference:** 1.8.1.2 in the License Exam Manual

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### Question #19 of 239

Question ID: 606009

An individual has given full power of attorney (POA) to a third party. This means that the designee is permitted to:

- ☒ **A)** close the account and reopen it in the designee's name.
- ☒ **B)** originate trades in the account and remove funds or securities.
- ☒ **C)** remove funds or securities from the account, but not originate trades.
- ☒ **D)** originate trades in the account, but not remove funds or securities.

#### Explanation

Full power of attorney gives the named third party, the designee, all of the power of the owner except the right to change the name on the account.

**Reference:** 5.2.1.5.1 in the License Exam Manual

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### Question #20 of 239

Question ID: 604782

If a customer holds certificates of beneficial interest in a REIT, each of the following statements regarding this investment is true EXCEPT:

- ☒ **A)** investors receive dividends periodically.
- ☒ **B)** the issuer must redeem certificates on shareholder request.
- ☒ **C)** a mortgage REIT represents pooled capital for real estate financing.
- ☒ **D)** the certificates are publicly traded.

#### Explanation

REITs are not redeemed by the issuer. REITS are publicly traded units that represent either an interest in pooled capital for real estate financing or an interest in real property and that pass through income and capital gains distributions to investors. Investors who wish to liquidate their interests must sell them in the secondary market.

**Reference:** 1.9 in the License Exam Manual

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### Question #21 of 239

Question ID: 604679

Which of the following have equity positions in a corporation?

- I. Common stockholders.
- II. Preferred stockholders.
- III. Convertible bondholders.
- IV. Mortgage bondholders.

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

#### Explanation

Common and preferred stockholders have equity, or ownership positions. Bondholders (mortgage or otherwise) are creditors, not owners.

**Reference:** 1.1.1 in the License Exam Manual

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### Question #22 of 239

Question ID: 606005

In a discretionary account, due diligence requires a member to receive prior written consent before purchasing nonconventional investments (NCIs). All of the following are considered NCIs EXCEPT:

- ☐ A) Distressed corporate debt.
- ☐ B) Hedge funds.
- ☐ C) Equity linked notes.
- ☒ D) Corporate bond funds.

#### Explanation

Equity linked notes, debt issued by corporations that have filed for bankruptcy or are considering filing for bankruptcy, and hedge funds are all examples of investments that carry unique risks that an investor needs to be aware of. Therefore, before purchasing these types of investments in a discretionary account, proper due diligence by the broker/dealer requires that the customer provide prior written consent.

**Reference:** 5.2.2.3 in the License Exam Manual

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### Question #23 of 239

Question ID: 604724

A company has paid a dividend every quarter for the past 20 years. If the stock's price has fallen dramatically over the past quarter, but the dividend has remained the same, it may be concluded that:

- ☒ A) current dividend yield has increased.
- ☐ B) current dividend yield has remained the same.
- ☐ C) current dividend yield has decreased.
- ☐ D) dividend yield to maturity has decreased.

#### Explanation

Current dividend yield is income dividend divided by price. If the price of a stock decreases and the dividend remains the same, dividend yield will increase.

**Reference:** 1.4.1.3 in the License Exam Manual

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### Question #24 of 239

Question ID: 604728

Your client owns 100 shares of CCC at \$25. CCC declares a 25% stock dividend. After the ex-date, what will he own?

- I. 125 shares.
  - II. 100 shares.
  - III. Cost of \$25.
  - IV. Cost of \$20.
- 
- ☒ A) I and IV.
  - ☐ B) II and III.
  - ☐ C) I and III.
  - ☐ D) II and IV.

#### Explanation

Stock dividends make the number of shares owned increase and the cost per share decrease. The overall value should remain unchanged before and after the adjustment: 125 shares  $\times$  \$20 = \$2,500, and 100 shares  $\times$  \$25 = \$2,500.

**Reference:** 1.4.1.2 in the License Exam Manual

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### Question #25 of 239

Question ID: 604730

ABC's stock has paid a regular dividend every quarter for the last several years. If the price of the stock has remained the same over the past year, but the dividend amount per share has increased, it may be concluded that ABC's:

- ☐ A) yield to maturity has gone up.

- X **B)** current yield per share has been unaffected.
- X **C)** current yield per share has decreased.
- ✓ **D)** current yield per share has increased.

Explanation

The current yield would have increased because current yield is the income (dividend) divided by price. A higher dividend divided by the same price results in a higher yield. Stocks do not have a yield to maturity.

**Reference:** 1.4.1.3 in the License Exam Manual

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**Question #26 of 239**

Question ID: 605940

Under SEC rules, which of the following events require a broker/dealer to furnish a copy of the account record to a customer?

- I. Change of broker/dealers address
- II. Change of customer's name or address
- III. Change of customer's investment objectives
- IV. Change in registered representative assigned to the account

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

Explanation

Any change in a customer's status, particularly those that may impact the suitability of recommendations, requires a broker/dealer to update the customer account record and furnish it to the customer within 30 days of receipt of the change notice.

**Reference:** 5.1.1.3 in the License Exam Manual

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**Question #27 of 239**

Question ID: 604719

Which of the following must be paid before a corporation may pay its cumulative preferred stock arrearages?

- I. This year's preferred dividends.
- II. Bond interest.
- III. Corporate taxes.
- IV. Common stock dividends.

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

Explanation

Before paying any dividends, the corporation must pay wages, taxes, and both interest and principal on debts that are due. Once the debt obligations have been satisfied, it may pay arrearages on cumulative preferred stock, then current fixed dividends on preferred stock, and finally common dividends.

**Reference:** 1.3.2.2 in the License Exam Manual

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**Question #28 of 239**

Question ID: 604681

If ABC Corp. declares a 5-4 stock split, an investor who owns 300 shares would receive how many additional shares?

- X **A)** 30.
- X **B)** 100.
- X **C)** 60.



✓ **D)** 75.

Explanation

A 5-4 split represents a 25% increase in shares. For each 4 shares owned, the investor will receive 1 new share.  $1/4 = 25\%$  increase.  $300 \text{ shares} \times 25\% = 75 \text{ shares}$ .

**Reference:** 1.2.4.1 in the License Exam Manual

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**Question #29 of 239**

Question ID: 604709

Which of the following features of preferred stock allows the holder to reduce the risk of inflation?

- X **A)** Callable.
- ✓ **B)** Convertible.
- X **C)** Cumulative.
- X **D)** Noncumulative.

Explanation

Fixed dollar investments such as bonds and preferred stock are subject to inflation risk, which is the risk that the fixed interest or dividend payments will be worth less over time in terms of purchasing power. The ability to convert to common stock, which tends to keep pace with inflation, offsets this risk.

**Reference:** 1.3.2.3 in the License Exam Manual

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**Question #30 of 239**

Question ID: 606025

Which of the following circumstances must be met for a fiduciary to trade options in a trust account?

- I. Special circumstances determined by the broker/dealer.
- II. The trust agreement states the trustee has the power to trade options.
- III. The trust's investment objectives are determined to be compatible with options trading.
- IV. Only covered options may be traded by a fiduciary.

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

Explanation

A fiduciary account may only trade options if expressly authorized to do so and if suitable for the beneficial owner of the account.

**Reference:** 5.2.1.4.1 in the License Exam Manual

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**Question #31 of 239**

Question ID: 604767

The issuer of an ADR is a:

- X **A)** domestic branch of a foreign bank.
- X **B)** domestic branch of a domestic bank.
- X **C)** foreign branch of a foreign bank.
- ✓ **D)** foreign branch of a domestic bank.

Explanation

The American Depositary Receipt (ADR) is issued by a foreign branch of a domestic bank. Everything is in English and in U.S. dollars.

**Reference:** 1.8.1.1 in the License Exam Manual

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**Question #32 of 239**

If a stock is sold on November 30 when the record date for a dividend distribution is December 1, the seller is

- I. entitled to the dividend if the trade is done regular way
- II. not entitled to the dividend if the trade is done regular way
- III. entitled to the dividend if the trade is done with cash settlement
- IV. not entitled to the dividend if the trade is done with cash settlement

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

#### Explanation

Anyone who owns the stock on the record date will receive the dividend. In a regular way trade (T + 2 settlement), the seller will still be owner of record on the record date of December 1st, as the trade will settle after the record date. In a cash settlement transaction, the buyer will be owner of record on record date.

**Reference:** 1.6.1.5 in the License Exam Manual

### Question #33 of 239

Question ID: 606034

An unmarried couple wants to open a new account registered as joint tenants with rights of survivorship (JTWROS). Which of the following should occur?

- I. The registered representative should discuss the resulting consequences of opening an account registered as JTWROS should one party to the account die.
- II. A principal of the firm should be notified immediately so that a report can be filed with FINRA regarding the account registration.
- III. The registered representative must refuse to open the account.
- IV. The registered representative may open the account.

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

#### Explanation

In an account registered JTWROS, if one party to the account dies, the deceased party's ownership interest in the account passes to the surviving tenant, rather than to the deceased party's estate. There are no rules prohibiting opening an account registered as joint tenants with rights of survivorship (JTWROS) for two unmarried persons but the registered representative should take all steps needed to be certain that the unmarried individuals understand the resulting consequences should one party to the account die.

**Reference:** 5.2.1.2.2 in the License Exam Manual

### Question #34 of 239

Question ID: 604759

All of the following statements describe stock rights EXCEPT:

- X **A)** they are traded in the secondary market.
- X **B)** they are short-term instruments that become worthless after the expiration date.
- ✓ **C)** they are most commonly offered with debentures to make the offering more attractive.
- X **D)** they are issued by a corporation.

#### Explanation

A corporation issues rights to existing shareholders to allow them to purchase enough stock, within a short period and at less than current market price, to maintain their proportionate interest in the company. Rights need not be exercised but may be traded in the secondary market. Warrants, not rights, are often issued with debentures to sweeten the offering.

**Reference:** 1.7.1 in the License Exam Manual

### Question #35 of 239

Question ID: 721432

Which of the following may NOT normally assign authorization to a third party?

- ✓ **A)** A fiduciary
- X **B)** An individual
- X **C)** A joint account
- X **D)** A corporation

Explanation

Assigning authorization to a third party is giving away the fiduciary authority that had been legally assigned to someone else. This is not permitted. In some instances, custodians of an account may delegate specific investment decision authority to a third party, but that authority must not be left unsupervised by the fiduciary.

**Reference:** 5.3.1.2 in the License Exam Manual

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**Question #36 of 239**

Question ID: 604684

A company has reverse-split its common stock. The effect on the earnings per share will be:

- X **A)** a decrease.
- X **B)** none of these..
- X **C)** no effect.
- ✓ **D)** an increase.

Explanation

When a reverse split takes place, the number of outstanding shares is reduced. Since the split has no effect on earnings of the company, dividing those earnings by fewer shares will cause an increase to the earnings per share.

**Reference:** 1.2.4.2 in the License Exam Manual

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**Question #37 of 239**

Question ID: 606039

Under the Uniform Gift to Minors Act (UGMA), the custodian must be:

- X **A)** court appointed.
- X **B)** bonded.
- X **C)** a member of the minor's family.
- ✓ **D)** an adult.

Explanation

Under UGMA, the custodian must be an adult. The custodian does not need to be bonded, a member of the minor's family, or appointed by a court.

**Reference:** 5.3 in the License Exam Manual

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**Question #38 of 239**

Question ID: 606036

Two siblings have an account with your broker/dealer registered as joint tenants with rights of survivorship. Both live in a state that recognizes community property as an ownership designation. If one of the siblings dies, which of the following will occur?

- X **A)** The deceased sibling's interest in the account will be divided in accordance with the community property laws of that state.
- X **B)** The deceased sibling's interest in the account will become the property of her estate.
- X **C)** The entire account will be liquidated and divided in accordance with the community property laws of that state.
- ✓ **D)** The deceased sibling's interest in the account will pass to the surviving sibling in accordance with the joint tenants with rights of survivorship account registration.

Explanation

This account, registered as joint tenants with rights of survivorship, will be handled in accordance with that account registration at the time of the death of either sibling. The deceased sibling's interest in the account will pass to the surviving sibling. Community property laws in jurisdictions that presume that type of ownership designation only applies to

marital property (property acquired by the two individuals while married). Therefore, community property laws would not be applicable to siblings.

**Reference:** 5.2.1.2.3 in the License Exam Manual

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### Question #39 of 239

Question ID: 606031

A person wishing to grant a registered representative the right to make investment decisions for his account does so by:

- ☐ A) providing a full power of attorney to someone other than the registered representative who will then instruct the representative as to investment decisions.
- ☐ B) providing a letter from an attorney.
- ☐ C) calling the representative each time he wants to place an order.
- ☒ D) providing a limited power of attorney giving discretionary powers.

#### Explanation

A discretionary account always requires prior written authorization from the customer in the form of a limited power of attorney (trading authorization).

**Reference:** 5.2.2.1 in the License Exam Manual

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### Question #40 of 239

Question ID: 604735

For reporting purposes, an order to sell 25 shares of an OTC equity security priced at \$230 per share is:

- ☐ A) 25 odd lots.
- ☒ B) 25 round lots.
- ☐ C) 1 odd lot.
- ☐ D) 1 round lot.

#### Explanation

For OTC equity securities trading at or above \$175 per share, 1 share is considered to be a round lot unit of trading. Therefore all last sale information will be disseminated for any transaction of one share or more.

**Reference:** 1.5.1 in the License Exam Manual

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### Question #41 of 239

Question ID: 604697

A client has 100 shares of GHI when the stock undergoes a split. After the split, the client has:

- ☐ A) greater exposure.
- ☒ B) no effective change in the value of the position.
- ☐ C) a proportionately increased interest in the company.
- ☐ D) a proportionately decreased interest in the company.

#### Explanation

When a stock splits, the number of shares each stockholder has either increases or decreases (in the case of a reverse split). The customer experiences no effective change in position because the proportionate interest in the company remains the same.

**Reference:** 1.2.4.1 in the License Exam Manual

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### Question #42 of 239

Question ID: 606016

A power of attorney is not required for a registered representative to choose which of the following order instructions?

- I. Security to be bought or sold
- II. Number of shares to be bought or sold
- III. Time of execution
- IV. Price of execution.

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

Explanation

If a registered representative chooses price or timing of an order only, that order is not a discretionary order and a power of attorney is not required. The order is a not-held order. To be discretionary, the representative must choose one or more of the following: the action (buy or sell), the security, or the amount (number of shares).

**Reference:** 5.2.1.5 in the License Exam Manual

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**Question #43 of 239**

Question ID: 606056

Under the provisions of an UGMA account, which of the following occurs when the minor reaches the age of majority?

- X **A)** The account must be turned over to the donor. .
- X **B)** Any securities in the account must be converted to cash.
- X **C)** The account remains as an UGMA account.
- ✓ **D)** The account must be turned over to the donee.

Explanation

Under the terms of the Uniform Gifts to Minors Act, when a minor reaches the age of majority, the proceeds must be handed over to the new adult.

**Reference:** 5.3.1 in the License Exam Manual

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**Question #44 of 239**

Question ID: 606038

An agent taking which of the following actions would be committing a violation?

- X **A)** Buying securities in a cash account with the consent of the customer.
- X **B)** Buying securities in a joint account at the request of 1 party only.
- ✓ **C)** Selling securities from a minor's custodial account without the custodian's consent but with the beneficial owner's consent.
- X **D)** Selling securities from a corporate account by using limited power of attorney trading authority for the account.

Explanation

The custodian, not the beneficial owner (minor), is the person who has the authority to make investment decisions for an account. Any tenant in a joint account may give instructions for the account.

**Reference:** 5.3.1.5 in the License Exam Manual

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**Question #45 of 239**

Question ID: 604693

Stockholders' preemptive rights include the right to:

- X **A)** serve as an officer on the board of directors.
- X **B)** sell stock back to the issuing corporation.
- ✓ **C)** maintain proportionate ownership interest in the corporation.
- X **D)** purchase treasury stock.

Explanation

Preemptive rights allow stockholders to maintain their proportionate ownership when the corporation wants to issue more stock. For example, if a stockholder owns 5% of the outstanding stock and the corporation wants to issue more stock, the stockholder has the right to purchase 5% of the new shares.

**Reference:** 1.2.3.3 in the License Exam Manual

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### Question #46 of 239

Question ID: 606052

You have decided to open an UTMA account for your 10-year-old son. As you are completing the application to open the account, you are asked for a Social Security number. Whose Social Security number will be used to open the account?

- ☐ A) The parents' Social Security number.
- ☐ B) The donor's.
- ☒ C) The beneficial minor's.
- ☐ D) The custodian's.

#### Explanation

An UTMA account will be opened using the beneficial minor's Social Security number.

**Reference:** 5.3.1.3 in the License Exam Manual

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### Question #47 of 239

Question ID: 604779

All of the following are true of REITs EXCEPT:

- ☐ A) they must invest at least 75% of their assets in real estate-related activities.
- ☐ B) shares are publicly traded.
- ☒ C) they must pass along losses to shareholders.
- ☐ D) they must to qualify under Subchapter M, distribute at least 90% of their net investment income.

#### Explanation

REITs engage in real estate activities and can qualify for favorable tax treatment if they pass through at least 90% of their net investment income to their shareholders. While they can pass through income, they cannot pass through any losses; they are not DPPs.

**Reference:** 1.9 in the License Exam Manual

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### Question #48 of 239

Question ID: 605985

Which of the following statements regarding a death in a tenants in common account are TRUE?

- I. The decedent's interest in the account goes to his estate.
- II. The decedent's interest in the account goes to the remaining tenant.
- III. The member firm must freeze both the account and acceptance of orders until the required documents are presented.
- IV. The member may immediately accept orders from the remaining tenant.

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

#### Explanation

If one party in a TIC account dies, the decedent's interest in the account goes to his estate, not to any other party to the account. The member firm must freeze the account and acceptance of all orders until the required documents are presented.

**Reference:** 5.2.1.2.1 in the License Exam Manual

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### Question #49 of 239

Question ID: 604694

Which of the following securities is subject to the greatest risk?

- ☐ A) A-rated municipal bond.
- ☐ B) Series EE bond.
- ☒ C) XYZ Inc., common stock.

- ☐ D) BAA-rated ABC convertible bond.

Explanation

Common stock is a junior security. It is considered less safe than bonds because it has the lowest claim to assets in the event of the issuing firm's liquidation, and is paid dividends after bonds are paid interest.

**Reference:** 1.2.3.6 in the License Exam Manual

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**Question #50 of 239**

Question ID: 604760

Which of the following statements regarding warrants is TRUE?

- ☐ A) Warrants give the holder a perpetual interest in the issuer's stock.
- ☒ B) Warrants are often issued with other securities to make the offering more attractive.
- ☐ C) Warrants' terms are generally shorter than rights' terms.
- ☐ D) Warrants are safer than corporate bonds.

Explanation

Warrants are generally issued with bond offerings to make the bonds more attractive. Warrants are long-term options to buy stock, and because they are equity securities, warrants, as investments, are considered less safe than bonds.

**Reference:** 1.7.2 in the License Exam Manual

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**Question #51 of 239**

Question ID: 604758

A new bond issue will include warrants to:

- ☐ A) increase the spread to the underwriter.
- ☐ B) increase the price of the issue to the public.
- ☐ C) increase the capital raised by the issuer through the bond offering.
- ☒ D) increase the attractiveness of the issue to the public.

Explanation

By including warrants with debt issues, issuers increase the marketability of bonds. The warrants offer a long-term opportunity to buy the underlying stock at a fixed price. In addition to increasing the marketability of the issue, the issuer can offer the bonds with a lower coupon rate and, as a result, reduce fixed costs.

**Reference:** 1.7.2.1 in the License Exam Manual

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**Question #52 of 239**

Question ID: 605956

Which of the following activities can take place in a cash account?

- ☐ A) Borrowing money.
- ☒ B) Purchase of new issue common stock.
- ☐ C) Short sale of stock.
- ☐ D) Uncovered option writing.

Explanation

A customer may only borrow money or securities from a broker/dealer in a margin account. Uncovered call options must occur in a margin account and uncovered put options can only occur in a cash account when certain criteria are met. Short sales must occur in a margin account.

**Reference:** 5.1.3.1 in the License Exam Manual

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**Question #53 of 239**

Question ID: 604734

Who is responsible for ensuring that a corporation does not have more shares of stock outstanding than it has been authorized to issue?

- ☐ A) SEC.
- ☐ B) Transfer agent.
- ☐ C) FINRA.
- ☒ D) Registrar.

Explanation

The registrar is responsible for keeping careful account of the number of shares a company is authorized to issue and ensuring that the number outstanding does not exceed this number.

**Reference:** 1.5.2.2 in the License Exam Manual

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**Question #54 of 239**

Question ID: 604690

Which of the following represent ownership in a corporation?

- I. Debentures.
- II. Convertible bonds.
- III. Preferred stock.
- IV. Common stock.

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

Explanation

Common and preferred stocks represent ownership in a company. Convertible debentures may be converted to equity securities, but until they are, they are considered debt.

**Reference:** 1.2 in the License Exam Manual

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**Question #55 of 239**

Question ID: 605957

If a customer wishes to open a new account but declines to provide all of the financial information the member firm requests, which of the following statements are TRUE?

- I. The member firm may open the account and make recommendations without meeting any other criteria.
- II. The member firm may open the account if it has determined (by other means) that the customer has the financial resources to carry the account and that trading is suitable.
- III. The member firm may not recommend any transactions unless the representative is able, through the information available, to make a suitability determination.
- IV. The member firm may not allow trades in the account until the requested information is received.

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

Explanation

If a customer refuses to provide financial information, the member firm may use whatever information is available to decide whether to open the account. Any recommendation made to a customer must be suitable, taking into account the customer's investment objectives, financial situation, and any other relevant information. If the information is not provided, the account may be opened, but no investment recommendations may be made.

**Reference:** 5.1.1.1 in the License Exam Manual

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**Question #56 of 239**

Question ID: 604736

When disseminating information about transactions of OTC equity securities, 1 share equals 1 round lot for stocks trading at or above:

- ☐ A) \$150 per share.



- X **B)** \$200 per share.
- ✓ **C)** \$175 per share.
- X **D)** \$125 per share.

Explanation

In instances where OTC stocks are trading at or above \$175 per share, 1 share equals 1 round lot. In all other cases, similar to listed equity securities, 100 shares equals 1 round lot for OTC equity securities.

**Reference:** 1.5.1 in the License Exam Manual

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**Question #57 of 239**

Question ID: 604775

Which of the following is an equity security?

- X **A)** Collateralized mortgage obligation.
- ✓ **B)** Real estate investment trust share.
- X **C)** Mortgage-secured bond.
- X **D)** Government National Mortgage Association pass-through certificate.

Explanation

A REIT share is an equity security that represents undivided ownership in a portfolio of real estate investments. The other choices are debt securities.

**Reference:** 1.9 in the License Exam Manual

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**Question #58 of 239**

Question ID: 604695

In a 3-for-2 stock split, an investor will:

- X **A)** have 50% more shares at half the price.
- X **B)** have 50% fewer shares at twice the price.
- ✓ **C)** have 50% more shares at two-thirds the price.
- X **D)** have two-thirds fewer shares at a 50% higher price.

Explanation

If a stock splits 3 for 2, an investor will receive an additional 50 shares for every 100 shares owned. The price will decline by one-third, but the total value of the position will stay the same. For example, if a shareholder owns 100 shares before the 3 for 2 split, the shareholder will have 150 shares after the split ( $3 / 2 \times 100 = 150$ ).

**Reference:** 1.2.4.1 in the License Exam Manual

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**Question #59 of 239**

Question ID: 604747

A company is offering investors the opportunity to purchase shares for the next 5 years at a fixed price slightly above today's market price. The company is issuing:

- X **A)** a letter of intent.
- X **B)** futures.
- X **C)** call options.
- ✓ **D)** warrants.

Explanation

A warrant is a security that allows the holder to purchase shares of the underlying issue at a fixed price (above the current market price when issued) for an extended period (typically 2 years or longer). Call options are similar, except they are short-term securities (9 months at issue).

**Reference:** 1.7.2 in the License Exam Manual

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**Question #60 of 239**

Question ID: 604701

ABC Inc. has 1 million shares of common stock outstanding (\$10 par value), paid-in surplus of \$10 million, and retained earnings of \$10 million. If ABC stock is trading at \$20 per share, what would be the effect of a 2-1 stock split?

- ✓ **A)** The par value would decrease to \$5 per share. .
- X **B)** The number of shares outstanding would decrease by 50%.
- X **C)** The market price of the stock would double.
- X **D)** The retained earnings would be decreased by \$10 million.

#### Explanation

A stock split results in more outstanding shares at a lower par value per share. The total value of stock outstanding is unchanged. Retained earnings are not affected by a stock split.

**Reference:** 1.2.4.1 in the License Exam Manual

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### Question #61 of 239

Question ID: 721423

A new customer has given you written authorization to transfer the holdings in his account at another broker/dealer to his new account at your broker/dealer. Under the Uniform Practice Code, using the automated customer account transfer system form (ACATS) the carrying broker/dealer would have how many days to validate the positions and how many days to complete the transfer after validation?

- I. 1 business day to validate.
- II. 2 business days to validate.
- III. 2 business days to transfer after validation.
- IV. 3 business days to transfer after validation.

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

#### Explanation

Under the Uniform Practice Code the carrying broker/dealer has 1 business day to validate positions and 3 business days to transfer to the receiving broker/dealer after validation.

**Reference:** 5.1.4.3 in the License Exam Manual

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### Question #62 of 239

Question ID: 606028

When a customer wants to open a guardian account, which of the following is needed?

- X **A)** Signed customer account card, credit agreement, and loan consent.
- ✓ **B)** Copy of the court-ordered guardianship papers.
- X **C)** Limited power of attorney.
- X **D)** Full power of attorney.

#### Explanation

The courts appoint a guardian to act on behalf of another individual who is unable to act for himself. Full and limited powers of attorney relate to accounts over which the beneficial owners have granted some form of control to other persons.

**Reference:** 5.2.1.4.1 in the License Exam Manual

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### Question #63 of 239

Question ID: 604698

After a company splits its stock 2 for 1, an investor who owns 100 shares receives:

- X **A)** another certificate for 200 shares.
- X **B)** notice to send in the current certificate to be replaced by a new certificate for 200 shares.
- X **C)** notice that the investor's 100-share certificate now represents 200 shares.

- ✓ **D)** another certificate for 100 shares.

Explanation

After a 2 for 1 split, the transfer agent will send the investor another certificate for 100 shares. The investor is not required to return the existing stock certificate.

**Reference:** 1.2.4.1 in the License Exam Manual

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**Question #64 of 239**

Question ID: 605990

If a new joint tenants with rights of survivorship account is opened, all of the following statements are true EXCEPT:

- X **A)** mail may be sent to either party (with the permission of each party).  
✓ **B)** checks may be drawn in the name of either party.  
X **C)** in the event of death, the decedent's interest in the account goes to the other party.  
X **D)** orders may be given by either party.

Explanation

While either party may enter an order, any money or securities delivered out of the account must be in the names of both owners.

**Reference:** 5.2.1.2.2 in the License Exam Manual

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**Question #65 of 239**

Question ID: 606064

Which of the following activities are disallowed under FINRA rules?

- I. Opening an account for a 16-year-old individual.  
II. Accepting a sale in a joint account from one of the owners and having the check payable in the name of that individual.  
III. Accepting a sale order from the husband only in a joint account owned by both husband and wife.  
IV. Requiring written discretionary authorization before accepting orders for a discretionary account.

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

Explanation

The question is asking for the nonallowable practices. We cannot open an account for a minor, nor may we make a check payable to only one of the parties in a joint account.

**Reference:** 5.3 in the License Exam Manual

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**Question #66 of 239**

Question ID: 735930

An employee of another broker/dealer would like to open an account with your firm. Under FINRA rules, all of the following statements regarding the employee and the account are true EXCEPT

- X **A)** the employer must be notified in writing of the opening of the account  
X **B)** the employer must grant prior written approval to open the account  
X **C)** if the employer requests them, they must receive duplicate copies of all account transactions  
✓ **D)** the employer must approve each transaction before entry of the order

Explanation

FINRA rules do not require prior approval of individual transactions by either the broker/dealer at which the account has been opened or the employing broker/dealer. The rules do require that the employing broker/dealer be notified in writing and that they give prior written consent before the account can be opened. Duplicate copies of account statements and confirmations must be supplied only if the employing BD has requested them.

**Reference:** 5.1.5.1 in the License Exam Manual

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### Question #67 of 239

Question ID: 606030

If a customer wishes to open a cash account in her name only and allow her husband to make purchases and receive checks in his name only, she must instruct her broker/dealer to open a:

- ☐ A) cash account.
- ☐ B) margin account.
- ☐ C) cash account with limited power of attorney.
- ☒ D) cash account with full power of attorney.

#### Explanation

For anyone other than the account owner, entering trades and withdrawing assets requires a full power of attorney. A limited power of attorney enables a nonaccount owner to enter trades but not to withdraw assets.

**Reference:** 5.2.1.5.1 in the License Exam Manual

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### Question #68 of 239

Question ID: 604718

The rate on an adjustable preferred stock may be indexed to the:

- ☐ A) Producer Price Index.
- ☒ B) Treasury bill rate.
- ☐ C) Consumer Price Index.
- ☐ D) Dow Jones Industrial Average.

#### Explanation

The dividend on an adjustable rate preferred stock is tied to a particular interest rate, and the Treasury bill rate is a common benchmark.

**Reference:** 1.3.1.2 in the License Exam Manual

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### Question #69 of 239

Question ID: 605952

A customer wishing to open a numbered account must be informed that:

- ☒ A) he must supply a written statement attesting to his ownership of the account.
- ☐ B) the account may only be opened with prior permission from the SEC.
- ☐ C) numbered accounts are restricted to cash accounts.
- ☐ D) he must supply proof of U.S. citizenship and reside permanently in the United States.

#### Explanation

Numbered, or symbol, accounts require a signed, written statement from the client, acknowledging ownership, to be kept on file.

**Reference:** 5.1.4.1 in the License Exam Manual

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### Question #70 of 239

Question ID: 605969

A customer wishes to open a new account but refuses to provide suitability information. Under FINRA rules, the member

- ☒ A) may open the account but may not make any recommendations.
- ☐ B) may open the account but must limit recommendations to U.S. government securities.
- ☐ C) may open the account but must limit recommendations to investment-grade securities.
- ☐ D) must not open the account.

#### Explanation

If a customer fails to provide suitability information, the account may be opened but the member may not make any recommendations.

**Reference:** 5.1.1.1 in the License Exam Manual

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### Question #71 of 239

Question ID: 604774

A company set up to invest in real estate, mortgages, construction, and development loans that must distribute at least 90% of its net income to avoid paying taxes on the income distributed is called:

- ☐ A) an open-end investment company.
- ☒ B) a real estate investment trust.
- ☐ C) a unit investment trust.
- ☐ D) a trust indenture.

#### Explanation

A real estate investment trust, in order to avoid tax on its income, must distribute 90% of its net investment income to investors.

**Reference:** 1.9 in the License Exam Manual

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### Question #72 of 239

Question ID: 605962

If a customer wants his account designated by number, not by name, the registered representative:

- ☐ A) can open this account with a written statement of ownership and approval from the FINRA.
- ☐ B) can open this account without additional documentation.
- ☐ C) cannot open the account in this manner.
- ☒ D) can open the account with a written statement of ownership from the customer.

#### Explanation

For numbered accounts, the customer must sign a document attesting to ownership.

**Reference:** 5.1.4.1 in the License Exam Manual

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### Question #73 of 239

Question ID: 604691

Treasury stock is:

- ☐ A) issued by the U.S. Treasury Department.
- ☐ B) preferred stock.
- ☐ C) authorized but unissued stock owned by the company.
- ☒ D) stock repurchased by the issuer.

#### Explanation

A company may, from time to time, go into the market and buy some of its own outstanding stock, which is then placed in the treasury and called treasury stock. Treasury stock has no voting rights and does not receive dividends. Treasury stock is not included when calculating shareholders' equity, or net worth.

**Reference:** 1.2.1.4 in the License Exam Manual

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### Question #74 of 239

Question ID: 604784

A customer is considering adding a real estate investment trust (REIT) to their portfolio. They list all of the following as "plusses" or advantages. You correct your customer and point out that one of them is not an advantage of investing in REITs. Which of the following is NOT an advantage of investing in REITs?

- ☐ A) Being able to divest of the shares easily
- ☒ B) Dividend treatment
- ☐ C) Having a professionally managed portfolio of commercial real estate assets
- ☐ D) Using real estate as a potential hedge against the movement of other equity securities the customer owns

#### Explanation

Of those listed, only dividend treatment can be identified as not being an advantage. While the expectation of receiving dividends is inherently good, dividends paid by REITs to their shareholders are not recognized as qualified and are, therefore, taxable to the investor at their full ordinary income tax rate. The shares are traded on exchanges or OTC and considered liquid, and having professionally managed assets should be a plus. While real estate valuation and price movements are subject to many forces, historically, real estate has provided some hedge against the movements of other equity securities.

**Reference:** 1.9.1 in the License Exam Manual

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### Question #75 of 239

Question ID: 606051

Under the Uniform Gifts to Minors Act, how may stock subscription rights or warrants be handled in a custodial account?

- ☐ A) The rights may be exercised or sold only if the stock certificates are held in street name.
- ☐ B) The rights may be exercised or sold only if the donor is also the custodian.
- ☒ C) The custodian may exercise or sell the rights as he deems prudent.
- ☐ D) The custodian may not exercise or sell rights for a custodial account.

#### Explanation

The custodian in an UGMA account is obligated to handle that account in the best interests of the minor. In doing so, he must act as a prudent investor would. There is no requirement that the donor and custodian be the same person. Remember that UGMA and UTMA accounts may never have street name registration.

**Reference:** 5.3.1.5 in the License Exam Manual

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### Question #76 of 239

Question ID: 606007

A joint account could be opened for any of the following EXCEPT:

- ☐ A) 2 partners in a limited partnership.
- ☒ B) a parent and minor child.
- ☐ C) a corporation.
- ☐ D) 3 business associates.

#### Explanation

Minor children cannot be a party to any account except an UGMA or UTMA.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #77 of 239

Question ID: 604721

Cement Mixer Corporation has 1 million shares of convertible preferred stock and 2 million shares of common outstanding. Each share of preferred can be converted into  $\frac{1}{2}$  share of common. The preferred stock is selling at \$17.50 and the common stock is selling at \$35.75. If all preferred shares were converted, how many shares of common stock would be outstanding after conversion?

- ☐ A) 2 million.
- ☐ B) 3 million.
- ☒ C) 2.5 million.
- ☐ D) 500000.

#### Explanation

One million shares of preferred, each converted to  $\frac{1}{2}$  share of common, is 500,000 common shares. Five hundred thousand shares after conversion added to 2 million shares of common previously outstanding equals 2.5 million common shares.

**Reference:** 1.3.2.3 in the License Exam Manual

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### Question #78 of 239

Question ID: 606058

A gift given to a minor under UTMA may be revoked under which of the following circumstances?

- ☐ A) At any time before the minor reaches the age of majority.
- ☐ B) If the minor dies before reaching the age of majority.
- ☒ C) Under no circumstances.
- ☐ D) If the custodian dies before the minor reaches the age of majority.

Explanation

Under both The Uniform Transfer to Minors Act (UTMA) and The Uniform Gifts to Minors Act (UGMA), all gifts to minors are irrevocable.

**Reference:** 5.3.1.1 in the License Exam Manual

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**Question #79 of 239**

Question ID: 606048

Under the Uniform Transfer to Minors Act, there may be:

- ☐ A) 2 custodians and 1 beneficial owner.
- ☒ B) 1 custodian and 1 beneficial owner.
- ☐ C) There is no restriction on the number of tenants in an UTMA account.
- ☐ D) 1 custodian and 2 beneficial owners.

Explanation

There may be only one custodian and one minor per UGMA/UTMA account.

**Reference:** 5.3.1.2 in the License Exam Manual

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**Question #80 of 239**

Question ID: 604733

Which of the following activities are NOT a registrar's function(s)?

- I. Audit the transfer agent.
- II. Accounting for the number of shares outstanding.
- III. Canceling old shares.
- IV. Transferring shares into the new owners' names.

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

Explanation

The registrar accounts for the number of shares and audits the transfer agent.

**Reference:** 1.5.2.2 in the License Exam Manual

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**Question #81 of 239**

Question ID: 606062

If a customer wishes to open a custodial UGMA or UTMA account for his nephew (a minor), the uncle:

- ☐ A) needs a legal document evidencing the nephew's parents' approval of the account.
- ☒ B) can open the account and name himself custodian.
- ☐ C) can open the account provided the proper trust arrangements are filed first.
- ☐ D) can be custodian for the account only if he is also the minor's legal guardian.

Explanation

The donor may name himself the custodian of an UGMA or UTMA account. No documentation of custodial status is required to open an UGMA or UTMA account. The custodian is not required to be the minor's legal guardian.

**Reference:** 5.3.1.2 in the License Exam Manual

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### Question #82 of 239

Question ID: 721428

A new customer is opening a cash account with your broker-dealer. The new account form must contain the signature(s) of

- ☐ A) the customer and the registered representative working with the customer
- ☐ B) the customer only
- ☐ C) the principal and the registered representative working with the customer
- ☒ D) the principal only

#### Explanation

To open a cash account, only the signature of the principal accepting the account is required. For margin accounts, the signature of the customer would be required on the margin agreement.

**Reference:** 5.1.3.1 in the License Exam Manual

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### Question #83 of 239

Question ID: 606006

A client of your member firm dies. In correct order, you should

- I. freeze the account.
- II. accept orders from the executor.
- III. obtain the death certificate and other legal documents.
- IV. cancel all open orders.

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

#### Explanation

Upon death of a client, all open orders must be canceled. The account is then frozen until proper legal documentation is received. Once that has occurred, the executor may begin conducting activity in the account.

**Reference:** 5.2.3 in the License Exam Manual

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### Question #84 of 239

Question ID: 606024

If a customer who has granted a durable power of attorney to her son dies, which of the following statements regarding the power of attorney is TRUE?

- ☒ A) It is canceled on the death of either principal.
- ☐ B) It remains in effect only if the son is the sole heir to the estate.
- ☐ C) It remains in effect until the son cancels it.
- ☐ D) It remains in effect until the executor of the estate cancels it.

#### Explanation

When the customer or her son dies, the power of attorney also expires. However, a durable power of attorney will survive a declaration of mental incompetence and is useful in those cases where a parent suffers from dementia.

**Reference:** 5.2.1.5 in the License Exam Manual

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### Question #85 of 239

Question ID: 721424



One of your customers will be traveling extensively throughout Europe and asks your broker dealer to hold his mail and not send statements to his home. Under the rules, which of the following is TRUE?

- ☐ A) During periods of time when mail is being held, it is assumed that the broker dealer will not be able to communicate with the customer in any way.
- ☒ B) Normal requests can be for up to three months, but longer periods may be granted for acceptable reasons.
- ☐ C) No additional actions need be taken by the broker dealer once they grant the request.
- ☐ D) For matters of convenience, a customer can ask a broker dealer to hold mail for any length of time.

Explanation

A request must include the time period the request is being made for up to three months. Requests for longer periods may be granted for an acceptable reason such as safety or security concerns, but not merely for the sake of convenience. The member firm must inform the customer of any alternate methods that the customer can use to receive or monitor account activity, such as email or through the member firm's website, and the member must obtain a confirmation from the customer that this information regarding alternate methods of communication was received.

**Reference:** 5.1.2.3 in the License Exam Manual

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**Question #86 of 239**

Question ID: 604772

All of the following are advantages of investing in American Depositary Receipts (ADRs) EXCEPT:

- ☐ A) dividends are received in U.S. currency.
- ☒ B) currency risk is virtually eliminated.
- ☐ C) ADRs fall under the oversight of the SEC.
- ☐ D) transactions are done in U.S. currency.

Explanation

ADRs carry currency risk because distributions on ADRs must be converted from foreign currency to U.S. dollars on the date of distribution. In addition, the trading price of the ADR is affected by foreign currency fluctuation.

**Reference:** 1.8.1.3 in the License Exam Manual

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**Question #87 of 239**

Question ID: 604751

A tombstone for a new bond issue announces that 5-year warrants to purchase shares of the company's common stock at \$75 are attached to the bonds. The current market value of the company's stock is \$45. For what reason were the warrants attached to the bonds by the issuer?

- ☐ A) To increase the dilution of the current shareholders.
- ☐ B) To make the bonds convertible into the issuer's common stock.
- ☐ C) To decrease the dilution of the current shareholders.
- ☒ D) To improve the marketability of the bond issue.

Explanation

Warrants are often issued as a bonus (or sweetener) to entice investors to purchase new bond issues. Dilution may occur at the time the warrants are exercised (if ever), but this would not be a reason for their issuance. A warrant has nothing to do with the bond's convertibility into the underlying common stock.

**Reference:** 1.7.2.1 in the License Exam Manual

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**Question #88 of 239**

Question ID: 604739

The record date:

- ☐ A) indicates when the public offering of new issues can be made legally.
- ☒ B) is set by the issuing corporation to determine which stockholders will receive a declared dividend.
- ☐ C) is set by the issuing corporation as the mailing date for distribution of cash dividends.
- ☐ D) is fixed by the SEC to determine which investors own stock.

#### Explanation

The record date is set by the corporation, at which time a list of stockholders who will receive a dividend is compiled.

**Reference:** 1.6.1.5 in the License Exam Manual

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### Question #89 of 239

Question ID: 604763

Dividends may be paid to holders of:

- ☐ A) treasury stock.
- ☐ B) warrants.
- ☐ C) rights.
- ☒ D) American depositary receipts.

#### Explanation

American depositary receipt (ADR) owners have most of the rights common stockholders normally hold. One of these includes the right to receive dividends when declared. Rights and warrants allow holders to purchase stock from a corporation and treasury stock is stock that has been issued by the corporation and then bought back. Neither rights, warrants or treasury stock holders have the right to receive dividends.

**Reference:** 1.8.1.2 in the License Exam Manual

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### Question #90 of 239

Question ID: 604712

In general, a corporation assumes the *least* risk when it obtains funds from:

- ☐ A) sale of debentures.
- ☐ B) sale of income bonds.
- ☒ C) sale of preferred stock.
- ☐ D) a commercial bank.

#### Explanation

Unlike the other choices, the sale of preferred stock does not entail the assumption of debt and is therefore the least risky. It is always riskier to borrow than it is to raise equity because equity does not have to be paid back.

**Reference:** 1.3.1.4 in the License Exam Manual

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### Question #91 of 239

Question ID: 605964

All of the following statements regarding customer accounts are true EXCEPT:

- ☒ A) margin trading in a fiduciary account does not require any special documentation.
- ☐ B) stock held in a custodial account may not be held in street name.
- ☐ C) stock held under JTWROS goes to the survivor in the event of the death of one of the tenants.
- ☐ D) the customer who opens a numbered account must sign a statement attesting to ownership.

#### Explanation

Trading on margin is prohibited in fiduciary accounts except with the appropriate documentation. Stock held in a custodial account must be registered to the custodian on behalf of the minor (the beneficial owner). Numbered accounts are permitted with a letter signed by the customer. Stock held under JTWROS passes to the survivor(s) in the event of death of one of the tenants.

**Reference:** 5.1.3.2 in the License Exam Manual

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### Question #92 of 239

Question ID: 605945

If an agent is assigned to an account previously handled by an agent who has since left the firm, which of the following actions should the agent take first?

- X **A)** Suggest the customer buy one of the stocks the firm is currently recommending.
- ✓ **B)** Verify the account information.
- X **C)** Liquidate the portfolio for immediate reinvestment in stocks the firm is currently recommending.
- X **D)** Require the customer to sign a trading authorization naming the agent as the party with authority.

Explanation

The agent must verify and update client information before recommending trades. Without knowledge of the client's needs and financial profile, the agent cannot make suitable recommendations.

**Reference:** 5.1.1.1 in the License Exam Manual

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**Question #93 of 239**

Question ID: 606001

A customer, without giving written authorization, may permit a registered representative to exercise his judgment as to:

- I. the security.
- II. the price at which to enter the order.
- III. the amount of shares.
- IV. when to enter the order.

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

Explanation

Registered representatives may choose the price or timing of an order without having discretionary authority.

**Reference:** 5.2.2 in the License Exam Manual

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**Question #94 of 239**

Question ID: 606042

Under the Uniform Gifts to Minors Act, Ralph wants to give some stock to his brother's son, Jose. His nephew's father, Bob, is the legal guardian. If Ralph wants to name himself as custodian, which of the following needs to be done?

- X **A)** Ralph must have the permission of the guardian.
- X **B)** Ralph must receive legal permission to act as custodian.
- X **C)** Ralph must file the proper legal documents.
- ✓ **D)** Ralph must open the account and name himself as the custodian.

Explanation

Under UTMA or UGMA, no special documentation is required. The account is opened in the name of the minor with the minor's Social Security number and the name of the adult listed as custodian.

**Reference:** 5.3.1.2 in the License Exam Manual

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**Question #95 of 239**

Question ID: 605997

If two brothers open a joint account tenants in common, at year's end, the member firm carrying the account will send Form 1099 to:

- ✓ **A)** the brother whose Social Security number is on the account.
- X **B)** either of the brothers.
- X **C)** the brother with the largest percentage interest in the account.
- X **D)** both of the brothers.

Explanation

All accounts, joint or otherwise, have a primary Social Security number. The holder of this number receives the year-end statement (Form 1099).

**Reference:** 5.2.1.2.1 in the License Exam Manual

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### Question #96 of 239

Question ID: 604745

The ex-date for NYSE-listed issues is set by:

- ✓ **A)** the NYSE.
- X **B)** FINRA.
- X **C)** the SEC.
- X **D)** the issuer.

#### Explanation

The ex-date is set by the market where the security principally trades.

**Reference:** 1.6.3.2.2 in the License Exam Manual

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### Question #97 of 239

Question ID: 879514

GC, Inc., is proposing an additional public offering of common stock. It conducts a rights offering to its current shareholders at \$55 per share, plus 5 rights. If the market price of GCI is \$70 after the ex-rights date passes, what is the value of 1 right?

- X **A)** 5.
- X **B)** 15.
- ✓ **C)** 3.
- X **D)** 2.5.

#### Explanation

Since the stock is selling ex (after ex-rights), the formula is  $(\$70 - \$55) / 5$ .  $(\$70 - \$55 = \$15)$   $(\$15 / 5 = \$3)$ .

**Reference:** 1.7.1.3 in the License Exam Manual

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### Question #98 of 239

Question ID: 605987

Which of the following statements regarding joint accounts/tenants in common are TRUE?

- I. Each party specifies a percentage of interest in the account.
- II. Each party has an equal interest in the account.
- III. The interest of a deceased tenant passes to the estate of the decedent.
- IV. The interest of a deceased tenant passes to the co-tenant.

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

#### Explanation

In a TIC account, each party must specify a percentage of interest in the account. If one party dies, his percentage of ownership passes to his estate, not to any other party to the account.

**Reference:** 5.2.1.2.1 in the License Exam Manual

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### Question #99 of 239

Question ID: 605960

Under MSRB rules, a municipal securities broker/dealer opening an account for an employee of another firm must:

- ✓ **A)** send duplicate confirmations to the employer after each trade.
- X **B)** refuse all trades unless approved by a municipal principal.
- X **C)** notify the SEC after each trade.
- X **D)** obtain the employer's approval before each trade.

Explanation

Before opening an account for an employee of another municipal firm, a municipal dealer must notify the employer in writing. In addition, the dealer must send duplicate confirmations of each trade to the employer.

**Reference:** 5.1.5.2 in the License Exam Manual

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**Question #100 of 239**

Question ID: 606029

Which of the following occurs in a partnership account if one partner dies?

- X **A)** The surviving partners are considered joint tenants.
- ✓ **B)** The account is frozen until a new or amended partnership agreement is received.
- X **C)** The surviving partners are considered joint tenants and receive the deceased partner's share.
- X **D)** The surviving partners receive the deceased partner's share.

Explanation

Upon a partner's death, a partnership account is automatically frozen until a new or amended partnership agreement is received. The deceased partner's share usually goes to an estate, not to the other partners.

**Reference:** 5.2.1.3 in the License Exam Manual

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**Question #101 of 239**

Question ID: 605992

A fiduciary acting under the prudent investor rule should recognize that one of the following transactions would not be acceptable or meet the standards of the rule. Which is it?

- X **A)** Purchasing shares of a tech sector mutual fund
- ✓ **B)** Writing uncovered calls
- X **C)** Purchasing BBB-rated debentures
- X **D)** Buying sector funds

Explanation

The prudent investor rule permits a fiduciary to invest in securities that a reasonably prudent investor, seeking income and preservation of capital, might invest in for his own account. Writing uncovered (naked) calls which have an unlimited loss potential would not meet the standard of the rule.

**Reference:** 5.2.1.4.1 in the License Exam Manual

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**Question #102 of 239**

Question ID: 604752

A member of the investment banking department of ABC securities is explaining some of the advantages and disadvantages of rights and warrants to the board of directors of XYZ Corporation. Which of the following statements could he make?

- I. The exercise prices of stock rights are usually below CMV of the underlying security at time of issue.
- II. The exercise prices of warrants are usually above CMV of the underlying security at time of issue.
- III. Both rights and warrants may trade in the secondary market and may have prices that include a speculative (time) value.
- IV. Warrants are often issued attached to a bond issue to reduce the interest costs to the issuer.

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

#### Explanation

All are true statements. The exercise prices of stock rights are usually below CMV of the underlying security at time of issue. The exercise prices of warrants are usually above CMV of the underlying security at time of issue. Both rights and warrants may trade in the secondary market and may have prices that include a speculative (time) value. Warrants are often issued attached to a bond issue to reduce the interest costs to the issuer.

**Reference:** 1.7 in the License Exam Manual

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### Question #103 of 239

Question ID: 604750

New Offering: 800,000 units at \$6 per unit. Each unit has 2 shares of common stock and 1 warrant. Each warrant is to purchase  $\frac{1}{2}$  share of common stock. Based on the information above, how many shares of stock will be sold, and how many warrants will be sold?

- ☐ A) 800,000 shares and 400,000 warrants.
- ☐ B) 800,000 shares and 200,000 warrants.
- ☒ C) 1.6 million shares and 800,000 warrants.
- ☐ D) 1.6 million shares and 400,000 warrants.

#### Explanation

Warrants may be distributed to stockholders in an underwriting as part of a unit. The warrant is a form of bonus to entice investors to purchase the unit. As each unit contains 2 shares, 1.6 million shares are being distributed. As each unit also includes 1 warrant, 800,000 warrants are being distributed.

**Reference:** 1.7.2.1 in the License Exam Manual

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### Question #104 of 239

Question ID: 604729

A company's dividend on its common stock is:

- ☐ A) specified in the company charter.
- ☐ B) voted on by shareholders.
- ☐ C) mandatory if the company is profitable.
- ☒ D) determined by its board of directors.

#### Explanation

A common stock's dividend payment and amount are determined by the company's board of directors.

**Reference:** 1.4.1 in the License Exam Manual

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### Question #105 of 239

Question ID: 606000

Your client informs you that a signed discretionary account form is in the mail. Before receiving the form and unable to contact the client, you notice that one of his stocks is dropping sharply on adverse news. You:

- ☐ A) can enter a discretionary order with written documentation of the situation.
- ☒ B) cannot enter a discretionary order.
- ☐ C) can enter a discretionary order with written permission of a principal of the broker/dealer.
- ☐ D) can enter a discretionary order with instructions that the order is not held.

#### Explanation

A discretionary order cannot be entered until the signed discretionary account form has been received.

**Reference:** 5.2.2.2 in the License Exam Manual

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### Question #106 of 239

Question ID: 605966

Each of the following must be verified or determined about a new customer EXCEPT:

- X **A)** whether he appears on a list of known or suspected terrorists.
- ✓ **B)** whether he has a brokerage account at another broker/dealer.
- X **C)** citizenship.
- X **D)** whether he is employed by another broker/dealer.

Explanation

Though individual firms may require it, there is no industry requirement to verify or determine that a customer has an account at another broker/dealer.

**Reference:** 5.1.1.2 in the License Exam Manual

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**Question #107 of 239**

Question ID: 604754

Smith and Co., Inc. has 1 million shares of common stock outstanding and plans to sell 200,000 new shares via a rights offering. Joe Wilson, a common stockholder, owns 200 shares of the company. How many rights will he receive in the mail, and how many rights will it take to purchase one of the new shares?

- X **A)** 100 rights, 5 per share.
- X **B)** 200 rights, 20 per share.
- X **C)** 100 rights, 20 per share.
- ✓ **D)** 200 rights, 5 per share.

Explanation

Stockholders receive one right per share owned. Hence, Joe receives 200 rights. The purpose is to maintain shareholders' proportionate interest in the company. Since the number of shares outstanding will increase by 20%, Joe needs to purchase 40 new shares ( $200 / 40 = 5$  rights per share).

**Reference:** 1.7.1.3 in the License Exam Manual

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**Question #108 of 239**

Question ID: 605941

Mr. Jack Smith has a margin account in his own name with BR Securities, Inc. He also has a joint tenancy account with his father, John Smith. Mrs. Smith, Jack's wife, calls Joe Johnson, the registered representative who is assigned to both accounts, and instructs him to sell 100 shares of AOL from Jack's margin account. Which of the following should the registered representative do?

- X **A)** Not execute the order until he receives verbal authority from Jack, which authorizes his father to act with discretionary authority over his margin account.
- X **B)** Execute the transaction immediately.
- X **C)** Transfer the AOL to the joint account and then execute the transaction in the joint account.
- ✓ **D)** Not execute the order until he receives written authority from Jack, which authorizes his wife to act with discretionary authority over his margin account.

Explanation

A registered representative may not execute a third-party order (one given by someone other than the account owner) without a signed written discretionary authorization from the account owner that has been accepted by the representative and a principal of the firm.

**Reference:** 5.1.1.5 in the License Exam Manual

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**Question #109 of 239**

Question ID: 604688

Which of the following is TRUE concerning a 5:4 stock split?

- X **A)** The net worth of the company will be reduced.
- X **B)** The par value will be unchanged.
- X **C)** Retained earnings will be increased.
- ✓ **D)** Each shareholder's proportionate equity will be unchanged.

Explanation

Since each shareholder will receive additional stock, the proportional equity will remain the same.

**Reference:** 1.2.4.1 in the License Exam Manual

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### Question #110 of 239

Question ID: 606054

Under the Uniform Transfer to Minors Act, which of the following gifts is allowable?

- ☐ A) From 2 donors to more than 1 child jointly.
- ☐ B) From 1 donor to more than 1 child jointly.
- ☐ C) From 1 donor to 1 child with both parents named as custodians.
- ☒ D) From 1 donor to 1 child.

#### Explanation

Under UTMA, a donor may give unlimited money or securities to one child - with one person named as custodian.

**Reference:** 5.3 in the License Exam Manual

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### Question #111 of 239

Question ID: 606008

Tenants in common ownership provides that a deceased tenant's fractional interest in an account is retained by which of the following?

- ☐ A) The registered representative for the account.
- ☒ B) The deceased tenant's estate.
- ☐ C) Will be decided during probate.
- ☐ D) The surviving tenant.

#### Explanation

TIC (tenants in common) ownership of an account provides that a deceased tenant's interest in an account is retained by that tenant's estate and not passed on to the surviving tenant.

**Reference:** 5.2.1.2.1 in the License Exam Manual

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### Question #112 of 239

Question ID: 606011

A customer and his spouse own shares in the ABC Fund as joint tenants with rights of survivorship. If the customer dies, what happens to the shares in the account?

- ☐ A) The account would be frozen until the estate was settled.
- ☐ B) One-half of the shares would belong to the spouse, and the remaining half would be distributed to the customer's estate.
- ☒ C) The spouse would own all the shares.
- ☐ D) Ownership of the shares must be determined by probate court.

#### Explanation

In a JTWROS account, securities pass to the surviving owner. The account does not have to be frozen but can continue to enter orders.

**Reference:** 5.2.1.2.2 in the License Exam Manual

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### Question #113 of 239

Question ID: 604723

A company currently has earnings of \$4 and pays a \$.50 quarterly dividend. If the market price is \$40, what is the current yield?

- ☐ A) 15%.
- ☒ B) 5%.
- ☐ C) 1%.
- ☐ D) 10%.



#### Explanation

The quarterly dividend is \$.50, so the annual dividend is \$2.00;  $\$2 / \$40$  (market price) = 5% annual yield (current yield).

**Reference:** 1.4.1.3 in the License Exam Manual

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### Question #114 of 239

Question ID: 605996

An agent may open a joint account for which of the following?

- I. Lee and his 13-year-old son, Tom.
- II. Mary and Kelley, two adult college roommates.
- III. Jerry and Mark, friends and partners in business for more than 20 years.
- IV. Melinda and her minor nephew, John, for whom she is guardian.

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

#### Explanation

Joint account owners share ownership of the account and must be adults. A minor may not legally exercise control over an account and may not be an owner of record of an account.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #115 of 239

Question ID: 604770

ADRs are used to facilitate the:

- X **A)** domestic trading of U.S. government securities.
- X **B)** foreign trading of domestic securities.
- ✓ **C)** domestic trading of foreign securities.
- X **D)** foreign trading of U.S. government securities.

#### Explanation

An ADR is a negotiable security that represents an ownership interest in a non-U.S. company. Because they trade in the U.S. marketplace, ADRs allow investors convenient access to foreign securities.

**Reference:** 1.8 in the License Exam Manual

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### Question #116 of 239

Question ID: 604753

ABC, a publicly held Corporation, decides to issue shares in an additional public offering. If the APO is for an additional 1 million shares and 60% of the shares are subscribed to in the preemptive rights offering, how many shares will the standby underwriter for this offering have available to sell to the public?

- X **A)** 100,000.
- X **B)** 600,000.
- ✓ **C)** 400,000.
- X **D)** 110,000.

#### Explanation

If 60% of the additional shares are subscribed to by existing shareholders, then 40% of the additional shares will be available to be sold to the public through a standby (firm commitment) underwriting ( $1,000,000 \times 40\% = 400,000$ ).

**Reference:** 1.7.1.4 in the License Exam Manual

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### Question #117 of 239

Question ID: 604776

Which of the following terms or phrases does NOT apply to REITs?

- ☐ A) Secondary market.
- ☒ B) Redeemable.
- ☐ C) Managed.
- ☐ D) Dividends taxed at full ordinary income rates.

#### Explanation

REITs trade in the secondary market and are not redeemable. The real estate portfolio is actively managed, and dividends paid by REITs do not meet the requirements to be taxed as qualified dividends and are, therefore, taxed as ordinary income.

**Reference:** 1.9 in the License Exam Manual

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### Question #118 of 239

Question ID: 606046

Which of the following *best* describes the responsibility of the custodian regarding cash dividends received in an UGMA account?

- ☐ A) Cash dividends must be reinvested immediately.
- ☐ B) Cash dividends must be withdrawn and used for the minor's education.
- ☐ C) Cash dividends can be used to benefit the custodian.
- ☒ D) Cash dividends can remain in the account in anticipation of reinvestment.

#### Explanation

Cash in the account can remain idle for only a short period of time. Leaving it totally idle for prolonged periods is not deemed prudent, because of the loss of interest earning power.

**Reference:** 5.3.1.5 in the License Exam Manual

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### Question #119 of 239

Question ID: 606063

Who is responsible for the taxes in an UTMA account?

- ☐ A) Custodian.
- ☒ B) Child.
- ☐ C) Parent.
- ☐ D) Donor.

#### Explanation

UTMA and UGMA accounts are custodial accounts. They are for the benefit of the child and bear the child's Social Security number. Although in practice the taxes are usually paid by the parent or legal guardian, they are the responsibility of the beneficial minor (child).

**Reference:** 5.3.1.6 in the License Exam Manual

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### Question #120 of 239

Question ID: 606033

All of the following are characteristics associated with equity-linked notes (ELNs) EXCEPT:

- ☐ A) They can be exchange traded or traded OTC.
- ☐ B) They have final payments at maturity linked to the return of an underlying stock or basket of stocks.
- ☒ C) They are equity securities.
- ☐ D) They are considered to be nonconventional structured investments.

#### Explanation

Despite their name, equity-linked notes (ELNs) are debt instruments, not equity instruments. They have a partial fixed return as well as a final payment linked to the performance of a single stock or equity index. Some are exchange traded while others trade OTC. FINRA who considers ELNs to be nonconventional structured investments has expressed concerns that investors might not fully understand ELNs or the risks associated with them.

**Reference:** 5.2.2.3 in the License Exam Manual

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### Question #121 of 239

Question ID: 605967

The federal legislation that requires broker/dealers to verify the identity of any person opening an account is the:

- ☐ A) Insider Trading Act.
- ☐ B) Maloney Act.
- ☒ C) U.S.A. PATRIOT Act.
- ☐ D) Act of 1934.

#### Explanation

The U.S.A. PATRIOT Act requires firms to obtain identifying information on each new customer, verify the identity of each new customer, maintain records relating to identity verification, and to determine if any new customer appears on a list of known or suspected terrorist groups compiled by the Office of Foreign Asset Control (OFAC).

**Reference:** 5.1.1.2 in the License Exam Manual

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### Question #122 of 239

Question ID: 604685

Minority stockholders are more likely to be able to elect directors through which form of voting?

- ☒ A) Cumulative.
- ☐ B) Statutory.
- ☐ C) Progressive.
- ☐ D) Regular.

#### Explanation

Minority stockholders are more likely to be able to elect representatives to the board of directors through cumulative voting. Small stockholders may cast all of their votes on 1 position rather than spread them out and thus dilute them over 2 or 3 positions.

**Reference:** 1.2.3.1.1 in the License Exam Manual

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### Question #123 of 239

Question ID: 735929

Under FINRA's rules governing the activities of broker/dealer firms, prior notification to the employing firm and prior written consent from the employing firm would be required in order to open a cash account for all of the following EXCEPT

- ☐ A) an employee of another member
- ☐ B) a registered representative of another member
- ☒ C) a bank officer
- ☐ D) an exchange employee

#### Explanation

FINRA requires prior written notification be made, and prior written consent be received before associated persons can open margin or cash accounts with other members or financial institutions. By virtue of being a bank officer alone, one couldn't definitively say that this rule is applicable.

**Reference:** 5.1.5 in the License Exam Manual

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### Question #124 of 239

Question ID: 604699

A 2-1 split does which of the following?

- I. Increases the number of outstanding shares

- II. Decreases the number of outstanding shares
- III. Decreases par value per share
- IV. Decreases retained earnings

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

Explanation

After a 2-1 stock split, the number of outstanding shares doubles and the par value per share decreases by half. Retained earnings are not affected.

**Reference:** 1.2.4.1 in the License Exam Manual

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**Question #125 of 239**

Question ID: 605946

Several years after opening a brokerage account at a FINRA member firm, an individual joins another FINRA member as a research analyst. Regarding his responsibilities, which of the following is TRUE?

- X **A)** The individual need notify only the member carrying the account of his association with another member.
- ✓ **B)** The individual must notify both members of his relationship with the other.
- X **C)** No notification is required, as the account was opened before his association with a member firm.
- X **D)** The individual need notify only the employing member of the account.

Explanation

Before opening an account with another member, an associated person must notify both the employer member and the executing member in writing of his association. If the account was opened before his association with a member, the associated person must notify both members promptly in writing.

**Reference:** 5.1.5 in the License Exam Manual

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**Question #126 of 239**

Question ID: 605982

A customer asks a registered representative while speaking on the phone to send duplicate confirms and statements to an outside Investment Advisor. The RR should?

- X **A)** Send an instruction to the registration and processing department for immediate execution.
- X **B)** Note the request on the account form and follow the instructions immediately.
- ✓ **C)** Ask that the request be made in writing in order to have the firm abide by the request once received.
- X **D)** Deny the request, as this would require a power of attorney.

Explanation

Such requests must be in writing before they can be followed. While statements and confirmations can be sent to someone who holds power of attorney over the account, a POA is not required for a customer to request such an instruction be followed for ones own account.

**Reference:** 5.1.2.2 in the License Exam Manual

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**Question #127 of 239**

Question ID: 606022

When a customer of a broker/dealer dies, all of the following documents may be required to release the decedent's assets EXCEPT:

- ✓ **A)** a power of attorney.
- X **B)** a certified copy of the death certificate.
- X **C)** an affidavit of domicile.
- X **D)** an inheritance tax waiver.

Explanation

The power of attorney is the only document not required. If the decedent had executed a power of attorney, it would have become invalid upon death. An affidavit of domicile and an inheritance tax waiver may be required. A certified copy of the death certificate is always required.

**Reference:** 5.2.3 in the License Exam Manual

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### Question #128 of 239

Question ID: 735931

An employee of a firm registers to open an account at another member firm. Under FINRA rules, all of the following statements are true EXCEPT

- ☐ A) the employing member firm must receive duplicate statements and confirmations if requested in writing
- ☐ B) the employee must receive prior written permission from the employing member firm
- ☒ C) FINRA must receive duplicate statements and confirmations for each transaction
- ☐ D) the employing member firm must be notified in writing of the intent to open the account

#### Explanation

Under FINRA rules, the employing member must be notified in writing of the prospective account and must give prior written approval before the account can be opened. They must be provided with duplicate statements and confirmations only if they request so in writing. There is no requirement that FINRA be either notified or provided with duplicate statements and confirmations.

**Reference:** 5.1.5.1 in the License Exam Manual

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### Question #129 of 239

Question ID: 785991

ABC Corporation has declared a record date of Thursday, May 17, for its next quarterly cash dividend. When is the last day the investor may purchase the stock regular way and receive the dividend?

- ☐ A) Wednesday, May 16
- ☐ B) Thursday, May 17
- ☐ C) Monday, May 14
- ☒ D) Tuesday, May 15

#### Explanation

In order to receive a cash dividend, an investor must be owner of record as of the close of business on record date. Because regular way settlement is 2 business days, the customer must purchase the stock no later than Tuesday, May 15.

**Reference:** 1.6.1.5 in the License Exam Manual

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### Question #130 of 239

Question ID: 606017

A customer will be leaving the country and asks his representative to watch his account. If his positions begin to decline in value, the registered representative should:

- ☐ A) close out the positions.
- ☒ B) talk to his manager.
- ☐ C) write covered calls against the position.
- ☐ D) buy protective puts to reduce losses.

#### Explanation

The registered representative may only place an order if the account owner has granted him discretionary authority.

**Reference:** 5.2.2.1 in the License Exam Manual

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### Question #131 of 239

Question ID: 605978

A hedge fund has contracted with your broker/dealer to handle all of its clearing functions and provide all back office support functions while it is executing transactions through numerous other broker/dealers whom your broker dealer will have agreements with. This type of account is known as

- X **A)** a custodial account
- X **B)** a numbered account
- ✓ **C)** a prime account
- X **D)** a joint account

Explanation

In a prime account, a customer contracts with one broker, the prime broker, to provide a list of support services, such as clearing and settlement of transactions, while contracting with numerous other brokers for executions services.

**Reference:** 5.1.3.5 in the License Exam Manual

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**Question #132 of 239**

Question ID: 605986

In an account opened by 2 individuals as joint tenants with rights of survivorship, all of the following are true EXCEPT:

- X **A)** orders may be entered by either party.
- ✓ **B)** stock certificates may be delivered in the name of either party.
- X **C)** mail may be directed to the joint owner agreed upon by both parties to the account.
- X **D)** in the event of death, the other party assumes full ownership of the account.

Explanation

In a JTWROS account, each party has an equal, undivided interest in the account. Upon the death of one party in a two-party account, the other party assumes full ownership of the account. Orders may be entered by either party, and mail may be directed to either party. However, disbursements of cash or securities must be in the name of all parties to the account.

**Reference:** 5.2.1.2.2 in the License Exam Manual

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**Question #133 of 239**

Question ID: 606026

Which of the following statements regarding discretionary accounts is NOT true?

- X **A)** The account may not be accepted unless approved in writing by a principal of the member firm.
- X **B)** Each discretionary order must be reviewed promptly by a principal.
- X **C)** The customer must grant written authorization to the broker/dealer or a designated individual to exercise discretion in the account.
- ✓ **D)** The customer must approve each order before or after it is executed.

Explanation

To establish a discretionary account, a customer must grant trading authority in writing. Furthermore, the firm must indicate its willingness to handle the account on a discretionary basis through a signature of a principal of the firm. All orders, including those for discretionary accounts, must be reviewed and endorsed promptly, but not before execution.

**Reference:** 5.2.2 in the License Exam Manual

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**Question #134 of 239**

Question ID: 605979

A broker/dealer has set up a prime brokerage account for one of its customers. This customer is most likely

- ✓ **A)** an institutional customer
- X **B)** an investment club
- X **C)** 2 spouses, each having individual accounts and a joint account together
- X **D)** an individual retail customer

Explanation

A prime brokerage account is one in which a customer, generally an institutional customer, selects one member firm (the prime broker) to provide custody and other services, while other firms, called executing brokers, handle all trades placed by the customer.

### Question #135 of 239

Question ID: 785993

If a stock's ex-dividend date is Tuesday, January 13, when is the record date?

- ☐ A) Wednesday, January 7
- ☐ B) Tuesday, January 20
- ☐ C) Thursday, January 8
- ☒ D) Wednesday, January 14.

#### Explanation

The record date is one business day after the ex-dividend date (Wednesday, January 14).

Reference: 1.6.3.2 in the License Exam Manual

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### Question #136 of 239

Question ID: 604781

All of the following characteristics are advantages of a REIT EXCEPT:

- ☐ A) diversification.
- ☐ B) liquidity.
- ☒ C) tax deferral.
- ☐ D) professional management.

#### Explanation

A REIT is a professionally managed company that invests in a diversified portfolio of real estate holdings. REITs are traded on exchanges and OTC, which provides liquidity. The IRS does not permit tax deferrals on REIT investments.

Reference: 1.9 in the License Exam Manual

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### Question #137 of 239

Question ID: 606057

How must stock subscription rights be handled in a custodial account for a minor?

- ☒ A) The custodian can exercise or sell rights as he deems prudent.
- ☐ B) The rights may be exercised or sold only if the stock is held in street name.
- ☐ C) The rights may be exercised or sold only if the donor is also the custodian.
- ☐ D) The custodian cannot exercise or sell rights for the custodial account.

#### Explanation

The custodian must either buy the securities or sell the rights; he cannot let the rights expire because this would not be in the best interest of the minor. The same is also true of warrants.

Reference: 5.3.1.5 in the License Exam Manual

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### Question #138 of 239

Question ID: 606061

If a registered representative receives a call from a custodian wishing to buy shares of a new issue security, the registered representative should:

- ☒ A) discuss and review suitability.
- ☐ B) accept the order only if it is placed in a margin account.
- ☐ C) refuse to accept an order.
- ☐ D) talk the investor into buying another stock.

#### Explanation

There are no restrictions that specifically apply to the purchase of new issues in a custodial account, provided the registered representative has discussed and reviewed the suitability of the investment.

**Reference:** 5.3.1.5 in the License Exam Manual

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### Question #139 of 239

Question ID: 604708

Which of the following securities carries the greatest amount of risk?

- X **A)** Preferred stock.
- X **B)** Corporate bonds.
- ✓ **C)** Common stock.
- X **D)** Debentures.

#### Explanation

Common stockholders are always the last to receive payment in the event of a corporate liquidation and, therefore, have the most risk. However, common stockholders have the greatest potential reward of ownership if the corporation is successful.

**Reference:** 1.2.3.6 in the License Exam Manual

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### Question #140 of 239

Question ID: 785989

The last day that stocks can be bought for cash and still receive the dividend is

- X **A)** the business day prior to the regular way ex-date
- ✓ **B)** the record date
- X **C)** on the ex-date
- X **D)** the day after the record date

#### Explanation

A cash trade settles the same day. Stocks bought for cash on the record date will be entitled to the dividend.

**Reference:** 1.6.1.5 in the License Exam Manual

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### Question #141 of 239

Question ID: 606032

An arrangement in which the broker has the authority, or power-of-attorney, to make trades from funds in the account without prior approval from the investor is known as:

- X **A)** a power-of-attorney account.
- X **B)** a nonapproval account.
- X **C)** a stop loss account.
- ✓ **D)** a discretionary account.

#### Explanation

Discretionary accounts are arrangements in which the registered representative has the authority, or power-of-attorney, to make trades from funds in the account without prior approval from the investor.

**Reference:** 5.2.2.1 in the License Exam Manual

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### Question #142 of 239

Question ID: 604777

Cash dividends from REITs are:

- X **A)** not taxed.
- X **B)** taxed as long-term capital gains.



- X **C)** taxed at a maximum rate for qualified dividends.
- ✓ **D)** taxed as ordinary income.

Explanation

Cash dividends from REITs are taxed as ordinary income. A maximum rate for qualified dividends, which applies to qualified common stock dividends, does not apply to dividends from REITs.

**Reference:** 1.9 in the License Exam Manual

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**Question #143 of 239**

Question ID: 605995

A customer asks her registered representative to exercise discretion over her account. To do so, the representative must do each of the following EXCEPT

- X **A)** obtain evidence of written acceptance of the account by a registered principal of the firm
- ✓ **B)** obtain approval from FINRA
- X **C)** obtain written authorization from the customer
- X **D)** have a principal initial each order promptly which may be before or after execution

Explanation

The requirements for a discretionary account include a written authorization from the customer, a written acceptance by a principal of the firm, and close supervision of each transaction to ensure suitable transactions in light of the customer's objectives and financial situation. No approval from FINRA is required.

**Reference:** 5.2.2.1 in the License Exam Manual

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**Question #144 of 239**

Question ID: 722115

To qualify for favorable tax treatment, real estate investment trusts must do all of the following EXCEPT

- X **A)** invest at least 75% of their assets in real estate–related activities
- X **B)** distribute at least 90% of their investment income to shareholders
- X **C)** be organized as trusts
- ✓ **D)** pass through losses to shareholders

Explanation

Real estate investment trusts (REITs) engage in real estate activities and can qualify for favorable tax treatment if they invest at least 75% of their assets in real estate–related activities and pass through at least 90% of their net investment income to their shareholders. Although they can pass through income, they cannot pass through any losses.

**Reference:** 1.9 in the License Exam Manual

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**Question #145 of 239**

Question ID: 605975

A new client's name appears on the SDN list. After your broker/dealer notifies OFAC, the likely outcome will be

- X **A)** you will be directed by OFAC to continue doing business with the client but report all broker/dealer business dealings to OFAC
- ✓ **B)** the client's assets will be frozen and the broker/dealer will be directed to cease doing business with the client
- X **C)** you, the registered representative, will be directed to let the client know that the client's name has appeared on the SDN list
- X **D)** OFAC will have the client arrested under federal law

Explanation

When the name of an individual or group appears on the specially designated nationals (SDNs) list, the individual's/group's assets will be blocked (frozen), and US financial institutions will be prohibited from doing business with them.

**Reference:** 5.1.1.2.2 in the License Exam Manual

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### Question #146 of 239

Question ID: 606023

A wealthy individual has established a trust and named you as the trustee. If you wish to establish an account that permits the trust to engage in margin transactions, which of the following statements regarding margin trading is TRUE?

- ✓ **A)** It is permitted if provided for in the underlying documentation.
- X **B)** It is permitted if the fiduciary shares in the profits or losses.
- X **C)** It is not permitted.
- X **D)** It is permitted if the fiduciary observes the prudent investor rule.

#### Explanation

Margin trading in a trust account is permitted only if it is specifically provided for in the trust agreement.

**Reference:** 5.2.1.4 in the License Exam Manual

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### Question #147 of 239

Question ID: 604687

The board of directors of DMF, Inc., announces a 5:4 stock split. The market price of DMF after the split should decrease in value by

- ✓ **A)** 0.2.
- X **B)** 0.3.
- X **C)** 0.25.
- X **D)** 0.1.

#### Explanation

The easy way to handle questions about stock splits is to turn the split into a fraction. You know that after a split, which increases the number of shares outstanding, the market price per share will be reduced. With a 5:4 stock split, the new price should be about 4/5 the old price. A 1/5-change equals 20% ( $100\% / 5 = 20\%$ ).

**Reference:** 1.2.4.1 in the License Exam Manual

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### Question #148 of 239

Question ID: 606037

Which of the following are considered joint accounts?

- I. UTMA account.
- II. Guardianship account.
- III. Tenants in common.
- IV. Tenants with right of survivorship.

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

#### Explanation

Tenants in common and tenancy with rights of survivorship represent ownership by more than one party. UTMA and guardian accounts are in the name of a single fiduciary. To be a joint account, all parties associated with the account must be able to enter orders. In UTMA and guardian accounts, only the custodian and guardian, respectively, possess that authority.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #149 of 239

Question ID: 606004

Three brothers open a joint account instructing you that if they die, they want the cash and securities in the account to go to the remaining parties to the account. The account should be opened:

- ✓ **A)** with rights of survivorship.
- X **B)** as tenants by the entireties.

- X **C)** as community property.
- X **D)** as tenants in common.

Explanation

Using tenants with right of survivorship, each brother's interest in the account would go to the surviving brothers.

**Reference:** 5.2.1.2.2 in the License Exam Manual

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**Question #150 of 239**

Question ID: 785994

The regular way ex-dividend date for cash dividends is the

- X **A)** 2nd business day preceding the settlement date
- ✓ **B)** 1st business day preceding the record date
- X **C)** 2nd business day following the record date
- X **D)** 3rd business day preceding the record date

Explanation

The regular way ex-dividend date is 1 business day before the record date.

**Reference:** 1.6.3.2.2 in the License Exam Manual

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**Question #151 of 239**

Question ID: 605976

Which of the following allows investors to hold securities in either the name of the issuer or their transfer agent and facilitates the transfer of those securities from the issuer or their transfer agent to an investor's broker/dealer in a secure, efficient manner?

- X **A)** The Automated Confirmation Transaction (ACT) system
- X **B)** The SEC through Form S-1 issuer registration
- ✓ **C)** The Depository Trust Company through the Direct Registration System (DRS)
- X **D)** The Committee on Uniform Securities Identification Procedures (CUSIP)

Explanation

The Depository Trust Company (DTC) through the Direct Registration System (DRS) allows investors the choice of having securities registered and held in the name of the issuer or the issuer's transfer agent. It facilitates efficient and secure transfer between the issuer or transfer agent and the investor's broker/dealer.

**Reference:** 5.1.2.1.1 in the License Exam Manual

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**Question #152 of 239**

Question ID: 604732

Which of the following statements regarding the effects of a stock dividend is TRUE?

- ✓ **A)** The market value of the stock is decreased.
- X **B)** Capital surplus is reduced.
- X **C)** New capital is channeled to the company.
- X **D)** Net current assets are decreased.

Explanation

A stock dividend results in an increased number of outstanding shares, each with a lower value per share. The total value of stock outstanding is unchanged. There is no new capital generated from a stock dividend. Current assets are unchanged because there is no increase or decrease to the company's cash as a result of the stock dividend.

**Reference:** 1.4.1.2 in the License Exam Manual

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**Question #153 of 239**

Question ID: 606019

If a registered representative is opening a brokerage account for a partnership, in which order, from first to last, would the following events ordinarily take place?

- I. Representative obtains the partnership agreement
- II. Principal gives written acceptance of the account
- III. Representative fills out a new account card
- IV. First trade is executed.

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

#### Explanation

When a registered representative opens a new account, the first step is to complete the new account form. In the case of a partnership account, a principal of the firm must see a copy of the partnership agreement before accepting the account. When the account has been accepted by the principal, trades may be entered.

**Reference:** 5.2.1.3 in the License Exam Manual

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### Question #154 of 239

Question ID: 606041

Which of the following is the beneficial owner of securities in an UTMA account?

- ☒ A) The minor.
- ☐ B) The custodian.
- ☐ C) The guardian.
- ☐ D) The donor.

#### Explanation

The minor is always the beneficial owner under an UTMA account. The custodian merely exercises his best judgment in handling investment decisions on the minor's behalf.

**Reference:** 5.3 in the License Exam Manual

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### Question #155 of 239

Question ID: 721380

The common stock of ABC Corporation currently earns \$3 per share. If the price-to-earnings ratio for this stock is 14, what is the current market price?

- ☐ A) 21.
- ☐ B) 17.
- ☒ C) 42.
- ☐ D) 37.

#### Explanation

The price-to-earnings ratio equals the market price divided by earnings per share. The PE ratio is 14, and earnings per share are \$3. Therefore, the market price is  $14 \times \$3 = \$42$ .

**Reference:** 1.2.2.3 in the License Exam Manual

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### Question #156 of 239

Question ID: 605999

In a discretionary account where the investment objective is preservation of capital and growth, all of the following practices are unsuitable EXCEPT:

- ☐ A) frequent and profitable short-term trading in volatile stocks.
- ☐ B) marking the investment objective on the new account form as high risk.
- ☐ C) marking order tickets solicited or unsolicited when discretion is used.
- ☒ D) maintaining a fixed asset allocation mix which includes under-performing sectors.

#### Explanation

Maintaining a fixed asset allocation mix is suitable in a discretionary account because it assumes that over time, some sectors will outperform while others underperform.

### Question #157 of 239

Question ID: 604704

If a company splits its stock 3 for 2, how many additional shares will be issued to an investor who owns 200 shares?

- ☐ A) 400
- ☐ B) 500
- ☒ C) 100
- ☐ D) 300

#### Explanation

The investor will receive an additional 100 shares from a 3 for 2 stock split. To calculate the additional shares as a result of a split, multiply the existing number of shares by the split rates (200 shares  $\times$   $\frac{3}{2}$  = 300 shares). Because the investor owned 200 shares, she will be issued 100 additional shares, bringing ownership to 300 shares.

Reference: 1.2.4.1 in the License Exam Manual

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### Question #158 of 239

Question ID: 604700

If a stock undergoes a 1-5 reverse split, which of the following increases?

- I. Market price per share.
- II. Number of shares outstanding.
- III. Earnings per share.
- IV. Market capitalization of the company.

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

#### Explanation

After a reverse split, there will be fewer shares outstanding. As a result, market price and earnings per share will increase. Overall, the market capitalization of the company will not change.

Reference: 1.2.4.2 in the License Exam Manual

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### Question #159 of 239

Question ID: 604680

An informal network of market makers that offers to trade securities NOT listed on an exchange is called:

- ☒ A) the over-the-counter market.
- ☐ B) National Association of Securities Dealers Automated Quotations.
- ☐ C) Archipelago Exchange (ArcaEx).
- ☐ D) National Daily Quotation Service.

#### Explanation

This best describes the over-the-counter market which is an interdealer market linked by computer terminals to Financial Industry Regulatory Authority (FINRA) member firms across the country.

Reference: 1.1 in the License Exam Manual

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### Question #160 of 239

Question ID: 606055

Under the Uniform Transfer to Minors Act, which of the following are allowable activities?

- I. Giving an unlimited amount of cash.

- II. Giving securities.
- III. Giving no more than \$5,000 in cash.
- IV. Revoking a gift.

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

Explanation

Unlimited gifts may be put into an UTMA account. Gifts under UTMA are irrevocable and may consist of cash and/or securities.

**Reference:** 5.3 in the License Exam Manual

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**Question #161 of 239**

Question ID: 605950

A customer calls his registered representative and asks that the firm hold his mail as he will be traveling for an extended period of time. Under the rules governing requests to hold mail, which of the following statements are TRUE?

- I. The request must be made in writing with a specific time period designated.
- II. For the sake of convenience, the customer can request any length of time for mail to be held.
- III. Under the rules, the broker dealer is obligated to grant any reasonable request to hold mail.
- IV. During the time that mail is being held, the broker dealer must still be able to communicate with the customer.

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

Explanation

All requests to hold mail must be made in writing with a specific period of time designated up to three months. While requests for longer periods can be made and granted, the rules specifically prohibit it merely for the sake of convenience. Broker dealers must still be able to communicate with customers in a timely manner and are required to apprise the customer of ways in which that can or will be done. While these requests are commonly granted, doing so is not required under the rule. It is considered a courtesy that the a broker dealer may or may not accommodate.

**Reference:** 5.1.2.3 in the License Exam Manual

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**Question #162 of 239**

Question ID: 604713

A convertible preferred stock issue (par value \$100) is selling at \$125 and is convertible into 5 shares of common stock. The conversion price of the common stock is:

- X **A)** 100.
- X **B)** 1200.
- X **C)** 25.
- ✓ **D)** 20.

Explanation

Par value divided by conversion price equals the number of shares into which the security is convertible. If this security is convertible into 5 shares, we need to know what number goes into \$100 5 times. That number is \$20. The current market value of the preferred stock is unnecessary information.

**Reference:** 1.3.2.3 in the License Exam Manual

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**Question #163 of 239**

Question ID: 604717

Which of the following statements regarding preferred stock is NOT true?

- X **A)** Unlike debt, preferred stock has no set maturity date.

- ✓ **B)** Voting rights of preferred shareholders take precedence over those of common shareholders.
- X **C)** The dividend is fixed except in the case of adjustable preferred.
- X **D)** Because there is no set maturity value or redemption date, the holder of preferred stock has to sell his shares in the open market to close out his position.

Explanation

Preferred shareholders do not generally have voting rights. Voting rights are characteristic of common stock, not preferred. Preferred stock is unlike debt securities in that it has no set maturity date. It is true that the dividend on a preferred stock is fixed, except in the case of an adjustable preferred where the dividend can be tied to a market interest rate and readjusted. The holder of a preferred has to sell the shares in the open market to close out his position.

**Reference:** 1.3.1 in the License Exam Manual

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**Question #164 of 239**

Question ID: 605939

Your firm has determined that a person seeking to open an account is on the Office of Foreign Asset Control's (OFAC) list of individuals who are viewed as threats to the United States. Who must oversee your firm's dealings, if any, with this individual?

- ✓ **A)** An officer of the firm who has been designated to monitor and check customer names against the Specially Designated Nationals (SDN) list maintained by OFAC.
- X **B)** The U.S. Treasury will have OFAC send a licensed agent to handle this account.
- X **C)** The registered representative whom the person approaches.
- X **D)** The Internal Revenue Service (IRS).

Explanation

Financial institutions, including broker/dealer firms, must designate an officer of the firm as having responsibility for monitoring the OFAC list and OFAC regulations. The officer would additionally be responsible for the blocking of transactions or declining of business with certain customers should they appear on the OFAC list.

**Reference:** 5.1.1.2 in the License Exam Manual

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**Question #165 of 239**

Question ID: 604755

If a corporation attaches warrants to a new issue of debt securities, which of the following would be a resulting benefit to the corporation?

- X **A)** Dilution of shareholders' equity.
- X **B)** Increase in earnings per share.
- X **C)** Reduction of the number of shares outstanding.
- ✓ **D)** Reduction of the debt securities' interest rate.

Explanation

Usually, a warrant is issued along with a debt instrument, an enhancement that allows the issuer to offer a slightly lower rate of interest.

**Reference:** 1.7.2 in the License Exam Manual

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**Question #166 of 239**

Question ID: 604766

Which of the following is an advantage of owning American depositary receipts?

- X **A)** The investor avoids the currency risk that characterizes many foreign investments.
- ✓ **B)** The investor can buy, sell, and receive dividends in U.S. dollars rather than a foreign currency.
- X **C)** The investor has the right to vote at stockholders' meetings.
- X **D)** The investor receives preemptive rights should the issuer make an additional stock offering.

Explanation

ADRs permit an American investor to purchase, not stock, but a certificate of deposit for stock in a foreign company. The advantage is that the transactions are done in dollars, but the ADR itself does not carry a vote or stock rights, and subjects the owner to currency risk.

**Reference:** 1.8.1.4 in the License Exam Manual

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### Question #167 of 239

Question ID: 606045

Which of the following can be a custodian under UGMA?

- ☐ A) The beneficial owner of another UGMA account
- ☐ B) A broker/dealer in street name
- ☒ C) Any legally competent adult
- ☐ D) An investment advisory firm

#### Explanation

Only an individual adult can be the custodian in a minor's account. Neither a broker/dealer nor an investment advisory firm can be the custodian for an account under UGMA. The beneficial owner of an UGMA account is a minor and cannot be the custodian of their own account or any other fiduciary account.

**Reference:** 5.3.1.2 in the License Exam Manual

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### Question #168 of 239

Question ID: 606002

For a trust account not seeking appreciation, which of the following would be recommended?

- ☒ A) Highly-rated, fixed-income securities.
- ☐ B) Common stock in small, highly profitable companies.
- ☐ C) Common stock, preferred stock, and debentures.
- ☐ D) Large-cap common and preferred stocks.

#### Explanation

The only choice that is prudent and does not have a goal of appreciation is the purchase of highly rated, fixed-income securities.

**Reference:** 5.2.1.4 in the License Exam Manual

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### Question #169 of 239

Question ID: 604710

If all other factors are equal, an investor would expect which type of preferred stock to pay the highest stated dividend rate?

- ☐ A) Straight.
- ☒ B) Callable.
- ☐ C) Convertible.
- ☐ D) Cumulative.

#### Explanation

When the stock is called, dividend payments are no longer made. With callable preferred stock, to compensate for that possibility, the issuer pays a higher dividend than with straight preferred. Cumulative and convertible preferred have positive characteristics that would justify a lower fixed dividend than straight.

**Reference:** 1.3.2.5 in the License Exam Manual

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### Question #170 of 239

Question ID: 604716

As interest rates fall, prices of straight preferred stock will:

- ☐ A) remain unaffected.
- ☐ B) become volatile.
- ☒ C) rise.
- ☐ D) fall.



#### Explanation

Preferred stock is interest rate sensitive. As rates fall, prices of preferred stocks tend to rise, and vice versa.

**Reference:** 1.3.2.1 in the License Exam Manual

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### Question #171 of 239

Question ID: 606060

Under the Uniform Transfer to Minors Act, a custodian may invest in all of the following EXCEPT:

- ☐ A) corporate bonds.
- ☐ B) blue-chip stocks.
- ☒ C) commodity futures.
- ☐ D) mutual funds.

#### Explanation

Commodity futures may not be purchased in a custodial account. Only cash and securities may be deposited.

**Reference:** 5.3.1.5 in the License Exam Manual

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### Question #172 of 239

Question ID: 721430

Upon notification of the death of a client, which of the following actions would NOT be required to be taken by the registered representative assigned to the account?

- ☐ A) Canceling all GTC orders currently entered for the account
- ☒ B) Obtaining the names of the beneficiaries of the estate for the purpose of notifying all parties
- ☐ C) Canceling all day orders currently entered for the account
- ☐ D) Marking the account *Deceased* until all proper documentation has been received

#### Explanation

Upon being notified of the death of a client, the registered representative assigned to the account should cancel all open orders (GTC and day) and mark the account *Deceased*. The firm should not permit any trades until proper documents are received from the estate representative. There is no requirement nor is it the responsibility of the firm to contact the decedent's attorney or beneficiaries.

**Reference:** 5.2.3 in the License Exam Manual

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### Question #173 of 239

Question ID: 605955

All of the following information must be obtained from new individual customers EXCEPT:

- ☐ A) date of birth.
- ☐ B) residence address.
- ☒ C) educational background.
- ☐ D) Social Security number.

#### Explanation

A customer's educational background is not required to open a new account. In the case of an account opened in the name of a business, the business address and tax identification number are required.

**Reference:** 5.1.1 in the License Exam Manual

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### Question #174 of 239

Question ID: 721425

Which of the following is required to sign a new account form for a cash account?

- ☐ A) The customer
- ☒ B) The principal

- X **C)** The spouse of the customer
- X **D)** The registered representative

Explanation

To open a cash account, only the signature of the principal accepting the account is required. For margin accounts, the signature of the customer is required on the margin agreement. The signature of the spouse is required only for a joint account.

**Reference:** 5.1.1 in the License Exam Manual

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**Question #175 of 239**

Question ID: 604757

ABC, Inc. will issue new stock through a rights offering. Terms of the offering are 10 rights plus \$10 to purchase one new share of stock, with any fractional shares to be considered whole shares. ABC is currently trading at \$13. If your customer owns 85 shares of ABC and wishes to subscribe to the new offering, how many shares can she purchase at the subscription price and how much money will be required?

- X **A)** 8 shares; \$90.
- ✓ **B)** 9 shares; \$90.
- X **C)** 9 shares; \$80.
- X **D)** 8 shares; \$80.

Explanation

Owning 85 shares, the customer would receive 85 rights allowing the purchase of 8.5 shares. Because fractional shares are rounded up, a total of 9 shares could be purchased. Each share requires an additional \$10 to purchase, therefore if the customer wants to buy the 9 shares the customer must pay a total of \$90.

**Reference:** 1.7.1.1 in the License Exam Manual

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**Question #176 of 239**

Question ID: 606047

Securities in an UGMA account are sold at a profit. Who is liable for the current year taxes on the sale?

- X **A)** No one; they are deferred to the age of majority.
- ✓ **B)** The minor.
- X **C)** The donor.
- X **D)** The guardian.

Explanation

The UGMA account is for the benefit of the minor, which is registered with the minor's Social Security number. All taxes on the account are the responsibility of the minor.

**Reference:** 5.3.1.6 in the License Exam Manual

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**Question #177 of 239**

Question ID: 605961

If a municipal dealer maintains an account for the employee of another municipal dealer and the employing dealer has not sent any written instructions, which of the following documents must be sent to the employing dealer?

- X **A)** Written notice of a security recommended for account purchase.
- ✓ **B)** Duplicate confirmations of all securities purchased for the account.
- X **C)** Form RE-3.
- X **D)** Monthly statement of all transactions in the account.

Explanation

Unless instructed otherwise in writing, the municipal dealer must only send duplicate confirmations.

**Reference:** 5.1.5.2 in the License Exam Manual

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**Question #178 of 239**

Question ID: 721384

Which of the following statements regarding warrants are TRUE?

- I. They pay dividends.
- II. They represent ownership in the issuing corporation.
- III. They allow for the purchase of common stock at a fixed price.
- IV. They do not give holders voting rights.

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

**Explanation**

Holders of warrants have the right to buy stock from the issuer at a stated price for a specific time period. They do not pay dividends which are only paid to stockholders, nor do they give holders voting rights. The owner of the warrant does not own the stock until the warrant is exercised.

**Reference:** 1.7.2 in the License Exam Manual

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**Question #179 of 239**

Question ID: 605993

Whose Social Security number is required to open a custodial account?

- ☐ A) Custodian's.
- ☐ B) Custodian, parent or guardian and minor.
- ☒ C) Minor's.
- ☐ D) Parent's or guardian's.

**Explanation**

The minor's Social Security number is required because the account is fully owned by, and taxed to, the minor-not to either the custodian or the parent.

**Reference:** 5.2.1.4 in the License Exam Manual

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**Question #180 of 239**

Question ID: 604696

Shareholder approval is required for all of the following corporate events EXCEPT:

- ☒ A) dividends.
- ☐ B) stock splits.
- ☐ C) the acceptance of a tender offer from a non-affiliated company.
- ☐ D) the issuance of convertible bonds.

**Explanation**

Shareholder approval is not required for the payment of dividends, but is normally required for actions that increase (or potentially increase) the number of shares outstanding, such as stock splits and the issuance of convertible bonds. A corporation's acceptance of a tender offer requires shareholder approval.

**Reference:** 1.2.3.1 in the License Exam Manual

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**Question #181 of 239**

Question ID: 721381

If Flying Horse Corp. splits 5:4, the presplit \$.40 par value of the common stock would now be adjusted to:

- ☐ A) 0.3.
- ☐ B) 0.4.
- ☒ C) 0.32.
- ☐ D) 0.48.

#### Explanation

Stock splits will change the par value of the stock. To calculate the new value, multiply the original par by the inverse of the split:  $4/5 \times \$ .40 = \$ .32$ .

**Reference:** 1.2.4.1 in the License Exam Manual

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### Question #182 of 239

Question ID: 604773

ADR owners have all the following rights EXCEPT:

- ☐ A) the right to receive the underlying foreign security.
- ☐ B) the right to receive dividends in U.S. dollars.
- ☒ C) the right to sell the ADR in the foreign market.
- ☐ D) the right to sell in the secondary market.

#### Explanation

The purpose of the ADR is to facilitate trading in U.S. markets. The ADR can only be traded here. If the owner exercises the right to obtain the actual foreign security, it may be sold overseas.

**Reference:** 1.8.1.2 in the License Exam Manual

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### Question #183 of 239

Question ID: 721383

A customer owns cumulative preferred stock (par value of \$100) that pays an 8% dividend. The dividend has not been paid this year or for the 2 previous years. How much must the company pay the customer per share before it may pay dividends to the common stockholders?

- ☐ A) 16.
- ☒ B) 24.
- ☐ C) 8.
- ☐ D) 0.

#### Explanation

If the company is going to pay a common stock dividend, it must pay the preferred dividends first. A cumulative preferred stockholder must also receive all dividends in arrears. There is \$16 due in back dividends in addition to \$8 this year, for a total of \$24.

**Reference:** 1.3.2.2 in the License Exam Manual

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### Question #184 of 239

Question ID: 721427

A customer opens an account and payment and delivery instructions are established. Beyond the opening of the account these instructions may

- ☐ A) be changed for individual transactions only
- ☐ B) be changed at any time for all transactions going forward
- ☐ C) not be changed unless a new account is established
- ☒ D) be changed for individual transactions, or going forward, for all transactions

#### Explanation

Once payment and delivery instructions are established at the time the account is opened they can be changed for any individual transaction or for all transactions going forward.

**Reference:** 5.1.2.1 in the License Exam Manual

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### Question #185 of 239

Question ID: 605938

Obtaining all of the following complies with the regulations regarding customer identification programs (CIPs) EXCEPT

- ☒ A) post office box, instead of a physical address, if it is the primary mailing address
- ☐ B) name

- X **C)** taxpayer identification number
- X **D)** date of birth

Explanation

A post office box is never acceptable without a physical address.

**Reference:** 5.1.1.2 in the License Exam Manual

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**Question #186 of 239**

Question ID: 605971

Which types of accounts are billed a single fee annually for a group of services?

- X **A)** Margin account.
- X **B)** Cash account.
- X **C)** Option account.
- ✓ **D)** Wrap account.

Explanation

Wrap accounts are accounts for which firms provide a group of services, such as asset allocation, portfolio management, executions, and administration, for a single fee. Wrap accounts are generally investment advisory accounts.

**Reference:** 5.1.3.4 in the License Exam Manual

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**Question #187 of 239**

Question ID: 604726

GHI stock is at \$10 par value and is selling in the market for \$60 per share. If the current quarterly dividend is \$1, the current yield is:

- ✓ **A)** 6.7%.
- X **B)** 10%.
- X **C)** 1%.
- X **D)** 1.7%.

Explanation

Current yield is determined by dividing the annual dividend of \$4 (\$1 per quarter  $\times$  4 = \$4) by the current stock price of \$60 ( $\$4 / \$60 = 6.7\%$ ).

**Reference:** 1.4.1.3 in the License Exam Manual

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**Question #188 of 239**

Question ID: 604780

If a client who seeks diversification through real estate is concerned about illiquidity associated with investing in real estate, which of the following investments is *most* suitable?

- X **A)** Direct investment in a shopping center renting retail space to a broad variety of stores.
- ✓ **B)** Real estate investment trust.
- X **C)** Privately placed investment.
- X **D)** Interest in a real estate limited partnership.

Explanation

Real estate investment trusts (REITs) are best suited to the client because they are market-traded securities that provide an investor with a liquid market in which to invest in real estate.

**Reference:** 1.9 in the License Exam Manual

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**Question #189 of 239**

Question ID: 604727

A company with 20 million shares outstanding paid \$36 million in dividends. If the current market value of the company's shares is \$36, the current yield is

- X **A)** 2%
- X **B)** 15%
- X **C)** 10%
- ✓ **D)** 5%

Explanation

The current yield formula is annual dividends per share divided by current market price. The dividends per share are \$36 million / 20 million shares = \$1.80 per share. Current yield is \$1.80 / \$36.00 = 5%.

**Reference:** 1.4.1.3 in the License Exam Manual

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**Question #190 of 239**

Question ID: 606018

An agent is permitted to open all of the following customer accounts EXCEPT:

- X **A)** a partnership account opened by the designated partner.
- ✓ **B)** an account in the name of Mrs. Jones opened by Mr. Jones.
- X **C)** a corporate account opened by the designated officer.
- X **D)** a minor's account opened by a custodian.

Explanation

An agent is not permitted to open an individual account in the name of a third person.

**Reference:** 5.2.1.2 in the License Exam Manual

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**Question #191 of 239**

Question ID: 604720

A company that has issued cumulative preferred stock:

- X **A)** pays the preferred dividend before paying the coupons due on its outstanding bonds.
- X **B)** forces conversion of the preferred that is trading at a discount to par, thereby eliminating the need to pay past-due dividends.
- X **C)** pays the current dividends on the preferred, but not the past dividends on the preferred, before paying a dividend on the common.
- ✓ **D)** pays past and current preferred dividends before paying dividends on common stock.

Explanation

Current and unpaid past dividends on cumulative preferred stock must be paid before common stockholders can receive a dividend. Bond interest is always paid before dividends. Dividends in arrears on cumulative preferred have the highest priority of dividends to be paid.

**Reference:** 1.3.2.2 in the License Exam Manual

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**Question #192 of 239**

Question ID: 606050

A custodian of an UTMA account may do which of the following as a fiduciary to the account?

- X **A)** Meet a margin call.
- ✓ **B)** Be reimbursed as a fiduciary for reasonable expenses incurred for managing the account.
- X **C)** Use the securities in the account for his own benefit.
- X **D)** Withdraw securities if he substitutes his own stock of equal value.

Explanation

The custodian has a fiduciary responsibility for the account and should invest for preservation of capital and to achieve reasonable income for the beneficial owner of the account. While the custodian, as a fiduciary, can be reimbursed for reasonable expenses incurred in acting as a fiduciary to the UTMA account, they may not trade on margin, nor would they be permitted to substitute securities in the account or use securities in the account for their own benefit.

Reference: 5.3.1.5 in the License Exam Manual

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### Question #193 of 239

Question ID: 606021

Which of the following documents must an existing customer sign to establish a discretionary account?

- ✓ **A)** Trading authorization.
- X **B)** Customer's agreement.
- X **C)** New account application.
- X **D)** Options agreement.

#### Explanation

To establish a discretionary account, the agent must receive written authorization from the customer(s) in whose name(s) the account has been established. An existing customer has already completed the new account application and signed any required customer agreements.

Reference: 5.2.2.1 in the License Exam Manual

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### Question #194 of 239

Question ID: 721429

If a person wishes to enter orders in his spouse's account, he:

- X **A)** needs verbal permission from his spouse.
- ✓ **B)** needs written permission from his spouse via a power of attorney.
- X **C)** could never be permitted to do so as there is no provision that would allow for it to occur.
- X **D)** is free to do so.

#### Explanation

The only persons permitted to enter orders in an account are the account owners. For a person to enter orders in his spouse's account, the spouse whose name is on the account must sign a power of attorney.

Reference: 5.2.1.5 in the License Exam Manual

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### Question #195 of 239

Question ID: 606010

All of the following are fiduciary accounts EXCEPT:

- ✓ **A)** TOD accounts.
- X **B)** guardian accounts.
- X **C)** trust accounts.
- X **D)** estate accounts.

#### Explanation

Transfer on Death Accounts (TOD) are individual accounts with a designated beneficiary to receive account assets upon the death of the account owner.

Reference: 5.2.1.4 in the License Exam Manual

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### Question #196 of 239

Question ID: 605977

Your broker/dealer acts as a prime broker for ABC fund. In this arrangement, your broker/dealer is likely to be providing which of the following services?

- I. Execution of all transactions for the fund portfolio
- II. Clearing services
- III. Lending for trades done on margin
- IV. Ensuring that all exchange-trading rules are complied by

- ✓ **A)** II and III

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

Explanation

The prime broker would supply clearing services, lending services for marginable transaction, as well as back office support including cash management, account statements, and transaction processing. Actual executions and abiding by all exchange rules when transactions occur is the responsibility of the executing broker/dealers.

**Reference:** 5.1.3.5 in the License Exam Manual

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**Question #197 of 239**

Question ID: 605984

All of the following are fiduciary accounts EXCEPT:

- X **A)** trust accounts.
- ✓ **B)** transfer on death (TOD) accounts.
- X **C)** estate accounts.
- X **D)** guardian accounts.

Explanation

A TOD account is an individual account in which, on the death of the account owner, the assets pass to a designated beneficiary.

**Reference:** 5.2.1.4 in the License Exam Manual

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**Question #198 of 239**

Question ID: 606014

A customer asks his registered representative to purchase \$10,000 worth of shares in any pharmaceutical company that looks promising. Which type of an account allows the registered representative to act in accordance with this instruction?

- X **A)** Margin.
- ✓ **B)** Discretionary.
- X **C)** Custodial.
- X **D)** Special cash.

Explanation

If the registered representative may decide the specific security, the transaction requires discretionary authority and therefore must be done in a discretionary account. Determining the time or price does not require discretionary authority.

**Reference:** 5.2.2 in the License Exam Manual

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**Question #199 of 239**

Question ID: 605989

If three individuals have a tenants in common account with your firm, and one individual dies, which of the following statements is TRUE?

- X **A)** The account is converted to joint tenants with rights of survivorship (JTWROS).
- X **B)** Trading is discontinued until the executor names a replacement for the deceased.
- ✓ **C)** Two survivors continue as co-tenants with the decedent's estate.
- X **D)** The account must be liquidated and the proceeds split evenly among the two survivors and the decedent's estate.

Explanation

The decedent's estate becomes a tenant in common with the survivors.

**Reference:** 5.2.1.2.1 in the License Exam Manual

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**Question #200 of 239**

Question ID: 604746



The following chart shows the capital transactions of ABC Corporation.

Date	Event	Amount
10-19-96	Initial Offerings	6 million shares
4-1-2000	Treasury Purchase	500,000 shares

ABC wants to raise additional capital by selling 2 million shares through a rights offering and engages an underwriter on a standby basis. By the expiration date, ABC was only able to sell 1 million shares to existing shareholders. After expiration, how many shares does ABC have outstanding?

- ☐ A) 8 million.
- ☐ B) 7 million.
- ☐ C) 6.5 million.
- ☒ D) 7.5 million.

Explanation

Before the rights offering, the company had 5.5 million shares outstanding (6 million issued minus 500,000 Treasury shares). In connection with the offering, ABC engages a standby underwriter that commits to purchase any unsold shares. Therefore, regardless of the number of shares initially subscribed to, all 2 million shares will be sold.

**Reference:** 1.7.1.1 in the License Exam Manual

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### Question #201 of 239

Question ID: 735928

If a registered representative of a FINRA member firm wants to open an account with another member firm, which of the following statements are TRUE?

- I. The account may only be opened if the registered representative (RR) is also a principal of his employing BD.
- II. The account may be opened, but the registered representative may not engage in securities transactions that he could do through his own firm.
- III. The member firm opening the account must send duplicate confirmations to the employing member firm if the employing member firm has requested them to do so.
- IV. The employing broker/dealer must receive prior written notice and give prior written consent in order for the account to be opened.

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

Explanation

The employing broker/dealer must be notified in writing and give prior written approval for the account to be opened. It must receive duplicate confirms and account statements if it has requested them.

**Reference:** 5.1.5.1 in the License Exam Manual

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### Question #202 of 239

Question ID: 604682

When compared to statutory voting, cumulative voting gives an advantage to:

- ☐ A) participating preferred stockholders.
- ☐ B) management rather than the board of directors.
- ☐ C) majority stockholders.
- ☒ D) minority stockholders.

Explanation

Cumulative voting allows shareholders to aggregate their votes and cast them as they please. For example, they could cast all of their votes for a single candidate. Cumulative voting makes it easier for a minority group of shareholders to gain representation on the board.

**Reference:** 1.2.3.1.1 in the License Exam Manual

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### Question #203 of 239

Question ID: 721382

Holders of common shares may generally vote on:

- ✓ **A)** whether the company should issue additional preferred stock.
- X **B)** whether a cash dividend is to be declared.
- X **C)** which member of the board of directors should be chairman.
- X **D)** whether an administrative assistant should be promoted to management.

Explanation

Common shareholders must vote to approve the issuance of additional preferred stock because additional preferred shares dilute the common shares' residual assets under a liquidation. Common shareholders do not vote to declare dividends. Board members select the chairman of the board. Shareholders do not get involved in the daily operational activity of the corporation.

**Reference:** 1.2.3.1 in the License Exam Manual

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**Question #204 of 239**

Question ID: 605973

Which of the following is required to be maintained by financial institutions such as banks and broker/dealers (BDs) by the USA PATRIOT Act to prevent the financing of terrorist operations and money laundering?

- X **A)** Privacy notices
- ✓ **B)** Customer identification programs (CIPs)
- X **C)** Specially Designated Nationals list
- X **D)** Do-not-call lists

Explanation

The USA PATRIOT Act requires financial institutions to maintain customer identification programs (CIPs) to protect against financing terrorist operations or activities and potential money laundering activities. The Office of Foreign Asset Control (OFAC) publishes and maintains the "Specially Designated Nationals" list which financial institutions utilize to determine if any customers or potential customers have been identified by OFAC as posing a terroristic threat or are involved in money laundering activities.

**Reference:** 5.1.1.2.1 in the License Exam Manual

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**Question #205 of 239**

Question ID: 605991

Which of the following verbal orders can be accepted from a customer without additional documentation?

- X **A)** Increase my position in ABC.
- ✓ **B)** Buy 100 shares of ABC when the price is right.
- X **C)** Buy 200 shares of computer stock.
- X **D)** Buy \$20,000 of quality bank stocks.

Explanation

Prices and time of execution do not require discretionary authority.

**Reference:** 5.2.2 in the License Exam Manual

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**Question #206 of 239**

Question ID: 606040

John is the custodian of his niece's UGMA account. John places an order for 100 shares of a very speculative stock for the account. What should the representative do?

- ✓ **A)** Advise the custodian as to the suitability of the stock.
- X **B)** Consult with his principal before entering the order.
- X **C)** Enter the order as requested, without comment.
- X **D)** Refuse to enter the order, because it is unsuitable for a UGMA account.

Explanation

The custodian should not place unsuitable orders in a UGMA account. The representative should inform the custodian of this.

### Question #207 of 239

Question ID: 604778

REITs can distribute all of the following to their shareholders EXCEPT:

- ☐ A) capital gains.
- ☒ B) capital losses.
- ☐ C) stock dividends.
- ☐ D) cash dividends.

#### Explanation

REITs can distribute their income to shareholders but not their losses. Under subchapter M of the Internal Revenue Code, they must distribute at least 90% of their income to shareholders in the form of cash dividends.

Reference: 1.9 in the License Exam Manual

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### Question #208 of 239

Question ID: 606027

Which of the statements regarding a member firm's handling of a discretionary account is TRUE?

- ☐ A) A principal must approve each discretionary order prior to execution.
- ☐ B) The registered representative must obtain written authorization from the customer before placing each order. .
- ☐ C) Margin may not be used in a discretionary account.
- ☒ D) The registered representative may not effect transactions excessive in size or frequency in view of the customer's resources.

#### Explanation

A discretionary account allows the registered representative to place orders without consulting the customer. It does not relieve him of the obligation to execute only suitable orders.

Reference: 5.2.2.2 in the License Exam Manual

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### Question #209 of 239

Question ID: 604703

A change in earnings would affect the price of which of the following securities the *most*?

- ☐ A) 10% debentures maturing in 10 years.
- ☒ B) Common stock.
- ☐ C) 6% preferred stock.
- ☐ D) Treasury stock.

#### Explanation

Common stock is most sensitive to earnings changes because, as owners, common shareholders have a claim on the earnings of the firm.

Reference: 1.2.3 in the License Exam Manual

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### Question #210 of 239

Question ID: 604683

Common stockholders have all of the following rights and privileges EXCEPT:

- I. Voting on the composition of the board of directors.
- II. Voting on routine decisions in the company's operations.
- III. Receiving par value at liquidation.
- IV. Receiving a dividend when declared.

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

Explanation

Ownership of common stock allows shareholders the right to vote on the important affairs in the life of the company, not routine operational decisions. No promise is offered with regard to the stockholder's initial investment, which might be lost, or dividends, which might not be declared.

**Reference:** 1.2.3.1 in the License Exam Manual

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**Question #211 of 239**

Question ID: 605958

According to FINRA rules, duplicate confirmations of transactions must be sent to an account owner's employer if requested to do so by the employer, whenever establishing a margin account for

- I. a bank officer
- II. an employee of another broker/dealer
- III. an independent insurance agent
- IV. an officer of another broker/dealer

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

Explanation

According to FINRA rules, when an employee of a member firm opens an account with another member broker/dealer, duplicate confirmations and account statements must be sent to the employer by the broker/dealer establishing the account when the employer requests it to do so. An officer of a broker/dealer is considered an employee.

**Reference:** 5.1.5 in the License Exam Manual

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**Question #212 of 239**

Question ID: 604790

If a customer gives specific instructions to his registered representative to purchase a security that is clearly unsuitable in light of the customer's investment objectives, under FINRA rules, the registered representative:

- X **A)** can only enter the order if the customer puts his verbal instructions into written form.
- X **B)** can only enter the order with the prior approval of a principal.
- ✓ **C)** can enter the order.
- X **D)** cannot enter the order.

Explanation

Under FINRA rules, the representative may execute the trade at the customer's request; the trade ticket should indicate that the order was unsolicited.

**Reference:** 5.1.1.1 in the License Exam Manual

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**Question #213 of 239**

Question ID: 604748

Gargantuan Computers, Inc. (GCI) conducts a rights offering to its current shareholders at \$50 per share, plus 1 right. If the current market price of GCI is \$70, what is the value of one right before the stock trades ex-rights?

- ✓ **A)** 10
- X **B)** 3
- X **C)** 15
- X **D)** 5

#### Explanation

The stock is trading cum rights (before the ex-date). The formula to calculate the value of one right before the ex-date is follows:  $CMV - \text{subscription price} / \text{Number of rights to purchase 1 share} + 1$ . Therefore one right is valued at \$10, computed as  $(\$70 - \$50) / 2 = \$10$ .

**Reference:** 1.7.1.3 in the License Exam Manual

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### Question #214 of 239

Question ID: 605972

Broker/dealers who reserve the right to disclose nonpublic private information about their customers to unaffiliated third parties must

- I. provide notice to customers at the time of the account opening
- II. provide notice to customers each time a transaction occurs within the account
- III. provide reasonable means for customers to opt out of such disclosures
- IV. require that customers wishing to opt out send a written request with signature witnessed by a notary

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

#### Explanation

Regulation S-P requires that if a broker/dealer reserves the right to disclose nonpublic personal information to third nonaffiliated parties, it must notify the customer at the time of the account opening and annually thereafter. Means to opt out of the disclosures must be reasonable and easy. Requiring a written request to opt out would not be considered reasonable means under the regulation.

**Reference:** 5.1.1.4 in the License Exam Manual

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### Question #215 of 239

Question ID: 606020

Which of the following are governed by the prudent investor rule?

- I. Trustee.
- II. Executor.
- III. Custodian.
- IV. Registered representative who has been granted discretionary authority.

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

#### Explanation

The prudent investor rule applies to fiduciary accounts, or accounts in which someone is acting on someone else's behalf. In these accounts, the fiduciary must act prudently. A registered representative who has been granted discretionary authority is acting in a fiduciary capacity.

**Reference:** 5.2.1.4.1 in the License Exam Manual

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### Question #216 of 239

Question ID: 604714

Which of the following securities typically carries the highest dividend rate?

- X **A)** Convertible preferred.
- ✓ **B)** Callable preferred.
- X **C)** Participating preferred.
- X **D)** Straight preferred.

#### Explanation

Straight preferred is the benchmark rate. As the name suggests, there are no conversion or participating features. Compared to straight preferred, both convertible and participating preferred tend to carry lower dividend rates, as the investor has been given something extra—the right to convert into common shares at a fixed price or the right to earn more than the stated rate if the issuer has a good year and the board of directors elects to make an additional dividend payment. Callable preferred allows the issuer to call the securities away from the investor. From an investor's point of view, this is not an incentive. Therefore, callable preferred tends to pay higher rates.

**Reference:** 1.3.2.3 in the License Exam Manual

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### Question #217 of 239

Question ID: 605988

If three individuals open up a joint account with your firm, and one of the parties to the account possesses written authorization from the other parties granting him authority to make all trading decisions, the new account form must contain information on:

- ☐ **A)** the individual with the highest net worth.
- ☐ **B)** the individual granted trading authority.
- ☐ **C)** any two of the three individuals.
- ☒ **D)** all three individuals.

#### Explanation

Information is required for all three individuals because they all have ownership in the account.

**Reference:** 5.2.1.2 in the License Exam Manual

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### Question #218 of 239

Question ID: 721431

A customer wants to open a new cash account and give her sibling trading authorization. The required documents to accommodate her request would be

- ☐ **A)** a margin agreement and a loan consent form
- ☐ **B)** a margin agreement and a limited power of attorney
- ☐ **C)** a new account form and a loan consent agreement
- ☒ **D)** a new account form and a limited power of attorney

#### Explanation

When a customer wants to give trading authorization or discretionary privileges to a third party in a cash account, a member firm requires a new account form (as with all new accounts) and a limited power of attorney. A limited power of attorney gives the third party trading authority but prohibits that party from withdrawing assets (cash or securities) from the account.

**Reference:** 5.2.1.5 in the License Exam Manual

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### Question #219 of 239

Question ID: 605965

A registered representative is opening both cash and margin accounts for a corporation. Which of the following documents will he need?

- I. The corporation's charter, account resolution, and bylaws.
- II. A copy of the corporation's most recent balance sheet.
- III. The corporation's last 3 profit and loss statements.
- IV. The name(s) of natural persons authorized to trade the account.

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

#### Explanation

Corporate accounts are generally those established by the officers of a corporation. Such accounts require a copy of the corporate resolution naming the authorized person(s) and account trading limits (if any). If it is to be a margin account, a copy of the corporate charter and a signed margin agreement are also required.

**Reference:** 5.1.3.3 in the License Exam Manual

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**Question #220 of 239**

Question ID: 604783

Which of the following characteristics are applicable to real estate investment trusts (REITs)?

- ☐ A) REIT shares cannot be bought or sold in the secondary market and are, therefore, considered illiquid.
- ☒ B) Dividends from REITs are taxed as ordinary income.
- ☐ C) REITs have guaranteed minimum dividends.
- ☐ D) Any losses from the real estate portfolio flow through to the REIT shareholders.

Explanation

While income flows through to REIT shareholders in the form of dividends, losses do not flow through. When a REIT pays a dividend, it will be taxed as ordinary income, but there are no guaranteed minimum dividend payouts. They trade both on exchanges and OTC and are, therefore, considered to be liquid investments.

**Reference:** 1.9.1 in the License Exam Manual

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**Question #221 of 239**

Question ID: 721426

Policies and procedures regarding instructions received from customers by email should identify as red flags all of the following scenarios EXCEPT

- ☐ A) an urgent request that funds be sent to an overseas bank account not previously known to be associated with the client
- ☐ B) an emailed request to liquidate certain account holdings and transfer the sales proceeds to a third party
- ☒ C) a request by email regarding a joint account with instructions to sell all securities and to forward a check made payable to the named parties to the account
- ☐ D) an email received that cannot be verified by the registered representative as having actually come from the customer

Explanation

Scenarios that should raise a red flag are those where unusual instructions are received. All firms must have in place written supervisory policies and procedures for reviewing and monitoring the transmittal of funds and a method of verifying that instructions received by email came from the customer and not an unknown third party. Urgency that might be intended to circumvent or deter broker/dealer verification procedures should always be viewed with extreme caution. An email regarding a joint account to liquidate and forward a check to the parties named to the account would generally not be viewed as a red flag. However, if it gave instructions to forward a check to only one party named to the account, it would be deemed unusual and not in keeping with how distributions are made from joint accounts.

**Reference:** 5.1.2.4 in the License Exam Manual

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**Question #222 of 239**

Question ID: 721385

Dividends from American Depositary Receipts (ADRs) held by U.S. investors are declared in

- ☒ A) the foreign currency but paid in U.S. dollars
- ☐ B) U.S. dollars and paid in U.S. dollars
- ☐ C) the foreign currency and paid in the foreign currency
- ☐ D) U.S. dollars but paid in the foreign currency

Explanation

Although the dividends paid by ADRs held by U.S. investors are declared in the foreign currency, they are paid in U.S. dollars. This is one reason that currency risk is a factor for ADR holders.

**Reference:** 1.8.1.3 in the License Exam Manual

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**Question #223 of 239**

Question ID: 604702

Which of the following statements regarding a 2-for-1 stock split are TRUE?

- I. The share price is reduced by half.
- II. The total market value of the outstanding stock decreases.
- III. The total market value of the outstanding stock may increase or decrease as a result of the split.
- IV. The number of shares doubles.

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

Explanation

In a 2-for-1 stock split, the number of outstanding shares is doubled and the price is reduced by half. The total market value (market cap) of the issuer's stock remains the same.

**Reference:** 1.2.4.1 in the License Exam Manual

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**Question #224 of 239**

Question ID: 605983

If a customer wants to open an account in the name of her adult son and wants the account to be approved for uncovered option writing, her request should be refused because:

- ✓ **A)** the opening of accounts for third parties is prohibited.
- X **B)** it is a trade through and nothing is currently known about the son's investment experience.
- X **C)** uncovered options can only be written in margin accounts.
- X **D)** discretionary authorization may not be granted with respect to writing uncovered options.

Explanation

An adult cannot open an account and name another adult as the beneficial owner. The type of option trades and the third party's investment experience are not relevant.

**Reference:** 5.2.1.1 in the License Exam Manual

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**Question #225 of 239**

Question ID: 785990

The ex-dividend date is the

- I. date on and after which the buyer is entitled to the dividend
- II. date on and after which the seller is entitled to the dividend
- III. one business day before the record date
- IV. one business day after the record date

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

Explanation

Stock sold on the ex-dividend date entitles the seller to the dividend; ex-date is one business day before the record date.

**Reference:** 1.6.1.5 in the License Exam Manual

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**Question #226 of 239**

Question ID: 606013

If one of your clients dies, on notification of death you should immediately:

- I. mark the account "deceased" until proper documents are received.
- II. cancel all GTC orders for the account.
- III. obtain a letter from the attorney representing the estate with instructions for transfer.
- IV. obtain the names and addresses of the beneficiaries of the estate.

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



#### Explanation

The account's registered representative must cancel all open orders and mark the account "deceased." The firm must not permit any trades until proper documents are received from the estate representative. It is not the responsibility of the firm to contact the decedent's attorney or the beneficiaries.

**Reference:** 5.2.3 in the License Exam Manual

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### Question #227 of 239

Question ID: 605944

While interviewing a person in order to fill out the new account form, a registered representative asks the potential new client a number of questions. Information regarding which of the following would NOT be required on the form?

- ☐ A) Investment objective
- ☒ B) Educational background
- ☐ C) Financial condition such as net worth
- ☐ D) Occupation

#### Explanation

When opening a new account, the registered representative must obtain information about the customer's occupation, financial condition, and investment objectives, among other information. Information such as educational background may be inquired about and useful to know, but is not required to open the account.

**Reference:** 5.1.1 in the License Exam Manual

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### Question #228 of 239

Question ID: 604731

A company may pay dividends in which of the following forms?

- I. Preemptive rights.
- II. Cash.
- III. Its own stock.
- IV. Its own bonds.

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

#### Explanation

A company may pay a dividend in stock of another company, cash, its own stock, or its own product. Preemptive rights are used in subsequent primary offerings, and bonds trade separately.

**Reference:** 1.4.1 in the License Exam Manual

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### Question #229 of 239

Question ID: 606003

All of the following statements regarding a transfer on death (TOD) account are correct EXCEPT:

- ☒ A) estate taxes are reduced.
- ☐ B) only those assets held at the broker/dealer are transferred.
- ☐ C) probate is avoided.
- ☐ D) the owner of the account may change beneficiaries at will.

#### Explanation

A TOD account avoids probate, but not estate taxes. The owner of the account may change beneficiaries and their percentages as he wishes. The TOD account is an account at a specific broker/dealer and only relates to the assets in that account.

**Reference:** 5.2.1.1.1 in the License Exam Manual

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**Question #230 of 239**

Question ID: 605974

Broker/dealers are required to maintain customer identification programs (CIPs) and to check the names of new clients against

- ☐ **A)** a list maintained by the Securities Exchange Commission (SEC)
- ☐ **B)** the FBI's most wanted list
- ☐ **C)** a list compiled by FINRA
- ☒ **D)** a list of specially designated nationals (SDNs) maintained by the Office of Foreign Assets Control

Explanation

All financial institutions are required by federal law to maintain a customer identification program and to check the identifying information supplied by new clients against the specially designated nationals (SDNs) list maintained by the Office of Foreign Assets Control (OFAC).

**Reference:** 5.1.1.2.2 in the License Exam Manual

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**Question #231 of 239**

Question ID: 604706

Which of the following statements regarding holders of common stock are TRUE?

- I. They must approve the payment of dividends.
- II. They are entitled to declared dividend distributions in proportion to their ownership.
- III. They have residual rights to corporate assets on dissolution.
- IV. They have unlimited liability.

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

Explanation

Common stockholders are entitled to dividend distributions in proportion to their ownership and to residual rights to corporate assets on dissolution. They do not vote on the payment of dividends, and they have only limited liability.

**Reference:** 1.2.3 in the License Exam Manual

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**Question #232 of 239**

Question ID: 605968

According to the U.S.A PATRIOT Act, account identification and verification procedures should be applied to which of the following?

- I. New individual accounts.
- II. New business accounts.
- III. Existing individual accounts.
- IV. Existing business accounts.

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

Explanation

The procedures required by the U.S.A PATRIOT Act for the verification and identification of customer accounts should be applied to all new customers-whether individuals or businesses.

**Reference:** 5.1.1.2 in the License Exam Manual

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**Question #233 of 239**

Question ID: 606035

Which of the following is NOT true in jurisdictions that recognize the marital property designation known as community property?

- ✓ **A)** Community property applies to property owned individually before a marriage once the marriage has occurred.
- X **B)** There may be tax implications regarding the dissolution of community property at the time of a divorce, marriage annulment, or death.
- X **C)** Community property laws do not apply to gifts.
- X **D)** Community property laws do not apply to inheritances.

Explanation

Community property applies to property obtained during a marriage but does not apply to property owned individually by one spouse before the marriage. In addition, it does not apply to inheritances or gifts. There can be federal tax implications for property designated as community property and laws in states that recognize community property ownership differs from jurisdiction to jurisdiction.

**Reference:** 5.2.1.2.3 in the License Exam Manual

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**Question #234 of 239**

Question ID: 604725

If a common stock is currently selling for \$75 per share with a quarterly dividend of \$.75, the current yield for the stock is:

- ✓ **A)** 4%.
- X **B)** 10%.
- X **C)** 1%.
- X **D)** 3%.

Explanation

The current yield formula is annual dividend divided by current price. In this case,  $\$3 (\$.75 \times 4) / \$75 = 4\%$ .

**Reference:** 1.4.1.3 in the License Exam Manual

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**Question #235 of 239**

Question ID: 605954

When a customer instructs a registered representative to transfer and ship, the representative instructs the margin department to transfer ownership into the:

- X **A)** customer's name and deliver the securities to the customer's bank for safekeeping.
- X **B)** brokerage firm's name and deliver the securities to the customer.
- X **C)** brokerage firm's name and deliver the securities to the brokerage firm's commercial bank for safekeeping.
- ✓ **D)** customer's name and deliver the securities to the customer.

Explanation

The term "transfer and ship" means to transfer the securities into the name of the customer and to ship (deliver) the securities to the customer. Hold in street name would require the securities to be transferred into the name of the broker/dealer and held in safekeeping.

**Reference:** 5.1.2.1 in the License Exam Manual

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**Question #236 of 239**

Question ID: 604764

An ADR is used to:

- X **A)** sweeten a bond offering.
- X **B)** finance foreign trade in which U.S. citizens are engaged.
- ✓ **C)** facilitate trading foreign securities in U.S. markets by U.S. citizens living in the United States.
- X **D)** facilitate trading U.S. securities in foreign markets by U.S. citizens living abroad.

Explanation

American depositary receipts (ADRs) make trading in foreign securities easier in U.S. markets for U.S. investors.

**Reference:** 1.8 in the License Exam Manual

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**Question #237 of 239**

Question ID: 605959

If a customer wishes to open a cash account, who must sign the new account form?

- ✓ **A)** Only the principal
- X **B)** Only the registered representative
- X **C)** The customer, the registered representative, and the principal
- X **D)** Only the customer

**Explanation**

The customer's signature nor the registered representatives signature is required to open a cash account. A principal must review and then accept the new account by signing the form.

**Reference:** 5.1.1 in the License Exam Manual

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**Question #238 of 239**

Question ID: 606043

Dividends have been received into an UGMA account. The custodian may do any of the following EXCEPT

- X **A)** reinvest the dividends in more stock
- ✓ **B)** withdraw the dividends as a loan from the account
- X **C)** withdraw the dividends and place them in an UGMA savings account
- X **D)** use the dividends to pay the taxes on the account

**Explanation**

The custodian may make investments deemed prudent and satisfy any tax obligations with the assets in the account on behalf of the minor. The custodian could not withdraw the funds as a loan from the account.

**Reference:** 5.3.1.5 in the License Exam Manual

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**Question #239 of 239**

Question ID: 606053

Which of the following persons may legally open an account to trade on margin?

- ✓ **A)** A corporation.
- X **B)** An open-end investment company.
- X **C)** A minor child with approval of a court-appointed guardian.
- X **D)** A custodian of an UTMA account.

**Explanation**

A corporation may open an account to trade on margin if provided for in the charter and authorized in the bylaws. Both UTMA and UGMA specifically prohibit custodians from either engaging in speculative trading or borrowing money or securities in the name of the minor through trading on margin. Mutual funds are also prohibited from trading on margin.

**Reference:** 5.3.1.5 in the License Exam Manual