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QID: 1506015

★Mark For Review

Which of the following is NOT included on a trade confirmation?

A The commission, markup, or markdown

B The execution price

C The customer's account number

☒ The exchange and bond's rating

CORRECT ANSWER CHOSEN

Trade confirmations are sent to customers after the execution of a transaction. Confirmations must include account information, execution price, and transaction fees. Although confirmations also include information on a bond's yield, they don't include a bond's rating or the exchange on which the trade was executed.

(19911)



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QID: 1505991

☆Mark For Review

A firm that is expecting to take its shares public has recently hired a new employee to assist in selling shares to investors. According to the Uniform Securities Act, which of the following statements is TRUE?

A The employee does not have to be registered since the shares are being registered

B The employee is automatically considered to be registered since he was hired before the firm registered

C If the issuer is going to sell stock, it must first register as a broker-dealer

☒ The employee would be required to register in any state in which he solicits investors

CORRECT ANSWER CHOSEN

In this question, the employee is considered an agent of the issuer. Since the stock is going to be sold publicly, the shares are required to be registered along with the employees of the issuer selling them. There are situations in which employees may be exempt from registration (e.g., engaged in exempt transactions) however, registration is generally required if shares are being sold to the public. (75775)



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QID: 1505978

[★Mark For Review](#)

A newspaper writer in a small town has been writing articles on the forestry industry. Her work has included covering exchange-traded companies operating in the forestry industry. If the journalist is looking for other forms of income, which of the following activities would require registration as an investment adviser under the Uniform Securities Act?

- ☒ **A** Writing monthly emails to subscribers that are unionized workers in the forestry industry and providing advice to them on the best time to exercise the stock options they received from their employing forestry company.
- B** Taking a part-time position with the local newspaper as an editor of other journalists' stories.
- C** Creating a publicly available blog that covers local politics.
- D** Writing a newsletter that's emailed to her friends which includes stories about general trends in the forestry industry.

CORRECT ANSWER CHOSEN

An investment adviser is a person who provides advice about investing in securities, does so as a regular business practice, and receives compensation for the advice. Advising on the best time to exercise stock options is securities-related advice and the journalist would be required to register as an investment adviser. Since none of the other answers related to securities advice, registration as an investment adviser would not be required.

(10918)



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QID: 1506010

[★Mark For Review](#)

A broker-dealer wants to include an offering of securities through a private placement on its platform. Before offering the securities to its customers, what would fulfill the broker-dealer's due diligence requirements?

- A** Reviewing the prospectus that's filed with the SEC
- ☒ **B** Conducting an independent review of the issuer and its management
- C** Filing a due diligence document with the state Administrators so that they can approve the offering
- D** Reading the offering memorandum that's provided by the issuer

CORRECT ANSWER CHOSEN

In order to offer and sell a private placement, broker-dealers need to review the issuer's business and its finances. This process is referred to as performing due diligence. Since private placement offerings are exempt transactions, this information is not required to be filed with the SEC or Administrator(s). The offering memorandum should be reviewed, but it alone is not sufficient to satisfy the broker-dealer's due diligence requirement.

(10904)

✖ 5 of 65

QID: 1505988
★Mark For Review

An agent of a broker-dealer recommends that a client purchase stock worth \$10,000. The client agrees and the trade is executed. Two days later, the client tells the agent that he cannot pay for the stock. Which of the following statements is TRUE?

- ☒ The agent may have violated antifraud provisions of the Uniform Securities Act by recommending transactions beyond the client's ability to pay
- ☐ B Since the agent accepted the client's order, the broker-dealer is obligated to lend the client the funds necessary to pay for the transaction
- ☒ C Once the client accepts the agent's recommendation, the client cannot later claim the transaction was unsuitable
- ☐ D This situation cannot occur since the client must pay for the stock before the trade is executed

INCORRECT ANSWER CHOSEN

An agent must always have reasonable grounds for recommending a particular security. The recommendation must not only take into account the security, but also the financial condition of the client. An agent may not recommend transactions that are excessive in size in relation to the client's financial resources. (75741)

✖ 6 of 65

QID: 1505984
★Mark For Review

Which statement about an investment adviser's annual renewal is TRUE?

- ☐ A Form ADV is filed with the SEC within 45 days of a federal covered adviser's fiscal year end, or with the state Administrator(s) within 90 days of investment adviser's fiscal year end.
- ☐ B Form ADV is filed with the SEC within 90 days of the calendar year end, or with the state Administrator(s) within 90 days of the investment adviser's fiscal year end.
- ☒ C Form ADV is filed with the SEC within 90 days of a federal covered adviser's fiscal year end, or with the state Administrator(s) within 90 days of the calendar year end.
- ☒ D Both state and federal covered advisers are required to renew their registrations by filing Form ADV within 90 days of the calendar year end.

INCORRECT ANSWER CHOSEN

Federal covered advisers are required to renew their registration by filing Form ADV with the SEC within 90 days of their fiscal year end. On the other hand, state registered investment advisers are required to file Form ADV within 90 days of the calendar year end.

(19915)

✖ 7 of 65

QID: 1505982
★Mark For Review

Under the Uniform Securities Act, which TWO of the following practices are prohibited?

- I. Accepting orders from a client's brother with written, third-party authorization
- II. Recommending securities without regard for the client's financial resources
- III. Quoting a price that is marked up from the current offering price
- IV. Crediting a portion of mutual fund's sales load back to a client's account

A I and III

B I and IV

✖ II and III

✔ II and IV

INCORRECT ANSWER CHOSEN

Under the Uniform Securities Act, recommending securities without considering a client's resources or rebating commissions (loads) are considered prohibited practices. It is acceptable to take an order from someone with written, third-party authorization. Quoting a price that includes a markup is an acceptable practice. (89576)

✔ 8 of 65

QID: 1506033
★Mark For Review

All of the following choices are TRUE regarding an agent, EXCEPT:

A An agent may only sell securities that have been properly registered in a state or qualify for an exemption from registration

B An agent's registration to sell securities in a given state is in effect until December 31 and then must be renewed

C An agent may only solicit business in a state if both the agent and broker-dealer are registered in the state

✔ If an agent leaves a broker-dealer to go to another broker-dealer, it is the sole responsibility of the agent to notify the Administrator

CORRECT ANSWER CHOSEN

When an agent leaves one broker-dealer to work for another broker-dealer, the Administrator must be notified by the agent and both broker-dealers. All of the other statements are correct. (75566)



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QID: 1506019

★ Mark For Review

Which of the following investments by a fiduciary MOST likely violates prudent investor standards?

- A Allocating assets in a portfolio over 10 uncorrelated asset classes
- B Investing 5% of a portfolio in foreign government bonds
- ☒ C Recommending that 100% of a client's retirement assets be invested in employer stock
- D Writing covered calls against the common stock in a portfolio

CORRECT ANSWER CHOSEN

Prudent investor standards explicitly recognize the need for diversification. Investing 100% of a portfolio in employer stock would expose a client to both business and asset concentration risk and most likely would not increase her expected rate of return. (75769)



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QID: 1506030

★ Mark For Review

An agent of a broker-dealer is also employed as an investment adviser representative. A client asks the agent for assistance in placing the shares of his start-up company's initial public offering (IPO). Under what conditions may the agent accept the client's offer of commissions for completing the offering?

- ☒ A Only with the written permission and supervision of the broker-dealer
- B Only when the purchases are made by clients of another broker-dealer
- C Only if a separate set of books and records is used to track these trades independently from the trades of other clients
- D Only if disclosure is made to the clients that this investment will not appear on their statements

CORRECT ANSWER CHOSEN

This is an allowable action provided written permission is obtained from the supervising broker-dealer and the transactions are recorded on the broker-dealer's books and records. If the agent fails to notify her firm, it is considered selling away, which is an unethical and prohibited business practice. (67713)

✓ 11 of 65

QID: 1505969

★Mark For Review

Which of the following activities by an agent of a broker-dealer is considered an unethical business practice?

- A Recommending the purchase or sale of a security after inquiring about the client's investment objectives and financial condition
- B Executing a transaction for a client after receiving proper written authorization
- C Executing a transaction for a client in a margin account after receiving a signed margin agreement
- ✓ Executing a transaction for a client and not recording it on the books of the broker-dealer

CORRECT ANSWER CHOSEN

It is considered an unethical business practice for an agent of a broker-dealer to effect transactions in securities and not record them on the books of the broker-dealer. The other choices represent honest and ethical business practices that agents should adhere to when dealing with their clients. (75748)

✗ 12 of 65

QID: 1506029

★Mark For Review

Under the National Securities Markets Improvement Act (NSMIA) investment advisers are required to register at the state level or the federal level, unless exempt. Which TWO of the following statements are TRUE regarding investment advisers with \$95 million of assets under management?

- I. They generally must register in any states in which they will conduct business.
- II. They are exempt from state registration.
- III. They must register with the SEC if the state in which they conduct business has no requirement for registration of investment advisers.
- IV. They generally must register with the SEC if their clients are all retail investors.

A I and II

✓ I and III

✗ I and IV

D II and III

INCORRECT ANSWER CHOSEN

NSMIA, the National Securities Markets Improvement Act, was created to eliminate some of the dual requirements of federal and state securities law. Investment advisers with less than \$100 million of assets under management (AUM) are generally exempt from federal or SEC registration and are required to register at the state level. If the state in which the adviser conducts business does not provide for the registration of investment advisers, they must register with the SEC. Investment advisers with AUM of \$100 million up to \$110 million may register with the SEC. If the adviser's AUM exceed \$110 million, it must register with the SEC. An investment adviser registered with the SEC is referred to as a federal covered adviser.

(75541)



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QID: 1505989

[☆Mark For Review](#)

IA Incorporated is an investment adviser. BD Securities is a brokerage firm with offices down the hall. IA Incorporated and BD Securities have an agreement under which IA directs brokerage transactions to BD and receives a 15% rebate on the commissions that BD charges. This arrangement is:

- ☐ A A conflict of interest and an unethical business practice
- ☐ B Acceptable, provided BD is also registered as an investment adviser
- ☒ C Acceptable, provided IA discloses the arrangement to its clients in writing
- ☐ D Acceptable, provided the arrangement is in writing and filed with the Administrator

CORRECT ANSWER CHOSEN

The NASAA Model Rule on Unethical Business Practices of Investment Advisers, Investment Adviser Representatives, and Federal Covered Advisers states that an investment adviser must disclose all conflicts of interests in writing to clients. These conflicts include the scenario described in this question where the investment adviser (or any of its employees) is receiving compensation (a rebate) for the execution of client transactions. (75713)



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QID: 1506017

[☆Mark For Review](#)

An agent unknowingly misrepresents the risk associated with a security. Under the Uniform Securities Act, which of the following statements is correct?

- ☐ A This is considered an act of fraud
- ☒ B Since the agent unknowingly made misrepresentations regarding a security, the agent is not subject to disciplinary action
- ☐ C Unknowingly making misrepresentations will result in the denial, suspension or revocation of the agent's registration
- ☐ D Unknowingly making misrepresentations regarding securities must be reported to the Administrator

INCORRECT ANSWER CHOSEN

Unknowingly making misrepresentations regarding a security is not considered fraudulent as there was no willful intent to mislead. As such the agent is not subject to disciplinary action by the Administrator. If the misrepresentations were intentional the Administrator may deny, suspend or revoke the agent's registration. (89422)



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QID: 1506002

Mark For Review

The Uniform Securities Act requires that an investment adviser deliver a written disclosure document to an advisory client or prospective advisory client. In which TWO of the following situations is the adviser NOT required to send this document to clients?

- I. The firm advises only investment companies but does not send its brochure to them
- II. The firm sends a newsletter to subscription clients who pay an annual fee of \$120
- III. The firm has no office in the state
- IV. The firm advises only institutional investors



I and II



II and III

C

I and IV

D

II and IV

INCORRECT ANSWER CHOSEN

According to the Uniform Securities Act Rule 203, an investment adviser must give a client or prospective client a disclosure document (usually Form ADV Part 2) either 48 hours before or at the time of opening the account. Exceptions to this rule include an adviser whose clients are only investment companies or where the contract is for impersonal services for which the client pays a fee of less than \$500. Please note, while an investment company is an institutional investor, not all institutional investors are investment companies. An investment adviser is required to provide the brochure to institutional investors other than investment companies. While there are many exemptions regarding institutional investors, this rule is NOT one of them. (89551)



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QID: 1506022

[★ Mark For Review](#)

According to the provisions of the Uniform Securities Act of 1956, advertisements that promote certain securities must be filed with the Administrator. According to the Act, promotional material for which of the following securities must be filed?

- ☐ A Railroad trust certificates
- ☐ B Mutual fund shares
- ☒ C Stock that's listed on a national securities exchange
- ☐ D Unregistered corporate bonds

INCORRECT ANSWER CHOSEN

Advertisements and promotional material for registered securities are filed with the Administrator. However, advertising for exempt securities and exempt transactions are not required to be filed. Railroad trust certificates, mutual fund shares, and listed securities are all exempt under the Uniform Securities Act. Since corporate bonds are typically required to be registered with the states, ads for those securities must be filed with the Administrator.

(10906)



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QID: 1505973

★Mark For Review

When does the registration for an agent of a broker-dealer expire?

- | | |
|------------------------------------|---|
| <input checked="" type="radio"/> A | December 31 |
| <input type="radio"/> B | 365 days after the Administrator granted the registration to be effective |
| <input type="radio"/> C | Two years after becoming effective |
| <input type="radio"/> D | On the fifth anniversary of the agent passing the qualifying examination |

CORRECT ANSWER CHOSEN

The registration of an agent of a broker-dealer expires at the end of each calendar year (December 31). On the other hand, the registration for securities will expire one year (i.e., 365 days) after their effective date.

(10908)



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QID: 1505995

★Mark For Review

A high-ranking executive wants to sell his shares of his company's stock. The company is about to announce its quarterly earnings. The executive may sell this stock:

- | | |
|------------------------------------|--|
| <input checked="" type="radio"/> A | After the company issues a press release stating its earnings |
| <input type="radio"/> B | Before the company issues a press release stating its earnings |
| <input type="radio"/> C | If permission is received from the Administrator |
| <input type="radio"/> D | Under no circumstances |

CORRECT ANSWER CHOSEN

The executive will need to wait until after the company has publicly announced its earnings and the information has been disseminated to investors. Otherwise, he risks being charged with insider trading.

Insider trading is defined as selling or buying securities based on nonpublic material information. Earnings are material information, which the executive is likely to be privy to before being announced to the public. Once the company issues the press release, the information is public, and the executive may sell his shares. Note that many companies have internal policies forbidding their executives from trading in their companies' shares for a period beginning a month or so before earnings are announced and ending a few days after the information is released. (75650)



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QID: 1506016

[★Mark For Review](#)

Advertising and sales-related materials would need to be filed with the Administrator in which of the following circumstances?

- ☐ A The materials relate to transactions with institutional investors
- ☒ B The securities were issued by a common carrier
- ☒ C The securities are listed on a foreign exchange
- ☐ D The materials relate to federal covered securities

INCORRECT ANSWER CHOSEN

In general, all advertising and sales-related materials created by broker-dealers and investment advisers must be filed with the Administrator. If the security or the transaction is exempt under the Act or is a federal covered security, the materials do not need to be filed with the Administrator. Any transaction with an institutional investor is an exempt transaction. A security issued by a common carrier is an exempt security. As a reminder, a common carrier is an entity that moves people or products between states, and is regulated by the Interstate Commerce Commission, for example, freight companies, railroads, and airlines. According to the NASAA Model Rules, securities listed on the Toronto Exchange, and the TSX Venture Exchange (Canada) are exempt. Securities listed on other foreign exchanges are not exempt automatically. (89533)



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QID: 1506013

[★Mark For Review](#)

An investment adviser is in charge of managing the assets of a large charitable trust. The income generated by the portfolio is used to support schools for disadvantaged children. Given the nature of the trust and the Uniform Prudent Investor Act (UPIA), which of the following investments should the adviser NOT recommend for the trust's portfolio?

- ☒ A Dividend-paying stocks
- ☒ B Tax-exempt municipal securities
- ☐ C Corporate bonds
- ☐ D U.S. government bonds

INCORRECT ANSWER CHOSEN

One of the main reasons for purchasing municipal securities is that they generate tax-exempt income. The trade-off for investors is that municipal securities usually have lower yields. Charities and nonprofit organizations do not pay income taxes. Their income is already tax-exempt. Therefore, the trust would get lower yields without corresponding tax benefits if it purchased tax-exempt municipal securities. (75847)



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QID: 1505996
[☆Mark For Review](#)

An investment adviser is registered in State A, where all of its offices are currently located. One of its representatives lives in State B and is in the process of opening a satellite office there to see if she can attract more clients in State B. Right now, the adviser's only clients in State B are institutions. What must take place before the IAR may commence doing business from her new office?

- A The investment adviser must register in State B
- B The investment adviser representative must register in State B
- ☒ Both the investment adviser and the investment adviser representative must register in State B
- D Neither the investment adviser nor the investment adviser representative needs to register in State B since the firm's only clients there are institutions

CORRECT ANSWER CHOSEN

An adviser with no place of business in a state and whose only clients in that state are institutions does not need to register there. In this case, however, the adviser loses the exemption as soon as it opens an office in State B. Both the adviser and its representative must register in State B before the IAR may start soliciting clients from his new office. (75595)



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QID: 1505971
[☆Mark For Review](#)

When is an investment adviser permitted to use a testimonial in its advertising?

- A When the person making the testimonial discloses his investment objectives and account performance.
- B When the testimonial is filed with the SEC or the state Administrator(s).
- ☒ When the testimonial is created by a third party, its unedited, and the investment adviser maintains no control or influence over it.
- D When the person making the testimonial meets the definition of a qualified client.

CORRECT ANSWER CHOSEN

Investment advisers are permitted to use testimonials in their advertising as long as they're not misleading. A testimonial that's created by a third party is acceptable if the investment adviser did not edit or promote it. (19922)

✖ 23 of 65

QID: 1506008
☆Mark For Review

Under the Uniform Securities Act, which of the following persons automatically becomes registered as an investment adviser representative when the investment adviser's registration becomes effective?

- A Only individuals who have been investment adviser representatives in another state
- ✖ All officers, directors, and partners of the investment adviser
- ✔ Only those officers, directors, and partners with management responsibilities
- D Any person who performs clerical service for the investment adviser

INCORRECT ANSWER CHOSEN

Only officers, directors, and partners who have management responsibilities (i.e., not silent partners) become automatically registered as investment adviser representatives when their employing firm registers in a new state as an investment adviser. (32327)

✔ 24 of 65

QID: 1506012
☆Mark For Review

According to the Uniform Securities Act, a security is said to be guaranteed as to:

- I. Prevention of investment loss
- II. Interest
- III. Dividends
- IV. Principal

- A I only
- B I and IV only
- C II and IV only
- ✔ II, III, and IV only

CORRECT ANSWER CHOSEN

Under the Uniform Securities Act, by definition, the term guaranteed refers to a security for which payment of dividends, interest, and principal are guaranteed. For example, the U.S. Treasury guarantees the interest on the bonds it issues. A utility can also guarantee payments of dividends on its securities, though, of course, if the utility goes bankrupt, the guarantee does not mean much. This is a definitional term only. Do not confuse this with guaranteeing a customer profits or something similar. (89510)



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QID: 1506003

[☆Mark For Review](#)

An agent opens a new account for a client and enters a market order to buy 200 shares of XYZ. At the end of the day, the agent turns in a new account form and a copy of the order ticket for approval by the supervisor. Which of the following statements is TRUE?

- ☐ A The agent's activities are not prohibited
- ☒ B The agent needed approval for the new account prior to the execution of the first order
- ☐ C The activity is prohibited and the agent must get prior approval for every order
- ☐ D The activity is prohibited because new clients must pay for their first transaction in advance

CORRECT ANSWER CHOSEN

Although prior approval from a supervisor is not required for every order, every new account must be approved by a supervisor prior to the execution of the first order. (75559)



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QID: 1505998

[☆Mark For Review](#)

A purchaser wishes to take action against a seller to recover money paid for securities issued in violation of blue-sky laws. Under the Uniform Securities Act, the burden to prove that the stock was sold in violation is on the:

- ☐ A Administrator
- ☒ B Purchaser
- ☐ C State administrative court
- ☐ D Broker-dealer

CORRECT ANSWER CHOSEN

The purchaser must prove that the stock was sold in violation of blue-sky laws. (75625)



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QID: 1505993

[☆Mark For Review](#)

Under the Uniform Securities Act, which of the following statements is NOT TRUE regarding a cease-and-desist order?

A It is enacted when or before a violation has occurred

☒ B It must have come from the SEC

C It must have been authorized by the Administrator

D It may be applied to an investment adviser

CORRECT ANSWER CHOSEN

An Administrator will authorize a cease-and-desist order against an investment adviser if she feels a violation of the Act is about to occur or if the Act has already been violated. The order does not need to come from the SEC. (75743)

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QID: 1505997

★ Mark For Review

What's required to be documented when a new brokerage account is opened by a customer?

- ☒ The Customer Relationship Summary Form (CRS)
- ☐ B All of the customer's former addresses
- ☐ C All of the customer's prior employers
- ☒ The name of the customer's trusted contact person

INCORRECT ANSWER CHOSEN

Regulation Best Interest (BI) has created a requirement for broker-dealers to send Form CRS to all new retail investors. This form provides information about the nature of a retail investor's relationship with her broker-dealer or investment adviser in a simple and easy-to-understand format. Only a customer's current residence is required. Broker-dealers are required to inquire about a new customer's current employer, but are not required to obtain her full employment history. Broker-dealers must attempt, but are not required, to obtain the name of a customer's trusted contact person when opening a new account.

(10911)

✖ 29 of 65

QID: 1506024

★ Mark For Review

A broker-dealer is registered in State A. Which TWO of the following statements are TRUE regarding the examination of that broker-dealer's records by the Administrator of State A?

- I. The Administrator may examine the broker-dealer's records even if they are located in State B
- II. If the records are located in State B, the Administrator of State A must obtain the consent of the Administrator of State B to examine the records
- III. The Administrator may examine the broker-dealer's records under any circumstances
- IV. The Administrator may examine the broker-dealer's records with good reason

- ☒ I and III
- ☒ I and IV
- ☐ C II and III
- ☐ D II and IV

INCORRECT ANSWER CHOSEN

The Administrator may examine the broker-dealer's records even if they are located in another state. Cooperation from the Administrator of the other state is not required. Although the Administrator's inspections may be unannounced, such examinations must be reasonable. (89553)



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QID: 1506026

☆Mark For Review

A trustee is managing a trust that has beneficiaries ranging in age from 2 through 17. Under the Uniform Prudent Investor Act (UPIA), how should the assets of the trust be managed?

- ☐ A All assets should be invested based on the investment recommendations of the grantor
- ☐ B The trust should be managed based on the most conservative beneficiary profile
- ☐ C The investment profile of the oldest beneficiary is the determining factor, since she will need the money for college within one year
- ☒ D All beneficiaries' interests should be weighed prior to making any investments

CORRECT ANSWER CHOSEN

Under the Uniform Prudent Investor Act (UPIA), a trustee managing an account that has multiple beneficiaries must act impartially when investing and managing the trust's assets. When making investments, a trustee must take into account the different interests of all beneficiaries. (75884)



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QID: 1506025

☆Mark For Review

An agent opening a brokerage account on the premises of a bank should:

- ☒ A Disclose that security products are not insured by FDIC
- ☐ B Disclose that SIPC insures both bank deposits and investment products
- ☐ C Disclose that FDIC insured securities are considered safe
- ☐ D Disclose that bank products are insured by the FRB

CORRECT ANSWER CHOSEN

An agent opening a brokerage account on the premises of a bank should disclose that security products are not insured by FDIC, nor are they guaranteed by the bank and they are subject to possible loss of principal. FDIC only insures bank deposits, not the principal or any loss incurred in owning securities. (89429)



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QID: 1506007

★ Mark For Review

The maximum civil penalty for insider trading violations is:

A \$5,000,000 and/or 20 years in prison

B \$25,000,000

C \$10,000 and/or five years in prison

☒ D Treble damages

CORRECT ANSWER CHOSEN

This question is one that requires you to memorize some facts, specifically the differences between civil and criminal penalties. A person who engages in insider trading will be subject to both. This question specifically asks you for the civil penalties. The maximum civil penalty for insider trading violations is three times the amount gained or loss avoided (treble damages). The maximum criminal penalties per violation for individuals are a fine of \$5,000,000, 20 years in prison, or both. Only corporations are subject to a criminal penalty of \$25,000,000 per violation. (89509)



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QID: 1506027

★ Mark For Review

In which of the following situations does the registration of a broker-dealer result in an Administrator automatically registering an individual of the firm as an agent?

A The individual is an attorney who represents the firm

☒ B The individual is a director of the broker-dealer and is actively engaged in the business of the firm

C The individual is an agent of the broker-dealer and is registered in another state

D The individual had been previously employed by the broker-dealer

CORRECT ANSWER CHOSEN

The registration of a broker-dealer in a state will automatically constitute the registration of an individual as an agent if this person is actively engaged in the business of the firm and is a partner, director, officer, or occupies a similar status. (89676)



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QID: 1505990

☆Mark For Review

Which of the following individuals meets the definition of an investment adviser representative?

- A The human resources supervisor who's employed by a registered investment adviser (RIA)
- B An employee of a broker-dealer who executes orders that are received for an investment adviser's managed accounts
- ☒ C A person who indicates that she will create financial plans for a fee
- D An employee of an issuer that's offering securities to more than 10 individual investors in a 12-month period

CORRECT ANSWER CHOSEN

Investment adviser representatives (IARs) are typically employees of an investment adviser (IA) who solicit advisory services for their firm. A person who indicates that she will create a financial plan for a fee is required to be registered as an IAR.

(10921)



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QID: 1505972

☆Mark For Review

An investment adviser's compensation could be based on:

- A A share of capital gains
- B Any agreement that the client and investment adviser mutually sign
- C A percentage of capital appreciation of the net assets in the client's account
- ☒ D A percentage of the value of the fund averaged over a prescribed period

CORRECT ANSWER CHOSEN

An investment adviser's compensation could be based on a percentage of the value of the fund averaged over a prescribed period. An investment adviser may not receive compensation on the basis of sharing in capital gains or a percentage of the appreciation in the account, even if the client signed an agreement to do so. (75631)



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QID: 1506020

★Mark For Review

When an agent ends his employment with a broker-dealer, who must notify the Administrator about the agent's employment and registration status?

- ☒ Only the broker-dealer
- ☐ Only the agent
- ☒ Both the agent and the broker-dealer
- ☐ FINRA will notify the Administrator

INCORRECT ANSWER CHOSEN

Both the broker-dealer and the agent are responsible for notifying the Administrator when an agent's employment is terminated.

(10916)



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QID: 1505980

★Mark For Review

A broker-dealer's website can include graphs and charts under which of the following conditions?

- ☐ They're used to guarantee a client against a loss.
- ☐ They're used to make future performance predictions.
- ☒ They're used to help explain factual information.
- ☐ They're used to make a claim that past performance will recur the following year.

CORRECT ANSWER CHOSEN

A broker-dealer's website can include graphs and charts if they're used to explain factual information. Broker-dealer advertising (e.g., a website) is not permitted to predict or project performance, guarantee against a loss, imply that past performance will recur, or make any exaggerated or unwarranted claims, opinions or forecasts. (13785)

✓ 38 of 65

QID: 1505977
☆Mark For Review

A client experiences depreciation in the value of a security that was recommended by her agent. If the agent refunds the commission to the client, what's the violation?

- A Selling away
- B Lending money to a customer
- C Churning
- ✓ Sharing in a loss

CORRECT ANSWER CHOSEN

All of the four choices represent unethical business practices of agents. Refunding commissions can be considered sharing directly or indirectly in the profits or losses in the account of any customer. This type of sharing is only permitted with the written authorization of the customer and the broker-dealer that the agent represents. Selling away is a violation which involves an agent of a broker-dealer effecting transactions in securities and not recording them on the books of his broker-dealer. Churning is defined as inducing trading in a customer's account which is excessive in size or frequency in view of the financial resources and character of the account. (13787)

✓ 39 of 65

QID: 1505974
☆Mark For Review

An agent for a broker-dealer is registered in State A. The agent has a prospective client who lives in State B and wants to open an account, but neither the agent nor the broker-dealer is registered in State B. The agent suggests that the client use her parents' address to open the account since they reside in State A and she is currently visiting them. May the broker-dealer open the account?

- A Only if the client has given her parents written discretionary authority over the account
- B Yes, since the client has previously lived in State A
- C Only if the client signs a waiver
- ✓ Under no circumstances

CORRECT ANSWER CHOSEN

The agent will be violating the registration provisions of the Uniform Securities Act if she opens the account. She will also knowingly create a false account record, which will violate both state and federal securities laws. Although the client is currently visiting in State A, she resides in State B. Both the broker-dealer and the agent must be registered in the state where the client resides. (89634)



40 of 65

QID: 1506028

[★Mark For Review](#)

Company A will be issuing securities and it hires Company B to assist in selling its securities. Since Company B's employees will be receiving commissions, the employees of Company B are:

- ☒ An agent of an issuer
- ☐ An agent of a broker-dealer
- ☐ An investment adviser representative
- ☐ A broker-dealer

INCORRECT ANSWER CHOSEN

An issuer of securities may decide to market them directly to the public in a state and therefore not use a broker-dealer to distribute its securities to the public. The issuer can either use its own employees or hire a third party for the purpose of soliciting buyers. These individuals may be considered agents of the issuer, rather than agents of a broker-dealer. If the securities being issued are exempt or the transactions are exempt, then the individuals would not be defined as agents of an issuer. (13784)



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QID: 1505994

[★Mark For Review](#)

A client purchases 200 shares of XAM stock and pays his broker-dealer the required sum of money. The client requests the securities be shipped directly to his home. Which of the following statements is TRUE regarding this transaction?

- ☐ A client may not request the securities be delivered to his home
- ☒ The broker-dealer should honor the client's request
- ☐ The broker-dealer may delay the delivery of securities to the client's home for a period of one month
- ☐ The broker-dealer may charge the client twice the normal commission rate on this type of transaction

CORRECT ANSWER CHOSEN

A client is allowed to purchase securities and request that they be shipped to his home for safekeeping. It is considered an unethical business practice for a broker-dealer to engage in a pattern of unreasonable and unjustifiable delays in delivering securities purchased by clients. (75645)



42 of 65

QID: 1505999

[★Mark For Review](#)

The Administrator in State A is investigating potentially fraudulent activities by a broker-dealer that's registered in every state. The Administrator in State A wants to inspect records of the broker-dealer in State B. Which of the following statements regarding the inspection by the Administrator of State A is TRUE?

- ☐ A It may issue a subpoena, but only for records of clients who reside in State A.
- ☒ B It must coordinate its investigation with the Administrator of State B.
- ☐ C It may issue a subpoena, but only for records of transactions that are made by agents who are registered in State A.
- ☒ D It may independently subpoena all records

INCORRECT ANSWER CHOSEN

Administrators have inspectorial powers which allow them to subpoena records and witnesses from both inside and outside their state. Although they often do, Administrators are not required to coordinate or notify another state's Administrator when they subpoena records.

(10935)



43 of 65

QID: 1506011

[★Mark For Review](#)

Under the Uniform Securities Act, what's included in the damages from a misstatement or omissions of a material fact?

- I. Interest
- II. Court costs
- III. Treble damages
- IV. Attorney's fees

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

CORRECT ANSWER CHOSEN

Under the Uniform Securities Act, civil damages include court costs, attorney's fees, and a reasonable rate of interest. Treble damages are the civil penalties that may be imposed under federal law for trading on inside information.

(10933)

✓ 44 of 65

QID: 1506006

★ Mark For Review

Investment advisers (IAs) may accept discretionary orders:

- A Only after they have received signed power of attorney
- ✓ For up to 10 days before receiving signed power of attorney
- C Only if they're affiliated with a broker-dealer
- D Only if assets are being held at the investment adviser

CORRECT ANSWER CHOSEN

Investment advisers may accept and execute discretionary orders for up to 10 days before obtaining written and signed powers of attorney. On the other hand, broker-dealers cannot accept discretionary orders until they've received written and signed powers of attorney from their customers.

(19919)

✗ 45 of 65

QID: 1506023

★ Mark For Review

Which TWO of the following reasons would allow the Administrator to deny an agent's registration?

- I. The applicant has been convicted of a misdemeanor within the past 10 years
- II. The applicant neglected to disclose a bankruptcy filing six years prior
- III. The applicant has a history of losing arbitration cases with public customers in the previous two years
- IV. The applicant failed to disclose he was formerly employed at another broker-dealer in the last four years

A I and III

✗ I and IV

C II and III

✓ II and IV

INCORRECT ANSWER CHOSEN

Failure to disclose bankruptcy filings or employment history of the past 10 years would constitute grounds for the Administrator to deny registration to an agent. These are material facts about an agent. Remember, all material facts must be disclosed under the USA. A misdemeanor conviction is not grounds for denial, provided it is not securities-related. Since this choice does not mention securities-related, you must assume it is not. Arbitration case losses may be cause for concern, but they are not grounds for denial. (89643)

✖ 46 of 65

QID: 1506004
★ Mark For Review

Under the Uniform Securities Act, which of the following issuers must file a registration statement with the state Administrator?

- I. Corporations with stock listed on the Toronto Stock Exchange
- II. Federal Savings and Loan Associations
- III. Federal credit unions
- IV. For-profit corporations

✖ I and IV only

B II and III only

C I, II, and III only

✓ IV only

INCORRECT ANSWER CHOSEN

Choices (II) and (III) are exempt issuers and would not be required to file a registration statement. Nonexempt securities would be subject to this rule. Stock listed on most foreign exchanges must be registered, but there is an exemption for stock listed on the Toronto Stock Exchange, choice (I), and TSX Venture Exchange. Stock issued by for-profit companies would need to be registered. (75606)

✓ 47 of 65

QID: 1505985
★ Mark For Review

When describing the role of the Securities Investor Protection Corporation (SIPC), what can an agent tell a customer?

A It will cover all losses of principal.

✓ It covers losses incurred from the insolvency of a broker-dealer.

C It protects customers from fraudulent activities of a broker-dealer or its personnel.

D It will guarantee the investment income promised in an investment's prospectus.

CORRECT ANSWER CHOSEN

SIPC only insures a customer's brokerage account against bankruptcy of the broker-dealer. Fraud is covered by a surety bond and there's nothing that can be offered to prevent all losses of principal.

(10912)

✓ 48 of 65

QID: 1506009
☆Mark For Review

A broker-dealer is located and registered in Canada. Which of the following individuals may it contact in the United States?

- A A prospective client who lives in Canada, but is currently on vacation in Alaska.
- B A prospective client who is on an extended road trip in the United States.
- ✓ An existing client who is temporarily living in the United States.
- D A U.S. citizen who is considering whether to relocate to Canada.

CORRECT ANSWER CHOSEN

According to the Uniform Securities Act, unless it is properly registered in the U.S., a Canadian broker-dealer cannot solicit prospective clients in the United States. The broker-dealer may continue to do business with its existing clients who are in the United States temporarily.

In order to continue to service its existing clients, a broker-dealer that is properly registered in Canada and does not have an office in the U.S. may take advantage of the exemption (limited registration provision) available to Canadian broker-dealers under the Uniform Securities Act. In order to do so, a Canadian broker-dealer must file the following documents with the Administrator: 1) a Consent to Service of Process, 2) a registration document filed with its Canadian regulator, and 3) proof of membership in a self-regulatory organization (e.g., an exchange). (32337)

✓ 49 of 65

QID: 1505987
☆Mark For Review

Under the Uniform Securities Act, a person's registration may be revoked or denied for which of the following reasons?

- I. The person was convicted of a non-securities-related misdemeanor three years ago
- II. The person was convicted of a drug-related felony seven years ago
- III. There is mounting evidence that the individual is involved in a securities-related fraud
- IV. The person was convicted of a securities-related misdemeanor six years ago

- A I and IV only
- ✓ II and IV only
- C II and III only
- D I, II, and IV only

CORRECT ANSWER CHOSEN

Under the Uniform Securities Act, the Administrator may deny, revoke, cancel, or withdraw the registration of any person if he has been convicted within the past 10 years of any felony or any misdemeanor involving a security. The Administrator may not take any action if a person has been accused or indicted, but has not been convicted. (75506)



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QID: 1506014

[★Mark For Review](#)

Which of the following choices would be considered an investment adviser?

- ☐ A A banker recommending certificates of deposit to her retail clients
- ☐ B A lawyer who offers advice on estate planning
- ☐ C An engineer who provides advice for a municipality regarding feasibility studies
- ☒ D A teacher who works part-time as a financial planner

CORRECT ANSWER CHOSEN

Any person engaged in the business of advising others as to the value of securities, for compensation, would be considered an investment adviser and generally would be required to be registered. In this case, the teacher works part-time. The implication of someone working is that he is being compensated for his activities. The other choices are excluded from the definition of an investment adviser. (89558)



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QID: 1505975

[★Mark For Review](#)

Under the Uniform Securities Act, a state Administrator may NOT deny, suspend, or revoke any registration, or bar or censure a person if the applicant was:

- ☐ A Convicted of a felony within the past 10 years
- ☒ B Convicted of a misdemeanor eight years ago
- ☐ C Prohibited by a court from engaging in the securities business
- ☒ D Subject to a suspension order of a stock exchange

INCORRECT ANSWER CHOSEN

An Administrator may deny, suspend, revoke, bar, or censure a person for a securities misdemeanor within the last 10 years, not just any misdemeanor. All of the other reasons given are valid. (75492)



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QID: 1506031

[★Mark For Review](#)

At retirement, a client wants to invest a rollover from a 401(k) account into an IRA. Which of the following investments is the most suitable recommendation?

☐ A A large-cap stock fund

☒ B A balanced fund

☐ C Treasury bonds

☒ D An annuity

INCORRECT ANSWER CHOSEN

A person who has just retired is presumably seeking income. However, it may be advisable to invest at least a portion of her assets in growth-oriented investments since she may be retired for 20 to 30 years. Of the choices given, a balanced fund, which invests in both stocks and bonds, is the best answer. A balanced fund provides the investor with both income and capital appreciation because it invests in both stocks (appreciation) and debt securities (income). On the other hand, a large-cap stock fund will provide capital appreciation, but probably little income and too much risk. Treasury bonds provide safety and income, but little appreciation. An annuity will probably have a surrender period and high expenses. Additionally, since the annuity provides tax-deferred income, buying an annuity in an IRA or other tax-deferred account would be counter-productive. (32373)



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QID: 1505970

[★Mark For Review](#)

One of your clients has shown great interest in a security you recommended as a suitable investment, but decided to wait awhile and watch it. You notice that the price of this security is rapidly moving up, so you try to call your client but are unable to reach him. You, as an agent, may:

☒ A Do nothing

☐ B Enter the order for execution and tell the client about it later

☐ C Enter the order for execution in the firm's account and then transfer it to the client's account later

☐ D Enter the order for execution and, when contacting the client, tell him he can cancel it if he doesn't want it

CORRECT ANSWER CHOSEN

Unless the client has given the agent written discretionary authority, the agent is not permitted to execute a transaction without contacting the client, regardless of the circumstances. (75707)



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QID: 1506032

[★Mark For Review](#)

An order ticket must include all of the following information, EXCEPT:

- A The account for which the order was entered
- B The price and time at which it was executed
- C The time of entry
- ☒ Authorization of a registered principal

CORRECT ANSWER CHOSEN

An order ticket must include the client's account number, the time and price at which the order was executed (to the extent feasible), and the time the order was entered. A registered principal is not required to approve all orders before they are executed but is required to review all orders afterward. (75561)



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QID: 1506018

[★Mark For Review](#)

An agent's recommendations have made a client a lot of money over the last two years. The client is so pleased that he tells the agent that she can keep 5% of any gains in his account from now on. Which of the following statements is TRUE?

- ☒ This is acceptable as long as the broker-dealer and the client agree in writing
- B This is acceptable if the broker-dealer is also registered as an investment adviser
- C This is not acceptable unless the agent is also registered as an IAR
- ☒ This is not acceptable since it is considered to be sharing in the client's profits

INCORRECT ANSWER CHOSEN

Sharing in the profits and/or losses in a client's account is generally not permitted. However, there's an exception if the client and the agent have a joint account, the client and the broker-dealer consent to the arrangement in writing, and the profits and losses are shared in proportion to the capital that each person contributed to the account. Having the broker-dealer's written agreement alone is insufficient. Under certain circumstances, an investment adviser may charge a performance fee, but the clients must be qualified. To be qualified, the client must have either \$1.1 million managed by the IA or a net worth of \$2.2 million.

(19860)



56 of 65

QID: 1506021
★Mark For Review

An agent, who is registered in State A, receives a call from a prospective client in State B. The client wants to place an order to buy some stock, but the agent is not registered in State B. The prospective client's mother, however, lives in State A. The agent should:

- A Use the mother's address on the client's account
- B Tell the client to have his mother place the order on his behalf
- C Obtain a written representation from the client that the order was unsolicited
- ☒ D Refuse the order

CORRECT ANSWER CHOSEN

In order to sell a security in a state, the broker-dealer and the agent, usually, must be registered in that state. (75591)



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QID: 1505979
★Mark For Review

An agent can split commissions with:

- A An agent from a different broker-dealer who has provided services to the customer
- B No other person
- ☒ C Another agent from her broker-dealer who has not provided services to the customer
- D An unregistered employee of her broker-dealer

CORRECT ANSWER CHOSEN

Agents of a broker-dealer can split commissions with other agents of the same broker-dealer; however, both agents must be registered in the state in which the customer resides. Unregistered employees cannot receive commissions resulting from brokerage trades under any circumstances.

(13802)



58 of 65

QID: 1505981

[★Mark For Review](#)

If the Administrator has summarily suspended an agent's registration, within how many days of the agent's written request must a hearing be scheduled?

- | | |
|------------------------------------|--------------|
| <input type="radio"/> A | Immediately |
| <input type="radio"/> B | Three days |
| <input type="radio"/> C | Ten days |
| <input checked="" type="radio"/> D | Fifteen days |

CORRECT ANSWER CHOSEN

The Administrator may suspend or postpone an agent's registration. Upon entering the order, the Administrator will notify the registrant as well as that person's employer (or potential employer) of the order. The Administrator will also send notification that the person has a right to a hearing within fifteen days of a written request. (75523)



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QID: 1506001

[★Mark For Review](#)

Avery is an agent who has sold Company Q stock short. Hoping to lower the price of Q, he later Tweets a message stating that the Food and Drug Administration is about to revoke its approval of one of Company Q's most important products. He has no basis for this statement. None of his followers act on the information and the price of the stock rises. Avery closes out his short position at a loss. According to the Uniform Securities Act, which of the following statements is TRUE?

- | | |
|------------------------------------|---|
| <input type="radio"/> A | This is not fraudulent because the stock price increased |
| <input type="radio"/> B | This is not fraudulent because Tweets are considered oral communication |
| <input checked="" type="radio"/> C | This is fraudulent because Avery floated a rumor in an attempt to manipulate the price of the stock |
| <input type="radio"/> D | This is fraudulent only if the price decreased |

CORRECT ANSWER CHOSEN

Any attempt to manipulate the price of a security is fraudulent no matter who does it. This applies to all persons, not just to securities professionals. Stating an opinion about a stock's price when the person has a reasonable basis for the opinion is perfectly acceptable. However, deliberately spreading rumors or making false statements constitutes fraud. All social media communications are considered written communication. (89582)



60 of 65

QID: 1506000

[☆ Mark For Review](#)

Steve Taylor, a client of ABC Brokerage, is told by his agent that the price of a security he owns is higher than it actually is. The client sells the security based on this information and incurs a loss. Under the Uniform Securities Act, which of the following statements is TRUE?



The agent is subject to action taken by the Administrator, as well as civil and criminal action

B

The agent can remedy this by adjusting the price on the client's next transaction

C

The agent's firm should remedy the loss by making up the difference

D

The loss is covered under the agent's Broker's Blanket Bond insurance policy

CORRECT ANSWER CHOSEN

It is a fraudulent and prohibited practice to give inaccurate quotes to customers. Persons doing so would be subject to action taken by the Administrator, as well as civil and criminal actions. (75714)



61 of 65

QID: 1505992

[☆Mark For Review](#)

According to the Uniform Securities Act of 1956, under which of the following circumstances is a registration statement NOT required to be filed for a promissory note?

- A It's issued in maximum denominations of \$50,000.
- ☒ B It's secured by common or preferred stock of the issuer.
- ☒ C It's payable in cash no more than nine months after its issuance.
- D It must have received the highest credit rating that's assigned by a nationally recognized statistical rating organization (NRSRO).

INCORRECT ANSWER CHOSEN

Promissory notes (e.g., commercial paper) are loans, just like bonds. These debt securities are exempt if they have nine months or less to maturity, they're issued in minimum denominations of \$50,000, and they're rated in one of the three highest rating categories from a nationally recognized statistical rating organizations (NRSRO). Notice that \$50,000 is the minimum denomination, not the maximum denomination. Any of the three highest ratings is sufficient; it doesn't need to necessarily be the highest. To be exempt from registration, there's no requirement for promissory notes to be secured. In fact, most are unsecured.

(10901)



62 of 65

QID: 1505983

[☆Mark For Review](#)

A brokerage firm that operates on the premises of a bank must do all of the following, EXCEPT:

- A Locate its activities in a separate area if possible
- B Conspicuously display its name in the area where it conducts business
- C Make sure its services are easily distinguished from the services provided by the bank
- ☒ D Disclose that it is a member of both FINRA and the FDIC

CORRECT ANSWER CHOSEN

A brokerage firm would be a member of FINRA, but not the FDIC. The firm must do all of the things listed in the other choices. (75652)

✖ 63 of 65

QID: 1506005

★Mark For Review

Under the Uniform Securities Act, the statute of limitations for criminal violations of the Act is:

- A One year
- ✖ Three years
- ✓ Five years
- D There is no time limit for criminal violations

INCORRECT ANSWER CHOSEN

The statute of limitations for criminal violations under the Act is five years. (75687)

✓ 64 of 65

QID: 1505976

★Mark For Review

An agent conducts a public sales seminar regarding investing in U.S. Treasuries Funds. Which of the following statements would be prohibited under NASAA's Statement of Policy on Dishonest and Unethical Business Practices of Broker-Dealers and Agents?

- A The issuer has registered these securities with the SEC
- ✓ Everyone should own Treasuries
- C This is a great opportunity for long-term investors
- D Please take a prospectus on your way out

CORRECT ANSWER CHOSEN

Any blanket statement that everyone should own a specific security violates the prohibition against making unsuitable recommendations to investors. There are very few securities that are suitable for all investors. Also, this is a public seminar and there is no indication that the agent has asked the prospective investors anything about their financial situation or objectives. How does he know that this security is appropriate for anyone who might walk in? (89594)



65 of 65

QID: 1505986

★ Mark For Review

An investment adviser has created promotional material that will be sent to five institutional clients. The material promotes a stock that's about to be listed on the Philadelphia Stock Exchange. Under the Uniform Securities Act, does the adviser's promotional material need to be filed with the state Administrator?

- | | |
|----------------------------------|---|
| <input type="radio"/> | A Yes, because the advertisement is being sent to more than five investors. |
| <input checked="" type="radio"/> | B Yes, because advisers must always file promotional material. |
| <input type="radio"/> | C No, because the advertisement is not being disseminated publicly. |
| <input checked="" type="radio"/> | D No, because the security in the advertisement is exempt from registration under the Uniform Securities Act. |

INCORRECT ANSWER CHOSEN

The Uniform Securities Act provides an exemption for filing advertisements related to securities that are either currently listed on an exchange or are approved to be listed on an exchange. Since the stock in this question is about to be listed on the Philadelphia Stock Exchange, the advertisement is not required to be filed with an Administrator.

(13801)