Issued Stock vs. Outstanding Stock: Key Differences

Category	Issued Stock	Outstanding Stock
Definition	Total number of shares a company has ever sold (includes both outstanding shares and treasury stock).	Total number of shares held by investors (excludes treasury stock).
Includes Treasury Stock?	**Yes**, includes both shares held by investors and repurchased shares (treasury stock).	**No**, excludes treasury stock since those shares are held by the company itself.
Held by Investors?	**Not necessarily**—some issued shares may be repurchased by the company and held as treasury stock.	**Yes**, outstanding stock consists only of shares that are currently in the hands of investors.
Used to Calculate EPS?	**No**, issued stock is not used for EPS calculations.	**Yes**, outstanding stock is used in EPS (Earnings Per Share) calculations.
Can Change Over Time?	Yes, if the company issues new shares or buys back shares.	Yes, when companies issue new shares or repurchase shares.

Formula Relationship

Issued Stock = Outstanding Stock + Treasury Stock

Example

- A company initially issues **1,000,000 shares**.
- Over time, it **buys back 200,000 shares**, which become **treasury stock**.
- The **outstanding shares** now equal **800,000**.

Thus:

1,000,000 (Issued Stock) = 800,000 (Outstanding Stock) + 200,000 (Treasury Stock)

Statutory Voting vs. Cumulative Voting

Feature	Statutory Voting	Cumulative Voting
Definition	A shareholder must vote the same number of shares for each board seat available.	A shareholder can allocate their total votes freely among one or more candidates.
Formula for Total Votes	**Shares Owned × Number of Seats Available**	**Shares Owned × Number of Seats Available** (same as statutory voting)

Feature	Statutory Voting	Cumulative Voting
Voting Flexibility	**Less flexible**—votes must be split evenly across all candidates.	**More flexible**—votes can be concentrated on one or a few candidates.
Effect on Minority Shareholders	**Less favorable**—majority shareholders have stronger control over the board.	**More favorable**—allows minority shareholders to increase their influence by pooling votes on specific candidates.
Common Use Case	More common in **large corporations** where majority shareholders prefer control.	Often used in companies where **protecting minority shareholders** is a priority.
Example	If a shareholder owns **1,000 shares** and there are **3 board seats**, they can cast **1,000 votes per seat**.	If a shareholder owns **1,000 shares** and there are **3 board seats**, they have **3,000 total votes** and can distribute them as they wish (e.g., all 3,000 votes to one candidate).

Key Takeaways

- **Statutory voting** benefits **majority shareholders**, ensuring their preferred candidates win.
- **Cumulative voting** benefits **minority shareholders**, giving them a chance to elect at least one board member.

Board Elections: Typical Frequency, Board Size, and Candidate Contests

The **number of candidates per board seat**, the **frequency of elections**, and **board size** vary depending on company size and governance practices.

1. Board Elections Frequency

- **Most common: Annual elections** (though some companies have staggered terms).
- **Staggered (Classified) Boards:** Some companies elect **one-third of the board** every year to prevent hostile takeovers.

2. Board Size & Number of Candidates per Seat (Large Cap vs. Mid-Market vs. Small Cap)

Company Size	Typical Board Size	Number of Candidates per Seat	Election Frequency
Large-Cap (S&P 500 firms)	9 - 15 directors	Usually 1-2 per seat (often unopposed)	Annual or staggered (every 3 years for a third of the board)
Mid-Market ($500M - $5B valuation)	7 - 11 directors	Usually 1-3 per seat (depends on activist investors)	Annual or staggered

Company Size	Typical Board Size	Number of Candidates per Seat	Election Frequency
Small-Cap (< $500M valuation)	5 - 9 directors	1-5 per seat (sometimes competitive, especially in contested elections)	Annual

3. Candidate Contests: How Many People Run for a Seat?

- **Most common: 1 candidate per seat** (the board nominates a candidate who is usually elected uncontested).
- **In contested elections: 2-5 candidates per seat**, especially when activist investors push for board changes.
- **Hostile Takeover/Proxy Fight:** Can have **multiple candidates per seat** (e.g., **activist hedge funds** nominate their own directors to challenge management).

4. Real-World Examples

Large-Cap Example: Apple Inc. (AAPL)

- **Board size:** 8-12 members.
- **Election frequency: Annual elections**.
- **Candidates per seat:** Typically **one nominee per seat** (low competition).
- **Voting type:** Statutory voting.

Mid-Market Example: Dick's Sporting Goods (DKS)

- **Board size:** 7-10 members.
- **Election frequency: Annual or staggered**.
- **Candidates per seat:** Usually **1-2 per seat**, but can increase in activist-driven cases.

Small-Cap Example: A Startup-turned-Public Company (e.g., Etsy in its early public years)

- **Board size:** 5-9 members.
- **Election frequency:** Annual.
- **Candidates per seat:** 1-5 (more competition, more influence from activist investors).

5. Key Takeaways

1. **Larger companies tend to have fewer candidates per seat** (management's nominees are rarely challenged).
2. **Smaller companies are more likely to see contested board elections.**
3. **Board size decreases as company size decreases**, with small-cap companies having **5-9 directors** and large-cap companies having **9-15 directors**.
4. **Elections are usually annual**, but staggered boards spread elections over three years.

Major Regulations for the SIE Exam

Regulation	Description	Regulatory Authority
Regulation T (Reg T)	Sets initial margin requirements (typically 50%) for buying securities on credit. Also governs the use of credit in margin accounts.	**Federal Reserve Board**
Regulation U (Reg U)	Governs how banks can extend credit for the purchase of margin securities.	**Federal Reserve Board**
Regulation X (Reg X)	Requires borrowers (customers) to comply with Reg T and U if they obtain credit from foreign lenders to buy securities.	**Federal Reserve Board**
Regulation D (Reg D)	Provides exemptions from SEC registration for private placements of securities under specific conditions (e.g., Rule 506).	**SEC**
Regulation A (Reg A)	Allows small and mid-sized companies to raise capital with limited SEC registration (Tier 1 and Tier 2 offerings).	**SEC**
Regulation M (Reg M)	Prohibits market manipulation during public offerings (e.g., underwriters cannot bid up prices during the restricted period).	**SEC**
Regulation FD (Reg FD)	Promotes full and fair disclosure by requiring public dissemination of material nonpublic information.	**SEC**
Regulation S-P (Reg S-P)	Requires firms to protect customers' personal financial information and provide privacy notices.	**SEC**
Regulation S-ID (Reg S-ID)	Requires broker-dealers and investment advisers to implement identity theft prevention programs ("Red Flag Rules").	**SEC**
Regulation SHO (Reg SHO)	Governs short selling and requires firms to locate securities before executing short sales.	**SEC**

Business Entity Comparison with Examples

Feature	C-Corporation (C-Corp)	S-Corporation (S-Corp)	Limited Partnership (LP)	Limited Liability Company (LLC)
Legal Entity	Separate from owners	Separate from owners	Separate entity	Separate from owners
Taxation	**Double taxation** (corporate + personal)	**Pass-through** to shareholders	**Pass-through** to partners	Usually **pass-through**, or elect corporate
Owners	Shareholders	≤ 100 U.S. shareholders	At least 1 general & 1+ limited partners	Members (no limit)

Feature	C-Corporation (C-Corp)	S-Corporation (S-Corp)	Limited Partnership (LP)	Limited Liability Company (LLC)
Liability Protection	Yes — for shareholders	Yes — for shareholders	Limited for limited partners only	Yes — for all members
Who Can Own	Anyone (including entities/foreigners)	Only U.S. individuals & certain trusts	Anyone	Anyone
Shares Transferable?	Yes	Restricted	Usually restricted	Often restricted
Management	Board of Directors & Officers	Board of Directors & Officers	General partner manages	Flexible: member or manager-managed
Raising Capital	Easiest — public & private funding	Limited by shareholder rules	Moderate — common in private placements	Moderate — depends on structure
Ideal For	Large companies, startups, IPOs	Small-to-mid-sized U.S. businesses	Private equity, real estate, hedge funds	Small-to-mid-sized businesses, real estate
Common Examples	Apple, Microsoft, JPMorgan Chase	Local law firms, medical practices	Blackstone Real Estate Income Trust (BREIT), Oil & Gas partnerships	Real estate investment LLCs, family businesses
Common Uses / Industries	Tech, banking, manufacturing	Professional services, small corporations	Investment funds, venture capital, real estate	Real estate, e-commerce, consulting, services

Key Takeaways

1. **C-Corporations (C-Corps)**
   C-Corps are ideal for **large companies or startups seeking significant investment** or planning to **go public (IPO)**.
   They offer **unlimited shareholders**, **easy transfer of shares**, and are **attractive to institutional investors** — but they come with **double taxation** (corporate and dividend level).
   Commonly used in tech, finance, and manufacturing industries due to their **growth needs** and access to capital markets.

2. **S-Corporations (S-Corps)**
   S-Corps are suitable for **small to mid-sized domestic businesses**, like **law firms, dental offices, or family businesses**, that want **pass-through taxation** while still enjoying **corporate liability protection**.
   They are limited to **100 U.S. individual shareholders** and cannot be owned by entities, which makes them **less flexible for expansion**.

3. **Limited Partnerships (LPs)**
   LPs are favored by **investment funds, real estate syndicates, and oil & gas ventures** because they allow **general partners to manage** and **limited partners to invest passively** with **limited liability**. This structure supports **raising capital without giving up control**, and provides **pass-through tax treatment**.

4. **Limited Liability Companies (LLCs)**
   LLCs are highly flexible and provide **limited liability with fewer formalities**.
   They are popular among **real estate investors, consultants, freelancers, and small business owners** who want **simple tax treatment and management structure**, and the ability to choose **how they're taxed**.

S-Corp vs. LLC – Key Distinctions and Why It Matters

Factor	S-Corporation (S-Corp)	Limited Liability Company (LLC)
Taxation	Default **pass-through**; profits/losses pass to shareholders, taxed on personal returns	**Default pass-through**, but can elect to be taxed as a **C-Corp or S-Corp** (flexible)
Self-Employment Taxes	**Owners can pay themselves a salary** and avoid self-employment tax on remaining profits	**All profits subject to self-employment tax** unless taxed as S-Corp
Ownership Restrictions	**≤ 100 U.S. individuals only**; no entities, non-resident aliens, or multiple classes of stock	**No restrictions** — members can be individuals, entities, foreigners; multiple ownership classes allowed
Formality Requirements	Requires **Board of Directors, corporate bylaws, shareholder meetings, minutes**	**Less formal** — no board or annual meetings required (unless state requires)
Profit Distribution	Must distribute profits **strictly based on ownership**	Can allocate profits **unevenly**, regardless of ownership %
Flexibility	Less flexible — designed to mirror a traditional corporation	Highly flexible — ideal for tailoring agreements among owners
Ideal For	Businesses that want **corporate structure with tax efficiency**, or plan to **draw salaries**	Businesses needing **flexibility in ownership, management, and profit sharing**

Choose an S-Corp if:

- You're a small U.S.-based business with **≤ 100 shareholders**.
- You want to **save on self-employment taxes** by paying yourself a reasonable salary.
- You're okay with **formal structure** and **equal profit sharing**.

Choose an LLC if:

- You want **maximum flexibility** in **ownership** and **profit allocation**.

- You have **foreign or entity owners** or multiple classes of ownership.
- You want **minimal corporate formalities** and **customizable agreements**.

SEP IRA vs. SIMPLE IRA

Feature	SEP IRA	SIMPLE IRA
Full Name	Simplified Employee Pension IRA	Savings Incentive Match Plan for Employees IRA
Who Can Establish	Employers (including self-employed)	Employers with ≤ 100 employees
Employee Contribution	Not allowed	Allowed (up to annual limit)
Employer Contribution	Required, **discretionary** (can vary each year)	Required, **non-discretionary** (match or fixed 2%)
Contribution Limits (2024)	Up to **25% of compensation** or $69,000 max	Employee: $16,000 Employer: match up to 3% or 2% fixed
Catch-Up Contribution (Age 50+)	Not allowed	Allowed – additional $3,500
Vesting	Immediate	Immediate
Plan Administration	Simple – little paperwork	Simple – minimal filing
Employee Eligibility	Must have earned $750+ in 3 of last 5 years	Earned $5,000 in any 2 preceding years and expects $5,000 this year
Withdrawals Before 59½	Tax + 10% penalty	Tax + 25% penalty if within 2 years of participation; 10% thereafter
Ideal For	Self-employed or small businesses with variable income	Small employers seeking a straightforward plan with employee contributions

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Business Conduct Rules:

MSRB Investor Brochure:

- Summarizes kep principles of the MSRB's customer protection rules and provides a link to the MSRB rulebook

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Customer Accounts:

Various Disclosure/Agreement Documents:

New Account Form:

- Script used in telemarketing is retail communication - Approval required by a principal before first use
- Obtain all necessary information from the customer prior to account opening (Patriot Act)
- Account has to be approved by a designated principal
- After, the account is opened a firm has 30 days to send the information back to the customer for verification

Margin Agreement:

When: Customers must sign and return to their brokers before they begin trading. **What:** Hypothecation Agreement, Credit Agreement, Loan Consent Form (Optional)

Margin Disclosure Agreement:

When: Prior or at the time of opening an account, and annually thereafter **What:** General Info and risks of a Margin Account

Options Agreement:

When: Must sign within 15 days of account approval **What:** It has positions limits/allowable options which a customer can take

Options Disclosure Document:

When: At or before a registered options principal approves the account **What:** It has been prepared by the OCC for general info/risks of Options

Discretionary Accounts:

- Principal must approve the account, and approve each discretionary trade promptly after execution

DVP vs RVP:

Delivery vs Payment: Pay money before or at the same time as securities are delivered **Receipt vs Payment: Pay money before** securities are delivered

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Titling Accounts:

- Individual Accounts
- Joint Accounts
- JTIC
- JTWROS
- Fiduciary Accounts
- Trust Account
  - Revocable: May be cancelled as the trustor pleases
  - Irrevocable: Can't be cancelled without the approval of the beneficiary
- Business Accounts:

- Corporate Account
- Partnership Account (Investment Clubs)

Customer Account Maintenance:

Account Statements:

- **Send Quarterly statements**, if there is:
    - Security Position
    - Money Balance
    - Any account activity since last statement
- **Send Monthly statement,** if there is:
    - **Active Account:** Purchases, sales, interest or dividends, or any funds flowing in or out of the account.
    - **Account has penny stocks or Options**

Trade Confirmations

- **When:** At or before settlement
- **What:** Apart from trade details:
    - Inform if the broker acted as a broker or a dealer
    - Any control relationship b/w securities issuer and the broker

Munis Confirmations:

- Inform Yield to Worst (lower of YTC or YTM)

Customer Mail:

- Broker can hold for 3 months, provided customer gives a written request
- More than 3 months, customer should give a proper reason: such as security/safety - convenience can't be a reason

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Customer Account Protection:

Reg S-P:

- **Privacy Notice:** Provided at account opening and annually thereafter
- Commingling of securities of broker and customer securities is not allowed

Protection of Vulnerable Investors:

- **Who is Vulnerable?**
    - Age 65>=

    - Age 18>= and have a mental/physical impairment that rendering them unable to protect their interests

- **How to Protect?**
    - Obtain name and contact of a trusted contact
    - Can place temporary hold on distribution of funds/securities if broker suspects exploitation
        - Initially for 15 days
        - Then can extend by 10 days if suspicion persists
        - Additional 30 days if the BD has reported the incident to regulator/agency/court

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