Question ID: 2698

1) Broker-dealer J is a passive market maker in RST Inc. As the result of executions today, its purchasing capacity currently sits at 50 shares. Broker-dealer J

- A) May display a bid size of 200 shares
- B) Must display a bid size of 50 shares
- C) May display a bid size of 100 shares
- D) Must withdraw from the market

Answer Explanation:
If a passive market maker's purchasing capacity at any time is less than one round lot (between one and 99 shares), it may still display a bid size of one round lot (100 shares).
Textbook Reference: Please see textbook section 6.3.3.2

Question ID: 26133

2) An IPO opens at $37.14 and then rises as high as $40.92 per share, before closing the first day of trading at $34.39. That night, after the market closes, an underwriter of the IPO decides to place a stabilizing bid, effective the next trading day. This bid must be

- A) no higher than $34.39.
- B) no higher than $40.92.
- C) no less than $37.14.
- D) no less than $37.14.

Answer Explanation:
If an underwriter initiates stabilization when the market is closed, the maximum bid is the prior closing price. The underwriter cannot stabilize at a price higher than the market is willing to pay. Remember that this rule creates a maximum, not a minimum, price.
Textbook Reference: Please see textbook section 6.3.4

Question ID: 2876

3) Which stocks are eligible for trading on the Alternative Display Facility (ADF)?

- A) All
- B) Penny stocks
- C) OTC-only
- D) NMS

Answer Explanation:
FINRA defines an ADF-eligible security as an NMS stock.
Textbook Reference: Please see textbook section 1.11

Question ID: 3119

4) The independent bids for a covered security are reduced to a price below the passive market maker's bid. Which of the following statements is correct?

- A) No additional purchases may be made, and the passive market maker must withdraw its quote from Nasdaq.
- B) The passive market maker may purchase up to 200 shares of the covered security and then must reduce its bid.
- C) The passive market maker may purchase the lesser of two times the minimum quote size for the security, or its remaining purchase limit.
- D) The passive market maker must promptly reduce its bid to match the highest independent bid now in place.

Answer Explanation:
Once the independent bids are reduced to a price below the passive market maker's bid, the firm may purchase the lesser of two times the minimum quote size for the security, or the remainder of the passive market maker's purchase limit.
Textbook Reference: Please see textbook section 6.3.3

Question ID: 2844

5) When may a Market Hours Good Til Cancel (MGTC) order be placed?

- A) From 4 a.m. to 4 p.m.
- B) From 4 a.m. to 8 p.m.
- C) Only during normal market hours
- D) From 9:30 a.m. to 8 p.m.

Answer Explanation:
MGTC orders may be entered from 4 a.m. to 8 p.m. EST. But they may only be executed during market hours from 9:30 a.m. until 4:00 p.m. EST. Any unfilled amount remains on the books (unless cancelled) for one year.
Textbook Reference: Please see textbook section 4.2.12

Question ID: 3265

6) When is a clearly erroneous trade decision final and binding on all parties?

- A) When FINRA's UPC Committee has ruled on an appeal
- B) When the SEC signs off on it
- C) When it is delivered by FINRA
- D) Only when it is decided by a U.S. Court of Appeals

Answer Explanation:
The UPC's Committee on a clearly erroneous appeal is final and binding on both parties.
Textbook Reference: Please see textbook section 3.7.3

Question ID: 1996

7) What is the earliest a client's Market Hours Good Til Close order can be executed?

- A) 4:00 a.m.
- B) 8:00 a.m.
- C) 9:30 a.m.
- D) At any time provided the price instructions are met

Answer Explanation:
GMTC orders may be entered from 4 a.m. to 8 p.m. EST and can be executed beginning at 9:30 a.m.
Textbook Reference: Please see textbook section 4.2.12

Question ID: 2117

8) To whom must an Extended Hours Trading Risk Disclosure Statement be given?

- A) All customers
- B) Any customer with a margin account
- C) Any customer who wishes to trade outside normal market hours
- D) All retail customers

Answer Explanation:
The disclosure is only required for customers who wish to trade in extended hours. However, firms may choose to routinely provide it to all customers at account-opening.
Textbook Reference: Please see textbook section 4.8

Question ID: 1932

9) A market maker seeking an excused withdrawal from Nasdaq for involuntary failure to maintain a clearing arrangement can expect the withdrawal to be granted for up to

- A) 1 day
- B) 3 days
- C) 5 days
- D) 60 days

Answer Explanation:
Excused withdrawal requests to Nasdaq MarketWatch for vacation or religious holiday are typically granted for five business days. Excused withdrawal requests for investment banking activities will vary in length. Excused withdrawal requests due to involuntary failure to maintain a clearing agreement are typically granted for 60 days. Excused withdrawal requests for a technical problem are typically granted for five days, but must be requested through Nasdaq Market Operations, not MarketWatch.
Textbook Reference: Please see textbook section 1.8.2

Question ID: 2648

10) XYZ common stock, an S&P 500 component, is currently trading 103-104 with a reference price of 100. At 2pm an order is entered to buy 300 shares at 105. Entry of this order will cause XYZ stock to enter a

- A) Limit state, and trading will be halted.
- B) Straddle state, during which trading can continue.
- C) Limit state, during which trading can continue.
- D) Straddle state, and trading will be halted.

Answer Explanation:
Under limit-up limit-down, an S&P 500 stock will enter a 15-second limit state when there is an offer at the LOWER end up the band (5% below the reference price) or a bid at the UPPER end of the band (5% above the reference price). If the limit state quote persists for 15 seconds, trading will be halted for five minutes. If the limit state quote is executed or cancelled the security will exit the limit state and trading will continue uninterrupted. If the bid and offer are on either side of the limit up or limit down range, the security is said to be in a straddle state, where the exchange will closely monitor trading to see if a halt is necessary.
Textbook Reference: Please see textbook section 3.5.2

Question ID: 3217

11) At 3:30pm the S&P 500 trades down to a 14% decline from yesterday's close. Which of the following is true under the circuit breaker rules?

- A) Trading in all equity securities will be halted for 5 minutes.
- B) Trading will continue.
- C) Trading in all equity securities will be halted for the rest of the day
- D) Trading in all equity securities will be halted for 15 minutes.

Answer Explanation:
Circuit breakers are based on declines in the S&P 500 from the previous day's close. A 7% decline (Level 1) will halt trading in all equity securities for 15 minutes. A 13% decline (Level 2) will halt trading in all equity securities for 15 minutes. Level 1 and 2 circuit breakers can happen once per day each. A 20% decline (Level 3) will halt all equity trading for the rest of the day. After 3:25pm the Level 1 and 2 circuit breakers are not in effect.
Textbook Reference: Please see textbook section 3.6

Question ID: 2709

12) An employee of a public accounting firm learns of significant information about another company through his employment. The employee makes a trade for his personal investment account based on this information. This is an example of

- A) trading along
- B) front running
- C) misappropriation
- D) misrepresentation

Answer Explanation:
Misappropriation occurs when persons steal information from their employer and trades on that information in any stock, not just their employer's stock. The misappropriation theory broadens the liability for misuse of inside information and is illegal.
Textbook Reference: Please see textbook section 7.9.1

Question ID: 3219

13) At 3:00 pm the S&P 500 trades down to an 8% decline from yesterday's close. Which of the following is true under the circuit breaker rules?

- A) Trading in Nasdaq securities which are also included in the S&P 500 will be halted for 15 minutes.
- B) Trading in all equity securities will be halted for 15 minutes.
- C) Trading will continue.
- D) Trading in all Nasdaq securities will be halted for 15 minutes.

Answer Explanation:
Circuit breakers are based on declines in the S&P 500 from the previous day's close. A 7% decline (Level 1) will halt trading in all equity securities for 15 minutes. A 13% decline (Level 2) will halt trading in all equity securities for 15 minutes. Level 1 and 2 circuit breakers can happen once per day each. A 20% decline (Level 3) will halt all equity trading for the rest of the day. After 3:25pm the Level 1 and 2 circuit breakers are not in effect.
Textbook Reference: Please see textbook section 3.6

Question ID: 15657

14) XYZ Securities executes trades for an institutional client that often enters very similar quotes on both sides of the market to buy and sell the same stock, at about the same time. The broker who handles this account refers it to her compliance department to investigate. What test should the compliance department use to determine whether XYZ should continue to display these quotes?

- A) Do the quotes usually move the market in a clear direction, to the detriment of other participants?
- B) Do the quotes accomplish an investment objective consistent with the client's profile?
- C) Are multiple independent traders placing quotes on behalf of the same client?
- D) Do the client's quotes reflect true, bona fide prices?

Answer Explanation:
With respect to displaying or circulating customer quotes, the member must believe they represent true, bona fide prices. If investors are colluding (even within the same account or company) by placing offsetting to manipulate prices or increase trading volume, the quotes probably aren't true and bona fide.
Textbook Reference: Please see textbook section 3.2

Question ID: 3216

15) XYZ common stock, an S&P 500 component, is currently trading 103-104 with a reference price of 100. At 2pm an order is entered to buy 300 shares at 108. Entry of this order will cause XYZ stock to enter a

- A) limit state
- B) straddle state
- C) circuit breaker
- D) trading halt since the bid breaches the limit up range

Answer Explanation:
When an order comes in that is aggressively priced outside the LULD band (i.e. bid above the upper end or offered below the lower band), Nasdaq will price slide the order to the band. In this case, the 108 bid would be priced down to 105, which is the upper end up the LULD range (100 + 5%). The stock would then enter a 15-second limit state.
Textbook Reference: Please see textbook section 3.5.2

Question ID: 34912

16) A common stock listed on the NYSE is paying a quarterly cash dividend of 25 cents per share. What adjustment will be made to resting buy limit orders on the ex-dividend date?

- ✓ A) The limit price will be reduced by 25 cents per share
- ○ B) It depends on instructions the stock issuer has provided to the transfer agent
- ○ C) The limit price will be increased by 25 cents per share
- ○ D) None, because only sell limit, not buy limit orders, are adjusted

Answer Explanation:
For cash dividends, orders entered at or below the market (buy limit and sell stop) are reduced by the amount of the dividend on the ex-dividend date. The customer who placed the order can override this adjustment with a do-not-reduce (DNR) instruction.
Textbook Reference: Please see textbook section 4.11.1

Question ID: 8655

17) Adjustments to options contracts for splits and dividends are made to option contracts by

- ✓ A) The OCC
- ✗ B) The CBOE
- ○ C) The issuer
- ○ D) FINRA

Answer Explanation:
When a corporate issuer determines that a contract adjustment such as a dividend or split is to be made, the OCC adjusts the option contracts to reflect the changes in value of the underlying stock and/or changes in the number of contracts.
Textbook Reference: Please see textbook section 8.8

Question ID: 1878

18) A Nasdaq listed option trades for $17.30 at a time when the last sale price is $16.00 and the theoretical price is $17.00 Under the Nasdaq obvious error rule, what will be the final price of the trade?

- ○ A) $17.80
- ✓ B) $17.30
- ✗ C) $16.80
- ○ D) $16.50

Answer Explanation:
Under the Nasdaq obvious error rule, Nasdaq will adjust a trade if it is a more than a defined amount away from the theoretical price. For options with a theoretical price between $10.01 and $20.00, the band is $0.80. Since this trade occurs inside the band, it is not an error, therefore the price will not be adjusted.
Textbook Reference: Please see textbook section 3.7.4

Question ID: 2137

19) There is no inside bid-ask quote for Issuer Q, a penny stock. When doing a trade in Q a market maker should disclose

- A) The bid-ask of a correspondent market maker
- B) The market maker's bid-ask
- C) An estimated bid-ask based on historical trends
- D) A bid-ask of a similar stock

Answer Explanation:
When there is no inside bid-ask for a penny stock, a market maker must disclose its own bid-ask quote, provided the MM has done three trades in that penny stock in the previous five days.
Textbook Reference: Please see textbook section 7.7.2

Question ID: 3090

20) Who has the responsibility for determining when a penny stock disclosure must be given to a customer?

- A) The SEC
- B) The issuer
- C) The broker-dealer
- D) FINRA

Answer Explanation:
It is each broker-dealer's responsibility to determine if a stock is a penny stock and deliver any and all required disclosures.
Textbook Reference: Please see textbook section 7.7.1

Question ID: 2922

21) What is the name of an exempted trade that allows a trading center to correct a trade so that a displayed price can be offered to customers when trades are reported at prices inferior to the display?

- A) Intermarket sweep
- B) Print protection trade
- C) Qualified trade
- D) Self-help

Answer Explanation:
A print protection trade is exempt from the Reg NMS Rule 611(a) trade-through rules, and allows broker-dealers to execute orders that were not executed because they are not at the top-of-book ("TOB") in the market in which they are displayed but are priced superior to TOB orders executed in other markets.
Textbook Reference: Please see textbook section 3.1.2

Question ID: 37935

22) In a call spread position, the dominant position is the option with the

- A) earlier expiration date.
- B) lower premium.
- C) lower strike price.
- D) higher strike price.

Answer Explanation:
In a call spread, the lower strike price is the dominant position and determines the investor's attitude - bullish or bearish.
Textbook Reference: Please see textbook section 8.1.1

Question ID: 2200

23) When an order is executed, what term means that the System reduces the remaining order display by the amount of shares executed?

- A) Devaluation
- B) Attrition
- C) Reallocation
- D) Decrementation

Answer Explanation:
Decrementation means that upon an execution, an order is reduced by the amount of the execution. Example: 500-share order; 200 shares executed; decrementation to 300 shares now displayed.
Textbook Reference: Please see textbook section 4.4.5

Question ID: 2832

24) How much time does a short-seller usually have to deliver shares of stock sold short, measured from the day of the transaction?

- A) 12 days
- B) Two days
- C) Three days
- D) One day

Answer Explanation:
The short-seller usually has the two-day settlement period (T+2) to locate and deliver equity shares sold short. The broker dealer, however, must have reasonable grounds to believe that the security could be borrowed so it could be delivered on the date delivery is due.
Textbook Reference: Please see textbook section 3.8

Question ID: 2101

25) Under the "merger exclusion," the safe harbor protection for issuer share repurchases is not available while a merger or acquisition is pending for which company?

- A) Acquiring company only
- B) Both the acquiring and target company
- C) Any companies directly or indirectly involved in the transaction
- D) Target company only

Answer Explanation:
The merger exclusion affects both the acquiring and target companies and their affiliates.
Textbook Reference: Please see textbook section 6.5.3

Question ID: 2535

26) In which case may securities transactions be settled ex-clearing?

- A) If FINRA gives prior approval
- B) If no clearing agent is currently available
- C) If both parties agree to the transaction
- D) If the trade is made on an agency basis

Answer Explanation:
Transactions may be settled ex-clearing if both parties agree. Ex-clearing is a manual trade comparison process that does not use electronic clearinghouse services.
Textbook Reference: Please see textbook section 4.10.1

Question ID: 2272

27) A "multi-day event" for clearly erroneous trades begins on Monday and ends on Wednesday. If FINRA decides to cancel all transactions during the event, when must it declare the event?

- A) By the start of trading on Thursday
- B) By the start of trading on Friday
- C) By the close of trading on Thursday
- D) By the close of trading on Wednesday

Answer Explanation:
A FINRA officer may cancel all transactions that occurred during the multi-day event by declaring such an event not later than the start of trading on the day following the last identified transaction.
Textbook Reference: Please see textbook section 3.7.1

Question ID: 34915

28) A customer owns 600 shares of stock originally purchased at $63 per share. The last trade in the stock was $85. What order would the customer place to protect their current appreciation in the stock?

- A) Sell limit order at or above $85
- B) Sell stop order at or above $85
- C) Sell limit order at or below $85
- D) Sell stop order at or below $85

Answer Explanation:
A sell stop order at or below the current market price would be used to protect the investor's position. With the sell stop, if the price hits $85 or below the order would be triggered and then become a market order to immediately sell the position in order to lock in the investor's profit.
Textbook Reference: Please see textbook section 4.2.6

Question ID: 3309

29) Gerald places an order to buy 1000 shares of an OTC equity from his market maker firm. The firm's current quote is $4.24 - $4.30 3 x 5, and executes Gerald's order upon receipt. Does the firm need to update its quote?

- A) Yes, because the order is greater than the de minimums exception.
- B) No, because the order was executed upon receipt.
- C) No, because the order is for a penny stock.
- D) Yes, because the order was priced equal or better than the firm's quote.

Answer Explanation:
The general rule requires firms display customer limit orders, but there are a variety of exceptions when an order does not need to be displayed. The rule excepts any customer limit order that is: executed upon receipt of the order; placed by a customer who expressly requests that the order not be displayed; an odd-lot order; a block size order; delivered immediately upon receipt to a national securities exchange or an ECN that widely disseminates such order; delivered immediately upon receipt to another OTC Market Maker that displays the order; or an all-or-none order. Because Gerald's order was executed upon receipt, the firm does not need to update its quote.
Textbook Reference: Please see textbook section 4.4

Question ID: 1884

30) Honest Broker Dealer underwrites an IPO with an offering price of $22.50. The day after the IPO, with the last sale at $22.10 and the current quote $22.08 bid $22.15 offer, Honest Broker Dealer decides to stabilize the offering. What is the highest price at which the firm can enter a stabilization bid?

- A) $22.08
- B) $22.10
- C) $22.15
- D) $22.50

Answer Explanation:
Under Regulation M Rule 104, when an underwriter stabilizes a new issue the stabilization bid must be entered at a specific price depending on the current bid, ask, and last independent transaction. If the current best asked price is greater than or equal to the last independent transaction price (i.e., last sale), stabilization can occur at that last independent transaction price. If the current best asked price is less than the last sale, stabilization can occur at the highest current independent bid. Here, the best asked price is $22.15, which is greater than the last sale of $22.10, therefore, a stabilizing bid may be entered at the last sale price of $22.10.
Textbook Reference: Please see textbook section 6.3.4

Question ID: 2850

31) What information is required to determine that a private firm is not a "covered nonpublic company," for purposes of the rule against spinning?

- A) Only income and assets
- B) Only shareholders' equity
- C) Only total assets and total revenue
- D) Income, shareholders' equity, total assets and total revenue

Answer Explanation:
To determine that a private company is not covered, all four items of information must be evaluated.
Textbook Reference: Please see textbook section 6.2.2

Question ID: 2161

32) In regard to a short-sale, what is an open-fail position?

- A) Any failure to deliver a stock on the Threshold List
- B) A serious violation of regulatory standards
- C) A failure to deliver that is more than 10 days old
- ✓ D) A failure to deliver that has not been closed-out

Answer Explanation:
Any fail that has not yet been closed out is an open-fail. Regulation SHO requires broker dealers to close-out any fail that exists in a threshold security for 13 consecutive settlement days.
Textbook Reference: Please see textbook section 3.8.4

Question ID: 1863

33) The NBBO on ABC, an S&P 500 stock, is 10.00 - 10.10. MDS is a market maker and wants to enter a new bid on the stock. What is the lowest bid MDS could enter?

- A) $1.00
- B) $7.00
- C) $7.20
- ✓ D) $9.20

Answer Explanation:
The Designated Percentage is the percentage that all new quotes can be away from the current National Best Bid Offer (NBBO). If there is no NBBO, the pricing obligation references the last reported sale. The Designated Percentage is 8% if the stock is in the S&P 500 or Russell 1000 (a Tier 1 stock); 28% if it is an NMS stock with a price greater than $1.00 and 30% for all other stocks. Here, the NBB is $10.00 and the stock is on the S&P 500 so the Designated Percentage is 8% below $10.00, or $9.20.
Textbook Reference: Please see textbook section 1.6.6

Question ID: 2095

34) For purposes of the short-sale circuit-breaker, an uptick is defined as a displayed price

- A) Equal to or above the best offer
- B) Above the best offer
- ✓ C) Above the best bid
- ✗ D) Equal to or above the best bid

Answer Explanation:
An uptick means that the displayed quote price increases from the current best bid. The best bid is always the reference point, and the transaction price must be at least one increment (usually 1 cent) above it.
Textbook Reference: Please see textbook section 3.8.2

Question ID: 2613

35) Under the Trade Acceptance method of processing, what happens if the contra party declines the trade?

- A) It is purged on the day following the trade date
- B) It is carried forward for one business day
- C) It will remain in the System, but will not be subject to the automatic lock-in process.
- D) It is purged on the trade date

Answer Explanation:
If the contra party reviews a Trade Acceptance report and declines the trade, the report will remain in the System, but will not be subject to the automatic lock-in process.
Textbook Reference: Please see textbook section 5.4.2

Question ID: 3256

36) For purposes of short-sale delivery requirements, what defines a threshold security?

- A) Very low volume
- B) Trading volatility
- C) Above-average failures to deliver
- D) Above-average number of shares shorted

Answer Explanation:
Threshold securities are equities with aggregate failure to deliver positions of: 10,000 shares or more and equal to at least 0.5% of the issuer's total shares outstanding for five consecutive settlement days.
Textbook Reference: Please see textbook section 3.8.4.4

Question ID: 15674

37) ABC Securities buys 200 shares of stock for a customer on an agency basis. The price of the transaction is $67.25 per share, including a commission of 50 cents per share. What price will be shown on the trade report?

- A) $67.25
- B) $66.75
- C) $67.75
- D) it depends on the customer's profile and preferences

Answer Explanation:
For agency trades, firms should report the number of shares traded and the trade price excluding any commissions charged. For buy trades, subtract the commission from the transaction price. For sell trades, add the commission to the transaction price.
Textbook Reference: Please see textbook section 5.2.8

Question ID: 2405

38) If investors buy shares of an IPO and then sell them right away to lock in a quick and easy profit, what activity are they engaging in?

- A) Churning
- B) Spinning
- C) Flipping ✓
- D) Sandbagging

Answer Explanation:
Flipping IPO shares is a lot like flipping houses. It's a quick in-and-out transaction designed to lock in a quick and easy profit. Flipping will increase selling pressure on the security immediately after an offering.
Textbook Reference: Please see textbook section 6.2.3

Question ID: 1920

39) If a listed equity has a Reference Price of $100 per share, what trade price will trigger a FINRA consideration of a clearly erroneous trade?

- A) $98.75
- B) $99.27
- C) $102.45
- D) $104.80 ✓

Answer Explanation:
The trade price must be 3% above or below the Reference Price. A trade at $104.80 is up 4.8% from the Reference Price and falls outside the percentage band. Any trade below $97 also would trigger a FINRA review.
Textbook Reference: Please see textbook section 3.7.1.1

Question ID: 8663

40) An investor has established a debit call spread. The investor will benefit if

- A) Both options expire
- B) The difference in premiums narrows
- C) The difference in premiums does not change
- D) The difference in premiums widens ✓

Answer Explanation:
Debit spreads are profitable if the difference between the premiums widens and both options are in the money at expiration. That is because an investor closing out a debit spread will receiving net premiums and wants to collect as much as possible.
Textbook Reference: Please see textbook section 8.1.1

Question ID: 2896

41) Which FINRA member is responsible for the complete and accurate submission of information into the Trade Reporting Facility?

- A) Contra Member
- B) Designated Member
- ✓ C) Reporting Member
- D) Primary Member

Answer Explanation:
Unless the contra side has an opportunity to provide its own trade information, the Reporting Member is responsible for complete and accurate submission of information for both sides of the trade.
Textbook Reference: Please see textbook section 5.2.1

Question ID: 1953

42) During which time of a trading day is speculation or manipulation likely to drive large swings in stock prices?

- A) 10 to 11 a.m.
- B) Around lunch time
- C) 3 to 4 p.m.
- ✓ D) 4 to 6 p.m.

Answer Explanation:
Prices can change dramatically right after the close of regular market hours, as after-market trading begins. Rapid price change can be driven by speculation or manipulation, especially if news is announced right after regular market hours.
Textbook Reference: Please see textbook section 4.8.3

Question ID: 2743

43) Broker-dealer B receives a customer order to buy 100 shares of ABC. BD B buys 100 shares of ABC from the market at $60 and then resells the shares to its customer at $60 plus commission. This is an example of what type of trade?

- ✓ A) Riskless Principal
- B) Risk Arbitrage
- C) VWAP
- ✗ D) Net Basis

Answer Explanation:
Trades effected in this manner are examples of riskless principal trades
Textbook Reference: Please see textbook section 1.3.1

Question ID: 37934

44) An investor creates a call spread by buying a September 45 call and selling a September 55 call. The underlying stock is trading at $46.15. In what scenario would this position profit?

- A) Falling stock price (bearish)
- B) Flat stock price
- C) Decline in stock price volatility
- ✓ D) Rising stock price (bullish)

Answer Explanation:
In a call spread position, the call option with the lower strike price is dominant and determines the investor's attitude (bullish or bearish). The September 45 call has the lower strike price and it is a buy, so the investor's attitude is bullish.
Textbook Reference: Please see textbook section 8.1.1

Question ID: 1894

45) Jane wishes to sell 100 shares of XYZ when it is trading at $35.00 per share. The broker dealer holding her account executes the trade at that price and takes a profit through a $0.30 mark-down. What price will be reported to the reporting facility?

- A) $34.70
- ✓ B) $35.00
- C) $35.30
- D) The trade is not reported because it is a principal trade

Answer Explanation:
When reporting principal transactions, any mark-up, mark-down, or commission is not included in the trade report. Therefore, the firm must submit the full $35.00 share price to the trade reporting facility, regardless of whatever fees it charges its clients. Note that Jane will receive only $34.70 in proceeds from the sale, because the firm charges 30 cents per share fee to execute.
Textbook Reference: Please see textbook section 5.2.8.2

Question ID: 2037

46) Following an IPO, at what point can a security trade away from an exchange?

- A) 10:00 a.m. the day after pricing the transaction
- B) 9:30 a.m. the day after pricing the transaction
- C) 3:30 p.m. the day after pricing the transaction
- ✓ D) Only after the stock has traded on an exchange

Answer Explanation:
Under FINRA rules, a new issue can trade away from an exchange once there has been an initial transaction on the exchange.
Textbook Reference: Please see textbook section 6.2.3

Question ID: 2797

47) If the best bid for an NMS stock is $54.11 per share, which of the following quotes would produce a locked quote?

- A) Bid $54.10
- B) Offer $54.11
- C) Offer $54.12
- D) Bid $54.11

Answer Explanation:
A locked quote is one that is equal to the best bid/offer on the opposite side. An offer to sell at $54.11 would lock a bid to buy at $54.11.
Textbook Reference: Please see textbook section 1.9

Question ID: 3127

48) To whom must market centers' monthly electronic reports on execution quality be made available?

- A) The SEC
- B) FINRA members
- C) FINRA compliance staff
- D) The public

Answer Explanation:
Monthly execution quality reports (Rule 605 reports) are designed to keep the investing public informed regarding execution quality. They must be broadly available through an Internet site.
Textbook Reference: Please see textbook section 7.2.1

Question ID: 3147

49) Market maker V has learned of the impending resignation of the CEO of Issuer Z. This information has not been publicly announced. Which of the following activities may MM V continue to engage in at this point with respect to Issuer Z?

- A) The solicitation of institutional customer orders
- B) Increase its current holdings
- C) Execute unsolicited customer short sales
- D) Hold discussions with members of the equity research team

Answer Explanation:
With material non-public information in hand, a market maker may accept and execute unsolicited customer orders. The other activities would be deemed violative conduct by the market maker.
Textbook Reference: Please see textbook section 7.9.2

Question ID: 2872

50) Channel Securities is a FINRA member OTC market maker that publishes quotes on OTC equities in its alternative trading system. The current quote on ABC is $2.50 - $2.80. What fees, if any, may Channel impose to access its published quotes on ABC?

- A) The access fee may not exceed 0.3% of the published quotation price on a per share basis
- B) The access fee may not exceed is $0.003 per share
- C) OTC market makers may not charge access fees
- D) The access fee will vary but must be fair and reasonable

Answer Explanation:
FINRA Rule 6450 provides that if a published quotation is priced equal to or greater than $1.00, the access fee cap is $0.003 per share. For published quotations priced under $1.00, the access fee cap for OTC Equity Securities is the lesser of: (i) 0.3% of the published quotation price on a per share basis, or (ii) 30% of the minimum pricing increment under Rule 6434 relevant to the display of the quotation on a per-share basis.
Textbook Reference: Please see textbook section 3.1

Question ID: 2104

51) What may a member do to have its dark pool transaction data included in FINRA's published volume?

- A) Affirmatively opt-in
- B) File required reports on time
- C) Meet trading volume thresholds
- D) Affirmatively opt-out

Answer Explanation:
A member's dark pool transaction data will not be included in published volume unless the member affirmatively opts-in.
Textbook Reference: Please see textbook section 5.6

Question ID: 2622

52) What happens to an open limit order for an OTC equity during a circuit-breaker trading halt?

- A) It is marked "suspended"
- B) It becomes a market order
- C) It must be cancelled
- D) It remains on the books

Answer Explanation:
Members must halt quoting and trading in all OTC equities during a market-wide halt. However, all orders remain on the books, unless cancelled by the customer.
Textbook Reference: Please see textbook section 3.6

Question ID: 15684

53) Leonard, a registered rep, is trying to help a client sell a block of stock. At 2:12 pm, the client instructs Leonard to use his best judgment and sell 1,200 shares today at the best price available. After consulting with his trading desk, Leonard writes a limit order ticket at 2:45. Before he can submit the ticket, the stock price rises, so he adjusts the limit price at 2:47. He transmits the order at 2:49 and it is executed at the limit price at 3:08. What should he list as the time of order entry on the order ticket, for books and records compliance?

- A) 2:12 PM
- B) 2:49 PM
- C) 2:45 PM
- D) 3:08 PM

Answer Explanation:
For books and records compliance, firms must maintain records of orders to buy or sell securities including the time the order was received (2:12 in this case) and the time of order entry (2:49). The time of order entry is when the firm transmits the order for execution.
Textbook Reference: Please see textbook section 7.8

Question ID: 2744

54) The electronic system through which Nasdaq measures and declares the unpaired shares is called

- A) Share Cross Automated System (SCAS)
- B) Electronic Trade Order System (ETOS)
- C) Net Order Imbalance Indicator (NOII)
- D) Trade Order Balance Processor (TOBP)

Answer Explanation:
The Net Order Imbalance Indicator (NOII) shows the Current Reference Price - the share price at which the maximum number of shares can be paired (balanced). The imbalance indicator is used during the opening and closing cross.
Textbook Reference: Please see textbook section 1.10.4

Question ID: 2246

55) An OTC market maker is currently quoting $43.20-$43.75 22 x 17. Which of the following customer limit orders would require the market maker to update its displayed quote?

- A) Buy 200 shares at $43.20
- B) Sell 100 shares at $43.75
- C) Sell 200 shares at $43.75
- D) Buy 100 shares at $43.20

Answer Explanation:
The limit order display rule requires that market makers update their displayed quotes if a customer places a limit order that is (1) equal to the market maker's quote, and (2) equal to the BBO on the inter-dealer quotation system, and (3) represents more than a de minimis change (>10% than the market maker's quote) in relation to the size associated with the OTC Market Maker's bid or offer. Here, only the customer's sell order for 200 represents more than a de minimis change requiring the firm to update its displayed quote.
Textbook Reference: Please see textbook section 4.4