

Question ID: 28173

- 1) If a market maker submits appropriate documentation of an involuntary termination of a clearing agreement, they will be granted an excused withdrawal of up to

- ☒ A) 60 days.
- ☐ B) five business days.
- ☐ C) twenty business days.
- ☐ D) 90 days.

Answer Explanation:

A market maker can seek an excused withdrawal for up to 60 days for legal or regulatory reasons such as an involuntary termination of a clearing agreement.

Textbook Reference: Please see textbook section 1.8.2

Question ID: 2208

- 2) A market maker in an OTC Equity Security is required to maintain a minimum quotation size

- ☐ A) Based on the average number of markets the firm maintains over the most recent 30 day period
- ☒ B) Based on the bid and offer price of the security
- ☐ C) That is inversely proportional to the net capital level maintained by the firm
- ☐ D) Based on the number of securities it is quoting as of the end of the month

Answer Explanation:

Minimum quotation sizes for OTC equity securities are based on the price of the security, on both the bid and offer side of the quotation

Textbook Reference: Please see textbook section 2.2.1

Question ID: 3109

- 3) To ensure best execution of a trade, which market must a FINRA member use for execution?

- ☐ A) The largest
- ☒ B) The best
- ☐ C) The most liquid
- ☐ D) The most accessible

Answer Explanation:

The market test of best execution is very subjective, requiring only that the member determine the best market for each customer order.

Textbook Reference: Please see textbook section 4.1

Question ID: 8665

- 4) An investor writes an XYZ Jan 70 call for 5 when XYZ is trading for 68. To establish a bear spread, the investor could

- ☒ A) Sell an XYZ Jan 70 put
- ☐ B) Buy an XYZ Jan 66 call
- ☒ C) Buy an XYZ Jan 76 call
- ☐ D) Sell an XYZ Jan 65 put

Answer Explanation:

A bear spread is an option spread strategy used when an investor is expecting the price of the underlying security to fall. A call bear spread is established for a net credit, which means the investor receives more premium (selling calls is bearish).

Textbook Reference: Please see textbook section 8.1.1

Question ID: 2888

- 5) Sales of which of the following need not comply with industry rules on borrowing and locating?

- ☒ A) Corporate bonds
- ☐ B) Common stock
- ☒ C) Stock futures
- ☐ D) Preferred stock

Answer Explanation:

Stock futures do not need to be borrowed or located before selling short.

Textbook Reference: Please see textbook section 3.8.1

Question ID: 3092

- 6) All of the following statements are true regarding securities that are quoted on the Pink Sheets EXCEPT

- ☒ A) The issuer is not subject to initial Pink Sheet listing requirements
- ☒ B) The minimum price of stock included in the Pink Sheets is \$1.00 per share
- ☐ C) Most of these securities trade relatively infrequently and have a high bid/ask spread
- ☐ D) The issuing companies are not required to file annual and quarterly reports with the SEC or other insurance or financial regulator

Answer Explanation:

Companies that trade on the Pink Sheets are not subject to initial listing requirements, and do not have to file financial reports with the SEC or other regulators. There is no minimum share price for Pink Sheet stocks. Pink Sheet stocks often trade infrequently and therefore have higher spreads between the bid and ask price.

Textbook Reference: Please see textbook section 2.3

Question ID: 1899

- 7) **AG Securities, a FINRA registered market maker, is displaying a quote in a Nasdaq listed security of 7-8 4x5. A customer of the firm contacts his registered rep and places a market sell order. What price will the customer receive?**

- ☒ A) \$4 per share
- ☐ B) \$5 per share
- ☒ C) \$7 per share
- ☐ D) \$8 per share

Answer Explanation:

The market maker's quote of 7-8 4x5 indicates that the firm is willing to buy 400 shares (4 round lots) at \$7.00. A customer's market sell order will execute against the best bid in the market place at that point in time.

Textbook Reference: Please see textbook section 1.6.2

Question ID: 2675

- 8) **Four conditions must be met to qualify for the safe harbor for issuer securities repurchases. They are**

- ☒ A) timing, price, quantity and depth
- ☐ B) manner, price, quantity and depth.
- ☒ C) manner, timing, price and volume.
- ☐ D) price, quantity, depth and volume

Answer Explanation:

Under Rule 10b-18, failure to meet any one of the four conditions disqualifies the share repurchases from the safe harbor. Note, an issuer may buyback shares outside the safe harbor but will be subject to heightened regulatory scrutiny.

Textbook Reference: Please see textbook section 6.5.3

Question ID: 2428

- 9) **The Manning Rule prohibits members from**

- ☒ A) Front-running institutional block transactions
- ☐ B) Wash trading
- ☐ C) Trading in undisclosed joint accounts
- ☒ D) Proprietary trading ahead of held customer limit orders

Answer Explanation:

The rule prohibits members from placing proprietary trades (for their own accounts) ahead of held customer limit orders.

Textbook Reference: Please see textbook section 4.5

Question ID: 15682

- 10) Kevin is the registered rep assigned to the Holidays joint brokerage account. While Kevin is on vacation, another rep, June, agrees to cover the Holidays' account for him. If the Holidays buys 200 shares of stock from June while Kevin is on vacation, whose name will go on the order ticket?

- ☒ A) only June's
☐ B) June's and the compliance officer's who authorized the trade
☒ C) both Kevin's and June's
☐ D) only Kevin's

Answer Explanation:

Books and records requirements mandate retention of all order tickets along with the name of the rep responsible for the account, the name of any other person who entered the order for the customer, whether the order was placed with discretion, and the time the order was received. Kevin is responsible for the account but June is responsible for the trade, so both names must be on the ticket.

Textbook Reference: Please see textbook section 7.8.1

Question ID: 1901

- 11) Zoe wishes to buy 100 shares of XYZ when it is trading at \$42.00 per share. The broker dealer holding her account executes the trade at that price and takes a profit through a \$1.10 mark-up. What price will be reported to the reporting facility?

- ☒ A) \$40.90
☒ B) \$42.00
☐ C) \$43.10
☐ 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.

Textbook Reference: Please see textbook section 5.2.8.2

Question ID: 2229

- 12) Market Maker AA is currently bidding 53.50 and asking 54.10 on XYZ stock with a corresponding size of 12 and 14 round lots respectively. Currently, the inside market on XYZ stock is 53.50-53.80, which a corresponding size of 12 and 8 round lots. Market Maker AA would be required to update its quote to reflect which of the following customer orders?

- ☒ A) Market Maker AA receives an order to buy 500 shares at \$53.40.
- ☐ B) Market Maker AA receives an order to buy 15,000 shares at \$53.51.
- ☐ C) Market Maker AA receives an order to sell 100 shares at \$54.10.
- ☒ D) Market Maker AA receives an order to buy 500 shares at \$53.50.

Answer Explanation:

Of these customer orders, the only one that requires an update is the order to buy 500 shares at \$53.50. This is because a market maker's quote must be adjusted when a customer's order will add size at the inside market. In this case, Market Maker AA's bid of \$53.50 is at the inside market. The order to buy at \$53.40 is at a worse price and thus does not require Market Maker AA to update. The order to sell 100 shares at \$54.10 does not require an update by Market Maker AA because it is not at the inside market. The order to buy 15,000 shares does improve upon Market Maker AA's price, but does not require an update because block trades are an exception to the rule.

Textbook Reference: Please see textbook section 4.4

Question ID: 3214

- 13) Which of the following practices is permissible under federal securities laws?

- ☒ A) Effecting a trade after material information about a company has been released
- ☐ B) Circulating unconfirmed information about a company that will cause an uptick in trading volume
- ☐ C) Trading with a goal towards achieving a specific closing price for a stock
- ☐ D) Trading among parties to create an appearance of heavy volume

Answer Explanation:

It is permissible to trade a stock after material information about the company has been publicly announced. The other activities are prohibited.

Textbook Reference: Please see textbook section 7.9.3

Question ID: 1910

- 14) The NBBO on BRT, an S&P 500 stock, is 10.00 - 10.10. MDX is a market maker and has an existing bid on the stock. What is the lowest possible value for MDX's bid?

- ☒ A) \$7.20
☒ B) \$9.05
☐ C) \$9.20
☐ D) \$10.00

Answer Explanation:

The Defined Limit is the percentage that existing quotes can deviate from the current National Best Bid Offer (NBBO). If there is no NBBO, the pricing obligation references the last reported sale. Firms must adjust any quotes that are more than the Defined Limit away from the NBBO. The Defined Limit is 9.5% if the stock is in the S&P 500 or Russell 1000 (a Tier 1 stock); 29.5% if it is another NMS stock with a price greater than \$1.00 and 31.5% for all other stocks. Here, the NBB is \$10.00, the stock is on the S&P 500, and the bid is already in the system, so the most it can be away from the NBB is the Defined Limit of 9.5%, or \$9.05.

Textbook Reference: Please see textbook section 1.6.7

Question ID: 28177

- 15) Which of the following statements regarding the Regulation M stabilization rules is not accurate?

- ☒ A) An underwriter can never stabilize above the public offering price.
☐ B) There can only be one stabilization bid at a time.
☒ C) An underwriter cannot initiate stabilization when the primary market is closed.
☐ D) An underwriter can stabilize an offering indefinitely.

Answer Explanation:

An underwriter can never stabilize above the public offering price. Additionally, only one underwriter can stabilize at a time and there is no time limit to how long an underwriter can stabilize for. An underwriter can initiate stabilization when the market is closed, in which case the maximum stabilization bid is the prior closing price of the security.

Textbook Reference: Please see textbook section 6.3.4

Question ID: 2540

16) Broker Ellen may accept a short sale order from her client Ed

- ☒ A) If she hopes that Ed will deliver the shares within a reasonable time period
- ☐ B) If the security appears on the Threshold Security List
- ☒ C) If she has reasonable grounds to believe that Ed has located the shares and will deliver them by settlement
- ☐ D) If Ed assures her that he will be speaking with another investor who will probably be able to loan the shares to Ed

Answer Explanation:

To avoid a violation of Regulation SHO, a broker must have reasonable grounds to believe that the securities to be sold short have been located by the selling client.

Textbook Reference: Please see textbook section 3.8.4

Question ID: 2662

17) According to Regulation SHO, sell orders may be marked in any of the following ways except

- ☒ A) Long exempt
- ☐ B) Short exempt
- ☐ C) Long
- ☐ D) Short

Answer Explanation:

Sell orders may be marked as Long, Short, or Short Exempt. There is no provision in the Rule for a long exempt sale.

Textbook Reference: Please see textbook section 3.8.1

Question ID: 1963

18) How many shares of stock are generally considered to be a block trade, for purposes of the prohibition on front-running block trades?

- ☒ A) 1000
- ☐ B) 5000
- ☒ C) 10000
- ☐ D) 25000

Answer Explanation:

A block trade is generally defined as 10,000 shares for this purpose. However, the threshold can be lower for some high-priced securities.

Textbook Reference: Please see textbook section 4.1

Question ID: 2890

19) Risk management controls for broker-dealers are designed to

- ☒ A) Prevent trading losses in international markets
- ☒ B) Prevent the entry of erroneous orders
- ☐ C) Ensure capital standards are implemented to protect customers
- ☐ D) Ensure supervisory and control procedures are in place

Answer Explanation:

Risk management controls for broker-dealers are intended to prevent the entry of erroneous orders, such as duplicate orders as well as orders that exceed specified thresholds.

Textbook Reference: Please see textbook section 3.11

Question ID: 3223

20) At 2 p.m. the S&P 500 drops 8%. By 2:30 p.m. it has recovered to a 5% drop. Then, at 3 p.m. it is back to 8% down. Which of the following is true regarding the circuit breakers that will result from this trading activity?

- ☒ A) Trading was halted for the remainder of the trading day.
- ☐ B) Trading was halted for one 30-minute period.
- ☒ C) Trading was halted for 15 minutes
- ☐ D) Trading was halted for two 15-minute periods

Answer Explanation:

Under the circuit breaker rules, a Level 1 halt for 15 minutes will occur when the S&P 500 is down 7%, a Level 2 halt for 15 minutes will occur when the S&P is down 13%, and a Level 3 halt, resulting in a market closure for the rest of the day, will occur at a 20% decline. Each level can only occur once per day. Also, after 3:25 p.m. the Level 1 and Level 2 halts cannot occur.

Textbook Reference: Please see textbook section 3.6

Question ID: 2214

21) Which of the following quotes for an OTC equity security is permitted?

- ☒ A) Bid \$57.14 on 1 share
- ☒ B) Bid \$0.65 on 1,500 shares
- ☐ C) Bid \$1.15 on 90 shares
- ☐ D) Bid \$0.50 on 2,000 shares

Answer Explanation:

OTC equity quotes must be firm for a minimum number of shares depending on the price. The bid and ask side are evaluated independently to determine the minimum quote size. The minimum price and shares are as follows:

0.0001-0.0999: 10,000 shares

0.10-0.1999: 5,000 shares

0.20-0.5099: 2,500 shares

0.51-0.9999: 1,000 shares

1.00-174.99: 100 shares

175.00+: 1 share

Textbook Reference: Please see textbook section 2.2.1

Question ID: 2591

22) A trade is executed at 9:15 a.m. and is reported one minute later. The trade report

- ☒ A) Is considered late and must include .U modifier
- ☐ B) May contain either a .T or .U modifier
- ☐ C) Must carry a .T modifier
- ☐ D) Is considered late and must carry a .Z modifier

Answer Explanation:

Trades executed between 8:00 a.m. and 9:29:59 a.m. must be reported within 10 seconds. If not reported within 10 seconds, the trade report must include a .U modifier

Textbook Reference: Please see textbook section 5.2.4

Question ID: 2118

23) Broker-dealer G operates several market centers that are required to post monthly data on execution quality. G must maintain an Internet site that includes

- ☒ A) All data on execution quality, from all market centers
- ☐ B) Contact information for investors to ask questions or make complaints about execution quality data
- ☐ C) The SEC requirements for posting monthly data on execution quality
- ☒ D) A list of links where files can be downloaded for all market centers

Answer Explanation:

For each participant, the SEC wants investors to be able to access the downloadable files on execution quality from a central Internet page, containing a list of links to files for all market centers. The files themselves can be located on separate Internet sites or pages. This is a requirement under Reg NMS Rule 605.

Textbook Reference: Please see textbook section 7.2.1

Question ID: 3283

24) A trade is executed at 11:15 a.m. The accompanying trade report must be submitted

- ☒ A) As soon as possible and only include a modifier if reported within 10 seconds
- ☐ B) Within 10 seconds and include a .T modifier
- ☐ C) Within 10 seconds, but include a .U modifier if reported after 10 seconds
- ☒ D) Within 10 seconds and carry no modifier

Answer Explanation:

Trades executed during normal business hours must be reported within 10 seconds and need not include any trade modifier. Late reports of trades executed during normal market hours must include a .Z modifier.

Textbook Reference: Please see textbook section 5.2.3

Question ID: 3154

- 25) A copy machine technician has learned of a major product recall announcement that will have a significant impact on corporate profits while working at the site. He contacts several friends and tells them to dump their stock in this company. In this situation,
- ☒ A) The technician has not violated insider trading rules because he is not a corporate insider
 - ☐ B) The technician has not violated insider trading rules because he did not make money on the transaction
 - ☒ C) Although the technician is not an insider, he has violated his fiduciary responsibility toward confidential information about this company, and is guilty of misappropriation of information
 - ☐ D) The technician is an insider and has violated insider trading regulations

Answer Explanation:

In this case, the technician has misappropriated information that was confidential. Although he did not profit on the transaction, he acted as a "tipper" to others who were able to avoid loss because of his tip and is guilty of misappropriation of information.

Textbook Reference: Please see textbook section 7.9.1

Question ID: 2571

- 26) For OTC equity securities, market makers and broker-dealers must review information about the issuer whenever they
- ☒ A) Initiate any type of quote
 - ☐ B) Resume OTC quotes
 - ☒ C) Initiate or resume OTC quotes
 - ☐ D) Initiate or resume any type of quote

Answer Explanation:

Market makers and broker-dealers must review information about the issuer when they first publish, or resume publishing, OTC quotes for specific securities unless a 15c2-11 exemption applies (e.g. unsolicited order).

Textbook Reference: Please see textbook section 2.1.2

Question ID: 28175

27) Market Maker AA currently is quoting ABC security, an NMS stock, at 10.40-10.50, 12 rounds lots and 4 round lots respectively. Market Maker AA bid currently sits at the inside market. Which of the following customer orders would require Market Maker AA to update its quote?

- ☒ A) A customer order to buy 200 shares at 10.40
- ☐ B) A customer order to buy 10,000 shares at 10.41
- ☐ C) A customer order to buy 200 shares at 10.41, AON
- ☐ D) A customer order to buy 75 shares at 10.41

Answer Explanation:

Market makers must update their quotes to reflect customer orders within 30 seconds if an order improve upon the market maker's price or if the market maker's quote is at the inside market, adds to its size. Note that odd lot orders (less than 100 shares), block transactions, and all-or-none (AON) orders are all exceptions to the rule.

Textbook Reference: Please see textbook section 4.4

Question ID: 2079

28) When a sell order is marked "short exempt,"

- ☒ A) A short sale may only be executed above the current National Best Bid
- ☐ B) A short sale must be executed at a price within 10% of the prior day's closing price.
- ☒ C) The short sale may occur at any price regardless of recent changes in the security's price.
- ☐ D) The broker-dealer is not required to satisfy specific standards in order to be able to market a sell ticket "short exempt"

Answer Explanation:

When a sell order is marked "short exempt," the sale may be executed at any price (above or below the current national Best Bid) regardless of whether or not the price test has been triggered. The price test is triggered when the price of a covered security has declined by 10% or more from security's closing price on the previous day. The firm must have a definitive regulatory basis to mark an order ticket as such.

Textbook Reference: Please see textbook section 3.8.2

Question ID: 3033

29) Which of the following statements is not accurate with respect to the FINRA Mark-Up Policy?

- ☒ A) Pattern of mark-ups is of heightened significance above and beyond mark-ups on individual trades.
- ☐ B) The "5% Policy" is a guide, not a rule.
- ☐ C) A broker-dealer's own contemporaneous cost may be used in determining a mark-up where there is no clear indication of a prevailing market
- ☒ D) A broker-dealer may justify mark-ups on the basis of excessive expenses.

Answer Explanation:

A broker-dealer may not justify mark-ups on the basis of expenses which are excessive.

Textbook Reference: Please see textbook section 4.7

Question ID: 2720

30) Vacation withdrawals are not allowed for Nasdaq market makers with

- ☒ A) more than five employees.
- ☐ B) less than five years of operating history.
- ☒ C) more than three Nasdaq Level 3 terminals.
- ☐ D) average share trading volume of more than 500,000

Answer Explanation:

Nasdaq Rule 4619 allows a Nasdaq Market Maker with three (3) or fewer Nasdaq level 3 terminals to make a voluntary withdrawal request for vacation. The request must be submitted to Nasdaq one business day in advance of the withdrawal and approved by Nasdaq. A firm with more than three terminals may not make a withdrawal request based on vacations.

Textbook Reference: Please see textbook section 1.8.2

Question ID: 2265

- 31) PPD Ltd. is an OTC Equity security. Broker-dealer X purchased 20,000 shares at 11:10 AM on October 14. BD X subsequently cancels the trade at 8:15 PM on October 15. Notice of this cancellation must be submitted

- ☒ A) By 8:30 PM on October 15
☒ B) By 8:00 PM on October 16
☐ C) At 8:30 PM on October 16
☐ D) At 8:00 AM on October 16

Answer Explanation:

When a trade is cancelled at or after 8:00 PM on any date after the date of the transaction, the cancellation notice must be submitted by 8:00 PM on the business day following the cancellation of the transaction.

Textbook Reference: Please see textbook section 5.3.1

Question ID: 3203

- 32) How are issuer-directed shares awarded, for purposes of the lock-up provisions?

- ☒ A) To other companies to facilitate a merger or acquisition
☒ B) Through directed share programs.
☐ C) To the public through road show distribution
☐ D) To affiliates of the underwriters

Answer Explanation:

Any lock-up agreement on share transfers by officers/directors must apply to issuer-directed shares. These IPOs shares are awarded through directed share programs to people chosen by the issuer.

Textbook Reference: Please see textbook section 6.2.4

Question ID: 1887

- 33) Brian calls his registered rep and asks for the NBBO on shares of EDD common stock. The rep indicates it is \$25.64-\$25.69 12x4. Brian places a directed market order to sell 500 shares on Nasdaq, what price should Brian expect to receive for his shares?

- ☒ A) \$25.64
☐ B) \$25.53
☐ C) \$25.69
☐ D) \$25.65

Answer Explanation:

By placing a market order to sell Brian's shares will be sold at the national best bid - the highest price a buyer is willing to pay at that moment. Here, the market is \$25.64-\$25.69, so Brian's shares will be sold to the buyer at \$25.64.

Textbook Reference: Please see textbook section 1.6.6

Question ID: 2182

34) A passive market maker may bid for a covered security

- ☒ A) If there are no other market makers currently making bids for the covered security.
- ☐ B) At the lowest independent bid at the time of the transaction
- ☒ C) At a price that matches the highest independent bid at the time of the transaction
- ☐ D) At a price that exceeds the highest independent bid at the time of the transaction

Answer Explanation:

A passive market maker may not bid for or purchase a covered security at a price that exceeds the highest independent bid for the covered security at the time of the transaction. There must be an independent bid in the market for a passive market maker to be able to enter a bid.

Textbook Reference: Please see textbook section 6.3.3

Question ID: 3247

35) Trading halts in OTC Equity Securities may be imposed by FINRA for

- ☒ A) Up to 10 days
- ☐ B) Any reasonable circumstance for an unlimited period of time
- ☐ C) A maximum of 30 days
- ☐ D) A minimum of 10 days

Answer Explanation:

FINRA may impose a trading halt in an OTC Equity Security for up to 10 days. This would be done to protect investors and ensure a fair and orderly marketplace in extraordinary circumstances

Textbook Reference: Please see textbook section 3.4.7

Question ID: 2492

- 36) Which two of the following statements about the CBOE's VIX index are TRUE?
- I. It measures the amount of open interest in options
 - II. It measure the amount of volatility in the stock market
 - III. It is computed based on the prices of options on the S&P 500 index
 - IV. It is computed based on the prices of stocks included in the S&P 500 index
- ☒ A) II and IV
- ☐ B) I and IV
- ☐ C) I and III
- ☒ D) II and III

Answer Explanation:

The VIX is an estimate of volatility for the next 30 days, The moves of the VIX track prices on the SPX options market, not the general stock market. The SPX options market is big, with a value greater than \$100 billion, dominated by institutional investors. Generally options premiums move inversely to the market. In a rising market, stock prices tend to be less volatile and option premiums low, resulting in a lower VIX. Declining markets are volatile, and option premiums increase and result in a higher VIX. An old saying sums up this market behavior: the market takes the stairs up and the elevator down.

Textbook Reference: Please see textbook section 8.3.2

Question ID: 2851

- 37) Who is eligible to participate in the Alternative Display Facility (ADF)?
- ☒ A) Only institutional traders
- ☐ B) Only block positioners
- ☐ C) Only market makers in three or more issues
- ☒ D) FINRA members in good standing

Answer Explanation:

All FINRA members in good standing are eligible to participate in ADF. Once approved, the member is called an ADF Market Participant or Registered Reporting ADF Market Maker.

Textbook Reference: Please see textbook section 1.11

Question ID: 28174

38) All of the following requirements must be met for a firm to qualify for independent unit aggregation except:

- ☒ A) the firm must have a written plan to identify each unit.
- ☐ B) traders can only be assigned to one unit.
- ☒ C) each unit must maintain its own available securities list.
- ☐ D) each unit must determine its own net position for every security.

Answer Explanation:

When a broker-dealer is determining its own net long or short position in a security it must aggregate all of its positions in that security unless it qualifies for independent trading unit aggregation. Independent aggregation allows each trading desk (i.e. unit) to determine its own position, if all of the below requirements are met: 1. The broker-dealer has a written plan to identify each unit. 2. Each unit determines its own net position for every security. 3. Traders are assigned to only one unit. 4. Traders from one unit do not coordinate with trades in another unit.

Textbook Reference: Please see textbook section 3.8.1.2

Question ID: 2781

39) A Nasdaq-listed put option trades no-bid for ten seconds before a trade is executed. What must happen to trigger an obvious error?

- ☒ A) The option one strike price below must also trade no-bid
- ☐ B) This will not qualify for an obvious error in any case
- ☒ C) The option one strike price above must also trade no-bid
- ☐ D) Nothing

Answer Explanation:

It takes at least two options of the same class quoted no bid to trigger the obvious error on this basis. For call options, the strike price below must be no bid. For put options, the strike price above must be no bid.

Textbook Reference: Please see textbook section 3.7.4

Question ID: 8670

40) In which of the following positions does the investor have unlimited risk?

- ☒ A) Long ABC Jan 73 call; Long ABC Jan 73 put
- ☒ B) Short ABC Jan 73 call; Short ABC Jan 73 put
- ☐ C) Long ABC Jan 73 call; Short ABC Jan 83 call
- ☐ D) Short 100 shares ABC stock at 65; Long ABC Jan 73 call

Answer Explanation:

In a short straddle, the investor has unlimited risk due to a naked short call position if the stock rises the investor is forced to purchase the stock in the open market and deliver it at the strike price.

Textbook Reference: Please see textbook section 8.2.2

Question ID: 26091

- 41) Three sell limit orders are entered on NASDAQ, with a one-minute interval between each entry. One order is GTC and the other two are day orders. The limit prices are \$13.19, \$13.21 and \$13.25. The first order to be executed will be

- ☒ A) the order with a \$13.25 limit price.
- ☐ B) the GTC order.
- ☐ C) the first order entered.
- ☒ D) the order with a \$13.19 limit price.

Answer Explanation:

Nasdaq orders are executed on a price priority basis. This means the best-priced limit order (highest buy or lowest sell) is executed first, regardless of the time entered. If two orders have the same limit price, the first entered has priority. There is no distinction between day and GTC limit orders.

Textbook Reference: Please see textbook section 1.7.2.1

Question ID: 2951

- 42) Post-trade execution reports should be provided to appropriate surveillance personnel in compliance with broker-dealer

- ☒ A) Credit risk management controls
- ☒ B) Financial risk management controls
- ☐ C) Regulatory risk management controls
- ☐ D) Trading risk management controls

Answer Explanation:

Broker-dealers with market access must have financial risk management controls in place to systematically limit the financial exposure of the broker-dealer that could arise as a result of market access. Among other things, these controls would prevent the entry of orders that exceed appropriate price or size parameters, as well as orders that appear to be erroneous.

Textbook Reference: Please see textbook section 3.11

Question ID: 3178

- 43) Abe is long 10,000 shares of Issuer K and places three separate orders simultaneously to sell 10,000 shares of K with his firm. Regarding these sell orders

- ☒ A) One order may be marked long
- ☐ B) They must all be marked short
- ☐ C) Two orders may be marked long
- ☐ D) Two orders will be marked short against the box

Answer Explanation:

As Abe owns 10,000 shares one of his sell orders may be marked long and the other two must be marked short.

Textbook Reference: Please see textbook section 3.8.4

Question ID: 1941

44) Under Rule 10b-18, for how many minutes at the close of trading may a small issuer not repurchase its own shares, to qualify for the safe harbor?

- ☒ A) 10
- ☐ B) 20
- ☒ C) 30
- ☐ D) 60

Answer Explanation:

For small issuers, repurchases may not occur within the last 30 minutes. If this "timing" test is failed, the safe harbor is lost.

Textbook Reference: Please see textbook section 6.5.1.2

Question ID: 36499

45) Which of the following is not a permissible authorization method for an institutional client to give consent to net trades?

- ☒ A) Receive verbal consent from the client prior to the trade
- ☒ B) Receive written consent from the client by settlement date of the transaction
- ☐ C) Receive written consent from the client prior to the trade
- ☐ D) Provide the client with a negative consent letter prior to the trade

Answer Explanation:

Under all consent methods, institutional customers must give consent to net transactions prior to trade execution. The consent must evidence that the customer understands terms and conditions of these orders.

Textbook Reference: Please see textbook section 4.6.1

Question ID: 2882

46) Which of the following is not a type of order?

- ☒ A) Stop limit
- ☒ B) Pending cross
- ☐ C) Market not held
- ☐ D) Imbalance only

Answer Explanation:

There is no specific order known as a pending cross order. The other three are all types of orders.

Textbook Reference: Please see textbook section 1.10.3

Question ID: 15662

- 47) A customer sells short 500 shares of Bertram Labs stock on Tuesday. However, the customer's broker-dealer has trouble locating these shares for delivery by the settlement date. What is the deadline for closing out the short sale?

- ☒ A) open of trading on Thursday
- ☐ B) close of trading on Thursday
- ☐ C) close of trading on Friday
- ☒ D) open of trading on Friday

Answer Explanation:

Fails to deliver in a short sale must be closed out by the open of trading on the next business day after the failed settlement. The T+2 settlement date is Thursday and the next business day (T+3) is Friday. It is important to note that for T+2 settlement, a short must be closed out by the beginning of T+3.

Textbook Reference: Please see textbook section 3.9.1

Question ID: 2075

- 48) What is the minimum amount of stock a market maker must sell at the quoted price within 30 seconds of receiving an order to buy 1,000 shares?

- ☒ A) A round lot
- ☒ B) The quoted size
- ☐ C) 1,000 shares
- ☐ D) 500 shares

Answer Explanation:

The market maker has 30 seconds to either execute the entire order or execute a portion equal to at least the quoted size.

Textbook Reference: Please see textbook section 4.4

Question ID: 2491

49) Which two of the following describe the market attitude of the writer of a straddle?

- I. Bearish on the price of the underlying asset
- II. Neutral on the price of the underlying asset
- III. Neutral on the volatility of the underlying asset
- IV. Bearish the volatility of the underlying asset

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

Answer Explanation:

A short straddle is a market neutral strategy because the writer will profit only if there is little price movement in the underlying stock. The writer is bearish on volatility because price movement is not desired.

Textbook Reference: Please see textbook section 8.2.2

Question ID: 28176

50) The prohibited practice where algorithmic traders enter and then quickly withdraw large orders for the purpose of creating confusion in the market for their own benefit is referred to as

- ☒ A) quote stuffing.
- ☐ B) layering.
- ☐ C) trade shredding.
- ☐ D) marking the open.

Answer Explanation:

Quote stuffing is a prohibited practice where algorithmic traders enter and then quickly withdraw large orders for the purpose of creating confusion in the market and taking advantage of trading opportunities.

Textbook Reference: Please see textbook section 4.9.2

Question ID: 3239

51) An IPO lock-up period is designed to prevent the company share price from being depressed because of

- ☒ A) short selling by speculators.
- ☐ B) underwriting activity.
- ☐ C) a large increase in shares outstanding.
- ☒ D) early sales by insiders.

Answer Explanation:

A lock-up agreement prevents a flood of insider shares hitting the market right after an IPO, depressing the share price.

Textbook Reference: Please see textbook section 6.2.4

Question ID: 2184

52) FINRA member firms are permitted to trade ahead of retail customer orders

- ☒ A) Of at least 10,000 shares, with a value exceeding \$10,000, with prior written consent
- ☐ B) At all times with prior written disclosure
- ☐ C) Under no circumstances
- ☒ D) Of at least 10,000 shares, with a value exceeding \$100,000, with prior written disclosure

Answer Explanation:

A FINRA member firm may trade ahead of retail customer orders of 10,000 shares or more and greater than \$100,000 in value (defined as a "large order"), provided appropriate written disclosures are made at the time of account opening and annually thereafter and the client has an opportunity to opt-in to the Limit Order Protection Rule on an order-by-order basis.

Textbook Reference: Please see textbook section 4.5.1

Question ID: 8671

53) All of the following are similarities between a short call and a credit call spread EXCEPT

- ☒ A) Both have limited maximum gain
- ☐ B) Both receive premium income
- ☐ C) Both are bearish
- ☒ D) Both have unlimited risk

Answer Explanation:

Spreads have both limited gains and limited risk. Spread positions never have unlimited risk or unlimited profit. Like short calls, credit call spreads are bearish.

Textbook Reference: Please see textbook section 8.1.2

Question ID: 2172

54) Which of the following will not be the outcome of a clearly erroneous trade?

- ☒ A) Assignment of execution to another FINRA member
- ☐ B) Let trade stand
- ☐ C) Cancellation of the trade
- ☐ D) Modification of the terms of the trade

Answer Explanation:

The aftermath of a clearly erroneous trade will not involve the assignment of the trade to a different FINRA member

Textbook Reference: Please see textbook section 3.7.2

55) What is the deadline for filing a broker-dealer's quarterly report on order routing for the second calendar quarter?

- ☒ A) within 60 days after the end of the quarter
- ☐ B) within 45 days after the end of the quarter
- ☐ C) within 7 business days after the end of the quarter
- ☒ D) within one month after the end of the quarter

Answer Explanation:

The 606 report for each calendar quarter must be made publicly available within one month after the end of the quarter. For example, the second quarter ends June 30, so the deadline is July 31.

Textbook Reference: Please see textbook section 7.2.2
