

Course Name**Series 7 - General Securities Representative Exam Jan 03, 2026 05:40 PM UTC****Results**

Score	Question Taken	Avg. Answer Time	Avg. Correct Answer Time
73%	75 of 75	00:00:29	00:00:29
Avg. Incorrect Answer Time			
00:00:32			

Question Id: 25428323

Q1: A broker-dealer is serving as a syndicate manager for the IPO of JKL Inc. This firm may publish a research report on JKL

- A. after 3 days.
- B. after 10 days.
- C. with the prior written consent of the firm's compliance department.
- D. as long as a price target and risk statement is included.

✘ **Incorrect** Your Answer: C. with the prior written consent of the firm's compliance department.

Correct Answer: B.


There is a research quiet period for broker-dealers who participate in the underwriting of certain issuers. This period is 10 days for a manager and syndicate member, and 3 days for a manager doing a follow-on offering. It is during these time periods that the underwriter may not publish a research report on the company or make a public appearance on behalf of that issuer.

Reference: 1.4 Post-Registration Sales Activity

Question Id: 25428333

Q2: A registered representative has a CPA who is in a position to introduce new clients to the RR's broker-dealer and asks for a fee based on commissions generated by the accounts introduced. Which of the following statements is true?

- A. If the CPA is not registered with FINRA, the payment of this fee would be prohibited.
- B. Finder's fees for introducing new clients to the firm may be paid to unregistered persons, provided they are hourly or flat fees, and not based on any commissions generated by these accounts.
- C. Finder's fees must be approved by FINRA and documented on the broker-dealer's books.
- D. Finder's fees can be scaled to the performance of any introduced accounts, but only if the individual is an accredited investor.

 **Incorrect** Your Answer: A. If the CPA is not registered with FINRA, the payment of this fee would be prohibited.

Correct Answer: B.

Finder's fees are compensation paid to persons who introduce new business to a broker-dealer. These parties are not required to be FINRA registered, and if they are not registered, finder's fees may only be paid as a flat or hourly fee.

Reference: 1.6 Corporate Underwriter Compensation

Question Id: 25428343

Q3: An issuer domiciled in Texas can conduct an offering of common stock to Texas residents without the need to file a registration statement with the SEC pursuant to

- A. Rule 144.
- B. Rule 145.
- C. Rule 147.
- D. Regulation A+.

 **Correct** Your Answer: C. Rule 147.

Correct Answer: C.

Rule 147 represents an "intra-state" offering of securities, whereby the issuer would not be required to file a registration statement with the SEC.

Reference: 2.3 Rule 147 Exempt Transactions

Question Id: 25428353

Q4: The private placement memorandum prepared by a broker-dealer for non-accredited investors in a Regulation D offering must be maintained

- A. for three years from final use.
- B. in an easily accessible location for the first three years from the date of final use.
- C. for four years from final use, the first two years in an easily accessible location.
- D. at the broker-dealer's main office for six years from the date of publication of the memorandum.

✘ Incorrect Your Answer: C. for four years from final use, the first two years in an easily accessible location.

Correct Answer: A.

Records related to a Regulation D (private placement) offering must be maintained for three years from date of final use.

Reference: 2.4 Regulation D Offerings

Question Id: 25428363

Q5: Jerry is employed at municipal broker-dealer A and plans to open a municipal securities account with broker-dealer B. Broker-dealer B

- A. Requires permission from Broker-dealer A to open this account
- B. Must notify Broker-dealer A prior to opening this account for Jerry
- C. Must send duplicate confirmations to Broker-dealer A if asked to do so
- D. Must notify the MSRB that it plans to open an account for an employee of another MSRB member firm

✘ Incorrect Your Answer: C. Must send duplicate confirmations to Broker-dealer A if asked to do so

Correct Answer: B.

When an employee of a municipal securities broker-dealer (or spouse / minor child) opens an account with another municipal securities broker-dealer, the firm opening the account must first give written notice to the employing firm. In addition, the firm who will be carrying this account must provide duplicate copies of all confirmations to the employing firm.

Reference: 3.7 MSRB Rules for Employees of Member Firms

Question Id: 25428373

Q6: A communication sent to 25 retail investors within a 30-day period is defined as

- A. correspondence.
- B. retail communication.
- C. marketing material.
- D. institutional communication.

 **Incorrect** Your Answer: B. retail communication.

Correct Answer: A.

Correspondence is communications sent to 25 or fewer retail investors in a 30- day period. Materials sent to more than 25 retail investors is defined as retail communication.

Reference: 4.2 Filing and Approval of Communications

Question Id: 25428383

Q7: Text messaging may be used between clients and RRs for business matters if

- A. the broker-dealer can supervise and preserve the text messages.
- B. a specific approval letter from FINRA has been received by the broker-dealer.
- C. the RR's supervisor is copied on all text messages.
- D. a duplicate email is exchanged between the RR and the client, for security purposes.

 **Correct** Your Answer: A. the broker-dealer can supervise and preserve the text messages.

Correct Answer: A.

Text messaging is a permitted form of communication between clients and RRs only if the messages can be supervised and retained in the firm's files.

Reference: 4.3 FINRA Rules for Internet-Delivered Content

Question Id: 25428393

Q8: An RR sees a posting on a social media site that a client has changed jobs. The first thing the RR should do is

- A. contact the client directly to verify the information.
- B. update the customer's account record and determine if the investment goals have changed.
- C. notify a supervisor that the client has changed jobs.
- D. contact the client's previous employer to determine if in fact the individual left the job.

 **Incorrect** Your Answer: C. notify a supervisor that the client has changed jobs.

Correct Answer: A.

The first thing an RR should do in this case is to verify that the information is in fact correct. Once that is done, the appropriate revisions may be made to the account record.

Reference: 4.3 FINRA Rules for Internet-Delivered Content

Question Id: 25428403

Q9: During the last statement period, a client's margin account received a dividend of \$150 and incurred interest charges of \$35. The effect of these events is a(n)

- A. reduction of the debit balance of \$115.
- B. increase of the credit balance of \$115.
- C. reduction of the debit balance of \$185.
- D. increase of the credit balance of \$185.

 **Correct** Your Answer: A. reduction of the debit balance of \$115.

Correct Answer: A.

Dividends paid into a margin account will reduce the debit balance, while interest charges increase the debit balance. The net effect of these charges is a reduction in the balance in the amount of \$115.

Reference: 5.1 Procedures for Opening Cash, Margin, Day Trading, and Options Accounts

Question Id: 25428413

Q10: A new customer has just been approved for options trading at a broker-dealer. This customer must sign and return the Options Agreement

- A. as soon as possible, but within five days.
- B. within 15 days of account approval.
- C. within 30 days of account approval.
- D. no later than the settlement date of the initial option trade in the account.

✔ Correct Your Answer: B. within 15 days of account approval.

Correct Answer: B.

The customer must sign and return the Options Agreement within 15 days of account approval by the ROP.

Reference: 5.1 Procedures for Opening Cash, Margin, Day Trading, and Options Accounts

Question Id: 25428423

Q11: A client of an RR who is a grandmother indicates that she would like to open an account where her five grandchildren can all be beneficiaries. The RR should recommend that she open a

- A. trust account.
- B. UGMA.
- C. Section 529 plan.
- D. Coverdell.

✔ Correct Your Answer: A. trust account.

Correct Answer: A.

A trust account allows for multiple beneficiaries, whereas the other choices allow for one beneficiary only.

Reference: 5.6 Fiduciary Accounts

Question Id: 25428433

Q12: While working full time for a FINRA member firm, an RR is invited by her brother to join an investment consortium that will market limited partnership units to high net worth investors. The RR would receive commissions for any units that she sells. The RR may engage in this activity

- A. under no circumstances, as this would violate FINRA conduct rules for registered persons.
- B. with written consent from her firm.
- C. with written consent from FINRA.
- D. with prior written notice to FINRA.

✔ Correct Your Answer: B. with written consent from her firm.

Correct Answer: B.

To order to engage in this type of activity, the RR would need written authorization from her firm. This is an example of a private securities transaction. Note that some firms may prohibit this conduct entirely, but the FINRA rules allow for it under the prescribed conditions.

Reference: 7.1 FINRA Supervision of Member Firms, Representatives, and Accounts

Question Id: 25428443

Q13: At year end, a client informs her RR that her employer did not make a matching contribution into her 401(k) account this year. The RR should respond by stating that

- A. she should check with her company 401(k) plan administrator to determine if an actuarial computation for employee contributions was performed.
- B. an employer who is a sponsor of a 401(k) plan is not required by law to make a matching contribution on behalf of their employees.
- C. ERISA regulations do not require a company to make a matching contribution into employee 401(k) accounts if the business did not generate a profit in the prior fiscal year.
- D. this is in all likelihood an error, but she should double check with her benefits administrator.

✔ Correct Your Answer: B. an employer who is a sponsor of a 401(k) plan is not required by law to make a matching contribution on behalf of their employees.

Correct Answer: B.

Employers are not required to make a matching contribution to employee 401(k) plans each year.

Reference: 8.2 401(k) Plans and Features

Question Id: 25428453

Q14: A client of an RR will be starting a new position at the local high school in her community and is asking what retirement plan will be available to her through the school system. The RR would indicate which of the following plans?

- A. 403(b) plan
- B. Roth IRA
- C. 401(k) plan
- D. Deferred Compensation Plan

✔ Correct Your Answer: A. 403(b) plan

Correct Answer: A.

An employee of a public-school system would be offered participation in a tax-sheltered annuity, also known as a 403(b) plan.

Reference: 8.3 Other Types of Defined Contribution Plans

Question Id: 25428463

Q15: Regarding a Roth IRA, which of the following statements is not correct?

- A. Contributions are not tax-deductible.
- B. Distributions need not commence at age 73.
- C. A 35-year-old account holder may withdraw all his contributions at any time without incurring taxes or penalties.
- D. Investment gains in the account may be withdrawn tax-free three years following the initial contribution.

✘ Incorrect Your Answer: C. A 35-year-old account holder may withdraw all his contributions at any time without incurring taxes or penalties.

Correct Answer: D.

Distributions from a Roth IRA are tax-free if they are taken after the age of 59.5 and the Roth account has been open for at least five years. Note that an individual can withdraw contributions made to their Roth IRA anytime, tax- and penalty-free. However, they would have to pay taxes and penalties on the earnings if they withdraw prior to 59.5.

Reference: 8.7 Roth IRA Concepts

Question Id: 25428473

Q16: A grandmother would like to make a contribution into the 529 plan of her grandson and asks her RR what the contribution limit is. The RR should indicate that

- A. the IRS does not specify an annual contribution limit for 529 plans, but that each state can set its own limit.
- B. the contribution limit is based on the adjusted gross income of her grandson's household.
- C. each state has its own individual contribution limit, as mandated by IRS rules.
- D. the contribution limit is based on her adjusted gross income.

✔ Correct Your Answer: A. the IRS does not specify an annual contribution limit for 529 plans, but that each state can set its own limit.

Correct Answer: A.

The IRS does not impose a federal contribution limit for Section 529 plans; each state, however, may have a specific limitation for plans opened within their jurisdiction.

Reference: 8.8 Tax-Advantaged Savings for Education

Question Id: 25428483

Q17: A customer is short 600 shares of HMK while also maintaining a long position of 1,000 shares of HMK. If the customer placed an order to sell 500 shares of HMK, the order ticket for this sale must be marked as

- A. "sell 500 shares long".
- B. "sell 400 shares short and 100 shares long".
- C. "sell 400 shares long and 100 shares short".
- D. "sell 500 shares short".

✔ Correct Your Answer: C. "sell 400 shares long and 100 shares short".

Correct Answer: C.

When a customer is long and short the same security simultaneously, the positions must be netted out to determine if the customer is net long or net short. In this example, the customer is net long 400 shares, so the order ticket must indicate "Sell 400 shares long and 100 shares short".

Reference: 9.4 Tax Concepts that Apply to Equity

Question Id: 25428493

Q18: Company X has recently completed a 3:2 stock split. A client owns 200 pre-emptive rights and is asking his RR what the consequences of this event is on his rights. The RR would tell the client that

- A. the rights have decreased in value owing to the stock split.
- B. the rights must be exercised within 30 days of the stock split or they will expire.
- C. the rights have increased in value as the result of the stock split.
- D. the value of the 200 rights does not change since the value of their equity position is unchanged.

✔ Correct Your Answer: D. the value of the 200 rights does not change since the value of their equity position is unchanged.

Correct Answer: D.

The value of the preemptive rights will not be effected by a stock split, as the value of the customer's overall position does not change.

Reference: 9.4 Tax Concepts that Apply to Equity

Question Id: 25428503

Q19: An investor exercised an ABC June 50 Call while ABC was trading at 56. The premium paid for the call was \$3.50 per share. What is the investor's cost basis in ABC as the result of the exercise of the call?

- A. 46.5
- B. 59.5
- C. 56
- D. 53.5

✔ Correct Your Answer: D. 53.5

Correct Answer: D.

Upon the exercise of a call option, the investor's cost basis in the underlying security is the strike price of the call (50) plus the premium paid for the call (3.50).

Reference: 9.4 Tax Concepts that Apply to Equity

Question Id: 25428513

Q20: A corporate bond (par value \$1,000) makes periodic interest payments of \$15 and is trading at 96.5. What is the current yield of the bond?

- A. 1.50%
- B. 3.00%
- C. 6.20%
- D. 3.10%

✓ Correct Your Answer: D. 3.10%

Correct Answer: D.

Current yield is found by dividing the annual coupon payment (or dividend) by the market price of the security. In this case, we must divide \$30 by \$965, to arrive at our current yield of 3.1%.

Remember that most bonds pay semi-annual interest to their holders, so the \$15 payment must be doubled for this calculation.

Reference: 10.1 Debt Securities Definitions and Yield Relationships

Question Id: 25428523

Q21: A variable annuity product issued by the ABC Insurance Company has received a 'AAA' rating, the highest available for the product. When discussing this rating with a potential investor, an RR may indicate that

- A. there is a guaranteed minimum payout from the variable annuity, regardless of market conditions.
- B. the insurance company has a very strong ability to pay claims, but there are no assurances as to how investments in their portfolio might perform.
- C. if the rating agency is federally chartered, the performance of the separate account is guaranteed for up to the federal limit of \$500,000.
- D. the insurance company is federally protected by US bankruptcy laws.

✓ Correct Your Answer: B. the insurance company has a very strong ability to pay claims, but there are no assurances as to how investments in their portfolio might perform.

Correct Answer: B.

Ratings or guarantees of variable life and variable annuity products are based on the ability of the insurance company to honor claims, not to provide any guarantees of performance of investments within these products.

Reference: 10.3 Backing of Corporate Bonds and Credit Quality

Question Id: 25428533

Q22: A convertible bond has a conversion price of 25, while the common stock is trading at 28. If the bonds were being called at a 10% premium to par, the investor would

- A. accept the call price since it is higher than the par value of the bond.
- B. convert the bond into the underlying common stock and sell the shares at their current market value.
- C. hold the bond to maturity to ensure the receipt of the bond's par value.
- D. sell the bond if it were trading at a 5% premium to its par value.

✔ Correct Your Answer: B. convert the bond into the underlying common stock and sell the shares at their current market value.

Correct Answer: B.

This bond has a conversion ratio of 40, which is found by dividing par (\$1,000) by the conversion price (25). If the investor converted the bond into the 40 shares and sold those shares at their current market value of 28, they would receive \$1,120, which is better than accepting the call price, which is \$1,100. This is sometimes referred to as a "forced conversion".

Reference: 10.4 Unique Features of Corporate Bonds

Question Id: 25428543

Q23: A client is looking for a very safe instrument that will not produce any current income but will provide a payout in ten years, providing funds that can then be deployed towards an educational goal. What is the most appropriate choice for this client?

- A. Treasury Strip
- B. AA- rated muni zero -coupon bond
- C. Treasury Bond
- D. Z-Tranche

✔ Correct Your Answer: A. Treasury Strip

Correct Answer: A.

The Treasury Strip would be the most appropriate choice for this client. These products are U S government bonds which are sold at a discount to their face value and pay full face value at their maturity. This product does not make interest payments to the holder, which satisfies the objective of the client. The fact that they are U S governments products makes them very safe.

Reference: 10.6 Types, Characteristics, and Issuing of Marketable U.S. Treasury Securities

Question Id: 25428553

Q24: A tender offer must remain outstanding for a minimum of

- A. 5 business days.
- B. 10 business days.
- C. 20 business days.
- D. 25 business days.

✗ Incorrect Your Answer: B. 10 business days.

Correct Answer: C.

A tender offer must remain open for at least 20 business days.

Reference: 10.6 Types, Characteristics, and Issuing of Marketable U.S. Treasury Securities

Question Id: 25428563

Q25: An individual who is subject to the Alternative Minimum Tax would be least likely to purchase a(n)

- A. in-state AA -rated municipal bond.
- B. private activity bond.
- C. moral obligation bond.
- D. Public Housing Authority bond.

✗ Incorrect Your Answer: A. in-state AA -rated municipal bond.

Correct Answer: B.

There are several securities in the US tax code whose interest payments are subject to the Alternative Minimum Tax (AMT) including industrial development revenue bonds and private activity bonds. Due to their taxable nature, investors subject to the AMT may wish to avoid investing in these products.

Reference: 11.1 Characteristics of General Obligation and Revenue Bonds

Question Id: 25428573

Q26: An investor holding a variable rate demand obligation (VRDO) can

- A. exercise the option to purchase municipal bonds under a refunding covenant, as outlined in the indenture.
- B. sell the security back to the issuer at par, using a put feature contained within the instrument.
- C. acquire municipal bonds from the issuer at a discount to par.
- D. reset the interest rate on the security on a periodic basis.

✗ Incorrect Your Answer: D. reset the interest rate on the security on a periodic basis.

Correct Answer: B.

A variable rate demand obligation (VRDO) is a municipal security where the interest rate resets on a periodic basis and the investor can sell the security back to the issuer at par, through a 'put' or 'tender' feature.

Reference: 11.2 Special Types of Municipal Securities

Question Id: 25428583

Q27: A BAN is typically issued in anticipation of

- A. a larger future bond issue.
- B. expected tax receipts coming into the state.
- C. a pledge of resources from the local government.
- D. a grant from the federal government.

✓ Correct Your Answer: A. a larger future bond issue.

Correct Answer: A.

A Bond Anticipation Note (BAN) is usually issued by a state or local government seeking to generate funds for a future project. These securities are normally issued in advance of a larger bond sale by a municipal government. The proceeds from the bond sale are used to pay off the notes.

Reference: 11.3 Municipal Notes, Tax Exempt Paper, and Municipal Fund Securities

Question Id: 25428593

Q28: A county with outstanding bonds observes that interest rates have declined to the point where it is advantageous to refinance their debt, although the outstanding bonds are not yet callable. To take advantage of these lower interest rates, the county

- A. would do a tender offer for their outstanding bonds.
- B. may choose to engage in a pre-refunding of their debt.
- C. should structure a leveraged buy-out of their existing debt.
- D. should hire a placement agent to facilitate a new bond offering to accredited investors.

✔ Correct Your Answer: B. may choose to engage in a pre-refunding of their debt.

Correct Answer: B.

A pre-refunding occurs when an issuer wants to refinance debt that is not yet callable. This serves the purpose of locking in the current favorable interest rate. The proceeds from the new bond sale are placed into an escrow account and invested in very safe securities. Once the original bonds become callable, the issuer will buy them back from those investors and retire that portion of their debt.

Reference: 11.4 Municipal Bond Market Concepts

Question Id: 25428603

Q29: Town Z has issued a \$10,000,000 bond and has established an account to potentially call or redeem these bonds at maturity. This account is a(n)

- A. debt service reserve account maintained with the issuer's bond counsel.
- B. operations and maintenance account held with the issuer's chief financial officer.
- C. reserve maintenance fund supervised the Town R's accounting division.
- D. sinking fund maintained with the issuer's trustee.

✔ Correct Your Answer: D. sinking fund maintained with the issuer's trustee.

Correct Answer: D.

A sinking fund is an account established by a corporation or municipality into which cash is deposited according to a set schedule to provide for the redemption of the issuer's debt.

Reference: 11.4 Municipal Bond Market Concepts

Question Id: 25428613

Q30: The Village of A has received a qualified legal opinion from its bond counsel with respect to a new debt offering. The rendering of this opinion indicates that

- A. the issuer is authorized under the by-laws of the village to issue this debt.
- B. bond counsel has concerns about the issue.
- C. the issue has been approved through the mandatory voter referendum.
- D. bond counsel is signaling its endorsement of the issue to investors.

✔ Correct Your Answer: B. bond counsel has concerns about the issue.

Correct Answer: B.

A qualified legal opinion is prepared when the issuer's counsel has concerns or reservations about the issue. Investors would prefer to see an unqualified legal opinion.

Reference: 11.5 Municipal Bond Credit Ratings and Marketability

Question Id: 25428623

Q31: Which of the following securities does not have any loan value?

- A. Standard option contract
- B. Shares of a closed-end investment company
- C. Publicly traded real estate investment trust
- D. Corporate bond trading OTC

✔ Correct Your Answer: A. Standard option contract

Correct Answer: A.

Standard option contracts do not have any loan value, due to their short-term nature.

Reference: 12.5 Mutual Fund Purchases, Redemptions, and NAV Calculations

Question Id: 25428633

Q32: An investor with an extended time horizon who has an interest in breakpoints would be most inclined to purchase

- A. exchange-traded funds (ETF).
- B. unit Investment Trusts (UIT).
- C. class A shares.
- D. class B shares.

✓ Correct Your Answer: C. class A shares.

Correct Answer: C.

Class A shares offer breakpoints while Class B shares do not. The sales charges are paid up front on A shares, and upon redemption of B shares. The annual expenses on A shares tend to be lower than with B shares.

Reference: 12.6 Mutual Fund Sales Charges and Share Classes

Question Id: 25428643

Q33: A customer has purchased 100 shares of ABC at 36 and 150 shares of ABC at 28. What is the customer's average cost per share?

- A. \$32.20
- B. \$31.30
- C. \$32.00
- D. \$31.20

✓ Correct Your Answer: D. \$31.20

Correct Answer: D.

To determine the average cost per share, divide the total cost by the total number of shares. In this case, $\$7,800 / 250 \text{ shares} = \31.20 .

Reference: 12.7 Sales Charge Discounts, Purchase, and Withdrawal Plans

Question Id: 25428653

Q34: An investor purchased 500 shares of ABC at 22 in September, and now during the last week of the year ABC is trading at 28.50. This investor

- A. has realized a capital gain of 6.50 per share.
- B. has made a profit of \$3,250, which must be included in the investor's adjusted gross income for the year.
- C. will receive proceeds of \$14,250 in two business days.
- D. would have a taxable capital gain of 6.50 per share if the shares were sold now.

✓ Correct Your Answer: D. would have a taxable capital gain of 6.50 per share if the shares were sold now.

Correct Answer: D.

This is an example of an unrealized short-term capital gain as the position remains open. If the investor were to sell the shares at the current price 28.50, they would realize a short-term capital gain, which would be taxable as ordinary income.

Reference: 12.8 Taxation of Investment Companies and Distributions to Shareholders

Question Id: 25428663

Q35: A client tells her RR that she is concerned with liquidity risk. Which of the following products would the RR be most likely to recommend to this client?

- A. Open-end investment company (mutual fund)
- B. ETN
- C. ETF
- D. UIT

✓ Correct Your Answer: C. ETF

Correct Answer: C.

Of these choices, the exchange-traded fund (ETF) would be the most appropriate product for this client. Mutual funds and unit investment trusts (UITs) do not have a secondary market, and ELNs typically have very limited secondary markets and would not be suitable for an investor concerned with liquidity risk.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25428673

Q36: An ETF is heavily invested in various fixed income securities. Individuals who own this ETF are holding a(n)

- A. basket of bonds.
- B. exchange-traded note.
- C. closed-end mutual investment company.
- D. equity security.

✗ Incorrect Your Answer: A. basket of bonds.

Correct Answer: D.

An exchange-traded fund (ETF) is considered an equity security and is actively traded in major securities markets.

Reference: 12.11 Exchange-Traded Funds Overview

Question Id: 25428683

Q37: A client who is concerned with purchasing power risk would be least interested in which of the following investments?

- A. Variable annuity
- B. Common stock
- C. Treasury inflation protected security (TIPS)
- D. Fixed annuity

✓ Correct Your Answer: D. Fixed annuity

Correct Answer: D.

A fixed annuity is a contract with an insurance company which provides a regular stream of fixed payments to the investor (annuitant). In the face of inflation, these payments will represent less purchasing power for the investor, thus making them relatively unattractive in this scenario. The other products listed here will keep pace with inflation and provide the necessary cushion that an investor may be seeking.

Reference: 13.3 Types of Annuities

Question Id: 25428693

Q38: An investor is considering a 1035 variable annuity exchange and is seeking the opinion of her RR. The primary consideration that the RR should address is

- A. whether the transaction would be suitable.
- B. the tax bracket of the investor.
- C. the length of time the new contract would carry a surrender charge.
- D. the credit worthiness of the issuing insurance company.

✔ Correct Your Answer: A. whether the transaction would be suitable.

Correct Answer: A.

A 1035 variable annuity exchange is a tax -free exchange of one variable annuity contract for another. They are most often done as the investor determines that a different contract is better suited to their needs. The most important driver of this type of transaction is whether it is suitable for the client.

Reference: 13.6 Variable Annuity Sales Practices and Suitability Requirements

Question Id: 25428703

Q39: An investor has purchased two call options and sold two call options. The call options purchased have different strike prices, while the calls sold have the same strike price. All contracts have the same expiration month. This investor has created a

- A. collar.
- B. long and short straddle.
- C. horizontal spread.
- D. butterfly spread.

✔ Correct Your Answer: D. butterfly spread.

Correct Answer: D.

A butterfly spread is created using four options contracts with three different strike prices and one expiration. The strategy may be employed by an options trader who anticipates a stable market for the underlying security.

Reference: 14.1 Option Contracts Overview

Question Id: 25428713

Q40: When a call option is exercised, the premium is

- A. subtracted from the strike price to determine the writer's cost basis.
- B. added to the strike price to determine the holder's sales proceeds.
- C. subtracted from the strike price to determine the writer's sales proceeds.
- D. added to the strike price to determine the holder's cost basis.

✔ Correct Your Answer: D. added to the strike price to determine the holder's cost basis.

Correct Answer: D.

When a call option is exercised, the premium must be added to the strike price to determine the holder's cost basis, and conversely, the writer's sales proceeds.

Reference: 14.1 Option Contracts Overview

Question Id: 25428723

Q41: An investor has been purchasing shares of JKL over the past few weeks, aware that this company has a significant short position in the market. This investor is most likely

- A. attempting to hedge an underlying short position in the stock.
- B. embracing the "short- interest theory", believing that investors will be buying the stock in the future.
- C. preparing to sell their shares to better align their position with the current trend of the market.
- D. using fundamental securities analysis to identify potential buying opportunities in the future.

✔ Correct Your Answer: B. embracing the "short- interest theory", believing that investors will be buying the stock in the future.

Correct Answer: B.

An individual who believes in the "short-interest theory" will likely purchase the stock, aware that many investors who are currently short will be buying the stock to cover their positions, and this activity will boost the share price.

Reference: 14.3 Long and Short Put Definitions and Examples

Question Id: 25428733

Q42: On May 5 a client purchased 100 shares of ABC at 18. On May 19, when ABC was trading at 21.50 the client went long 1 ABC Oct 20 Put @ 3.50. Two months later, when ABC was trading at 15.50 the client exercised the put. What are the sales proceeds per share as the result of the exercise of the put?

- A. 15.5
- B. 23.5
- C. 12
- D. 16.5

✔ Correct Your Answer: D. 16.5

Correct Answer: D.

The sales proceeds upon the exercise of a put option is found by subtracting the premium paid for the put option from the strike price of the put. In this case, the sales proceeds are 16.50 per share.

Reference: 14.3 Long and Short Put Definitions and Examples

Question Id: 25428743

Q43: The breakeven point for an investor's position is the cost of the shares minus the premium received. What position does the investor have?

- A. Long straddle
- B. Call debit spread
- C. Collar
- D. Covered call

✔ Correct Your Answer: D. Covered call

Correct Answer: D.

This is the breakeven point for a covered call.

Reference: 14.3 Long and Short Put Definitions and Examples

Question Id: 25428753

Q44: In which of the following instances is a customer not considered to be "long" a stock?

- A. The customer owns convertible preferred stock of the same issuer.
- B. The customer owns a call option of the same issuer and has tendered exercise instructions.
- C. The customer owns a convertible bond of the same issuer and has delivered conversion instructions.
- D. The customer has purchased the stock but has not yet received delivery of the shares.

✔ Correct Your Answer: A. The customer owns convertible preferred stock of the same issuer.

Correct Answer: A.

To be considered "long" a stock, an individual must own the actual stock, or have exercised a convertible security.

Reference: 14.5 Hedging with Long Call and Long Puts

Question Id: 25428763

Q45: An investor has a long stock position that he would like to protect, and at the same time generate some income for his portfolio. How should this investor proceed?

- A. Buy a call & sell a put
- B. Buy a put & sell a call
- C. Buy a straddle
- D. Sell a straddle

✔ Correct Your Answer: B. Buy a put & sell a call

Correct Answer: B.

In order to protect a long stock position an investor would buy a put option, and to generate income he might sell a call option for the income. The use of a long put and a short call creates a position referred to as a collar.

Reference: 14.5 Hedging with Long Call and Long Puts

Question Id: 25428773

Q46: A client has sold an ABC Feb 65 call and purchased an ABC Feb 55 call. This client has

- A. purchased a call credit spread.
- B. sold a straddle.
- C. purchased a call debit spread.
- D. purchased a covered call.

✔ Correct Your Answer: C. purchased a call debit spread.

Correct Answer: C.

This is an example of a bull call debit spread. The purchased Feb 55 call will have a higher premium (money going out) than the sold Feb 65 call (money coming in), making this a debit spread (more cash went out in buying the 55 call than selling the 65 call).

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25428783

Q47: A client wants to put on a credit spread. In addition to the sale of a Nov 60 Put, which of the following positions must be added?

- A. Long Nov 50 Call
- B. Short Nov 60 Put
- C. Long Dec 60 Put
- D. Long Nov 50 Put

✔ Correct Your Answer: D. Long Nov 50 Put

Correct Answer: D.

A credit spread involves the purchase and sale of two option contracts, both of the same class. The contract which is sold has a higher premium than the contract purchased. In this question, the Nov 60 put will have a higher premium than the Nov 50 Put, creating a credit spread.

Reference: 15.1 Spread Concepts and Calculations

Question Id: 25428793

Q48: A client has sold an XYZ 30 straddle for 6. If at expiration XYZ is trading at 25, what is the result?

- A. The client will have a capital gain of \$600.
- B. The put will be exercised, giving the client of loss of \$100.
- C. The put will be exercised, giving the client a gain of \$100.
- D. The call will be exercised, giving the client a gain of \$500.

✔ Correct Your Answer: C. The put will be exercised, giving the client a gain of \$100.

Correct Answer: C.

A client has sold both a call and a put on XYZ (creating a short straddle), both contracts having a strike price of 30. The client received a premium of 6, or \$600 for the trade. If the shares trade at 25 at expiration, the put will be exercised, and the call will expire. The client will experience a loss of \$500 on the put, which means an overall gain of \$100, considering the \$600 premium initially received.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25428803

Q49: An investor is short 1 MJK June 40 Put @ 2 and 1 MJK June 40 Call @ 3. This position will be profitable if, at expiration, MJK is trading

- A. below 35 or above 46.
- B. at or below 45, or at or above 35.
- C. at 35 or 45.
- D. above 35 or below 45.

✔ Correct Your Answer: D. above 35 or below 45.

Correct Answer: D.

This is a short straddle. The investor will benefit if the MJK is trading anywhere between the two breakeven points, which are 35 and 45. The investor believes that the stock will remain relatively neutral through the expiration period.

Reference: 15.2 Straddles, Combinations, and Collars

Question Id: 25428813

Q50: An investor with a bearish view would most likely engage in which of the following transactions?

- A. Buy HMK May 40 Call, sell HMK May 50 call.
- B. Buy VIX call.
- C. Buy VIX put.
- D. Buy LBK April 50 Put, sell LBK April 55 Put.

✔ Correct Your Answer: B. Buy VIX call.

Correct Answer: B.

An investor who holds a bearish view would be interested in buying a call option on the VIX. This is a volatility index which tends to rise as equity prices fall. VIX call options are often used as a hedge against stock market declines.

Reference: 15.4 Index Options

Question Id: 25428823

Q51: An Australian fabric company is selling goods to a US department store and is being paid in US Dollars. The best way for the Australian company to protect itself against an adverse movement in the value of the USD is to

- A. buy call options on the Australian dollar.
- B. buy put options on the Australian dollar.
- C. buy call options on the US Dollar.
- D. buy put options on the US Dollar.

✘ Incorrect Your Answer: D. buy put options on the US Dollar.

Correct Answer: A.

A foreign exporter selling products into the US and receiving US dollars as payment would buy call options on their own currency to protect against an adverse movement in the US dollar. As the US dollar weakens, the value of the AD strengthens, and call options on the AD would likewise gain value. The key here is that there are no options available on the US dollar.

Reference: 15.6 Foreign Currency Options

Question Id: 25428833

Q52: An investor is interested in deploying capital into a limited partnership focused in the oil & gas sector but is unwilling to accept a high degree of risk. A RR would most likely recommend which of the following products to this investor?

- A. Exchange-traded note linked to the S & P Oil & Gas Index
- B. Exploratory drilling program
- C. Income program
- D. Exchange-traded fund holding oil stocks in its portfolio

✔ Correct Your Answer: C. Income program

Correct Answer: C.

The best option for this investor would be an oil & gas income program, due to its concentration in oil wells that are currently producing.

Reference: 16.3 Limited Partnerships

Question Id: 25428843

Q53: A client is planning to make a down payment on a home in the next six months and would like to invest these funds such that they will be available when needed. The RR handling this account would least likely suggest

- A. treasury bills.
- B. exchange-traded funds (ETF).
- C. hedge funds.
- D. commercial paper.

✔ Correct Your Answer: C. hedge funds.

Correct Answer: C.

Hedge funds are highly illiquid products; funds earmarked for a down payment on a home should not be placed into these types of vehicles.

Reference: 16.4 Business Development Companies, Private Equity Funds, and Hedge Funds

Question Id: 25428853

Q54: A client who does not need annual interest income but is seeking exposure to the real estate market would be most interested in considering a

- A. real estate investment trust.
- B. Z-tranche CMO.
- C. master limited partnership.
- D. zero-coupon bond.

✔ Correct Your Answer: B. Z-tranche CMO.

Correct Answer: B.

This client might be interested in adding a Z-tranche CMO to their portfolio. It is a zero-coupon security and provides exposure to the real estate market via the mortgage sector.

Reference: 16.5 Mortgage-backed Securities and Collateralized Debt Obligations

Question Id: 25428863

Q55: A client has indicated 'preservation of capital' as an investment objective on the new account form. The RR handling this account would be least likely to suggest which of the following products?

- A. Blue-chip stock
- B. Bank insured CD
- C. Treasury bill
- D. Money market mutual fund

✔ Correct Your Answer: A. Blue-chip stock

Correct Answer: A.

For an investor with an objective of capital preservation, equity securities should be avoided due to their typical volatility. The investor wants to construct a portfolio with the safest investments possible.

Reference: 17.2 Primary Investment Objectives

Question Id: 25428873

Q56: A client is generally concerned about credit risk when choosing assets to include in his portfolio. His RR would be most inclined to suggest avoiding which of these products?

- A. Exchange-traded funds (ETF)
- B. Common stock
- C. US Govt agency bonds
- D. AAA-rated debenture

✗ Incorrect Your Answer: B. Common stock

Correct Answer: D.

Credit risk is associated with an issuer's ability to meet ongoing obligations to make timely interest and principal payments on a bond. Common stock does not technically carry credit risk, as the stockholder is not a creditor of the business, but rather an owner.

Reference: 17.3 Investment Risks

Question Id: 25428883

Q57: Which of the following instruments would be most sensitive to interest rate risk?

- A. Common stock
- B. Preferred stock
- C. Long-term debenture
- D. Short-term bond fund

✓ Correct Your Answer: C. Long-term debenture

Correct Answer: C.

Interest rate risk is the risk that a bond or bond fund will lose value as interest rates rise. A long-term bond would be more vulnerable to interest rate risk than short-term bonds or preferred stock.

Reference: 17.5 Portfolio Theory and Application to Suitability

Question Id: 25428893

Q58: A broker-dealer is using Monte Carlo simulation as part of its investment strategy platform. The primary goal of this methodology is to

- A. calculate the level of risk that must be taken to achieve a desired investment outcome.
- B. determine the number of securities a client must own to achieve ample diversification and protection from market volatility.
- C. present a sampling of returns for a portfolio, with consideration given to a wide range of economic and market conditions.
- D. enable an investor to achieve a desired return based on the maximum level of risk the investor is willing to take.

✔ **Correct** Your Answer: C. present a sampling of returns for a portfolio, with consideration given to a wide range of economic and market conditions.

Correct Answer: C.

The Monte Carlo simulation allows an investor to see the various possible outcomes that may occur under a wide range of different economic and market conditions.

Reference: 17.5 Portfolio Theory and Application to Suitability

Question Id: 25428903

Q59: ABC Corp. is declaring a cash dividend to stockholders of record as of June 9, payable on July 18. Which of the following actions is not occurring upon the declaration of this dividend?

- A. Current liabilities are increased.
- B. Working capital is reduced.
- C. Current assets are reduced.
- D. Stockholder equity is reduced.

✘ **Incorrect** Your Answer: D. Stockholder equity is reduced.

Correct Answer: C.

When a corporation declares a cash dividend, stockholder's equity is reduced, and current liabilities are increased. Working capital is also reduced, since there is no change to current assets. Recall that working capital is $CA - CL$.

Reference: 18.1 Fundamental Analysis and Balance Sheets

Question Id: 25428913

Q60: An investor who purchases 200 shares of XYZ at "18.50 net"

- A. paid 18.50 for the stock which includes all transactions costs.
- B. paid 18.50 plus a commission of up to 5%, per the FINRA policy.
- C. received 18.50 as the final net sales proceeds for their trade.
- D. paid 18.50 less appropriate transaction costs.

✔ **Correct** Your Answer: A. paid 18.50 for the stock which includes all transactions costs.

Correct Answer: A.

Trades effected on a "net basis" include all commissions/fees in the final "net" price.

Reference: 18.5 Customer Trade Confirmations and Disclosures

Question Id: 25428923

Q61: A long-standing client has passed away, and all open orders for the account have been cancelled. The records pertaining to this account must be maintained for

- A. one year following death.
- B. three years following death.
- C. six years following death.
- D. ten years following death.

✘ **Incorrect** Your Answer: B. three years following death.

Correct Answer: C.

Customer account records must be maintained in broker-dealer files for six years following the date of death.

Reference: 18.7 Account Transfers, Closures, and Recordkeeping

Question Id: 25428933

Q62: Transactions effected in NYSE-listed securities must be

- A. reported to the SEC within 10 seconds.
- B. reported to the consolidated tape within 10 seconds.
- C. reported to the SEC within 30 seconds.
- D. reported to the consolidated tape within 30 seconds.

✔ Correct Your Answer: B. reported to the consolidated tape within 10 seconds.

Correct Answer: B.

These transactions must be reported to the consolidated tape within 10 seconds.

Reference: 19.1 U.S. Secondary Markets and Exchange Trading

Question Id: 25428943

Q63: In the absence of a "do-not-reduce" instruction, all the following orders would be reduced except

- A. "sell-limit".
- B. "sell-stop".
- C. "buy-limit".
- D. "sell stop-limit".

✔ Correct Your Answer: A. "sell-limit".

Correct Answer: A.

Orders entered below the market are reduced for a cash dividend on the "ex-dividend" date. Note that "sell-limit" and "buy-stop" orders are entered above the market and are not reduced.

Reference: 19.6 Time in Force and Dividend Adjustment Order Instructions

Question Id: 25428953

Q64: A broker-dealer is required to "locate" securities that are to be

- A. sold long to a customer, with delivery no later than settlement date.
- B. sold short, prior to the execution of the short sale.
- C. borrowed and delivered to a customer no later than settlement date.
- D. sold short as part of broker-dealer market making activities.

✔ Correct Your Answer: B. sold short, prior to the execution of the short sale.

Correct Answer: B.

According to Regulation SHO, a broker-dealer must "locate" the securities that will be sold short prior to the time of the actual short sale. This is to ensure that the seller will be able to make a timely delivery of the securities and comply with federal securities laws.

Reference: 19.7 Order Tickets and Application Forms

Question Id: 25428963

Q65: A customer has placed a market order to purchase EMD with a broker-dealer, and requests that the order be directed to a specific exchange which is not currently posting the best national price for the stock. The broker-dealer

- A. must execute the order in the venue as directed by the customer.
- B. may notify the client that a more favorable price is available elsewhere and suggest that the order be directed to that venue.
- C. would be in violation of best execution rules if the order was not executed in the best available marketplace.
- D. should not accept this order as it will result in an inferior execution for the customer.

✘ Incorrect Your Answer: B. may notify the client that a more favorable price is available elsewhere and suggest that the order be directed to that venue.

Correct Answer: A.

Regulation NMS requires that a broker-dealer route a customer order to that exchange currently posting the most favorable price. A customer may, however, request that their order be directed to a specific venue and the firm must comply with this request.

Reference: 19.8 Best Execution, Reporting, and Other Trading Rules

Question Id: 25428973

Q66: An investor who executes a short sale in her margin account is required to meet the Regulation T requirement based on the

- A. SMV.
- B. CR.
- C. DR.
- D. LMV.

✔ Correct Your Answer: A. SMV.

Correct Answer: A.

The Regulation T requirement is always based on the current market value of the position being traded. In this case, the investor must deposit 50% of the market value of the securities being sold short (SMV).

Reference: 20.1 Margin Accounts, Reg T, and SRO Requirements

Question Id: 25428983

Q67: A client who maintains a margin account at a broker-dealer will be charged a rate of interest based on the

- A. federal funds rate.
- B. broker call rate.
- C. prime rate.
- D. discount rate.

✔ Correct Your Answer: B. broker call rate.

Correct Answer: B.

Interest charges in a margin account are based on the broker call rate, which is the rate of interest broker-dealers pay to borrow funds from a bank to finance a customer margin loan.

Reference: 20.1 Margin Accounts, Reg T, and SRO Requirements

Question Id: 25428993

Q68: Regulation T applies to both long and short margin accounts, and requires that a 50% deposit be made into the account based on the

- A. net equity in the account.
- B. debit balance in the long account.
- C. current market value of the position.
- D. credit balance in the short account.

 **Correct** Your Answer: C. current market value of the position.

Correct Answer: C.

Regulation T is always based on the current market value of the long or short position.

Reference: 20.1 Margin Accounts, Reg T, and SRO Requirements

Question Id: 25429003

Q69: In her new margin account, a client purchases \$60,000 of ABC and pays for the shares in full. As the result of this trade, the SMA in the account would be

- A. \$30,000.00
- B. \$60,000.00
- C. \$15,000.00
- D. 0

 **Incorrect** Your Answer: B. \$60,000.00

Correct Answer: A.

If a client makes full cash payment in her margin account, the SMA would increase by 50% of the trade.

Reference: 20.2 Margin Account Statuses and Rules of SMA

Question Id: 25429013

Q70: A client is short XYZ and long ABC in her margin account. The equity balance in her account will decline if

- A. ABC falls and XYZ rises.
- B. both positions decline.
- C. ABC rises and XYZ falls.
- D. both positions rise.

✔ Correct Your Answer: A. ABC falls and XYZ rises.

Correct Answer: A.

Equity will decline when the long position declines and the short position rises.

Reference: 20.3 Long Margin Accounting

Question Id: 25429023

Q71: In her new margin account, a client has placed an order to sell 100 shares of ABC short at a price of 18.50. Upon satisfying the margin requirement for this trade, the credit balance in the account will be

- A. \$1,850.00
- B. \$2,000.00
- C. \$3,850.00
- D. \$4,000

✘ Incorrect Your Answer: A. \$1,850.00

Correct Answer: C.

For a short sale in a new margin account where the proceeds from the sale are less than \$2,000, the client must deposit \$2,000. This cash deposit, combined with the \$1,850 short sale proceeds, will create a credit balance of \$3,850.

Reference: 20.4 Short Margin Accounting and Combined Accounts

Question Id: 25429033

Q72: Which of the following is not a correct statement regarding settling securities transactions?

- A. The exercise settlement of a stock index option occurs on the following business day.
- B. Transactions in Treasury bonds settle in one business day.
- C. "Cash-settlement" for corporate securities transactions occurs on the business day following the trade.
- D. Secondary market trades in real estate investment trusts (REIT) settle in one business day.

✔ Correct Your Answer: C. "Cash-settlement" for corporate securities transactions occurs on the business day following the trade.

Correct Answer: C.

Transactions effected on a "cash-settlement" basis typically settle on the same day as the trade.

Reference: 21.1 Settlement of Securities Transactions

Question Id: 25429043

Q73: Which of the following describes an advantage of using the Direct Registration System (DRS)?

- A. Permits investors to purchase US treasury bonds directly through the Treasury department.
- B. Allows shareholders to hold their stock on the records of the transfer agent in book-entry form.
- C. Gives investors direct access to the current stockholder list of NYSE-listed issuers.
- D. Facilitates the receipt and delivery of cash and securities with a clearing corporation.

✘ Incorrect Your Answer: A. Permits investors to purchase US treasury bonds directly through the Treasury department.

Correct Answer: B.

The Direct Registration System is a service of the Depository Trust Corporation and enables shareholders to have their stock held in book-entry (electronic) form with the issuer, rather than holding physical certificates.

Reference: 21.2 Good Delivery

Question Id: 25429053

Q74: An individual with trading authorization for a customer account has submitted a written complaint to the broker-dealer holding the account. This item

- A. need not be treated as an actual complaint since it did not come directly from the customer.
- B. must be promptly forwarded to FINRA, consistent with FINRA regulations.
- C. is considered a complaint by FINRA rules, and must be handled in the appropriate manner.
- D. requires follow-up with the customer to ensure that it is a legitimate complaint.

✔ Correct Your Answer: C. is considered a complaint by FINRA rules, and must be handled in the appropriate manner.

Correct Answer: C.

Customer complaints include items received directly from the customer, as well as other parties doing business with the firm, including individuals who have trading authority over a customer account.

Reference: 21.4 Customer Complaints

Question Id: 25429063

Q75: A complaint has been received from a long-standing customer of the firm, and the matter has been escalated to the compliance department of the firm. The complaint must be kept on file for

- A. two years following the receipt of the complaint.
- B. four years following receipt of the complaint.
- C. four years following resolution of the complaint.
- D. six years following resolution of the complaint.

✘ Incorrect Your Answer: B. four years following receipt of the complaint.

Correct Answer: C.

Customer complaints must be maintained for four years in broker-dealer files following the resolution of the matter. It is important to note that the MSRB requires customer complaints to be maintained for six years.

Reference: 21.4 Customer Complaints