



# Series 6

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## Practice Questions

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**1. An investor purchases \$45,000 of Class A shares in a mutual fund. The fund's breakpoint schedule offers a reduced sales load at \$50,000. The investor signs a letter of intent (LOI) to invest an additional \$10,000 within 13 months. Which of the following BEST describes the immediate effect of the LOI?**

- A. The LOI locks the investor into a legally binding contract to complete the full \$50,000
- B. The fund must escrow the entire \$45,000 until the LOI is fulfilled
- C. The investor receives the \$50,000 breakpoint sales load rate on the current \$45,000 purchase immediately
- D. The reduced load applies only after the investor deposits the additional \$10,000

**2. Which SEC rule governs record-keeping by broker-dealers?**

- A. Rule 17a-3
- B. Rule 15c2-12
- C. Rule 156
- D. Rule 482

**3. A mutual fund's portfolio has securities with a total market value of \$120 million. The fund has liabilities of \$5 million, and 10 million shares are outstanding. An investor redeems 500 shares at 4:01 PM Eastern Time on a Tuesday. At which price will the redemption be processed?**

- A. The public offering price from Tuesday's opening
- B. The NAV calculated at 4:00 PM on Tuesday (\$11.50 per share)
- C. The NAV calculated at 4:00 PM on Wednesday (\$11.50 or the next computed price)
- D. The previous day's closing NAV of \$11.50

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**4. Which communication is NOT considered a prospectus under SEC Rule 134?**

- A. Variable annuity illustration
- B. Performance advertisement
- C. Sales brochure
- D. Tombstone advertisement

**5. A customer holds Class B mutual fund shares and has been told her shares will 'convert' after eight years. What is the PRIMARY benefit of this conversion feature?**

- A. The shares convert to Class A shares, eliminating the ongoing 12b-1 fee charged on Class B shares
- B. The investor receives a cash distribution equal to the deferred sales charge avoided
- C. The shares are exchanged into a money market fund automatically
- D. Conversion resets the holding period for capital gains tax purposes

**6. When must a final prospectus generally be delivered to a customer?**

- A. At the time of recommendation
- B. Before or at confirmation of sale
- C. Within 30 days after settlement
- D. Only upon customer request

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**7. Under FINRA rules, which of the following correctly describes how Rights of Accumulation (ROA) differ from a Letter of Intent (LOI) when qualifying for mutual fund breakpoints?**

- A. ROA gives a breakpoint discount based on the combined current and historical account value; LOI gives a breakpoint discount based on a stated future purchase commitment
- B. LOI is retroactive to previous purchases; ROA requires all purchases within 13 months
- C. ROA applies only to new purchases; LOI applies only to existing holdings
- D. ROA requires a written agreement; LOI requires no documentation

**8. Who is responsible for ensuring compliance of advertising materials?**

- A. The issuer
- B. FINRA
- C. The registered representative
- D. A registered principal



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**9. A Unit Investment Trust (UIT) differs from an open-end mutual fund primarily because a UIT:**

- A. Continuously issues new shares and actively manages its portfolio
- B. Trades on a stock exchange at a premium or discount to NAV
- C. Charges a 12b-1 distribution fee to fund ongoing marketing
- D. Has a fixed, unmanaged portfolio and a stated termination date

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**10. If suspicious activity is identified during account opening, the representative should:**

- A. Ignore it unless losses occur
- B. Close the account immediately
- C. Escalate the issue per firm procedures
- D. Notify the customer directly

**11. An investor is comparing Class A and Class C mutual fund shares for a projected 18-month holding period with a \$20,000 investment. Which statement MOST accurately describes Class C shares for short-term investors?**

- A. Class C shares convert to Class B shares after one year, reducing long-term costs
- B. Class C shares impose the highest front-end sales charge but no 12b-1 fees
- C. Class C shares may be more cost-effective for short-term holders because they typically have no front-end load, though they carry higher ongoing 12b-1 fees
- D. Class C shares always result in lower total costs than Class A shares regardless of holding period

**12. A customer is considering a short-term investment for temporary cash needs. Which instrument is designed to provide liquidity and capital preservation?**

- A. Corporate bond fund
- B. Growth mutual fund
- C. Money market fund
- D. Closed-end fund

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**13. A mutual fund has a maximum front-end sales load of 8.5%. To be permitted to charge this maximum rate under FINRA rules, the fund MUST offer which of the following?**

- A. Breakpoints, rights of accumulation, and reinvestment of dividends at NAV
- B. A 12b-1 fee capped at 0.25% and automatic dividend reinvestment
- C. Breakpoints only, with no reinvestment privilege required
- D. A no-load option for purchases over \$100,000 with rights of accumulation

**14. A conservative customer prefers predictable income and higher claim priority. Which characteristic of debt securities best aligns with this preference?**

- A. Unlimited upside potential
- B. Fixed interest payments
- C. Voting privileges
- D. Participation in corporate growth

**15. A closed-end fund with a NAV of \$18.00 per share is trading on the NYSE at \$15.75. An investor who purchases shares in the secondary market pays:**

- A. \$15.75 plus a front-end sales load set by the fund's prospectus
- B. \$18.00 plus a sales load equal to the premium over the market price
- C. \$18.00, because closed-end fund shares must be purchased at NAV
- D. \$15.75, representing a 12.5% discount to NAV

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**16. Before recommending a mutual fund, a registered representative must evaluate whether the recommendation meets applicable standards. Which factor is least relevant in determining suitability?**

- A. Customer's investment objectives
- B. Customer's time horizon
- C. Customer's risk tolerance
- D. Current market sentiment

**17. Which of the following BEST describes the 'public offering price' (POP) of a Class A mutual fund share?**

- A. NAV plus the applicable front-end sales load
- B. NAV reduced by the contingent deferred sales charge
- C. The prior day's closing market price on a national exchange
- D. NAV minus any accrued income dividends



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**18. Why is a holding period important when determining capital gains taxation?**

- A. It determines long-term vs. short-term tax treatment
- B. It determines management fees
- C. It determines dividend frequency
- D. It determines NAV

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**19. An investor submits a \$9,500 purchase order for a mutual fund that has a breakpoint at \$10,000. The registered representative does not mention the breakpoint. Under FINRA rules, this situation MOST likely constitutes:**

- A. Breakpoint selling, a prohibited practice requiring the rep to inform the customer of the available discount
- B. An acceptable practice as long as the investor signs a breakpoint waiver in the account agreement
- C. A suitable recommendation because the investor chose the amount independently
- D. A violation only if the investment is in a retirement account

**20. A customer asks how open-end and closed-end funds differ structurally. Which statement correctly describes an open-end investment company?**

- A. Shares are issued and redeemed by the fund at NAV
- B. Shares trade throughout the day on exchanges
- C. Shares are issued in a fixed quantity
- D. Shares trade at a market-determined premium only

**21. A UIT sponsor is required to maintain a secondary market for UIT units primarily to ensure that:**

- A. The trust portfolio can be rebalanced in response to market conditions
- B. The trust can continuously issue new units at NAV plus a sales load
- C. The SEC can monitor daily pricing of the fixed portfolio
- D. Investors have a way to liquidate their units before the trust's termination date

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**22. How are websites designed by registered representatives for advisory businesses categorized?**

- A. Correspondence
- B. Tombstone Advertisement
- C. Retail Communications
- D. Generic advertising

**23. Under the Investment Company Act of 1940, an open-end investment company is prohibited from doing which of the following?**

- A. Redeeming shares within seven calendar days of a purchase request
- B. Charging a sales load in excess of 5% of the offering price
- C. Issuing senior securities such as bonds or preferred stock
- D. Investing in foreign securities or currencies

**24. When must a newly registered FINRA member firm file advertising for a billboard?**

- A. 10 business days prior
- B. 10 calendar days prior
- C. Within 10 business days after
- D. Within 30 business days after

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**25. An investor in a mutual fund reinvests her capital gains distribution back into the fund. Which of the following statements about the tax treatment is CORRECT?**

- A. Reinvested distributions are treated as a return of capital and reduce the investor's original cost basis
- B. The distribution is taxable in the year received even though it was reinvested, and the reinvested amount becomes the cost basis of the new shares
- C. Capital gains distributions are always tax-free if reinvested within 60 days
- D. Reinvested capital gains distributions are tax-deferred until the new shares are sold

**26. Which security is NOT exempt from registration under the 1933 Act?**

- A. US 10-year notes
- B. Commercial paper under 270 days
- C. Variable life policies
- D. Bankers acceptances under 180 days



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**27. Which of the following entities is MOST directly responsible for calculating the daily NAV of an open-end mutual fund?**

- A. FINRA, which sets NAV using composite exchange prices
- B. The fund's custodian or transfer agent, under direction of the fund's board
- C. The SEC, which audits and publishes daily NAV for all registered funds
- D. The lead underwriter, using the prior day's closing prices

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**28. What information is NOT required at account opening?**

- A. Dividend reinvestment preference
- B. Customer name/address
- C. Customer age
- D. Social security number

**29. A fund family offers a 'combination privilege' to investors. An investor holds \$30,000 in Fund A and wants to buy \$15,000 of Fund B within the same family. The \$50,000 breakpoint for a reduced load applies at the family level. Which outcome is MOST accurate?**

- A. The investor qualifies for the reduced load on the \$15,000 purchase because the combined holdings of \$45,000 may be aggregated toward the breakpoint under the combination privilege
- B. The breakpoint applies only if both funds share the same investment objective
- C. The \$30,000 in Fund A must be redeemed and moved to Fund B to count toward the breakpoint
- D. Combination privileges apply only within the same fund, not across multiple funds in a family

**30. Who cannot contribute to a 457 plan?**

- A. Retired nonprofit executive
- B. Retired city treasurer
- C. Retired state worker
- D. Retired airline pilot



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## Answer Key & Explanations

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**1. C — The investor receives the \$50,000 breakpoint sales load rate on the current \$45,000 purchase immediately**

A letter of intent allows investors to receive the breakpoint discount immediately on current purchases, with the understanding they intend to reach the qualifying amount within 13 months; shares are escrowed as collateral but the reduced load applies upfront.

**2. A — Rule 17a-3**

Rule 17a-3 sets the minimum record-keeping requirements for broker-dealers registered with the SEC.

**3. C — The NAV calculated at 4:00 PM on Wednesday (\$11.50 or the next computed price)**

Under forward pricing rules (SEC Rule 22c-1), any order received after the 4:00 PM ET cutoff must be executed at the NEXT computed NAV — meaning Wednesday's 4:00 PM calculation — not Tuesday's closing price.

**4. D — Tombstone advertisement**

SEC Rule 134 explicitly excludes tombstone advertisements from the definition of a prospectus.

**5. A — The shares convert to Class A shares, eliminating the ongoing 12b-1 fee charged on Class B shares**

Class B shares typically convert to Class A shares after a set holding period, after which the higher 12b-1 fee assessed on Class B shares is replaced by the lower Class A 12b-1 fee, reducing ongoing fund expenses for long-term holders.

**6. B — Before or at confirmation of sale**

Under SEC rules, the final prospectus must be delivered no later than at the confirmation of sale (forward pricing rule).

**7. A — ROA gives a breakpoint discount based on the combined current and historical account value; LOI gives a breakpoint discount based on a stated future purchase commitment**

Rights of Accumulation allow investors to aggregate prior holdings plus the current purchase to qualify for a breakpoint; a Letter of Intent projects future intended purchases to qualify immediately for a reduced load, making them complementary but distinct mechanisms.

**8. D — A registered principal**

A registered principal must review and approve all advertising and sales literature before use.

**9. D — Has a fixed, unmanaged portfolio and a stated termination date**

A UIT is organized with a fixed portfolio of securities and a defined termination date; it does not continuously offer new shares and is not actively managed, distinguishing it from open-end mutual funds.

**10. C — Escalate the issue per firm procedures**

BSA/AML compliance requires escalating suspicious activity through firm procedures, which may include filing



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**11. C — Class C shares may be more cost-effective for short-term holders because they typically have no front-end load, though they carry higher ongoing 12b-1 fees**

Class C shares carry no front-end load and usually a small or no back-end load after one year, but their higher 12b-1 fees make them costlier than Class A for long-term holders; for an 18-month horizon, the absence of an upfront charge may yield lower total costs.

**12. C — Money market fund**

Money market funds are specifically designed to maintain a stable \$1 NAV and provide liquidity for short-term needs.

**13. A — Breakpoints, rights of accumulation, and reinvestment of dividends at NAV**

FINRA rules allow the 8.5% maximum front-end load only when the fund offers quantity discounts (breakpoints), rights of accumulation, and the right to reinvest dividends at NAV without an additional sales charge.

**14. B — Fixed interest payments**

Debt securities pay fixed interest and have priority claims over equity holders, suiting conservative income-seeking investors.

**15. D — \$15.75, representing a 12.5% discount to NAV**

Closed-end fund shares trade on exchanges at market-determined prices that can be above (premium) or below (discount) NAV; in this case \$15.75 is approximately 12.5% below the \$18.00 NAV, and no additional sales load is charged for secondary-market purchases.

**16. D — Current market sentiment**

Suitability is based on the customer's personal profile; current market sentiment is not a suitability factor under FINRA rules.

**17. A — NAV plus the applicable front-end sales load**

The public offering price of a Class A open-end mutual fund share equals the NAV plus any front-end sales load; open-end funds do not trade on exchanges, so there is no market price distinct from the fund's own calculated POP.

**18. A — It determines long-term vs. short-term tax treatment**

Assets held over one year qualify for lower long-term capital gains rates; shorter holding periods are taxed as ordinary income.

**19. A — Breakpoint selling, a prohibited practice requiring the rep to inform the customer of the available discount**

FINRA rules prohibit 'breakpoint selling' — structuring purchases just below a breakpoint threshold to earn a higher commission — and require representatives to inform customers of available breakpoints regardless of who initiates the transaction amount.

**20. A — Shares are issued and redeemed by the fund at NAV**

Open-end mutual funds continuously issue and redeem shares at the next computed NAV (forward pricing).

**21. D — Investors have a way to liquidate their units before the trust's termination date**

Because UITs do not continuously redeem units like open-end funds, sponsors are expected to maintain a



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secondary market so investors are not locked in and can exit their position prior to the trust's stated maturity or termination.

**22. C — Retail Communications**

Websites fall under Retail Communications per FINRA Rule 2210(c)(1)(A), regardless of creator.

**23. C — Issuing senior securities such as bonds or preferred stock**

The Investment Company Act of 1940 prohibits open-end investment companies from issuing senior securities (debt or preferred equity), a restriction that distinguishes them structurally from closed-end funds, which may use leverage through bond issuance.

**24. A — 10 business days prior**

New members must file retail communications 10 business days before first use during their initial year of membership.

**25. B — The distribution is taxable in the year received even though it was reinvested, and the reinvested amount becomes the cost basis of the new shares**

Mutual fund capital gains distributions are taxable to shareholders in the year distributed regardless of whether they are taken in cash or reinvested; the reinvested amount establishes a new cost basis for the additional shares purchased.

**26. C — Variable life policies**

Variable life and variable annuities involve investment risk and are not exempt from Securities Act of 1933 registration.

**27. B — The fund's custodian or transfer agent, under direction of the fund's board**

The fund's custodian (holding securities) and transfer agent (tracking shares outstanding) work under the board of directors' oversight to value portfolio holdings and compute NAV at least once each business day, typically at 4:00 PM ET.

**28. A — Dividend reinvestment preference**

Dividend and capital gains distribution preferences can be gathered after the account is opened; they are not required at opening.

**29. A — The investor qualifies for the reduced load on the \$15,000 purchase because the combined holdings of \$45,000 may be aggregated toward the breakpoint under the combination privilege**

A combination privilege (also called a family of funds privilege) allows investors to aggregate holdings across multiple funds within the same fund family to qualify for breakpoint discounts, recognizing total dollars committed to the sponsor.

**30. D — Retired airline pilot**

457 plans serve state, local government, and eligible nonprofit employees only — not private-sector workers such as airline pilots.



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