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1. FINRA Rule 3120 states what is meant by a supervisory control system. Which of the following phrases most accurately describes it?

- A. It's a system of policies and procedures designed to ensure regulations are being complied with as they should; any gaps identified are closed.
- B. It sets out procedures that only brokers and not dealers need to design to ensure supervision is being carried out as it should; any gaps identified are closed.
- C. It's a system of rules and regulations designed to ensure supervision is being carried out as it should; any gaps identified are closed with amended or new rules and regulations.
- D. Policies and procedures are designed to check and confirm that written supervision procedures are operating effectively; any gaps identified are closed with amended or additional procedures.

2. Which of the following is NOT a reason for the Registered Options Principal (ROP) to decline an account application?

- A. Lack of investing experience and knowledge
- B. Unstable employment history
- C. Insufficient source of income
- D. Misdemeanor in a criminal background check

3. Which tax is NOT flat rate?

- A. excise tax
- B. gasoline tax
- C. gift tax
- D. general income tax

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4. Which of the following is not a requirement for an employee of one broker-dealer opening an account with another broker-dealer?

- A. Duplicate brokerage account statements must be sent to the employee's broker-dealer upon request.
- B. Duplicate brokerage account confirms must be sent to the employee's broker-dealer upon request.
- C. The employee's broker-dealer must approve of the account before it is opened.
- D. Duplicate mutual fund company statements must be sent to the employee's broker-dealer.

5. Individuals applying for registration must meet the association's requirements in all but which of the following areas?

- A. competence
- B. experience
- C. training
- D. age

6. Two investors, John and Samantha, sign a contract to trade \$100 for 10 shares of Company XYZ. Which of the following documents is produced in response to this specific event?

- A. Trade agreement
- B. Buy order
- C. Settlement
- D. Sell order

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7. Why is inventory valuation used?

- A. It allows a company to provide a monetary value for items that they have in their inventory on their balance sheet.
- B. To understand the average cost of doing business on a daily basis.
- C. To evaluate inventory of a company prior to it being sold.
- D. To show transactions related to the sale and purchase of bonds.

8. The Financial Industry Regulatory Authority is

- A. An agency to provide non binding guidelines
- B. Part of the Securities and Exchange Commission
- C. A non-profit private organization to provide regulation of investment companies
- D. A federal bureau in the Federal Trade Commission



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9. Which of the following properties invest in mere land, not purchasing buildings or intending to build on the land?

- A. Equipment leasing partnerships
- B. New construction partnerships
- C. Existing properties partnerships
- D. Raw land partnerships

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10. The price of a nation's currency in terms of another currency is which of the following?

- A. foreign interest rate
- B. balance of payments
- C. exchange rate
- D. foreign payment rate

11. An individual liquidated 300 shares of Ford common at \$10 in which he had a cost basis of \$20 with no additional gains or losses for the year on December 30th. He bought 300 shares of Ford at \$11 on January 10th because of his long-term bullish belief in Ford. What is his year-end loss of \$3,000?

- A. partially tax deductible in the year of sale
- B. not enough information to determine
- C. not deductible in the year of sale
- D. fully tax deductible in the year of sale

12. What percentage of its income is a REIT required to distribute to its equity investors?

- A. 90%
- B. 10%
- C. no requirement
- D. 100%

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13. Capitalization refers to a company's equity plus its long-term debt. Which of the following ratios are used to calculate capitalization:

- A. Bond ratio
- B. Debt-to-equity
- C. All of the above
- D. Common-stock and preferred-stock ratio

14. A company issues one million shares of common stock in a rights offering to raise \$10 million of new capital. How many rights will the company distribute to its shareholders if at the time of the offering, there are already six million shares in outstanding?

- A. sixteen million
- B. ten million
- C. one million
- D. six million

15. A member may not publish a research report regarding a subject company for which the member acted as manager or co-manager of a secondary offering for `<code>_____</code>` days following the date of the offering.

- A. 20 business days
- B. 10 business days
- C. 10 calendar days
- D. 20 calendar days

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16. SEC Rule 10b-18 provides an opportunity for publicly traded issuers to reacquire their shares in the secondary market. To comply with this regulation:

- A. the issuer must give the SEC advance notice at least 2 business days prior to its acquisition of its own outstanding shares.
- B. the issuer may purchase shares through only one broker-dealer but with no volume limitation on any given trading day.
- C. the issue must limit its purchases of shares on any given trading day to maximums set in the regulation.
- D. the issuer must give the NYSE or NASDAQ at least 1 business day prior notices of its intended reacquisition of shares.



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17. All of the following are regulated by the Securities Act of 1933 EXCEPT:

- A. Registration requirements for securities
- B. Cooling off period
- C. Blue Sky laws
- D. Prospectus requirements

18. Big House Brokerage bought 1000 bonds of XYZ Ltd for \$1000 per bond. Over the course of the day Big House sold various smaller quantities of these bonds to their own customers for \$1010 per bond each. This difference in price between what Big House bought the bonds for and sold them to their clients for is known as what?

- A. Commission
- B. Coupon
- C. Markup
- D. Markdown

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19. Which of the following are advantages of a transfer on death (TOD) account?

- A. Assets pass directly to the beneficiaries
- B. Avoids probate
- C. Allows you to name beneficiaries on a taxable account
- D. All of the above

20. Five years after purchasing a ten-year municipal at 102, an individual sells it at 101. What is tax treatment?

- A. the \$10 loss is applied against future profits in municipal securities
- B. no capital loss or income deduction is realized
- C. the \$10 loss is applied as a reduction against ordinary income
- D. a \$10 long-term capital loss is realized

21. Rule 10b-5 was enacted in 1951 and listed acts/practices that were prohibited from being used by `_____`.

- A. Any institution
- B. Any CEO
- C. Any stockbroker
- D. Any person



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22. Trades appear on Tape A as follows:
XYZ 49.....XYZ 48.95.....XYZ 48.90.....XYZ 49.05
Your customer's 100 share order to sell XYZ at 49 stop, GTC placed prior to the above trade reports would be executed at:

- A. 48.90
- B. 49.00
- C. 49.05
- D. 48.95

23. Which of the following will not lend money to an agent of a broker-dealer?

- A. a mortgage broker.
- B. a corporate affiliate of the agent's member firm.
- C. a client which is a bank.
- D. a broker-dealer.

24. What is required for an offering to be an intrastate offering, according to Rule 147?

- A. all of these are required
- B. 80% of the corporation's assets must be located in that state
- C. 80% of the corporation's revenue must be earned in that state
- D. 80% of the proceeds of the offering must be used in that state

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25. Paying a brokerage firm for services through commission revenue is doing so in

- A. creative arrangement
- B. soft dollars
- C. hard dollars
- D. original arrangement

26. In case an investor misses the margin call and is not able to deposit additional funds, _____.

- A. The exchange would be notified
- B. Additional notices would be sent
- C. Court notice would be sent
- D. The securities will be sold to recoup the losses (liquidation)



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27. Mr. Watney has placed a buy order for 1000 shares of ABC at the market. The execution price was \$42 in his cash account on Wednesday, February 4th. If he fails to make payment by Monday, February 9th, the most likely consequence will be:

- A. the firm will do a sell-out, at Mr. Watney's expense, and freeze his account for 90 calendar days.
- B. an extension of time will be requested on his behalf and if granted, no liquidation will occur.
- C. no extension of time is necessary under these circumstances: he has two additional business days in which to make payment.
- D. the purchase will be canceled for non-payment: his account will be frozen for 90 calendar days.

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28. What is a broker/dealer allowed to do in order to fulfill a customer's order to purchase an over-the-counter stock?

- A. all of these
- B. sell him shares from the firm's inventory
- C. sell these shares short to the customer
- D. act as agent on this transaction

29. Which of the following is not a requirement for advertisements of investment company products that utilize rankings?

- A. The name of the category (i.e., high yield)
- B. The time period and its ending date
- C. The name of the ranking entity
- D. Past performance is indicative of future results

30. Which of these strategies is illegal?

- A. Dollar-cost averaging (DCA)
- B. After-hours trading
- C. Late trading
- D. Market timing



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Answer Key & Explanations

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1. D — Policies and procedures are designed to check and confirm that written supervision procedures are operating effectively; any gaps identified are closed with amended or additional procedures.

According to FINRA Rule 3120, a supervisory control system is made up of policies and procedures designed to check and confirm that written supervision procedures governing day-to-day operations are effective. Where gaps are found, existing procedures are amended or additional procedures are developed to close the gaps.

2. D — Misdemeanor in a criminal background check

The ROP needs to be certain that a customer is financially stable enough to assume certain investment risk. Having a misdemeanor does not significantly affect a customer's source of wealth or source of income. However, if the customer had a criminal record with a larger and more related incident, for example a violation of SEC insider trading laws, then this should certainly be considered in the approval decision.

3. C — gift tax

Gift tax is a progressive tax. Excise tax, gasoline tax, and general income tax are all level percentage taxes.

4. D — Duplicate mutual fund company statements must be sent to the employee's broker-dealer.

Mandated by FINRA Rule 3210 for brokerage accounts, and supported by MSRB Rule G-28 for accounts dealing in municipal securities: Duplicate mutual fund company statements are not a requirement for an employee of one broker-dealer opening an account with another broker-dealer, whereas duplicate brokerage account statements and confirms must be sent to the employee's broker-dealer upon request. Also, the employee's broker-dealer must approve of the account before it is opened.

5. D — age

Individuals applying for registration must meet the association's requirements in training, competence, experience, and character. Anyone who fails to meet the association's requirements in any of these areas may not become registered. .

6. A — Trade agreement

The trade agreement is the formal contract that is created after a buyer and seller agree to a price for the purchase of a specified security. The other documents are related to other events either before or after this specific step in the trade process.

7. A — It allows a company to provide a monetary value for items that they have in their inventory on their balance sheet.

Inventory valuation allows a company to provide a monetary value for items that they have in their inventory. This information permits a company to properly evaluate expenses and revenues on their financial statements so that they can make sound business decisions.

8. C — A non-profit private organization to provide regulation of investment companies

FINRA is a non-profit organization supported by the investment industry to regulate the activities of the investment industry. All member organizations are required to follow the rules promulgated by FINRA. The



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investment industry is self-regulating itself through FINRA to provide more confidence to customers investing their funds through member organizations in stock markets and other investment vehicles.

9. D — Raw land partnerships

Raw land partnerships invest in mere land, not purchasing buildings or intending to build on the land. Their aim is to make money on capital gains as the value of the land increases. These are the riskiest form of real-estate DPP.
Raw land partnerships invest in mere land, not purchasing buildings or intending to build on the land. Their aim is to make money on capital gains as the value of the land increases. These are the riskiest form of real-estate DPP.

10. C — exchange rate

The exchange rate is the price of a nation's currency in terms of another currency. An exchange rate thus has two components, the domestic currency and a foreign currency, and can be quoted either directly or indirectly. In a direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency.

11. C — not deductible in the year of sale

According to the 30-day wash sale rule, a sale at a loss, though typically allowed to be included on a taxpayer's year-end computation of net gains or losses for that year, will be disallowed from current deductibility if the investor buys the same security or one substantially identical to it within 30 days after, or 30 days before the date of the sale that generated the loss. Within 30 days of the sale at a loss on December 30th, 300 shares of Ford were purchased on January 10th. The December 30th loss cannot be deducted in the year of sale due to the fact that the Ford stock was bought in the first few days of January.

12. A — 90%

To qualify as a 'Regulated Investment Company' and get the special flow-through tax treatment under the Internal Revenue Code, 90% flow through is a requirement. IF the REIT doesn't distribute enough income, it will pay taxes on 100% of its net investment income.

13. C — All of the above

Capitalization refers to a company's equity plus its long-term debt. There are several ratios used to calculate this from various perspectives.
debt-to-equity ratio, Bond ratio, Common-stock and preferred-stock ratio.
Capitalization refers to a company's equity plus its long-term debt. There are several ratios used to calculate this from various perspectives.
debt-to-equity ratio, Bond ratio, Common-stock and preferred-stock ratio.

14. D — six million

Each outstanding share is given one right.

15. C — 10 calendar days

A member may not publish a research report regarding a subject company for which the member acted as manager or co-manager of a secondary offering for 10 calendar days following the date of the offering.

16. C — the issue must limit its purchases of shares on any given trading day to maximums set in the regulation.

There are volume reacquisition limits set forth in 10b-18 as well as time-of-day and bid price restrictions.

17. C — Blue Sky laws

Since the Securities Act of 1933 is a Federal law, the Act of 1933 does not include Blue Sky (state) laws.



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18. C — Markup

Markup is when a brokerage sells bonds directly to a customer in a principal trade at a higher price than it paid to buy the bonds.

19. D — All of the above

Avoiding probate, assets passing directly to the beneficiaries, and being allowed to name beneficiaries on a taxable account are all advantages of a transfer on death (TOD) account.

20. B — no capital loss or income deduction is realized

The \$20 premium is amortized over the bond's ten-year life. Half of the premium has been written down after five years. The remaining premium is the same as the premium that was paid when the bond was sold. There is no gain or loss from the sale at 101.

21. D — Any person

10b-5 lists acts/practices that are prohibited from being used by any person engaging in securities transactions.

22. D — 48.95

Sell stop orders are placed below the market. Sell stop orders must first be triggered, also called activated or elected, by a trade at or below the stop price. Once triggered, they become market orders and will be executed at the next available price. The trade at 49 triggers this order. The execution takes place at 48.95.

23. A — a mortgage broker.

Mortgage brokers work to make loan arrangements; they are not money lenders. Reps are not permitted to borrow money from clients who act as loan "arrangers," but they can borrow from other lenders, including banks, broker/dealers as in margin account lending, and their own employer or affiliates thereof.

24. A — all of these are required

All of these requirements must be met in order for an offering to qualify for an intrastate offering under Rule 147.

25. B — soft dollars

Soft dollars are a means of paying brokerage firms for their services through commission revenue, as opposed to through normal direct payments (hard-dollar fees). The investing public tends to have a negative perception of soft-dollar arrangements, because they believe that buy-side firms should pay expenses out of their profits, rather than from investors' pockets.

26. D — The securities will be sold to recoup the losses (liquidation)

The brokerage would sell the securities to recoup the amount lent. This is known as liquidation. Liquidation results in selling at a lower price than the market and results in further trading losses.

27. C — no extension of time is necessary under these circumstances: he has two additional business days in which to make payment.

Regulation T states that public customers are given 2 business days beyond regular way settlement to make payment. Therefore, non payment in T+3 does not result in any action.

28. A — all of these

These are all typical methods the broker uses to fulfill the client's order.



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29. D — Past performance is indicative of future results

Advertisements of investment company products that utilize rankings must state the fact that past performance is no guarantee of future results, the name of the category (i.e., high yield), the name of the ranking entity, as well as the time period and its ending date.

30. C — Late trading

Late trading is an illegal activity that is undertaken by some investors whereby they trade after the fund NAVs have been calculated but get the price calculated at the close of day.



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