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1. When a corporation announces that it is seeking additional equity capital through a sale of additional authorized but unissued shares,

A. this is an IPO
B. this is a secondary distribution
C. this is a split offering
D. this is a primary distribution

2. Which of the following is TRUE regarding the primary market?

A. The NYSE is an example of a primary market.
B. It is regulated by the Securities Act of 1934.
C. Issuer transactions occur in the primary market.
D. Price is determined by supply and demand.

3. When did the Congress establish the Securities & Exchange Commission (SEC)?

A. 1929
B. 1940
C. 1934
D. 1933

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4. The smallest portion of an underwriting spread is the:

A. Manager's fee
B. Takedown
C. Concession
D. Underwriting fee

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5. Which of the following is a theory in which the interest rate differential between two countries is equal to the differential between the forward exchange rate and the spot exchange rate?

A. Rollover rates
B. Interest rate parity
C. Forward rate parity
D. Spot rate parity

6. Which of the following is the formula to determine "exercise settlement amount"?

A. difference between the "aggregate exercise price" and the "aggregate extrinsic value"
B. difference between the "aggregate exercise price" and the "aggregate intrinsic value"
C. difference between the "aggregate exercise price" and the "aggregate current index value"
D. difference between the "aggregate exercise price" and the "aggregate market value"

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7. As defined by Standard & Poors rating service, which of the following is the higher credit rating in the speculative category?

A. AAA
B. CCC
C. Ba1
D. BB+

**8. Which of the following is involved in a customer investment profile?

I. Liquidity needs

II. Risk tolerance

III. Customer's marital status

IV. Investment objectives**

A. II, III & IV
B. I, III & IV
C. I, II & IV
D. I, II & III

9. Which of the following mutual fund shares offer breakpoints for large dollar investments?

A. Class A
B. Class C
C. Class B

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10. Restrictions for stockholders may include:

A. the company liquidating with the loss of all equity.
B. becoming a member of the Board of Directors.
C. the company declaring bankruptcy.
D. the Board of Directors encouraging an increase in debt.

11. Which of the following does the phrase "Blue Chip" relate to?

A. stocks that outperform GDP
B. stocks that consistently produce income and modest growth over long periods of time
C. none of these
D. stocks that outperform the CPI

12. Which of the following is an example of a put option?

A. Mark has a contract with a right to sell Stock XYZ at $15 per share if the stock price goes below this value.
B. Mark placed an order with his broker only to sell Stock XYZ if it goes below $15 per share.
C. Mark as a contract with a right to buy Stock XYZ at $15 per share, regardless of the actual market price.
D. Mark placed an order with his broker only to buy Stock XYZ if it goes below $15 per share.

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13. A corporation has issued a single bond having successive maturity dates set from 2020 through 2030. This is known as what type of bond?

A. Series
B. Serial
C. Term
D. Balloon

14. All of the following are true about hedge funds EXCEPT:

A. They issue non-redeemable securities
B. Advisers are regulated by the Investment Advisers Act of 1940
C. They are allowed to execute trades on margin
D. They are regulated by the Investment Company Act of 1940

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15. Money market securities are not considered as which of the following?

A. ADRs
B. Commercial Paper
C. Reverse Repos
D. T-bills

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16. Which of the below best defines a short call?

A. An option contract where the investor has a contractual obligation, for the duration of the contract, to deliver the underlying instrument at the strike price upon exercise.
B. An option contract where the investors have the right to purchase the underlying instrument at any time prior to option expiration at the designated strike price.
C. An option contract where the investor has borrowed a call option from an investor with a long position and sold it short in anticipation of a decline in the option premium prior to expiry.
D. An option contract where the investor has a contractual obligation until expiry to purchase the underlying instrument at the exercise price upon exercise.

17. XYZ Corporation is guaranteeing a debt issue for the IHG Company. Regarding these bonds, which of the following is TRUE?

A. These bonds are unsecured, with the value of the guarantee being as good as the strength of IHG the issuer.
B. These bonds are secured, with the value of the guarantee being as good as the strength of XYZ.
C. These bonds are unsecured, with the value of the guarantee being as good as the strength of XYZ.
D. These bonds are secured, with the value of the guarantee being as good as the strength of IHG issuer.

18. Which of these is a qualification of an accredited hedge fund investor?

A. has invested in different mutual funds before
B. has been an investor for at least 10 years
C. a net worth of over a million dollars
D. a net worth of $500k

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19. The <code>_____</code> is how much an investor is willing to pay for a share of stock.

A. Ask
B. Quote
C. Spread
D. Bid

**20. FDMs are required to prepare and maintain ledgers or other similar records that summarize each transaction affecting which of the following?

 I. Member's capital accounts

 II. Member's income

 III. Member's liability

 IV. Member's assets**

A. I, II, & III
B. I, II, & IV
C. II, III, & IV
D. All of the above

**21. Taj has purchased a bond that has a $1000 par value. Because interest rates have risen, this bond was priced at a discount when Taj bought it.

How much did Taj pay for the bond?**

A. Unable to determine
B. $1000
C. more than $1000
D. less than $1000

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22. Which of the following regarding income is TRUE?

A. Salary or bonuses are earned income; interest and dividends are investment income.
B. Salary, bonuses, interest, and dividends are all portfolio income.
C. Salary or bonuses are portfolio income; interest and dividends are investment income.
D. Salary, bonuses, interest, and dividends are all investment income.

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23. 100 common shares of ABC are being liquidated by a customer at the market. If the inner market is currently between 904.78 and 905.57, the client's transaction will occur disregarding commissions and other charges at:

A. at a price agreed to between the firm and the customer
B. at the last transaction price prior to entering this order
C. 905.57
D. 904.78

**24. An investor has held shares of a mutual fund for 8 months and receives a long-term capital gains distribution.

How is the distribution taxed to the investor?**

A. Passive income
B. Short-term capital gain
C. Ordinary income
D. Long-term capital gain

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**25. In terms of front running, which of the following is/are not true?

I. A broker or trader who makes deals just before a large, unpublicized order in an effort to acquire a competitive advantage is known as front-running.

II. Because it makes use of private information that is not generally available, front-running is illegal and unethical.

III. The price of an asset can be affected by front running.

IV. Front running is a legal practice and Brokers and dealers benefit greatly from front running.**

A. lll only
B. I, II & lV
C. IV only
D. ll only

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**26. Each Member must update its plan when necessary and must periodically review the plan and keep a record of the review. Your firm should distribute and explain the following except?

I. maintain copies of the plan at one or more off-site locations that are readily accessible to key employees

II. communicate the essential parts of the plan to all employees

III. the contact essential parties for identifying ways to minimize financial impact

IV. the plan to key employees**

A. II, III, & IV
B. I, II, & III
C. II, III, & IV
D. I, II, & IV

27. Upon application for registration as a registered representative to ensure that any criminal past might be discovered by the employing firm, the Securities and Exchange Commission (SEC) requires

A. obtaining a credit report from an established credit reporting agencies
B. the filing of a fingerprint card with the Securities and Exchange Commission
C. a personal interview at the nearest FINRA district office
D. the filing of a fingerprint card with the U.S. Attorney General

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28. Which of the following is not required information that must be included in the U4?

A. Arrest records related to the investment business
B. 10-year employment history
C. All current investment assets
D. 5-year residency history

29. Hiro owns a financial services company. Many of his salespeople take financial advisors and investors out for meals and events. In order to stay compliant with FINRA Rule 3222, Hiro needs to <code>_____</code>.

A. tell his salespeople to keep expenses reasonable
B. stop all business entertainment
C. only allow de minimis amounts
D. have a written policy on business entertainment

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**30. CTFC Regulation 5.10 (ii.c) states that FDMs must establish and maintain internal controls with respect to market risk, credit risk, and other risks created by the retail foreign exchange dealer’s trading activities including systems and policies for supervising, monitoring, reporting and reviewing trading activities in which of the following?

 I. securities

 II. forex transactions

 III. futures contracts

 IV. commodity options**

A. II & IV
B. II, III, & IV
C. All of the above
D. I, II, & IV

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Answer Key & Explanations

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1. D — this is a primary distribution
The ‘trick’ with this question is that anytime a company is selling NEW previously unissued shares from their Authorized shares maximum, those shares are NEW ---- Primary distribution means the shares being sold are NEW, never before issued, not previously owned by anyone.

2. C — Issuer transactions occur in the primary market.
The primary market is where securities are sold to the investing public through issuer transactions. It is regulated by the Securities Act of 1933. The NYSE is an example of a secondary market where price is determined by supply and demand.

3. C — 1934
Congress established the Securities & Exchange Commission (SEC) in 1934.

4. A — Manager's fee
The manager's fee is the amount received by the managing underwriter for each security sold by any brokerage firm involved in the offering. The manager's fee is the smallest portion of the underwriting spread.

5. B — Interest rate parity
Interest rate parity (IRP) is a theory in which the interest rate differential between two countries is equal to the differential between the forward exchange rate and the spot exchange rate.

6. C — difference between the "aggregate exercise price" and the "aggregate current index value"
Rule no 4210. Margin requirements

The difference between the aggregate exercise price and the "aggregate current index value" is referred to as the "exercise settlement amount" (as such terms are defined in the pertinent By-Laws of The Options Clearing Corporation).

7. D — BB+
Ratings for investment grade are terminated at BBB. Below that are speculative grade ratings. BB+ would be the higher speculative rating from among these answers. Ba1 is a rating by Moody, not S&P.

8. C — I, II & IV
Rule no 211. Suitability

Based on the data gathered through the member's or associated person's reasonable diligence to ascertain the customer's investment profile, the member or associated person must have a reasonable basis to believe that the recommended transaction or investment strategy involving a security or securities is suitable for the customer.

Age, other investments, financial situation and needs, tax status, investment goals, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information a customer may disclose to a member or associated person in connection with such recommendation are all included in a customer's investment profile.

9. A — Class A
Class A shares of mutual funds charge sales charges on purchases (front-end load). Since investors pay sales charges when they buy shares, only class A shares may offer breakpoints.

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10. B — becoming a member of the Board of Directors.
A restriction would, generally, not include unpleasant consequences for the stockholders. However, there may be a clause the allows the preferred stockholder to become a member of the Board of Directors.

11. B — stocks that consistently produce income and modest growth over long periods of time
When the phrase blue chip stocks is used, consider the well-known, long-standing businesses that frequently outperform the market. These are nearly all listed on the NYSE.

12. A — Mark has a contract with a right to sell Stock XYZ at $15 per share if the stock price goes below this value.
A put option is the right, but not an obligation, to sell stock at a set exercise price.

This is usually exercised if the market prices falls below the exercise price in the options contract.

The right to buy stock at a set price is a call option.

And any special instructions like do not buy or sell until the price reaches a certain level are examples of stop and limit orders, which is unrelated to options.

13. B — Serial
Serial maturity bonds are all issued at one time and mature in successive years. Note that there is no "series" maturity type.

14. D — They are regulated by the Investment Company Act of 1940
Hedge funds are not subject to the Investment Company Act of 1940 since they are exempt from SEC registration. Hedge funds are exempt since they are issued as private placements. However, advisers of hedge funds must be registered with the SEC according to the Investment Advisers Act of 1940.

15. A — ADRs
ADRs indicate ownership (equity) in foreign stocks while 'money market' consists of short term debt instruments only, hence, ADRs are not debt.

16. A — An option contract where the investor has a contractual obligation, for the duration of the contract, to deliver the underlying instrument at the strike price upon exercise.
Short call refers to writing a call, which obliges the investor to sell 100 shares of the stock at the exercise price if it is executed.

17. C — These bonds are unsecured, with the value of the guarantee being as good as the strength of XYZ.
These are guaranteed bonds where the value of the guarantee is only as good as the financial strength (good faith and credit) of the company making the guarantee—in this case, XYZ Corporation. Because these bonds are backed by the good faith and credit of XYZ and not by any tangible asset, they are unsecured debt instruments. Always remember that even though the word "guaranteed" is used to describe such issues, the bonds are unsecured debt.

18. C — a net worth of over a million dollars
In addition to net worth, an accredited investor must have significant knowledge of investing, and a set annual income determined by the country of residence.

19. D — Bid
The bid price shown on the quote states how much an investor will pay to purchase that stock order through the brokerage.

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20. D — All of the above
FDMs are required to prepare and maintain ledgers or other similar records that summarize each transaction affecting the Member's assets, liability, income, expense and capital accounts and include appropriate references to supporting documents.

21. D — less than $1000
A bond that is priced below the par value is said to be priced at a discount.

22. A — Salary or bonuses are earned income; interest and dividends are investment income.
While someone's salary or bonus would be earned income, investment income is that which is earned from one's investments. Sometimes called portfolio income, it would include dividends, interest, and capital gains derived from the sale of securities.

23. D — 904.78
The price at which a client's liquidation (sell) order will be executed is the best (inside) bid.

24. D — Long-term capital gain
Although the investor has held the fund for 1 year or less, distributions received from the fund are taxed based on how long the fund held the securities before selling them. Therefore, the investor may claim the distributions as long term gains.

25. C — IV only
According to FINRA rule no 5270. Front Running of Block Transactions

This rule is applicable to orders that are made to be executed for any account in which the member or anyone connected to the member has an interest, any account for which the member or anyone connected to the member exercises investment discretion, or for the accounts of the member's customers or affiliates who have been given such material, non-public market information by the member or anyone connected to the member.

No member or person connected to a member shall cause the execution of an order to buy or sell a security or a related financial instrument if the member or person connected to a member causing the execution of the order has material, non-public market information regarding an impending block transaction in the security, the related financial instrument, or the security underlying the related financial instrument before information regarding the impending block transaction becomes public.

26. D — I, II, & IV
Each Member must update its plan when necessary and must periodically review the plan and keep a record of the review. Your firm should distribute and explain the plan to key employees, communicate the essential parts of the plan to all employees, and maintain copies of the plan at one or more off-site locations that are readily accessible to key employees.

27. D — the filing of a fingerprint card with the U.S. Attorney General
A fingerprint card is required to be filed with the U.S. Attorney General to ensure that any criminal past that might result in statutory disqualification from association with a member firm is discovered.

28. C — All current investment assets
The form U4 is required to be filled out during the hiring process and there is U5 for the termination process. It requires basic clerical information like name, address, and any known aliases along with the aforementioned information.

Any changes to this information needs to be reported within 30 days of the change.

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29. D — have a written policy on business entertainment
FINRA Rule 3222 says that each company needs a written policy on business entertainment that stresses the importance of keeping business entertainment expenses reasonable.

30. C — All of the above
CTFC Regulation 5.10 (ii.c) – establishing and maintaining internal controls with respect to market risk, credit risk, and other risks created by the retail foreign exchange dealer's trading activities, including systems and policies for supervising, monitoring, reporting and reviewing trading activities in forex transactions, securities, futures contracts, commodity options, forward contracts and financial instruments; policies for hedging or managing risks created by trading activities or supervising accounts carried for affiliates, including a description of the types of reviews conducted to monitor positions; and policies relating to restrictions or limitations on trading activities.

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