

1. Which of the following is not a person?
 - A. joint stock company
 - B. issuer
 - C. broker-dealer
 - D. 11-year-old child

2. Anna Ramirez worked for Jefferson Broker-Dealers for three years. If she terminates her employment to take a new job with Brooks Broker-Dealers, who must notify the Administrator?
 - A. Jefferson Broker-Dealers
 - B. Anna Ramirez
 - C. Brooks Broker-Dealers
 - D. All of the above

3. The Administrator may issue all of the following orders except
 - A. stop
 - B. cease and desist
 - C. injunction
 - D. denial

4. All the following activities are prohibited except
 - A. sharing commissions with other agents at the firm
 - B. pegging
 - C. capping
 - D. indicating that the Administrator has approved a security

5. All of the following are prohibited activities except
 - A. capping
 - B. arbitrage
 - C. selling away
 - D. front running

6. As an investment adviser representative, you know that your clients are easily confused by excessive detail in the statements your firm sends to them. Your firm charges a wrap fee for the accounts that you manage. To avoid confusing your clients, you refer to the fee as a “commission”. What is true of this practice?
 - A. it is unethical and prohibited
 - B. it is not unethical if prior principal approval has been obtained
 - C. it is unethical but not prohibited
 - D. wrap fees are illegal post-2002

7. All of the following are exempt from state-level registration except
- A. building & loan securities
 - B. whiskey warehouse receipts
 - C. Microsoft® common stock
 - D. T-bonds
8. All of the following facts must be disclosed to advisory clients except
- A. precarious financial condition of the advisory firm
 - B. legal or regulatory actions against the firm material to evaluation of the firm's integrity
 - C. whether the account is discretionary/non-discretionary
 - D. whether the Administrator permits custody
9. Which of the following is defined as a "person"?
- A. Cincinnati, Ohio
 - B. minor
 - C. deceased individual
 - D. individual declared mentally incompetent by a court of law
10. Which of the following would most likely be defined as securities?
- I. Futures contract
 - II. certificate of 10% ownership in one racehorse
 - III. whiskey warehouse receipt
 - IV. whole life insurance policy
- A. I, II, III, IV
 - B. II, III
 - C. II, III, IV
 - D. I, II
11. What do we call the person responsible for administering the Uniform Securities Act in a state?
- A. Governor
 - B. Lt. Governor
 - C. Your honor
 - D. Administrator
12. The Uniform Securities Act grants powers to the Administrator of all the following states except
- A. state where the offer to sell originated
 - B. state where payment for securities was made
 - C. state where the offer to sell was directed
 - D. state where the offer to sell was accepted

13. In which of the following cases has a security been offered for sale?
- A. an investment representative fails to sell a fixed annuity
 - B. an investment representative fails to sell a variable annuity
 - C. an investment representative donates securities to a non-profit, tax-exempt foundation
 - D. an investment representative pledges T-bonds as collateral for a personal loan
14. In which of the following cases has a security been offered and sold?
- A. a person makes a gift of assessable stock
 - B. a person makes a gift of non-assessable stock
 - C. an investment representative fails to sell a fixed annuity
 - D. an investment representative fails to sell a variable annuity
15. The Administrator has the authority under the Uniform Securities Act to do all of the following except
- A. issue stop orders
 - B. issue denial orders
 - C. issue cease and desist orders in anticipation of a violation
 - D. issue injunctions
16. Which of the following business practices is/are prohibited?
- I. recommending transactions based on material, inside information
 - II. disclosing the identity and affairs of a client in the absence of a court order
 - III. deliberately failing to follow a customer's explicit instructions to sell a security
 - IV. frontrunning
- A. I, II, IV only
 - B. I, II, III, IV
 - C. I only
 - D. IV only
17. As an agent for Andersen Broker-Dealers, you are experiencing a very slow month. To keep yourself occupied and pay the bills, you decide to contact your call list of current customers in order to raise enough capital for you and your sister to launch a children's clothing store. The investment meets all of the contacted customers' investment objectives. If you do not inform your employer, this activity
- A. is permissible
 - B. is fraudulent and punishable up to 7 years in federal prison
 - C. prohibited because children's clothing stores are inherently poor investments
 - D. prohibited because you gave your employer no opportunity to supervise your actions

18. One of your customers is extremely persistent and perturbed. After sending several hostile letters to complain of your handling of the account, the customer refuses to return your next several phone calls. When you receive another angry letter, you decide to discard the letter as well as the others you have received. This practice
- A. is fraudulent
 - B. is prohibited because all written customer complaints must be forwarded to the SEC within 5 business days
 - C. is prohibited because all written customer complaints must be forwarded to the Administrator within 5 business days
 - D. is prohibited because all written customer complaints must be brought to the attention of your employer
19. In which case may a registered representative split commissions with her secretary?
- A. if the principal approves it
 - B. if the secretary is registered as an agent
 - C. if the split is at least 75/25
 - D. never
20. Recommendations to customers must not be based on which of the following?
- A. rumors
 - B. material inside information
 - C. inaccurate material information
 - D. all of the above
21. Your customer's investment objective is steady income without taking on significant default risk. As the registered representative you have discretion over the account. If you purchase penny stocks in companies without positive earnings, this is known as
- A. an unauthorized trade
 - B. misuse of material inside information
 - C. churning
 - D. fraud
22. What is true of material facts?
- A. the agent must choose which material facts to include and exclude from presentations to clients
 - B. they must not be disseminated or acted upon
 - C. omitting or misstating them is unlawful and fraudulent
 - D. they need not be disclosed to large, institutional clients

23. A client's investment risk would least likely be reduced by which of the following aspects of a security?
- A. payment of principal and interest is guaranteed by the U.S. Treasury
 - B. payment of principal and interest is guaranteed by a large state with adequate financial resources
 - C. the stock is listed on the NYSE
 - D. the bond's credit rating has been raised to AAA
24. All of the following business practices are prohibited except
- A. failing to state all facts about a security
 - B. commingling
 - C. failing to state all material facts about a security
 - D. failing to obtain customer financial information prior to providing recommendations
25. What is a private investment company?
- A. an open-end fund investing exclusively in private companies
 - B. a closed-end fund investing primarily in private companies
 - C. a private company that provides financing for business ventures, i.e. a venture capital firm
 - D. an open-end fund that does not disclose its holdings more than biennially
26. In order to register as a broker-dealer in the state, the firm must do all of the following except
- A. file a consent to service of process
 - B. pay required fees
 - C. register all principals at the firm
 - D. have at least three principals with MBA degrees or their doctoral equivalent
27. As long as the advice is not an integral component of the practice, all of the following professionals will most likely qualify for an exemption to state registration except
- A. lawyer
 - B. teacher
 - C. accountant
 - D. economist

28. Which of the following persons are investment adviser representatives?
- I. individual hired to answer telephones, emails, and faxes for an investment adviser
 - II. individual hired to solicit services of the advisory firm
 - III. individual supervising those who solicit the services of the advisory firm
 - IV. an investment adviser with 11 non-institutional clients
- A. I, II, III only
B. II, III only
C. I, II, III, IV
D. III only
29. What is true of a broker-dealer registering a successor firm?
- A. a fee is required with the filing
B. the successor firm must be in existence at the time of filing
C. the registration is valid for the unexpired portion of the broker-dealer's registration
D. the successor firm must have the same name and structure as the broker-dealer
30. What is a fiduciary?
- A. the judge presiding over an applicant's appeal of a denial order
B. the president of a financial institution
C. a person charged with managing investments for another person
D. an agent for a non-discretionary customer
31. An out-of-state investment adviser is exempted from registration in the state if
- A. the firm had no more than 5 clients the past 12 months
B. the firm had no more than 10 clients the past 12 months
C. the firm had no more than 25 clients the past 12 months
D. the firm has more than \$5 million of assets under management
32. Which of the following is a security?
- A. whole life policy
B. term life policy
C. fixed annuity
D. viatical settlement
33. Under the Uniform Securities Act, all of the following securities are exempt except
- A. T-bonds
B. ADR's
C. T-bills
D. GNMA

34. Which TWO of the following statements are true concerning methods of securities registration at the state level?
- I. registration by coordination becomes effective 10 days after the SEC effective or “release” date
 - II. registration by coordination becomes effective at the state level concurrently with the federal effectiveness, provided the Administrator has not entered an order to deny
 - III. the cooling off period for the SEC is a minimum of 20 days
 - IV. the cooling off period for the SEC is a maximum of 20 days
- A. I, III
B. I, IV
C. II, III
D. II, IV
35. All of the following securities are exempt from state-level registration and advertising filing requirements except
- A. bonds issued by the City of Montreal
 - B. bonds issued by the government of Quebec
 - C. bonds issued by the government of Canada
 - D. bonds issued by a Canadian corporation
36. Which of the following are exempt transactions?
- A. isolated non-issuer transactions effected through a registered broker-dealer
 - B. transactions between an issuer and its underwriters
 - C. transactions between an issuer and a financial institution
 - D. all of the above
37. If the issuer and underwriters have filed a registration by qualification statement with the Administrator, before the securities have been cleared for sale they may distribute
- A. a tombstone
 - B. a preliminary prospectus
 - C. the registration statement
 - D. all of the above

38. No specific response from the Administrator is required for securities filed under which of the following methods?
- I. qualification
 - II. filing
 - III. coordination
 - IV. notice filing
- A. I only
B. I, II and III only
C. II only
D. II, III, and IV only
39. The state registration statement for a security registered by coordination must include all of the following except
- A. any agreement with or among the underwriters
 - B. amount offered in each state
 - C. all states in which the security will be offered
 - D. a stop order from another state affecting the offering in that state
40. Which of the following IS/are exempt securities?
- A. building and loan securities
 - B. bank securities
 - C. GNMA
 - D. all of the above
41. All of the following are exempt transactions except
- A. initial public offering
 - B. a sheriff liquidates assets seized from a convicted felon
 - C. a marshal liquidates assets
 - D. transaction between an issuer and its underwriters
42. A private placement is an exempt transaction under the Uniform Securities Act that allows an issuer to solicit a maximum of how many residents in a 12-month period?
- A. 35
 - B. 10
 - C. 100
 - D. 1,000
43. Which of the following are not securities as defined under the Uniform Securities Act?
- A. whiskey warehouse receipts
 - B. bank securities
 - C. interests in multilevel distributorships
 - D. fixed annuities

44. If a registrant can not be located, the Administrator would likely issue a
- A. stop order
 - B. suspension
 - C. cancellation
 - D. denial
45. Which TWO of the following orders may the Administrator issue even without prior notice of an opportunity for a hearing?
- I. cease and desist
 - II. summary suspension of a registration pending final determination
 - III. stop order
 - IV. denial order
- A. I, II
 - B. I, III
 - C. II, III
 - D. II, IV
46. Which of the following powers does the Uniform Securities Act grant to the Administrator?
- A. power to investigate in and outside the state
 - B. power to publish violations
 - C. power to allow items to be omitted from registration statements
 - D. all of the above
47. An agent's application for state registration may be denied if it is in the public interest and the agent
- A. claims to have earned an MBA from a prestigious school when, in fact, she has yet to complete her undergraduate work
 - B. has been subject to adjudication during the past 10 years under federal securities law
 - C. has been convicted of a non-securities related felony 7 years ago
 - D. all of the above
48. Which of the following statements is/are true concerning federal covered advisers?
- A. if the firm manages over \$30 million, they are federal covered
 - B. federal covered advisers are subject to the Administrator's powers to enforce antifraud regulations
 - C. federal covered advisers must file a consent to service of process
 - D. all of the above
49. The penalties for violating the securities laws of a state include
- A. administrative proceedings
 - B. criminal penalties
 - C. civil liability
 - D. all of the above

50. The major effect of NSMIA is that it
- A. granted more power to state securities Administrators
 - B. allowed states to require more stringent filing standards and financial requirements than that required at the federal level
 - C. eliminated the need for dual registration for most securities
 - D. all of the above
51. All of the following are exempt securities except
- A. GNMA
 - B. T-bills
 - C. Chicago revenue bonds
 - D. OTC Bulletin Board stock
52. Brian Bonyers is a beginning broker at Baker-Brooks Broker-Dealership. Recently, Brian signed up a new customer who was too busy to complete the suitability section of the new account form. The customer did, however, specify a home address within a very affluent section of a Bryant County suburb. Knowing both the mean and median home values of that exclusive area, Brian decides to recommend municipal securities and other tax-exempt investments to the client. What is true of this case?
- A. this is a standard procedure
 - B. this is a prohibited practice that violates suitability requirements
 - C. this is fraudulent, punishable up to 7 years in a state penitentiary
 - D. this an example of misuse of material inside information
53. All of the following are prohibited practices except
- A. effecting transactions not recorded on the books of the broker-dealership
 - B. soliciting orders for unregistered exempt securities
 - C. telling a customer that this is a can't-lose investment
 - D. soliciting orders for unregistered non-exempt securities
54. In order for an investment adviser to act as a principal for its own account in the purchase or sale of a security with a client, which of the following must take place?
- A. disclose potential conflict of interest to the client in writing
 - B. obtain client's written consent
 - C. both
 - D. neither

55. An investment adviser representative is attempting to land a new client who displays an inordinate fascination with technical analysis. The adviser representative has experienced tremendous success with his stock selections over the past several years through careful, painstaking fundamental analysis. But, since the customer prefers technical analysis, the adviser representative indicates that he does, in fact, often use the “technical” of a certain company before selecting a stock. What the IAR actually means is that he analyzes fundamentals of the company, i.e. EPS, P/E ratio, capitalization ratios, etc. “So, you’re a technical analyst, then?” the client asks. “I sure am, sir,” the investment adviser representative responds.” What is true of this case?
- A. it is perfectly acceptable as long as the adviser representative meant what he said in earnest and *ipso facto tremereis* no longer applies
 - B. it is a prohibited practice and may constitute a deceit or fraud upon the client
 - C. it is not prohibited if the sales pitch receives prior principal approval
 - D. it is prohibited unless accompanied by a prospectus
56. A highly regarded Wall Street Analyst buys large blocks of thinly traded issues a few days before issuing positive reports on those companies. What is true of this case?
- A. if he does not disclose his ownership position in the securities he is covering, he could be suspected of market manipulation
 - B. even if he provides disclosure of his ownership position this always constitutes a fraud
 - C. this would only be fraudulent for municipal securities
 - D. this is a perfectly acceptable Wall Street practice and no disclosure is necessary
57. An investment advisory firm is established as a partnership. If the partnership admits three new members having a minority interest
- A. assignment of contract has occurred
 - B. this event need not be disclosed to clients
 - C. this event must be disclosed to clients promptly
 - D. this is a fraudulent, unethical business practice
58. The definition of “investment contract” as a result of the Howey Decision is that the instrument in question displays which of the following characteristics?
- A. represents an interest in a common enterprise
 - B. investor is not a worker/manager of the enterprise
 - C. owner hopes to benefit through the efforts of others
 - D. all of the above
59. As a registered representative for XL Broker-Dealers, you will, of course, be paid commissions on every customer buy and sell order. Therefore you should
- A. encourage customers to buy and sell frequently
 - B. encourage customers to sell frequently
 - C. encourage all customers to buy large blocks of securities
 - D. consider suitability before recommending any transaction

60. All of the following are securities except
- A. assessable stock
 - B. non-assessable stock
 - C. note
 - D. commodity futures contract

ANSWERS Practice Final 1

1. ANSWER: D

EXPLANATION: “person” does not necessarily mean “human being.” A human being is a “natural person,” but that’s just one little *example* of a “person.” A person could be a company, a government—basically ANYTHING not dead, a minor, or mentally incompetent as declared by a court of law.

2. ANSWER: D

EXPLANATION: lifted directly from the Uniform Securities Act. The firms and the rep must all notify the Administrator. If you ever got a funky question about an investment adviser representative leaving one federal covered adviser to work for another, then I would tell the test only the adviser rep would notify, since the firms are subject to SEC jurisdiction.

3. ANSWER: C

EXPLANATION: only a court can issue an injunction. Just as only a court can sentence a violator to prison. The Administrator can petition the court to issue an injunction, but they only have the power to issue the following: cease & desist, denial, suspension, revocation, and stop orders. All of those except “cease & desist” must first give the party notice and an opportunity for a hearing. And, if you don’t like his decision to deny, suspend, or revoke your license, you get to appeal the decision in court. You must file that appeal in 60 days.

4. ANSWER: A

EXPLANATION: as long as the other agent is registered and works either for your firm or a related entity (subsidiary, for example), it’s okay to share commissions. Pegging and capping are forms of market manipulation where we try to set a price for a stock in the secondary market. Pegging = pushing a stock up. Capping = keeping a stock down. Don’t do that if you can help it. And don’t use the dreaded A-word when talking about the big A. The Big A doesn’t Approve or Disapprove. Neither does the SEC.

5. ANSWER: B

EXPLANATION: arbitrage is an enjoyable activity whereby you buy IBM on the NYSE at \$85 while you *simultaneously* sell IBM for \$85.25 on one of the regional exchanges in Chicago, Philadelphia, Boston, etc. Nothing illegal about that. Capping is market manipulation—traders can never get together and try to artificially establish a price for a stock. Words such as “pegging,” “capping,” or “painting the tape” should be associated with market manipulation, a major violation. Selling away could also be referred to as a “private securities transaction.” A registered rep can not offer investments in anything his/her firm doesn’t know about and doesn’t sponsor. Like trying to find investors who will pony up \$50,000 each to help your sister start a bed and breakfast. Might be a good investment, but I doubt your firm wants to be responsible for recommending that one. You’d have to get permission and provide disclosure to your firm if you wanted to do something like that. Front running is a violation wherein you take an order for a customer to buy 20,000 shares of some thinly traded penny stock. Since you know that this buy order will probably push up the price of the stock, you buy some for yourself or the firm and THEN put in the customer’s big order. Don’t do that.

6. ANSWER: A

EXPLANATION: it isn’t true, so it’s definitely unethical and prohibited. A “wrap fee” includes a fee for investment advice/money management. A commission is just a little toll you have to pay to buy or sell a stock. Be real clear on the difference with your customers. Don’t fall for an answer that says it’s okay if the principal says so. Not.

7. ANSWER: B

EXPLANATION: whiskey warehouse receipts are securities and they have no exemption from registration. T-bonds are exempt at the federal and therefore the state level—that’s the effect of NSMIA. If the feds say you’re cool, the states have to be cool with you, too. Microsoft is a NASDAQ NMS stock, so it’s covered SPECIFICALLY by the SEC/feds. Building & Loan (or basically anything related to banking) securities get an exemption, too.

8. ANSWER: D

EXPLANATION: the contract has to state whether the adviser has discretion, but custody is between the firm and the Administrator. The firm sees if there’s a rule against custody. In the absence of a rule against it, the firm takes custody and notifies the Administrator. Disclosing shaky financial situations or regulatory problems might make it tough for the advisory firm to land new clients—tough. Do you want a money manager who, apparently, can’t manage their own money or stay out of trouble? Remember, these rules are out to protect investors from such firms. If no protection is needed, there is no need for a rule or an order. That’s why the Administrative orders to deny, suspend, and revoke always state that the order is in the public interest and provides necessary protection to investors. If not, the heck with it.

9. ANSWER: A

EXPLANATION: nobody misses this question. Even if you did, take a mulligan and pretend you didn't.

10. ANSWER: B

EXPLANATION: you'll probably never forget that a whiskey warehouse receipt is a security, even if you'll probably never actually see one. So, if you weren't sure about the 10% ownership interest, you still knew that choice "II" was in your answer, because choice "II" came as a package with choice "III," the whiskey warehouse receipt. Whole life, term life, fixed annuity . . . those are NOT securities. So, with a little test-taking skill, you eliminate choice "IV," which eliminates answers "A" and "C."

11. ANSWER: D

EXPLANATION: You're welcome. Enjoy the few gifts this exam gives you.

12. ANSWER: B

EXPLANATION: doesn't matter where payment was sent. Somebody tries to sell the security from a telephone in Illinois—Illinois is the state where the offer originated. Somebody listens to the offer by phone in Kentucky—Kentucky is where the offer was received/directed into. If that somebody calls back from West Virginia and says she'll take it—West Virginia is the state where the offer was accepted. If the check was dropped off at a mailbox in Pennsylvania, nobody cares. But the Administrators in IL, KY, and WV all have authority.

13. ANSWER: B

EXPLANATION: the rep offered the fixed annuity, too, but that's not a security. Pledging and donating are not offers or sales. Rather, those activities are defined as "pledging" and "donating."

14. ANSWER: A

EXPLANATION: a gift of assessable stock is considered both an offer and a sale, while a gift of NON-assessable stock is not. Choices C and D were offers, and only one of them (variable annuity) involved a security. So, the worst choice you could have made was C, since it was neither a sale nor a security. Of course, there's really no need to rub it in.

15. ANSWER: D

EXPLANATION: only a court can issue an injunction. The Administrator can ask the court to issue an injunction, but he has to ask nicely and have a pretty good reason. Notice that the cease and desist can be issued even BEFORE anything wrong has been done. I bet a lot of school principals wish they could tell certain kids to go take a time-out because it looks like they're intending to break some of the school's rules by the end of the day. Cease and desist. We'll get to the bottom of the whole thing after that. Maybe we'll "stay" or expunge the thing from your record. Or, maybe it will be something you have to disclose to investors and regulators for quite some time. Either way, cut it out now. Cease and desist.

16. ANSWER: B

EXPLANATION: don't they all just kind of sound bad? That's the sense you need to develop for this exam. You need to be able to "sense" prohibited acts, and acts of fraud/deceit. That way, you should be able to use process of elimination to get most of the business practices questions right, which is the biggest section on the exam.

17. ANSWER: D

EXPLANATION: this is an example of "selling away." If you want to offer some investment opportunity outside the scope of your employment as a registered representative, you have to get the broker-dealer's permission (good luck) and provide any disclosure that they demand. In other words, don't go there. There was nothing fraudulent going on, just a real bad idea. That's sort of the difference between fraud and a "prohibited practice." Fraud involves deceiving a client in order to make a profit. Prohibited practices are things you just don't want to do.

18. ANSWER: D

EXPLANATION: this question is just a bunch of words. If you're willing to read them all, you just have to ask yourself where you forward written complaints—to your supervisor, principal. Not directly to the regulators. It's not fraud—you didn't deceive anyone while selling securities. You just tried to play Arthur Andersen with a customer's written complaint. Don't do that—it's prohibited.

19. ANSWER: B

EXPLANATION: an individual must be licensed/registered to receive commissions. Remember that if something is wrong, it doesn't become okay just because the principal approves it. In other words, the regulators are holding YOU accountable, too. That's why they're making you take this test—having taken and passed this exam, you'll have no excuse for the bad stuff you do in the future. You get a general sense of what's okay and what isn't from this test, and you learn several specifics, too. That means you've been fairly warned, so your chances of ever proving ignorance of a particular rule are pretty slim. Your principal would get in trouble for saying something prohibited was just fine by him, but you'll get in trouble for doing it, too. You knew better; that's what passing the 63 means to a regulator.

20. ANSWER: D

EXPLANATION: this one's a lay-up. Don't use rumors, false information, or material inside information. Yes, they take all the fun out of this business, I'm afraid.

21. ANSWER: A

EXPLANATION: when you have discretion over a customer's account, you have to buy what's suitable for the customer. If you buy something UN-suitable, they call that an "unauthorized trade." The customer only authorizes you to buy stuff that makes sense given his investment objectives. He doesn't authorize you to do whatever the heck you want for whatever reason you decide. However, that's just *one* example of an unauthorized trade. Usually, when the states bust an agent for making unauthorized trades, he's simply entering orders for clients without letting them know. Maybe he figures they don't check their account statements real close, or maybe he accidentally has all the trade confirmations sent to a buddy with a really big shredder.

Whatever. When you see "unauthorized trades," sit up and take notice—it's bad.

22. ANSWER: C

EXPLANATION: you don't choose which material facts to disclose and which ones not to—if it's material, you disclose it. Not just to some customers, but to all customers.

23. ANSWER: C

EXPLANATION: being listed and being good aren't the same thing. To be listed the stock needs to have a certain number of shares and enough national interest to make it worth the exchange's while. But there are plenty of dogs on the NYSE and NASDAQ. Or maybe you never accidentally bought shares of FMO or JDSU?

24. ANSWER: A

EXPLANATION: what would "all facts about a security" be? The size of the certificates? The type of paper and ink used by the printer? Only MATERIAL facts need to be disclosed; omit all the unnecessary stuff.

25. ANSWER: C

EXPLANATION: choice "C" explains the concept all by itself.

26. ANSWER: D

EXPLANATION: we don't necessarily have to have even ONE MBA—the other three are required, though.

27. ANSWER: D

EXPLANATION: the "E" is for "Engineer," not "E-conomist."

28. ANSWER: B

EXPLANATION: anyone selling the services of the firm, providing advice, making recommendations, or supervising folks who do that stuff is defined as an investment adviser representative and must register. The federal covered adviser is NOT an adviser representative, just like a broker-dealer is not an agent. One is the firm—the other just represents the firm.

29. ANSWER: C

EXPLANATION: the four answer choices sort of provide the answer to the question—no fee is required; the firm doesn't have to be in existence yet and does not have to have the same name. Your broker-dealer is a partnership changing to a corporation with a different name. You register the successor firm without paying a fee. The successor firm's registration is good for the unexpired portion of the broker-dealer's registration.

30. ANSWER: C

EXPLANATION: a fiduciary makes investment decisions for other people: trustee, pension fund manager, custodian in an UGMA, registered rep with discretion. They all look out for others and must be faithful (fiduciary/fidelity) to the other party(ies).

31. ANSWER: A

EXPLANATION: this is called the “de minimus exemption” which means, in the original Latin, “so few it don't matter.” No more than 5 non-institutional buyers. As many institutional buyers as you want, but only 5 little guys. But, if your firm is in the state, you must register. We're only talking about OUT-of-state firms here.

32. ANSWER: D

EXPLANATION: if your money is secure, it's not a security. It's only a security if your money is NOT secure. Seriously.

The fixed annuity promises a certain payout, as do those insurance policies.

Not the variable annuity. Guess what its payment does?

It varies. So, since your money isn't secure, now *that's* a security.

33. ANSWER: B

EXPLANATION: ADR's have no specific exemption—Treasuries and agencies are exempt securities that do not have to be registered.

34. ANSWER: C

EXPLANATION: with the SEC, you'll be cooling off a minimum of 20 days, usually much, much longer than just 20 days. At the state level, securities registered by

coordination are effective concurrently/simultaneously with the federal/SEC

effectiveness, unless the Administrator has a real problem with the whole thing.

Nothing is effective a particular number of days after federal effectiveness. It's either effective concurrent with federal (Coordination, Filing) or whenever the Administrator says so (Qualification).

35. ANSWER: D

EXPLANATION: Canadian governments, not corporations, are granted exemptions. For Canada, it doesn't matter if the government is national, provincial, or local. In all other cases, though, only the national/federal government securities are exempt, not the provincial/state/local government securities. So Mexico City bonds are non (NOT)-exempt; bonds issued by the federal government of Mexico are exempt. Bonds issued by Paris are non (NOT)-exempt; bonds issued by the government of France are exempt.

And then for Canada it's different—ALL the governments there get an exemption.
But, still, not the corporations.
Bet you're glad you know this, ey?

36. ANSWER: D

EXPLANATION: stuff to memorize.

37. ANSWER: D

EXPLANATION: more stuff to memorize. Why would they circulate the registration statement itself? Maybe cause they're real cheap? Or cause they know nobody reads whatever they hand 'em, anyway?

38. ANSWER: D

EXPLANATION: only in qualification does the issuer have to wait for the Administrator to give a specific response of "go ahead and sell 'em." The other methods are for issuers dealing with the SEC and just keeping the Administrator informed, too.

39. ANSWER: B

EXPLANATION: the Administrator wants to know which states you're selling in, but he doesn't need the total amount for each state. He needs the total amount for his state. And he really does want to know if anybody else has a problem with your securities. He might even buy 'em lunch just to talk about it a while.

40. ANSWER: D

EXPLANATION: the question explains itself.

41. ANSWER: A

EXPLANATION: IPO's get no exemption . . . unless they're being done by certain companies that qualify for a "blue chip" exemption. The little guys doing IPO's get no exemption, much as they'd like to get one. The other three are definitely exempt transactions, so the securities don't have to be registered with the Administrator.

42. ANSWER: B

EXPLANATION: if you keep the number of investors to 10, it wouldn't matter if they were institutional or non-institutional buyers. If you go over that number, you have to keep the number of non-institutional buyers to 10, while the number of institutions is basically unlimited.

43. ANSWER: D

EXPLANATION: if it has a fixed, guaranteed payment, it is NOT a security.

44. ANSWER: C

EXPLANATION: when the "person" is dead, declared mentally incompetent, no longer in business, or can not be located, the Administrator cancels the registration.

45. ANSWER: A

EXPLANATION: if the apparent violation is absolutely terrible, the Administrator can put the registration into “summary suspension pending final determination” even before giving the person notice of an opportunity for a hearing. The person will then get their notice of an opportunity for a hearing, but that’s after the summary suspension is issued. For stop, denial, suspension, and revocation orders, the notice and opportunity for hearing come first. Not for cease & desist and summary suspension orders. And you thought the Series 63 was going to be dull.

46. ANSWER: D

EXPLANATION: yeah, the Administrator can do just about anything shy of sending you to jail or issuing an injunction. Those actions require a court of law.

47. ANSWER: D

EXPLANATION: those all look like good reasons to me. She’s already been in trouble, or she’s lying on her registration? I’d say we should deny this one, right?

48. ANSWER: D

EXPLANATION: all true statements. Federal covered advisers are filing their paperwork with the SEC and submitting to SEC inspections. But, if they commit fraud, the state securities Administrator still has the power to enforce anti-fraud rules on their big, federal-covered attitude. They also provide a consent to service of process so that the aggrieved party can serve papers on them by simply serving them on the Administrator, who is always more than willing to accept them on their behalf.

49. ANSWER: D

EXPLANATION: all three, absolutely

50. ANSWER: C

EXPLANATION: NSMIA reduced the state’s powers and created a new class of securities called “federal covered” securities, which register with the SEC, rather than sweating it out in each and every state. The issuers might provide a “notice filing” to the state, but their securities aren’t subject to the state’s “merit test” or requirements to file all advertising and have that get the okay, too. Cuts through the red tape. If you’re a small issuer, you’ll be stuck jumping through all the regulatory hoops at the state level, but NSMIA says if you’re an investment company, a listed stock, a NASDAQ stock, or a variable annuity, you can just register with the SEC/federal, not the states. You provide a notice filing which is exactly what it sounds like—notification. I’m notifying you, sir; I’m NOT asking for your permission.

51. ANSWER: D

EXPLANATION: to be federal covered OTC stocks must be part of NASDAQ’s National Market System. Bulletin Board/Pink Sheet stocks don’t get the exemption, so they’re stuck dealing with the Administrator on the Administrator’s turf.

52. ANSWER: B

EXPLANATION: the rep is assuming too much and being lazy. Get the net worth, the income level, and the investment objectives of *this* client. Don't just think of her as "some rich person" and start making recommendations. Even if you thought it was fraudulent, nothing is punishable up to 7 years in a state penitentiary. The maximum penalties at the state level are three years, \$5,000 fine or both.

53. ANSWER: B

EXPLANATION: if it's exempt it doesn't need to be registered. Choice "A" was pure evil. Oh, you're welcome. The sentence would need to read, "effecting transactions not recorded on the *regular books and records of the broker-dealer with prior principal approval*." Then, it would have been okay. Maybe the firm is helping an executor liquidate some stocks without opening an account with the firm—whatever. It's a rare case, it needs to be recorded *somewhere* on *some* set of the broker-dealer's books, and it needs to be a case where your supervisor simply tells you what's about to happen. In any case, if you read carefully and use good test-taking skills, you'll get the answer right more times than not. You only need to be right 70% of the time or better to pass.

54. ANSWER: C

EXPLANATION: the adviser has to make it clear that the stock is being sold out of inventory to the customer, or purchased from the customer for inventory. See the possible conflict? I'm charging you to make a recommendation, but now I'm either trying to sell you something of mine, or buy something of yours for my collection. Hmm, when I try to buy something, I try to talk the price down; when I sell something, I try to talk the price up, right? Whom does that benefit? The customer? Just the opposite—there's the conflict. So, the adviser must disclose the potential conflict and get the customer's written consent ahead of time. Broker-dealers have to disclose the "principal" capacity of their transactions with customers, but they don't need prior written consent. Just a heads up.

55. ANSWER: B

EXPLANATION: wow, this dude's answer to the client is totally misleading. He's NOT a technical analyst, but he's leading the customer to believe he is in order to close a sale. Choice A was bogus. No idea what "ipso facto tremereis" means, let alone when it would or wouldn't apply. And, again, just because the principal says it's okay don't make it okay.

56. ANSWER: A

EXPLANATION: sounds like standard practice during the tech bubble, but that's partly why the bubble popped. Lots of professionals held big positions in stocks, and then went on TV talking them up to help pump up the price. Nice work when you can get it. Nowadays, they all disclose whether they have a position in the stock they're praising.

57. ANSWER: C

EXPLANATION: when the membership of the partnership changes (death, admission, withdrawal), this must be disclosed to clients promptly. If the members represented a majority, assignment of contract would have occurred.

58. ANSWER: D

EXPLANATION: this way no matter how weird it sounds, a 10% ownership of a racehorse is an investment contract and therefore a security. It represents an investment in a common enterprise—you and all the other owners. You could lose money, and you hope to benefit through the efforts of others: the jockey, the trainer, and—most of all—the horse. So we get to regulate this, too. Whiskey warehouse receipts, even. Oh yeah, we define things carefully so we can regulate everything we want to regulate and NOT bother regulating stuff we want to exclude, like fixed annuities.

59. ANSWER: D

EXPLANATION: *if you missed this one, you're not thinking about what these regulatory tests would want to hear. Always tell a regulator what you know they want to hear.*

60. ANSWER: D

EXPLANATION: commodities/futures are not securities. Options on them-there commodities/futures ARE securities. And, a “single-stock futures contract” *is* a security. Aren't you glad you signed up for this abuse? ☺