

PASS THE TEST QUIZ SET SERIES 63

Quiz 1, Administrative Provisions

1. Before the Administrator enters an order to deny, suspend, or revoke a license, what must the affected party be given?

- I. consent to service of process
- II. prior notice
- III. opportunity for a hearing
- IV. written finding of fact, conclusions of law

- A. I only
- B. I, II only
- C. II, III only
- D. II, III, IV only

2. An investment representative working for a broker-dealer properly registered in State A calls a customer residing in State B. The investment representative offers a promissory note to the customer issued by a corporation headquartered in State C. Uncertain if this investment meets her needs, the customer tells the investment representative that she will call him back with her decision. The customer calls the investment representative from her vacation home located in State D and says she will, in fact, purchase the promissory notes. Turns out, the investment representative told the customer the promissory notes were "secured," when, in fact, they were not, and the representative knew they were not. Therefore, the securities regulators of which states have authority over this transaction?

- A. State A, where the offer to sell originated
- B. State B, where the offer to sell was received
- C. States A, B, and D
- D. All four states

3. A customer is sold an unregistered, non-exempt security in violation of the USA. What is the customer entitled to receive?

- A. three times the amount paid for the security
- B. original purchase price, plus interest, less income received
- C. original purchase price, plus unspecified damages for pain and suffering
- D. contumacy

4. If a customer is sold a security in violation of the USA, which of the following is the customer entitled to?
- I. court costs
 - II. attorneys' fees
 - III. original purchase price
 - IV. interest less income received
- A. I, II, III, IV
B. I, II only
C. III, IV only
D. II only
5. When does the registration for a person become effective?
- A. immediately
 - B. immediately if accompanied by a signed and notarized affidavit
 - C. at noon on the 30th day after filing the registration, provided no stop orders are pending
 - D. within 15 days of filing
6. The Administrator has the power to do all the following except
- A. require issuers of securities sold by coordination or qualification to establish escrow accounts with proceeds impounded until a specified amount of money is raised
 - B. investigate in other states
 - C. issue injunctions
 - D. require issuers to sell securities registered by coordination or qualification through a specified form
7. The Administrator has the power under the USA to
- I. force testimony over 5th Amendment objections
 - II. publish violations
 - III. sentence sales representatives to up to 3 years in prison
 - IV. require federal covered advisers to pay fees to the state
- A. III, IV only
B. II only
C. I, II only
D. I, II, IV only
8. The statute of limitations for criminal violations is
- A. three years
 - B. five years
 - C. two years from discovery, three years from occurrence
 - D. three years from discovery, two years from occurrence

9. The statute of limitations for civil action is
- A. three years
 - B. five years
 - C. two years from discovery, three years from occurrence
 - D. three years from discovery, two years from occurrence
10. An agent in Arkansas calls a customer residing in Louisiana to try and interest her in some 5 3/4s Little Rock Revenue Bonds of '13. The customer is uncertain and does not make her decision until three days later, when she calls the representative from a cell phone while playing slot machines in Biloxi, Mississippi and says she will buy 100 of the Little Rock Revenue Bonds. The Administrator(s) of which state(s) has/have jurisdiction over this transaction?
- A. none because municipal bonds are exempt securities
 - B. Mississippi
 - C. Louisiana
 - D. All three states
11. An agent's application for registration may be denied for all the following reasons except
- A. lack of experience
 - B. conviction of a non-securities-related felony 7 years ago
 - C. conviction of a securities-related misdemeanor 9 years ago
 - D. expulsion from the MSRB
12. All Administrative orders to deny, suspend, or revoke must
- I. be in the public interest
 - II. provide protection to investors
 - III. be approved by state legislature
 - IV. be approved by the Securities and Exchange Commission
- A. I, III only
 - B. II, III only
 - C. I, II only
 - D. II, IV only
13. If it is in the public interest and provides necessary protection to investors, the Administrator may deny, suspend, or revoke an investment adviser representative's license for all the following reasons except
- A. the rep has filed a false or misleading application
 - B. the rep failed to disclose her suspension from the NASD four years ago
 - C. the rep is insolvent
 - D. the rep lacks sufficient experience to work in the highly competitive advisory business

14. If a broker-dealer refuses to provide documents subpoenaed by the state securities Administrator, the firm may be subject to

- A. three years in prison, \$5,000 fine
- B. an injunction
- C. five years in prison
- D. all of the above

15. Smith & Wessen Securities was located at 111 N. Main Street for 7 years. Upon receiving no renewal application from Smith & Wessen the Administrator sends a staff member to inspect the premises of 111 N. Main St. The staff member finds the building has been torn down, with no further information provided at the site. Therefore, the Administrator will most likely enter which of the following orders concerning Smith & Wessen?

- A. stop
- B. cease & desist
- C. cancellation
- D. suspension

16. All of the following Administrative orders generally stem from violations in the securities industry except

- A. suspension
- B. revocation
- C. withdrawal
- D. denial

17. A registered representative working in State A calls a customer living in State B to sell her shares of a growth & income fund. The customer says she'll buy the mutual fund shares but does not actually send payment until traveling through State C, where she drops the check in a US Post Office Box. The Administrator(s) of which state(s) has/have jurisdiction over this securities transaction?

- I. State A
- II. State B
- III. State C

- A. I only
- B. II only
- C. I, II only
- D. I, II, III

18. The Administrator may deny the registration of a security for all the following reasons except

- A. underwriting compensation appears excessive
- B. the order is in the public interest
- C. the order provides protection to investors
- D. the issuing company has failed to pay dividends

19. Which of the following is a true statement concerning criminal violations under the USA?

- A. there is no statute of limitations
- B. the statute of limitations is two years from discovery
- C. ignorance of the law has no bearing on criminal proceedings
- D. prison time is potentially a punishment

20. What is the maximum penalty under the USA for a criminal violation?

- A. \$10,000
- B. \$5,000
- C. \$3,000
- D. unlimited

21. An investment adviser with custody of client funds must send account statements to customers

- A. promptly
- B. monthly
- C. quarterly
- D. annually

22. What is the purpose of a consent to service of process?

- A. it insures against theft or embezzlement
- B. it acts as a surety bond
- C. it gives the Administrator the authority to receive service of process against the applicant in non-criminal proceedings
- D. it certifies that the applicant has attained the highest level of training available

23. Brooks & Baker Broker-Dealers would like to get into the investment advisory business. When they apply to do so, the Administrator determines that the firm simply is not qualified to act as an investment adviser. Therefore, the Administrator will most likely

- A. revoke the firm's license as a broker-dealer
- B. revoke the firm's license as an investment adviser
- C. condition the application for broker-dealer on the firm not engaging in the investment advisory business
- D. suspend the firm's license as a broker-dealer

24. A newspaper is published in Indiana and 70% of its circulation is in Michigan. The Administrator of which state(s) has/have jurisdiction over any offers to sell securities published in said newspaper?

- A. Indiana
- B. Michigan
- C. Both
- D. Neither

25. A newspaper published in New Mexico is purchased by a resident of Arizona. The Arizona resident finds an offer to sell a large block of municipal bonds on page 11 of the newspaper. Which of the following statements best explains this situation?

- A. no offer has occurred, as municipal bonds are exempt securities
- B. no offer has been made at this point in the state of Arizona
- C. this is an illegal advertisement
- D. this is an example of reciprocal rescission

26. If a registered representative in California attempts to sell securities to a resident of Oregon, where has an offer to sell been made?

- A. California
- B. Oregon
- C. Neither state
- D. Both states

27. Under the Uniform Securities Act, the Administrator may revoke which of the following exemptions?

- A. isolated non-issuer transaction in outstanding securities
- B. private placements
- C. offering of preorganization certificates
- D. all of the above

28. Under the Uniform Securities Act, the Administrator may revoke the exemption for which of the following?

- A. municipal bonds
- B. non-profit securities
- C. T-bonds
- D. Securities listed on a national exchange

29. Investment advisory contracts must

- A. state in writing that the adviser shall not be compensated as a share of capital gains/capital appreciation
- B. describe the formula for compensation
- C. state that no assignment of contract can occur without client consent
- D. all of the above

30. What must an investment adviser established as a partnership do if one or more members are admitted to the partnership?
- A. incorporate
 - B. notify all clients promptly
 - C. notify all institutional clients promptly
 - D. sign a waiver of noncompliance
31. Under the Uniform Securities Act, if your license is suspended, you may appeal the Administrator's decision to the appropriate court within how many days?
- A. 15
 - B. 30
 - C. 60
 - D. 90
32. What happens when a broker-dealer's license is revoked?
- A. agents of the firm may continue to sell
 - B. agents of the firm are automatically SEC-registered
 - C. the licenses of agents at the firm are no longer in effect
 - D. the agents may take only unsolicited orders from institutional clients
33. What is the main effect of NSMIA?
- A. provides better insurance protection for non-institutional investors
 - B. supplants SIPC up to \$5,000,000 per separate account title
 - C. federal law has precedence over state law
 - D. agents now receive better, fairer compensation
34. The Administrator may deny registration for an issue of securities for all the following reasons except
- A. the issuer's business is illegal in the state
 - B. the issuer produces products the Administrator deems are unsafe
 - C. underwriters' compensation is excessive
 - D. no fees were paid
35. Which of the following statements is correct concerning securities registrations under the Uniform Securities Act?
- A. a stop order issued by the state of Kansas may not affect the effectiveness of the securities' registration in Oklahoma
 - B. the Administrator may not initiate a proceeding to deny a security's registration based on a fact known to him for more than 30 days
 - C. all securities registered with the SEC must also be registered with the states
 - D. all securities registered with the SEC are automatically registered with the states

36. An agent has just received formal notice of the Administrator's summary suspension of her license. If she requests a hearing, one will be granted within how many days?
- A. 60
 - B. 30
 - C. 15
 - D. 10
37. The Administrator has the power to do all the following except
- A. deny a non-exempt security's registration
 - B. arrest violators
 - C. issue subpoenas
 - D. publish violations
38. For willful violations of the USA, the statute of limitations is
- A. 2 years
 - B. 3 years
 - C. 5 years
 - D. 7 years
39. Civil suits may not be initiated how long after the unlawful sale?
- A. 2 years
 - B. 3 years
 - C. 5 years
 - D. 7 years
40. A security has been offered and sold in all the following cases except
- A. a purported gift of assessable stock
 - B. a bona fide pledge of stock to secure a loan
 - C. sale of preferred stock
 - D. sale of Class B common stock
41. A security has been offered and sold in which of the following cases?
- A. a purported gift of assessable stock
 - B. a bona fide pledge of stock to secure a loan
 - C. a 20% stock dividend
 - D. a 3:2 stock split

42. Which of the following represents a true statement concerning offers and sales?

- A. an offer of a warrant to purchase common stock is considered an offer and sale of the underlying common stock
- B. a gift of non-assessable stock is considered both an offer and sale
- C. a stock dividend is considered an offer and sale of the additional shares received
- D. a shareholder vote to accept an offer of acquisition is considered an offer and sale of the acquiring company's stock

43. All the following statements concerning offers and sales are true except

- A. in order for a company to offer a warrant, it must first register the common stock into which the warrant may be converted
- B. in order for a company to make a gift of a warrant, it must first register the common stock into which the warrant may be converted
- C. in order for a company to offer a convertible debenture, it must first register the underlying common stock
- D. a stock dividend is considered both an offer and a sale

44. All the following transactions are exempt except

- A. a private placement offered to 10 buyers in the state
- B. a private placement offered to 25 institutional buyers in the state
- C. a sale of preorganization certificates to 12 persons in the state
- D. liquidation of assets by a receiver in bankruptcy

45. Which of the following exempt transactions will most likely lose its exemption?

- A. a private placement in which non-institutional buyers pay a small commission
- B. a private placement in which institutional buyers pay a small commission
- C. a transaction between an issuer and its underwriters
- D. a transaction between an issuer and an S&L/thrift

46. Which of the following is a true statement concerning exemptions?

- A. the Administrator must prove that a person does not qualify for an exemption
- B. the person claiming the exemption has the burden of proof
- C. the Administrator may not revoke an exemption for non-profit securities
- D. the Administrator may never revoke exemptions granted certain transactions

47. Which of the following represents a true statement?
- A. federal covered advisers are exempt from anti-fraud regulations
 - B. the Administrator has no power to enforce anti-fraud regulations upon federal covered advisers
 - C. a person can be compelled to testify over 5th Amendment objections
 - D. ignorance of the law or a particular rule has no bearing on criminal proceedings
48. None of the following is a true statement except
- A. an agent who sells a security fraudulently has no civil liabilities to the buyer
 - B. an agent who unwittingly sells an unregistered, non-exempt security has no civil liabilities to the buyer
 - C. the statute of limitations for fraud is 7 years
 - D. after receiving a bona fide offer of rescission, the buyer may not sue after 30 days have passed
49. What is the name of the official or agency charged with administering the USA within a state?
- A. Governor
 - B. Legislature
 - C. Administrator
 - D. The Big Kahuna

ANSWERS to Quiz 1, Administrative Provisions

1. ANSWER: D

WHY: the consent to service of process is filed when an applicant registers with the Administrator, giving the Administrator the authority to receive court papers on behalf of the registrant. The other three choices have to be provided before the Administrator denies, suspends, or revokes a license.

2. ANSWER: C

WHY: the state where the offer originated (A), was directed into (B), and was accepted (D). Where the issuer is located is immaterial, unless the issuer was in on the fraud, too. Since that's not mentioned in the question, do not insert it there.

3. ANSWER: B

WHY: customers are not entitled to pain and suffering or punitive damages. They may receive what they originally paid plus interest (at a rate set by the state Administrator) less any income received from holding the security. If you chose "contumacy," you weren't even close, but so what? You have to miss many questions before you start to get most of them right. Tiger Woods had to miss many putts before getting his putting game up into the stratosphere. Anyway, "contumacy" is when you disobey an Administrative order to, like, show up for questioning or, like, stop lying to your customers and stuff.

4. ANSWER: A

WHY: typical Series 63 stuff—sometimes they ask you what you were asked in Question 2; sometimes they include the court costs and reasonable attorneys' fees. Just remember, the customer doesn't get pain and suffering or "treble damages" or anything nutty like that.

5. ANSWER: C

WHY: it's just a rule, lifted right out of the good ole' USA.

6. ANSWER: C

WHY: only a court can issue an injunction. The Administrator can probably convince a court to do so, but he has to ask first, nicely.

7. ANSWER: D

WHY: only courts get to sentence violators. The Administrator can probably get you closer to a jail cell, but he has to present the case in court or get the District Attorney or Attorney General to do so. And, what are the odds that any of those folks had anything to do with getting your judge elected to his/her cushy six-figure position?

Be on your best behavior. For real.

Now, about that 5th Amendment thing-the Administrator, like the SEC, can definitely get you to talk, but they'd have to grant you immunity first. In other words, they know you probably did something dumb, but you're a small fish. They want you to help them catch and fry a bigger fish, so they're willing to risk letting you off the hook in order to hear what you have to say about the bigger fish that they'd like to send up the river. Federal covered advisers do have to pay fees to the state. They have to do notice filings to the state, pay fees, and provide a consent to service of process. After that, the Administrator won't have anything to say to them, unless they do something crazy like commit fraud. Other than that, the SEC has them under their watchful eye, the lucky devils.

8. ANSWER: B

WHY: choices C and D were trying to confuse you with the statute of limitations for civil liability, which is two years from discovery and never more than 3 years from the triggering event.

9. ANSWER: C

WHY: if it happened over three years ago, you're too late; and if you knew about it for more than two years, you're too late. What if you never found out until four years went by?

Harsh.

10. ANSWER: D

WHY: here's how it works. If the offer originates in a state, is directed into a state, or is accepted in a state, that state Administrator has jurisdiction over any funny business. This offer originated in Arkansas and was directed into Louisiana. The customer accepted the order in Mississippi, which is why all three Administrators have some say-so over any funny business. If the question said the customer cut the check and mailed it from Alabama, that doesn't matter. Where payment is made has nothing to do with an offer being communicated and/or accepted between a buyer and seller.

11. ANSWER: A

WHY: if they didn't let you get some experience, how would you ever get some experience? Any securities or sales/money-related misdemeanor or any felony over the past 10 years will probably get your license denied, and if any of the SRO's have had problems with you, that's probably reason enough to prevent you from working as a securities rep in a state, too.

12. ANSWER: C

WHY: if it's in the public interest and provides protection to investors, the Administrator issues an order to deny, suspend, revoke. All of those, by the way, fit under a larger category called "stop orders". He doesn't need legislators or the SEC to approve anything.

13. ANSWER: D

WHY: if they didn't let you get some experience, how would you ever get some experience?

14. ANSWER: B

WHY: three years and \$5,000 is for fraud, and I doubt too many people end up in that much trouble. Usually, you get your license denied, suspended, or revoked, which is pretty bad all by itself. The firm would probably receive a court injunction, which is really annoying and really bad. If you've been enjoined by a court, your license can be denied, suspended, or revoked, which is really bad.

15. ANSWER: C

WHY: when a license is "canceled" it just means the person no longer exists or can't be located. The deny/suspend/revoke orders result from people lying, cheating, stealing, or doing other generally dumb stuff when selling securities and/or investment advice.

16. ANSWER: C

WHY: a registrant who changes her mind simply withdraws her application for registration. She can't do that to avoid a nasty hearing to deny/suspend/revoke her license, but if she starts out interested in registering in Illinois and rapidly loses interest, she can just withdraw her registration. The withdrawal would be effective, by the way, no later than the 30th day after it was filed, provided no order or hearing is pending.

17. ANSWER: C

WHY: nobody cares where the payment was sent. It's all about communicating an offer and communicating acceptance of that offer. The offer originated in State A and was directed into State B—right there both Administrators had authority should anything funky go down. Had the customer been in another state when he/she communicated his/her acceptance of the offer, that state Administrator would have had authority, too. But the state where payment was sent is irrelevant.

18. ANSWER: D

WHY: some companies pay dividends, some do not. Oracle at the date of this writing has still paid zero dividends, even with all the billions of earnings behind it. That's fine. They re-invest their earnings; some companies pay a percentage of them out as dividends. And, excessive underwriting compensation really ticks off the Administrator.

19. ANSWER: D

WHY: three years in prison, \$5,000 fine or both—that's the maximum penalty for violations of the USA. There IS a statute of limitations—five years. And, ignorance of the law—if successfully proven by the person claiming ignorance—can keep somebody's ignorant you-know-what out of jail. They can be fined but not imprisoned if they successfully prove their ignorance in an embarrassing, public forum.

20. ANSWER: B

WHY: three years, five grand. Memorize it and move on. It will almost surely be on your test, but there's no trick. Three years, five grand.

21. ANSWER: C

WHY: quarterly. A broker-dealer has to send account statements monthly if there is any trading activity in the account, and if not—no less frequently than quarterly.

22. ANSWER: C

WHY: this form is filed with your initial application and also accompanies the registration for a security. It gives the Administrator the power to receive court papers (process papers) on your behalf, should you

suddenly become hard to reach. It's not a certification, and it is not a bond.

23. ANSWER: C

WHY: lots of broker-dealers also act as investment advisers. If they aren't qualified to act as investment advisers, the USA gives the Administrator the authority to grant their B/D license on the condition that they do NOT also act as IA's.

24. ANSWER: B

WHY: you don't wanna know why—it is mentioned in the book, though, if you're curious.

25. ANSWER: B

WHY: when an offer to sell securities is published out of state and read by someone in the Administrator's state, that offer is not considered to have been made in the reader's/Administrator's state. However-check this out-if the reader calls the phone number and says he's interested, now an offer to BUY has been made in the reader's/Administrator's state. If that offer to buy is accepted-as most are-now the Administrator of the reader's state DOES have authority because an offer to buy has been made and accepted in his state.

Just when you thought this stuff couldn't get any more interesting!

26. ANSWER: D

WHY: an offer has been "made" if it originates from a state or is directed into a state. The state where the offer is accepted also matters. The state from which payment is sent is not important.

27. ANSWER: D

WHY: the Administrator has the power to revoke the exemption normally afforded exempt transactions. Should the test decide to play mean, it could also ask you which otherwise exempt securities could lose their exemption: non-profits, and securities offered in connection with an employer-sponsored retirement plan.

Also remember that the burden of proof is always on the person claiming the exemption. You gotta prove why you're worthy of an excuse/exemption.

28. ANSWER: B

WHY: the USA gives the Administrator the power to revoke the exemption for two types of securities: non-profits, and securities offered in connection with an employer-sponsored retirement plan.

Also note that any otherwise exempt transaction can lose its exemption, too.

29. ANSWER: D

WHY: memorize it and move on.

30. ANSWER: B

WHY: seems like a reasonable answer, doesn't it? By the way, no waivers of noncompliance are allowed.

31. ANSWER: C

WHY: memorize it.

32. ANSWER: C

WHY: when the firm loses its license, the licenses of the agents are not in effect, either.

33. ANSWER: C

WHY: that's the effect of NSMIA—states can not have higher net capital requirements than federal requirements, and certain persons and securities are subject to federal (SEC) coverage, not state. The federal rules take precedence over state rules.

NSMIA has nothing to do with compensation or insurance concerns of industry professionals.

34. ANSWER: B

WHY: the Administrator might not like the products the company produces, but unless those products are illegal, the Administrator will just have to tough it out

35. ANSWER: B

WHY: B is a true statement because the Administrator can't initiate a proceeding based on a fact known to him for more than 30 days. The other three statements are way off—a stop order from another state is definitely of interest to the Administrator of another state. And choices C and D are just plain old weird. Some securities are registered only with the SEC-federal covered. Some are registered only with the state—intrastate offerings. And the unlisted, non-NASDAQ companies have to register with the SEC and the states.

36. ANSWER: C

WHY: some vendors try to tell you that the hearing must be requested within 15 days—not. The real answer is that the affected person must request a hearing, and then one will be granted, in public, within 15 days. That's exactly what the USA says.

37. ANSWER: B

WHY: the Administrator is not a cop. In my state, Illinois, the Administrator is also the Secretary of State, who grants driver's licenses. If I drive or sell securities on a suspended license, I'm in big trouble. But, in either case, it's the cops who would be doing the arresting. Not the Big Kahuna.

38. ANSWER: C

WHY: five years is the statute of limitations for willful, criminal violations.

39. ANSWER: B

WHY: two years from discovery and never more than three years from the event.

40. ANSWER: B

WHY: a pledge is just a pledge—you don't sell something when you put it up as collateral.

41. ANSWER: A

WHY: a gift of assessable stock is BOTH an offer and a sale. A gift of non-assessable stock is neither. A pledge is but a pledge—just putting up collateral. Stock splits and stock dividends are really non-events.

42. ANSWER: A

WHY: if you're offering an investor a security that allows them to purchase another security, you have actually offered both securities—the warrant and the stock that can be purchased at a fixed price by using the warrant.

A gift of assessable stock is BOTH an offer and a sale. A gift of non-assessable stock is neither. A merger/acquisition is not considered a sale of the acquiring company's stock. If anything, the acquiring company is offering the buy the shareholder's stock in the acquired company—they're not offering the shareholders a chance to buy the acquiring company. Other way around, right?
Or just memorize it.

43. ANSWER: D

WHY: a stock dividend is a non-event. It's just the company cutting the big equity pie into more, smaller pieces. Memorize the other three true statements. If you're offering or even giving away warrants and/or convertible debentures, you also have to register the stock into which the warrant and/or convertible can be converted.
Aren't you glad you know that?

44. ANSWER: C

WHY: the number is 10 for pre-organization certificates. A liquidation of securities by a fiduciary (sheriff, marshal, receiver, etc.) is an exempt transaction. And for private placements, wherein the stock is not even registered, the magic number is 10 for non-institutional buyers. The number of institutional buyers is not relevant. Like most of the crap on this exam.

Oops. Sorry.

45. ANSWER: A

WHY: always more concerned with protecting the little guy, right?

46. ANSWER: B

WHY: the burden of proof is on the person claiming the exemption. The Administrator can revoke the exemption normally afforded exempt transactions, and he can also revoke the exemption for two types of securities: non-profits and those issued in connection with an employee benefit plan.

47. ANSWER: C

WHY: you can claim 5th Amendment protection, but you still have to tell the Administrator what you know. You'll be granted immunity first, but you might know something they still consider useful. Federal covered advisers can get in just as much trouble as anybody else for fraudulent, deceptive practices, and the Administrator is still the appropriate person to enforce those rules. As always, the person claiming and proving ignorance beyond a reasonable doubt can not be put in jail but, rather, forced to wear a scarlet "I" for a period not to exceed seven years.

48. ANSWER: D

WHY: yep, after 30 days have passed since receiving an offer of rescission, it's too late for the buyer to sue. An agent or firm can be forced to repurchase/rescind a sale whether they meant to goof or not. If they meant to, they have bigger problems than just a ticked off customer. Fraud.
Ouch.

49. ANSWER: D, the Big Kahuna

WHY: just kidding. Of course, the correct answer is C, the Administrator. Don't be afraid to take these slam-dunks on the test. A handful will be as easy as this one.
And then the rest of the questions . . .

QUIZ 2, Administrative Provisions

1. According to the Uniform Securities Act, an Administrator who requires the posting of a surety bond may:

- I. Accept cash
- II. Accept securities
- III. Use discretion as to whether the type of securities and the amount of the deposit are appropriate
- IV. Use discretion whether to accept a deposit of cash or securities instead of a bond

- A. I only
- B. I, II, and III only
- C. II, and IV only
- D. II, III, and IV

2. Amber and her sister Caitlin both work as agents for Broker-Dealer A, which is located in State B. Amber has been called by an old sorority sister in the next state (State C) who wants to set up an account and buy some stock. However, Amber is not registered in that state, although Caitlin and Broker-Dealer A are. Amber proposes that Caitlin set up the account and split the customers' commissions. Which of the following is true?

- A. This is permissible since the agents are registered with the same broker-dealer.
- B. This is permissible since the agents are registered.
- C. This is not permissible since Amber is not registered in State C.
- D. Commission-splitting is not permissible under any circumstances.

3. Under the Uniform Securities Act, the Administrator, during an investigation, may:

- I. Subpoena records located in or out of state
- II. Subpoena witnesses to testify from in or out of state
- III. Initiate criminal liability action
- IV. Revoke a registration after providing the opportunity for a hearing

- A. I and III only
- B. IV only
- C. I, II, III, and IV
- D. II and IV only

4. A fraudulent transaction is initiated by an agent in Oklahoma with a client who lives in Kansas, who was visiting a relative in Texas where the transaction occurred. According to the Uniform Securities Act, which Administrator(s) has/have authority over the transaction?

- I. The Oklahoma Administrator
- II. The Kansas Administrator
- III. The Texas Administrator

- A. II only
- B. I and II only
- C. I and III only
- D. I, II, and III

5. According to the Uniform Securities Act, the term "sale" means:

- I. Any attempt to dispose of a security
- II. A solicitation of an offer to buy
- III. Any contract to dispose of a security for value
- IV. Any bona fide pledge of a security

- A. I only
- B. II, IV only
- C. III only
- D. I, II, and III

6. Under the Uniform Securities Act, which of the following would involve an offer?

- I. Pledging securities to collateralize a loan
- II. Gift of assessable stock
- III. A sale of securities for value

- A. I and II only
- B. II only
- C. II and III only
- D. I, II, and III

7. Under the Uniform Securities Act, the Administrator may do all of the following EXCEPT:

- A. Conduct investigations involving broker-dealers domiciled in other states
- B. Conduct an investigation without proof of wrongdoing
- C. Suspend an agent's registration without an opportunity for a hearing
- D. Publish orders issued against persons

8. Under the Uniform Securities Act, a civil action against an investment adviser could be filed even if which of the following conditions were in effect?

- I. The investment adviser died one year ago
- II. The disputed advice was given five years ago
- III. The person signed an agreement with the adviser waiving the right to take the adviser to civil court

- A. II only
- B. I and III only
- C. II and III only
- D. I, II, and III

9. Under the Uniform Securities Act, which of the following is correct regarding a State Administrator's investigative powers?

- A. The Administrator may not subpoena witnesses residing in other states
- B. The Administrator may initiate an investigation only if the person investigated is registered in the Administrator's state
- C. The Administrator may initiate an investigation anytime it appears a violation is about to occur
- D. The Administrator may initiate an investigation only if a complaint has been filed by a client

10. Under the Uniform Securities Act, the term "offer to sell" would include:

- A. The delivery of a dividend of stock without the payment of any compensation
- B. The attempt to dispose of a security for value
- C. The exercise of warrants previously sold by the corporation to an individual
- D. The tender of convertible securities as a result of an offer made exclusively to existing stockholders by another corporation

11. A "sale" or "offer to sell" under the Uniform Securities Act would include all of the following EXCEPT:

- A. Unsuccessful solicitation to sell a security
- B. Gift of assessable stock
- C. Warrant attached to the purchase of a bond
- D. Bona fide pledge or loan

12. An agent for a broker-dealer has accidentally sold an unregistered non-exempt security to a client. Which of the following would rectify the sale?

- I. Registering the security promptly
- II. Buying the security back from the client
- III. Paying the client interest from the date of the sale, less dividend or interest income received
- IV. Asking the client to sign a waiver

- A. I only
- B. I and IV only
- C. II and III only
- D. II and IV only

13. An agent has willfully violated a provision of the Uniform Securities Act. If the agent can prove she had no prior knowledge of the rule violated, which of the following is the maximum penalty?

- A. unlimited
- B. \$5,000 fine and three years in prison
- C. \$3,000 fine and five years in prison
- D. \$5,000 fine

14. If a broker-dealer does not comply with an Administrator's cease and desist order, which of the following best describes the consequences?

- A. The Administrator may request that a court issue an injunction against the broker-dealer.
- B. The broker-dealer must show cause within 15 days.
- C. The licenses of the broker-dealer's agents will be revoked.
- D. The broker-dealer's office will be closed for a period established by the Administrator.

15. Under the Uniform Securities Act, which of the following is NOT considered an offer?

- A. A gift of nonassessable securities
- B. A solicitation to sell a security for value
- C. A solicitation of an offer to buy a security for value
- D. An attempt to dispose of a security for value

ANSWERS TO QUIZ 2, Administrative Provisions

1. ANSWER: B

WHY: the USA says the Administrator can not force persons to post cash instead of securities as a surety bond. The Administrator does have the power to determine by rule which securities are acceptable as a deposit.

2. ANSWER: C

WHY: remember that an agent has to be registered in the state in which she is doing business. Amber might want to pretend she's not actually doing business in the other state, but if she's getting paid commissions on securities transactions with customers in State C, she needs to be registered in State C.

3. ANSWER: C

WHY: the Administrator would turn the criminal action over to the appropriate prosecutor, but he/she/they can certainly get the ball rolling. Note that if we didn't let the state regulators investigate outside their state, some smarmy firm in, say, Texas, could wreak havoc on investors in all other states, with those states powerless to do anything about it. So, if the test question is talking about witnesses, records, or persons outside the Administrator's state, remember that the Administrator does have the power to go after that stuff.

4. ANSWER: D

WHY: the investor is a resident of Kansas, so the Kansas regulators have power to protect their investors. The offer originated in Oklahoma and was directed into Texas, so both of those states have authority, too. Which state would claim authority, and what would actually happen now?

Are you a legal scholar or just somebody trying to pass an exam? :)

5. ANSWER: C

WHY: just a basic question talking about the attempt/solicitation (offer) versus the actual "contract" to dispose of a security for value (sale). A pledge is just a pledge. I'm not offering or selling the security that I'm pledging for collateral; with any luck, I'll just pay off the loan and get my security back in one piece.

6. ANSWER: C

WHY: a gift of assessable stock is both an offer and a sale, while a gift of non-assessable stock is neither.

Why?

Who cares?

If something has been sold, it has also been offered.

And, a pledge is neither an offer nor a sale.

7. ANSWER: C

WHY: before denying, suspending, or revoking a license, the Administrator has to give prior notice/opportunity for hearing/written findings. The only other tempting choice might have been "B," until you look closely at the words. Surely, he could start an investigation before he has proof--that's usually how you gather proof. You investigate. If you're stumped about whether they can publish violations, go to www.nasaa.org and click on "find your regulator." Most of those web sites are full of published violations, which the regulators love to make available. The NASD, by the way, loves to publish all the actions they've taken against member firms and associated persons, too, at www.nasd.com.

8. ANSWER: B

WHY: cause of action survives the death of both the plaintiff and the defendant, so if the adviser dies, you could still go after the firm, and if the client dies, the surviving kids could still come after the firm. However, the statute of limitations says that you have to take action within 2 years of discovery, 3 years from the event. Also, that silly agreement the client signed would be considered "null and void" by any court of law, meaning it's not worth the paper it's printed on, let alone the legal fees that went into drafting it. Be on the alert for the words "exculpatory" or "waiver of noncompliance." IA's can't get clients to hold them blameless or to allow them to skirt the law. Well, they can try, but it wouldn't hold up in court and would probably get them in trouble. Also, for you lovers of language: ever heard the phrase "mea culpa"? It means "my fault," because words with "culpa" in them (culpability) have to do with fault. "Ex" means "without," so an ex-culpatory provision would be one trying to hold the other person "without fault." Fascinating.

9. ANSWER: C

WHY: doesn't "C" seem like the right answer? The Administrator has the power to provide necessary protection to investors. As soon as the investors appear to be threatened, he can start investigating. If you chose "B," you need to look a lot more closely at your answer choices. If "B" were true, all I'd have to do to stay out of trouble with a particular state is to not register there? You can't touch me because I've already violated the USA by not registering? If you chose "D," did you look at it closely enough? Does the picture we've painted of the Administrator look like somebody who says, "Well, as long as the client isn't too upset by it, it's okay to fleece him"?

10. ANSWER: B

WHY: good one to memorize and keep moving.

11. ANSWER: D

WHY: good one to memorize and keep moving.

12. ANSWER: C

WHY: that's an offer of rescission--we goofed, we'll buy it back for the price paid plus interest. Never ask a client to sign a waiver.

13. ANSWER: D

WHY: if you chose "B," just slow down a bit. Yes, those are the penalties, but we inserted a curve ball: if you can prove your ignorance they can't put you in jail. Embarrassing, sure, but to stay out of jail I'd show up in a diaper just like Larry Flint.

14. ANSWER: A

WHY: if you won't cooperate with the Administrator, perhaps the court can get your attention?

15. ANSWER: A

WHY: memorization point.

QUIZ 3, Business Practices

1. Sharon Shumacher would like to share in the gains and losses of her client's account. As a registered representative of Berkley Broker-Dealers, what is true of this arrangement?
 - A. this arrangement is fraudulent and unethical
 - B. Sharon must obtain the client's written consent
 - C. Sharon must obtain both the client's and the firm's written consent
 - D. Sharon needs only her firm's written consent

2. None of the following represent violations of securities regulations by registered representatives except
 - A. choosing the price paid or the time of execution for a security in the absence of discretionary authority
 - B. effecting transactions not recorded on the regular books of the broker-dealer with advance written authority from the firm
 - C. choosing the amount of shares of GE to be purchased for a non-discretionary client
 - D. referring to VLI as primarily an "insurance product"

3. Jose Jiminez would like to share commissions with Carlos Cordoba. Jose is a licensed agent of XYZ Broker-Dealers. Carlos is a licensed representative of ABC Broker-Dealers. What is true of this situation?
 - A. sharing commissions is an unethical business practice
 - B. the sharing arrangement must be approved by the Administrator
 - C. the agents must get permission from their respective firms
 - D. the agents must get permission from their respective firms, and the firms must be affiliated directly or indirectly

4. Which of the following customers may an agent most likely borrow money from?
 - A. a close friend
 - B. a customer who is an agent at an NASD member firm
 - C. a customer who is an agent at an NYSE member firm
 - D. a bank

5. Which of the following statements by a registered representative is accurate and permissible?
 - A. All mutual funds with 12 b-1 fees are also "no load"
 - B. If a mutual fund charges a 12 b-1 fee, it can not be referred to as "no load"
 - C. This federal covered security is obviously safer than other securities, or they wouldn't have given it federal covered status
 - D. A Treasury note has no default risk but does carry interest rate risk

6. All of the following are prohibited practices except
- A. a registered representative recommends a growth stock with an exceptionally high P/E ratio to all 100 of her clients across the board
 - B. a broker-dealer effects an opening transaction in a margin account one day before receiving a signed margin agreement from the customer
 - C. a registered rep takes an order from a non-discretionary client's wife without 3rd-party trading authorization
 - D. a broker-dealer buys REITS for a non-discretionary client before informing the client, because the investment is perfectly suitable
7. XLY Broker-Dealers has been charging customers commissions and mark-ups that average 15% more than the industry average. What is true of this situation?
- A. it is fraudulent and deceptive
 - B. it is permissible with prior NASD-approval
 - C. it is prohibited if deemed to be excessive and/or unreasonable
 - D. all customers over the past 90 days are due full refunds, plus court costs, minus any income received from recommended purchases
8. ABC Broker-Dealers charges 35% more than the industry average for collecting and transferring dividends and interest payments on behalf of clients. What is true of this practice?
- A. it is perfectly acceptable, as these services are not covered by NASAA policy statements
 - B. it is fraudulent
 - C. firms may not charge excessive or inequitable fees for services performed, including these services
 - D. it is prohibited to charge customers who have had accounts more than 12 months inequitable and/or excessive fees for such services
9. When must a final prospectus be delivered to a client purchasing an IPO?
- A. At the time payment is made
 - B. No later than the due date for confirmation
 - C. No later than T + 5
 - D. Just before delivering the Red Herring
10. TLC Broker-Dealers is a wholly owned subsidiary of General Electric, Inc. If TLC would like to sell shares of a private placement of GE stock
- A. this is a fraudulent, unethical practice
 - B. the Administrator must grant prior approval
 - C. full disclosure must be provided to non-institutional buyers
 - D. full disclosure must be provided to all buyers

11. All of the following represent prohibited activities of investment advisers except
- A. exercising any discretionary power in placing an order to purchase or sell securities for a client after receiving verbal authorization with written authorization received within 10 business days
 - B. placing all client transactions through a broker-dealer that compensates the adviser with commissions without disclosing this arrangement to clients
 - C. trading opposite of recommendations given to clients
 - D. revealing client affairs, transactions, account balances, etc. in the absence of a court order
12. Investment advisers are expressly prohibited from engaging in all the following activities except
- A. inducing clients to trade frequently
 - B. inducing clients to engage in transactions that are excessive in size given the client's financial resources and risk tolerance
 - C. recommending agency cross transactions to both sides of the transaction
 - D. recommending tax-exempt revenue bonds to high-net-worth clients
13. Maria Hernandez is a sole practitioner set up as an investment adviser. Maria studies financial statements, focusing primarily on target companies' cash flow, earnings acceleration, and revenue generation metrics. Which of the following is the most accurate way for Maria to describe her approach to rendering investment advice?
- A. I use the technicals of a company from a technical analysis approach
 - B. I use the technicals of a company from a fundamentalist approach
 - C. I use fundamental analysis to determine which companies represent strong investment opportunities
 - D. I am certified by the state securities Administrator to perform fundamental analysis in rendering advice/recommendations
14. A customer of Q & R Investment Advisers calls an adviser representative to inquire what the "wrap fee" charged on her account represents. Which of the following represents the best response from the IA representative?
- A. A wrap fee is the same thing as a commission
 - B. A wrap fee is just like a contingent deferred sales charge
 - C. A wrap fee combines charges for advice as well as execution of a transaction and other services
 - D. A wrap fee is charged when the account achieves a certain level of return

15. Which of the following is a true statement concerning reports and recommendations in the investment advisory business?
- A. An adviser may not use published reports and/or statistical analyses provided by other sources when rendering investment advice
 - B. An adviser may not use published reports and/or statistical analyses provided by other sources when rendering investment advice without disclosing the source to clients
 - C. An adviser may not present a client with an investment recommendation prepared by someone else without disclosing the source to the client
 - D. An adviser may provide clients with reports prepared by outside sources without disclosure for discretionary clients
16. John Jacobs is an investment adviser who happens to hold 1,000,000 warrants on XYZ common stock. Whenever large numbers of purchase orders on XYZ hit the market, John notices that the stock tends to rise sharply. Therefore, John
- A. must refrain from recommending XYZ
 - B. must refrain from recommending XYZ to non-institutional clients
 - C. must provide disclosure to clients on the potential conflict of interest
 - D. may recommend XYZ freely, provided he rebates a reasonable percentage of the commissions to his clients
17. In order to improve sales and customer satisfaction, QRZ Advisers have implemented a policy whereby clients are rebated 85% of their advisory fees whenever their accounts lose to the S & P 500 by more than 2 percentage points. What is true of this arrangement?
- A. it is fraudulent
 - B. it is prohibited
 - C. it is allowable for clients with more than \$25,000 under management
 - D. it is permissible with prior approval from a principal
18. All of the following statements are true of investment advisory contracts except
- A. they must be in writing
 - B. they must state that no assignment of contract can occur without client consent
 - C. they must explain the basis for compensation
 - D. they must disclose the results of the most recent inspection performed by the state

19. Noting that advisory clients are increasingly demanding results, XYZ Advisers has drafted an agreement that allows clients to compensate the firm as a basis of capital appreciation above the rate of quarterly S&P 500 index appreciation. This type of waiver

- A. is fraudulent
- B. is prohibited
- C. is permissible for clients with \$10,000 or more under management
- D. is a prohibited practice known as "selling away"

20. Sarina Sanborn is an investment adviser set up as a sole proprietor. Sarina would like to share the gains and losses in client accounts. What is true of this situation?

- A. it is fraudulent
- B. Sarina must get the clients' written consent first
- C. Sarina must get the clients' written consent and the consent of SEC first
- D. This is prohibited

21. All the following activities are prohibited except

- A. sharing commissions with other agents at the firm
- B. front running
- C. capping
- D. indicating that the Administrator has verified the accuracy of an offering document

22. All of the following are prohibited activities except

- A. matched purchases
- B. arbitrage
- C. selling dividends
- D. breakpoint sales

23. 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 NASD within 5 business days
- C. is prohibited because all written customer complaints must be forwarded to the Administrator within 3 business days
- D. is prohibited because all written customer complaints must be brought to the attention of your employer

24. A registered representative may split commissions with his assistant
- A. if a principal approves it in writing
 - B. if the secretary is properly registered as an agent
 - C. if the split is at least 55/45
 - D. freely
25. 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 common stock in companies without positive earnings, this is known as
- A. an unauthorized trade
 - B. arbitrage
 - C. selling away
 - D. fraud
26. What is true of material facts?
- A. omitting or misstating them is unlawful and fraudulent
 - B. they need not be disclosed to large, institutional clients
 - C. the agent must choose which material facts to disclose
 - D. they must not be acted upon
27. All of the following business practices are prohibited except
- A. failing to state all facts about a security
 - B. selling away
 - C. failing to state all material facts about a security
 - D. breakpoint selling
28. 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 large blocks of stock/bonds
 - B. encourage customers to sell frequently
 - C. encourage all customers to trade twice per week
 - D. consider suitability before recommending any transaction
29. Which of the following are true concerning criminal penalties under the Uniform Securities Act?
- A. there is no statute of limitations for securities fraud
 - B. the statute of limitations for securities fraud is 6 years
 - C. the maximum penalty is 3 years in jail, \$5,000 fine or both
 - D. ignorance of the law has no bearing in criminal proceedings

30. All of the following are prohibited practices except

- A. An investment adviser is compensated as a share of capital gains
- B. An agent feels it is likely that a company like GRZ will eventually be NYSE-listed and so she indicates to her clients and prospects that GRZ is a listed company
- C. An investment adviser takes custody of client funds in the absence of a rule against custody, informing the Administrator in writing
- D. An investment adviser representative tells a prospect that she has been approved by the Administrator to provide both technical and fundamental analysis on value stocks

31. All of the following statements by investment representatives are unacceptable except

- A. "Treasury Bills are riskless securities."
- B. "There is no chance of sustaining an investment loss on T-notes."
- C. "If you invest in the Long-Term Treasury Fund right now, you can benefit by receiving the upcoming dividend."
- D. "Treasury Bills are guaranteed by the U.S. Government, but do retain interest rate risk."

32. Which of the following represents an acceptable sharing arrangement with clients?

- A. an investment adviser shares the gains and losses in a joint account with a client after receiving written client consent
- B. an investment representative, after receiving client consent and approval from the branch manager, establishes a joint account with an immediate family member and shares the gains/losses/appreciation

60/40

- C. an investment representative shares the gains and losses of each transaction within a discretionary account
- D. an investment representative shares the gains and losses of each transaction within a non-discretionary account

33. In order for a registered representative to borrow money from a client

- A. the client must sign a waiver
- B. the client must be a bank or lending institution
- C. the principal must sign off
- D. the Administrator must grant approval

34. Capital gains distributions may be combined with income distributions when calculating yield for an investment company share
- A. for 3 years
 - B. for 5 years
 - C. for up to 10 years
 - D. under no circumstances
35. An investment representative is registered in State A. She sells an unregistered, exempt revenue bond issued by State B to a customer who is a resident of State A. This activity
- A. is fraudulent
 - B. is prohibited
 - C. is prohibited without prior principal approval
 - D. is not prohibited
36. Yesterday you told a customer via telephone that reinvesting all dividend and capital gains distributions from the Gemini Aggressive Growth Fund will insure against a loss of principal. This statement is
- A. irrelevant
 - B. immaterial
 - C. misleading
 - D. prohibited unless accompanied by a prospectus
37. All of the following are prohibited activities for agents except
- A. failing to state all material facts about a security to a customer
 - B. misstating a material fact about a security to a customer
 - C. soliciting orders for unregistered, non-exempt securities
 - D. sharing commissions with registered agents working at a subsidiary of the employing broker-dealer
38. If a customer asks you to place Post-It™ notes on the most important pages of the prospectus, with your own succinct explications, you should
- A. have your explanations proofread by a supervisory analyst
 - B. have your explanations approved by a compliance officer
 - C. refuse to comply with this request
 - D. only comply with this request with prior principal approval
39. Providing a fictitious quote to a customer is
- A. misleading and fraudulent
 - B. a violation known as pegging
 - C. a violation known as capping
 - D. not prohibited for fictitious accounts established at the firm

40. The practice of promising clients to re-sell one of their securities in 3 months for 35% more than they purchase it for today is

- A. allowable only with prior principal approval
- B. prohibited
- C. a violation referred to as frontrunning
- D. a violation referred to as repurchase reciprocation

41. One of your customers is a retired widow living on a modest fixed income. She calls one afternoon and insists that she needs to sell her government bonds and put the money into small-cap technology stocks trading on the OTC Bulletin Board. What should you do?

- A. inform the SEC
- B. petition the appropriate court to schedule a hearing to determine mental competence
- C. tell the customer you feel the action is unsuitable and only execute the transactions after obtaining written acknowledgment that they are "unsolicited"
- D. inform the Administrator

42. Which of the following would not represent an inappropriate recommendation?

- A. recommending growth stocks to investors with income as an objective
- B. recommending municipal bonds to low-tax-bracket investors
- C. recommending frequent trades to long-term investors
- D. recommending stocks on your broker-dealer's preferred list

43. Why is churning a violation?

- A. because the SEC mandates only 11 trades per week for non-institutional investors
- B. because the SEC allows only 11 trades per week for non-institutional investors
- C. because the practice yields commissions to agents and firms, often at the expense of customers
- D. because the Securities Act of 1929 defined it so

44. Which of the following would be an acceptable statement for an agent to make to a customer concerning Treasury securities?

- A. No one has ever lost money investing in Treasury notes and bonds
- B. No one can lose money investing in Treasury notes and bonds
- C. Treasury securities carry no default risk
- D. Treasury securities carry no interest rate risk

45. Which of the following securities is most susceptible to interest rate risk?
- A. Chicago revenue bond maturing in '09
 - B. XYZ 6s debenture maturing in '11
 - C. GNMA pass-thru maturing in '13
 - D. T-bond maturing in '17
46. Which of the following securities is most susceptible to default risk?
- A. Chicago revenue bond maturing in '09
 - B. XYZ 6s debenture maturing in '11
 - C. GNMA pass-thru maturing in '13
 - D. T-bond maturing in '17
47. How often must IA's send account statements to customers?
- A. frequently
 - B. promptly
 - C. monthly
 - D. quarterly
48. Broker-dealers may charge customers reasonable fees for all the following services except
- A. transferring dividends
 - B. transferring bond interest
 - C. safekeeping securities
 - D. forwarding proxy statements
49. One of your prospects is a wealthy entrepreneur who suggests an agreement whereby he will purchase a seven million-dollar variable annuity from you if you rebate to him 23% of your commissions from the sale. Which of the following represents your best response to this proposal?
- A. accept the proposal through a bona fide legal agreement
 - B. accept the proposal provided the customer signs a waiver of non-compliance
 - C. refuse the arrangement
 - D. report the customer to the SEC
50. All of the following represent prohibited practices for IA's except
- A. entering into or renewing contracts that provide for compensation as a share of capital gains
 - B. entering into or renewing contracts that provide for compensation as a percentage of total assets under management
 - C. entering into or renewing contracts that provide for assignment of contract without client consent
 - D. entering into verbal contracts with non-institutional clients

51. An agent is making a sales presentation to a high net worth investor. The agent is convinced the particular growth stock is an excellent opportunity and perfectly suitable for the investor's objective of growth and relatively high risk tolerance. All of the following activities on the part of the agent would be prohibited except

- A. omitting material information
- B. guaranteeing a specific result
- C. omitting immaterial information
- D. refusing to provide a prospectus or other disclosure document

52. In order to land a skeptical new customer, you offer to pick up her dry cleaning every Friday for the next three years and call her at exactly 9:30 AM Eastern Time to remind her that the NYSE is now open for trading. This represents

- A. standard operating procedure
- B. a prohibited practice
- C. fraud
- D. a non-prohibitive disclaimer

53. Andy Ackerman has been soliciting and filling orders for retail customers even though he is not registered as an agent. What is true of this situation?

- A. it is permissible with prior approval from a registered general securities principal
- B. the broker-dealer can not be subjected to disciplinary actions
- C. it is permissible if the securities are exempt
- D. this represents a violation and customers may recover the original price paid for their securities plus interest

54. A stock listed on the NYSE is not exempt from which of the following requirements of the Uniform Securities Act?

- A. filing of advertising materials
- B. registration
- C. anti-fraud provisions
- D. progress reports

55. Which of the following is a true statement concerning material facts?

- A. omitting material facts is fraudulent in the offer or sale of exempt securities
- B. omitting material facts is fraudulent in the offer or sale of securities
- C. omitting material facts is prohibited when offering or selling securities to retail investors
- D. omitting material facts is prohibited when offering or selling securities to institutional buyers

56. In order to sell an unregistered, non-exempt security you convince your client to sign a waiver of non-compliance, effectively exempting both parties from the registration provisions of the Uniform Securities Act.

This contract between you and the client is

- A. enforceable only at the federal level
- B. enforceable only at the state level
- C. null and void
- D. punishable up to 7 years in a state prison

57. Your assistant has been working for you three years now and has displayed a natural ease with customers. You may now allow your assistant to take and place orders for your customers

- A. as soon as the assistant passes the Series 6 or 7
- B. as soon as the assistant passes the Series 6/7 and 63
- C. as long as the customers are institutional clients
- D. as long as the assistant is registered as an agent

58. Which of the following activities is/are prohibited?

- I. soliciting orders for registered, non-exempt securities
- II. creating the appearance of active trading in a security
- III. soliciting orders for unregistered, exempt securities
- IV. failing to bring written complaints against an agent to the attention of a principal at the employing broker-dealer

- A. I, II, III, IV
- B. I, II, IV only
- C. II, IV only
- D. III only

59. If a husband wants to open an account in which he trades for his wife, which of the following documents must be completed and signed?

- A. power of attorney from the wife
- B. new account form
- C. power of attorney for the husband
- D. margin agreement

60. You have been discussing the purchase of ABC preferred stock with a client for approximately three months. The client has indicated that if the market price rises at least 5%, she will buy it. On Tuesday morning ABC preferred rises by 6%. You call the client but can not reach her by phone. What should you do at this point?

- A. have a principal approve an order to buy 100 shares "unsolicited"
- B. nothing
- C. leave a message informing your client that you will purchase the stock if you do not hear back from her within the hour
- D. Enter a buy-stop order for the stock

61. Brad Bowers is a former systems analyst for a large technology consulting company. Using his technical background, Brad, a new registered representative, has thoroughly researched companies that manufacture computer chips and has decided to recommend the IPO in Chiptronix to all 350 of his clients. Brad has carefully explained the high-risk nature of this speculative investment in a technology company with negative earnings history. Therefore,

- A. Brad has acted appropriately by discussing the risk of the investment
- B. Brad has acted inappropriately, due to the inherently weak nature of most technology stocks
- C. Brad has acted inappropriately by violating suitability requirements
- D. Brad has engaged in fraud

62. An investment adviser in Chicago would like to record a testimonial by Oprah Winfrey, a client of the firm. Ms. Winfrey will explain how satisfied she is with the results she has achieved through the advisory firm. This:

- A. is unacceptable
- B. is permissible with prior principal approval
- C. is allowable with approval by the State Administrator
- D. is exempt from SEC rules given Ms. Winfrey's accredited investor status

63. An investment adviser may have custody of client funds and securities

- I. if the adviser files a consent to service of process
- II. if the Administrator does not, by rule, prohibit custody
- III. if the Administrator is informed of the custodial arrangement
- IV. if the adviser is registered with the SEC

- A. I, II, III, IV
- B. I only
- C. II, III only
- D. II, III, IV only

64. One of your customers regularly purchases stocks included in the DJIA, focusing primarily on those with sudden increases in EPS. This morning, one of the Dow stocks announces a 25% surge in reported EPS for the most recent quarter. If you customer can not be reached you

- A. may contact the client's wife and ask her to sign a waiver of compliance
- B. may purchase shares in the stock provided you have been granted written discretionary authorization from the client
- C. may choose the time and price, but the number of shares must be the average of customer purchases over time
- D. may purchase the shares and hold them in temporary escrow until the client may be reached

65. The Mayor of Monticello, Minnesota deliberately omitted material information in a private sale of municipal bonds to an accredited investor. During a heated press conference the mayor states that she has not committed fraud in the securities markets because she is not a securities "dealer" or "agent" as defined under the USA, municipal bonds are exempt securities, and the omission of material information was intentional. What is true of this situation?

- A. it represents a really long, stupid question
- B. the mayor is correct-no fraud can occur if the securities are exempt
- C. the mayor is incorrect—whether the securities are exempt and whether she is defined as agent or dealer are irrelevant facts
- D. the mayor is correct, since the omission was intentional

66. Higher than normal commissions or markups may be charged to customers if

- A. the security is exempt
- B. the security is non-exempt
- C. the higher charges are justified and disclosed to the client after the transaction
- D. the higher charges are justified and disclosed to the client before the transaction

67. Pete Best, after tragically being ousted as drummer for the Beatles, has decided to start an investment advisory firm. His firm's business cards may be printed in all of the following ways except

- A. Peter A. Best, Investment Consultants
- B. Pete Best & Associates
- C. Best Investment Advisers
- D. Best & Associates, LLC

68. Your former college roommate is a licensed insurance agent. You are both a licensed insurance agent and Series 6 holder. You may split commissions with your former roommate on variable annuities

- A. freely
- B. with prior principal approval
- C. only if your friend gets her securities license first
- D. never, as splitting commissions is a prohibited practice

69. Barbara and Betty are customers of your broker-dealer employer in a JTWROS account. Barbara instructs you to sell 1,000 shares of GMRZ from the joint account and cut a check payable in her name. Your firm, instead, makes the check payable to both Barbara and Betty. This action represents

- A. a fraudulent practice on the part of your firm
- B. a fraudulent practice on the part of Barbara
- C. standard operating procedure for joint accounts
- D. selling away

70. Which of the following activities is/are permissible?

- I. soliciting orders for unregistered, exempt securities
- II. soliciting orders for registered, non-exempt securities
- III. buying GE on the NYSE for one price while simultaneously selling it at a higher price on a regional exchange
- IV. not ignoring a client's explicit instructions to not purchase a security

- A. III only
- B. IV only
- C. I, II, III only
- D. I, II, III, IV

71. In an agency cross transaction, the investment adviser

- A. may advise both the buyer and the seller
- B. may advise both the buyer and seller provided that fees are reduced on both sides
- C. must provide prior disclosure that such a transaction may be a conflict of interest
- D. need not provide annual statements to each client with the total number of agency cross transactions and commissions collected

72. Omitting material facts in the solicitation or rendering of investment advice is

- A. fraudulent for institutional customers
- B. fraudulent for non-institutional customers
- C. fraudulent for retail customers
- D. fraudulent and prohibited by the USA

73. While selling securities for a broker-dealer located on the premises of a retail bank, a registered representative tells a prospect that SIPC and FDIC are basically the same thing. This statement is

- A. not prohibited
- B. misleading and prohibited
- C. accurate but still prohibited
- D. an example of selling away

74. Just before placing a large buy order for your customer on a thinly traded Bulletin Board stock, you buy calls and go long the stock yourself. This is an example of

- A. good market timing skills
- B. frontrunning, a violation
- C. frontrunning, not a violation
- D. matching

75. To be considered an "insider" for purposes of insider trading rules, the person in question

- A. Possesses material, non-public information
- B. Must be a vice-president of a public company or higher-level executive
- C. CEO or CFO of a large, publicly traded company
- D. Must be CEO or member of the Board of Directors

76. Golfing with a favorite client the other day, you overhear that a large public company is about to announce the loss of their three biggest government contracts. You may

- A. stop recommending the stock to customers
- B. sell you own holdings short in a margin account
- C. advise your clients to sell their holdings as long as you do not reveal the inside information
- D. advise your clients against purchasing any more of this stock without revealing why

77. An agent tells a prospect that a mutual fund charging a 12 b-1 fee is a "no load fund." This statement is

- A. fraudulent
- B. misleading
- C. prohibited if the 12 b-1 fee exceeds .25% of average net assets
- D. a violation known as pegging

ANSWERS TO QUIZ 3, Business Practices

1. ANSWER: C

REASON: only way Sharon will be sharin' is if she gets the customer's and her employer's written consent. And, she can only share in proportion to her investment in the account.

2. ANSWER: C

REASON: if the client account is "non-discretionary," the rep can't choose the Amount of shares (or which shares, or whether to buy or sell), so it would be a violation to make that choice when the rep doesn't have that authority. Reps can always make the final choice of price/time, which is why choice "A" is not a violation. Choice B is surprising, but it's how it goes. And choice "D" is not surprising, since VLI is supposed to be sold primarily as insurance, not a security. It's both, but mainly it's an insurance product.

3. ANSWER: D

REASON: that's straight off NASAA's Statement of Policy adopted in 1983 for Broker-Dealers and Agents. The exam probably will ask about sharing commissions. Make sure everybody's registered as an agent, and the firms need to be related, too.

4. ANSWER: D

REASON: just memorize it.

5. ANSWER: D

REASON: that's how it works with Treasury securities: no default risk, but if interest rates rise, the price of the security will fall right along with all debt securities. As far as "no load" and "12 b-1 fees" go, just remember that most so-called "no load" funds do charge 12 b-1 fees that cover the same expenses covered by a sales load. If this fee exceeds .25% (25 basis points) of net assets, the fund can't call itself no load. So how much does each investor lose to the 12 b-1 fee?

Nobody ever gets a bill. They'd have to track the drop in NAV per share, and who has time for that stuff.

Which is why the SEC is currently kicking around the idea of more disclosure, but that's another story and almost certainly not on the test.

6. ANSWER: B

REASON: believe it or not, the first transaction on margin can happen even before the margin agreement has been signed, as long as it's received promptly thereafter. This is also from the NASAA policy statement covered in Pass the 63©. Never make the same recommendation to a large number of clients, as this is a no-no called "blanket recommendations." The exam wants you to know that you must

consider each client individually, making recommendations suitable to each client. Don't take orders from people other than your client. And you can't buy REITS for your client just because you think it's a good idea—you'd need discretion to make that call.

7. ANSWER: C

REASON: the firm had better hope that customers don't start complaining and convincing regulators that these markups are excessive, but it ain't necessarily a violation yet. It would only be fraud if they marked securities up 15% but told clients the markups were only 5%.

8. ANSWER: C

REASON: doesn't "C" just sound like the right answer? That's the point you need to get to—the point where you can sense the right answer. Are you there yet?

9. ANSWER: B

REASON: not worth explaining.

10. ANSWER: D

REASON: Gee (no, GE) we sure have a financial interest in selling this stock as high as possible, but—not to worry—we'll give all our customers a fair price when we sell it to them, anyway.

Yeah, right.

It's a conflict of interest and must be disclosed to ALL buyers. Sure hope you didn't choose "B," as the Big-A never approves/disapproves of anything, right?

11. ANSWER: A

REASON: very surprising, but NASAA'S Adopted Model Rule called "Unethical Practices of IA's" says that the IA can use discretionary authority granted verbally as long as written authorization is obtained within 2 business weeks (10 biz days). Now, an agent/broker-dealer could never do that, but that's because agents/broker-dealers get paid per transaction. The IA doesn't necessarily make money every time the client trades. In fact, if the IA chooses a bad stock that pushes down the asset value of the account, the IA will suffer right along with the client, especially when the client gets hold of their unlisted cell phone number. In choice "B" the IA's fiduciary duty to the customer is being tested, since the IA now does make money per transaction. So, that incentive needs to be disclosed to the client, who is thinking the IA is only looking out for him/her/them. What if your IA shorted every stock she told you to buy? Nope. They have to disclose when they do the opposite of what they tell you to do. And choice "D" is self-explanatory. Just like an attorney, an IA is a fiduciary to the client and may not reveal the affairs of the client unless ordered to do so.

12. ANSWER: D

REASON: do you see anything wrong with recommending munibonds to high-tax-bracket investors? That's who buys munibonds. Everything else looks fishy, doesn't it? How can you be advising both the buyer and the seller in an agency cross transaction? Buyers want the lowest price; sellers want the highest price, right? You can do these agency cross transactions as long as you get the consent of both parties and provide the buyers with an annual list of such transactions they were involved with. You can advise one party but only act as a broker for the other.

13. ANSWER: C

REASON: eliminate choice "D" because the Administrator doesn't certify anyone, any more than he would approve/disapprove of somebody. Technical analysis involves charting and predicting stock prices based on volume, price patterns, trends, etc. Fundamental analysis involves looking at financial statements and being concerned with stuff like PE ratios, EPS, cash flow, revenue growth, etc.

14. ANSWER: C

REASON: that's what a wrap fee is; memorize it.

15. ANSWER: C

REASON: big difference between using a report to make somebody a recommendation and passing off somebody else's recommendation as your own, right? So, the IA can definitely use published or custom-ordered reports, but if they're passing off somebody else's recommendation to you, they must disclose who came up with the bright idea and why you shouldn't just go there instead.

16. ANSWER: C

REASON: IA's are supposed to give advice for the sole reason that it benefits their clients. If the advice also benefits the IA, there is a conflict of interest that must be disclosed. Period.

17. ANSWER: B

REASON: this would be performance-based compensation, which can only be provided to "sophisticated investors," including institutions and folks with \$1.5 million net worth or \$750,000 under management. When you see the word "rebate," on the exam, you can be pretty sure something funky is going on.

18. ANSWER: D

REASON: all advisory contracts must be in writing and must disclose all terms of the contract. The results of the most recent inspection are not part of the contract.

19. ANSWER: B

REASON: no waivers allowed. Any such contract is considered 'null and void', or not worth the paper it's written on, let alone the legal fees paid to draft it. The rules apply to everyone, even the ones who don't like them. Especially the ones who don't like them.

20. ANSWER: D

REASON: agents, who work for broker-dealers, can sometimes share gains and losses with clients, as long as they get the customer's written consent and the consent of the firm. But IA's do NOT share gains and losses with clients. It's a prohibited practice. It's not fraudulent, because it's not deceitful; it just ain't allowed. Prohibited.

21. ANSWER: A

REASON: sharing commissions with other agents is fine. They need to work for the same firm or a subsidiary of the firm, but the exam probably won't even go that far. Unless it does.

22. ANSWER: B

REASON: no idea why the exam wants you to know that arbitrage is okay-or, maybe they just need it as the 'except' choice versus three other prohibited practices. Whatever the reason, please know that buying stock on one exchange while selling it for a slightly higher price on another exchange is known both as "a real good day" and "market arbitrage." Finding "pairs" of stocks is another method, too. For example, when a big company acquires a smaller company, usually the acquired company's stock rises, while the bigger company's stock falters. So, you can short the buyer and go long the acquired company, knowing that the stock goes up for one and down for the other. Except when it doesn't.

23. ANSWER: D

REASON: if you're using good test-taking skills, you got this answer correct. Not because you were supposed to "know" this already, but because you can sense that it's the best answer. Fraud is involved when you lie/deceive someone when buying or selling securities or investment advice. There are no lies going on here. Customer complaints simply have to be forwarded. Now use logic: does the SEC have time or space for all customer complaints? Even at the state level, the Administrator would be overwhelmed. So, you have to pick the most likely answer, which is to give your employer/supervisor the written complaints. If you

think he's mad now, check out his attitude after he discovers you destroyed 20 angry letters from a disgruntled client.

Yowza.

Disclosure is always better than trying to hide stuff.

24. ANSWER: B

REASON: the exam has many missions. One of them is to make sure you understand that you can split commissions, but only if all the agents are registered.

It's really not that surprising of a concept; it's just that the exam is obsessed with the idea. So, you can probably expect two or three questions all pointing to the same conclusion: splitting commissions is okay, as long as everybody's a registered agent.

25. ANSWER: A

REASON: if you have discretion and buy something totally unsuitable, it's a no-no called an "unauthorized trade." Like, what else would somebody call it? They didn't authorize you to buy unsuitable stuff. Suitable stuff, sure. The other stuff is unauthorized.

26. ANSWER: A

REASON: textbook definition of fraud-can't mis-state or omit material facts when selling securities and/or investment advice. Hope you didn't think it was okay to dupe the big institutional investors. Choice D makes no sense, except that it's trying to confuse you with "material, inside information." And Choice C is there to remind you that agents can't pick and choose which material facts to disclose-they're all disclosed.

27. ANSWER: A

REASON: if the facts are unimportant/immaterial, leave 'em out. The average height of the corporation's vice-presidents is irrelevant, even for an NBA team. So, you left out the fact that the most common middle name for GE VP's is "James."

Good! It was immaterial. If we didn't have this rule, customers could come after you for not telling them stuff they never needed to know in the first place.

28. ANSWER: D

REASON: if you missed this question, you're a long way from your test date. No offense, but you had a choice saying you should consider suitability-no way could you eliminate a choice like that, especially as none of the others was tempting, right?

29. ANSWER: C

REASON: more stuff to memorize. 3 years/\$5,000 or both. The statute of limitations is 5 years, and ignorance of the law IS an excuse, but you have to prove how ignorant you are, and if you succeed you can't be put in jail. You can only be fined and forced to wear a Scarlet "I" for a period not to exceed one calendar year.

30. ANSWER: C

REASON: the IA did exactly what is required-check to see if there's a rule prohibiting custody. If not, go ahead but make sure you inform the Administrator.

31. ANSWER: D

REASON: no such thing as "riskless security." In fact, that's an oxymoron, like "jumbo shrimp." All securities have some type of risk. For Treasuries, there is no default risk, but if rates rise, prices will fall, just like with any other fixed-income security. Choice "D" represents the violation called "selling dividends." You can recommend a fund because it regularly pays dividends-that's what income investors need. But you can't entice somebody to buy a fund just because it's about to pay A dividend. NAV drops and the investor gets taxed-so they might just want to wait until the shares go ex-dividend, which usually happens the day after the record date for mutual funds.

32. ANSWER: B

REASON: even choice "B" looks a little disturbing, but you can clearly eliminate the other three choices. IA's can't have joint accounts with customers, and agents can't "go partners" on trades, whether the account is discretionary or not. The 60/40 split would probably be fine for an immediate family member. For anyone else, the split would have to be proportional. And, choice "B" didn't imply that there was something NON-proportionate in this sharing arrangement, so you can't read that into the question.

33. ANSWER: B

REASON: this is a gift question-only borrow from banks, lending institutions. Also, don't assume everything is hunky-dory just because the supervisor signed off on it. The exam wants you to know that YOU are responsible for knowing what's what. You can't do something you know is wrong and then stand there trying to weasel out of it based on a corrupt or incompetent supervisor's signature. Again, no waivers allowed. And, again, the Big-A never approves of anything. He allows, if you're real lucky and DIS-allows if you mess up.

34. ANSWER: D

REASON: never combine cap gains with income distributions to figure/report yield. Yield is the income/dividend distribution divided by the share price, period. Cap gains are reported elsewhere, in "total return."

35. ANSWER: D

REASONS: if you found something prohibited in this scenario, what was it? The agent is registered to do business in the customer's state. Where's the violation? Munibonds do not have to be registered. Agents do.

36. ANSWER: C

REASONS: totally misleading and totally untrue. Nothing will insure against a loss of principal except maybe buying a Treasury security. And, even there, you'd have interest rate risk that could make selling the thing early a real problem.

37. ANSWER: D

REASON: that's the way sharing with agents must happen. Everybody's registered, and they work for the same firm or two related firms.

38. ANSWER: C

REASON: never highlight, alter, or add to the prospectus or Red Herring. It is what it is. Just send it to the customer and maybe ask questions. But don't alter or highlight the document. It's been carefully crafted to be what it is.

39. ANSWER: A

REASON: providing a bogus quote to a customer is definitely misleading and probably fraudulent. In fact, the word "fictitious" implies that the rep knew it was a lie, which makes it fraud. If you chose "D," you need at least a 15-minute break.

40. ANSWER: B

REASON: that would be a guarantee against a loss/a promise of profit, and that stuff's prohibited. Getting the principal's signature won't magically make it okay. It's not frontrunning, which involves taking a big customer order likely to move the market up or down and taking advantage of that by getting in front of the customer order by buying or selling some of the stock yourself in anticipation of the movement. Tempting, but prohibited. Repurchase recprocation? No idea what that would be.

41. ANSWER: C

REASON: if you're using good test-taking skills, there is a 0% chance that you missed this one. You don't "narc out" your customers for being stupid. Heck, all investors are stupid from time to time, including the great ones like George Soros, Peter Lynch, and Warren Buffett. Doesn't make them crazy. But you definitely want them to sign an unsolicited order agreement (or whatever the heck it's called) so they can't claim two years later you talked them into doing something crazy. Well, they can claim it, but their signature is going to make it a real short, pleasant arbitration hearing for you.

42. ANSWER: D

REASON: A, B, and C are all inappropriate. Income investors don't buy growth stocks-they need the ones that pay dividends, not the ones promising riches 10 years hence. Munibonds are for HIGH tax bracket people. Long-term investing is the opposite of frequent trading. Many B/D's do maintain lists of stocks they like rep's to recommend. You still use suitability requirements to figure out which stocks on the list should go in which client's portfolio, but there's nothing wrong with a list. In fact, it's pretty standard practice.

43. ANSWER: C

REASON: wow, I'm being too easy. This is a slam-dunk. The first two choices are just plain weird. And choice D refers to a law that was never drafted, let alone passed. The first Act you need to know was passed in 1933. Anything with an earlier date is bogus.

44. ANSWER: C

REASON: that's the deal with Treasuries: you'll get the principal back at maturity, not to worry. If rates go up, the market price of the thing drops, which is interest rate risk. Be very clear to your customers on this subtle, important difference.

45. ANSWER: D

REASON: interest-rate risk is greatest on the bonds with the longest terms. Has nothing to do with default risk. Just pick the bond with the most time on it-that's the one whose price will drop the fastest when interest rates go up. It'll also rise the fastest when rates drop, so if the question asks how to get the biggest gain on a bond, tell it to buy long-term bonds when rates are already high.

46. ANSWER: B

REASON: corporate bonds (the only ones called "debentures") are most susceptible to default risk. How many cities and states declare bankruptcy? The U.S. Treasury doesn't pull a Russia on investors and

just decide to stop paying out the principal on their bonds. You might think this statement is too general, but, actually it isn't. If you compare only investment-grade corporates with munibonds as a whole, the munibonds are still much safer.

47. ANSWER: D

REASON: because they tell 'em to.

48. ANSWER: D

REASON: the issuer (the corporation) has to bear that cost, due to the Act of 1934. If a broker-dealer tried to charge for that service, that would be a no-no. Microsoft, for example, pays the cost of sending proxy materials to their shareholders, even if it's the broker-dealer who does the paperwork and mailing.

49. ANSWER: C

REASON: can't share commissions unless the individual is a registered agent. No need to narc him out to the SEC, though. He's just a customer who doesn't know any better. You can't make prohibited stuff okay through waivers or any legal document not worth the paper it's printed on. Waivers are considered null and void. Useless.

50. ANSWER: B

REASON: investment advisers are in the business of "fee-based money management." Their fee is a percentage of the assets under management. Regulators don't like them to get compensation through gains/appreciation-they can only do that for "sophisticated" investors, which means institutions and rich folks with \$1.5 million net worth or 750K under management. No verbal contracts, period, and no assignment (passing off) of contract without client consent.

51. ANSWER: C

REASON: this question uses a very common strategy of trying to tire you out with verbiage. When I play tennis with my now overweight college roommate, I start out just hitting the ball to the left side, then the right side, then shallow, then deep. I'm just trying to tire him out so that I can then win the game. Don't let the test do that to you. This is an easy question; it just has a lot of verbiage. Always omit immaterial facts-never omit material facts. Gotta read these words as carefully as an in-house attorney going over a 100-page contract for her employer.

52. ANSWER: B

REASON: don't promise to perform services you aren't likely or able to perform. It's not fraud; it's just not allowed. Choice D is fictitious. You're welcome.

53. ANSWER: D

REASON: only registered agents can sell securities for a commission, so this is a violation, and the firm can definitely get in trouble. When a security is sold in violation of the USA customers do have a right to be "made whole." Again, don't think that a principal's signature is a magic wand-it isn't. If you represent a B/D, you register, whether you sell exempt or non-exempt securities. It's only when you represent an issuer that that distinction would matter.

54. ANSWER: C

REASON: ain't nobody exempt from anti-fraud provisions. A security might not have to be registered, but nobody can sell it fraudulently and get away with it.

55. ANSWER: B

REASON: if you chose "A," you must have been going too quickly. Don't do that. It's not just fraudulent for exempt or non-exempt securities; it's simply fraud. Has nothing to do with whether the customer is institutional or not, either.

56. ANSWER: C

REASON: the exam wants you to know that such "waivers" aren't worth the paper they're printed on. They are all "null and void," because they aren't allowed. Nothing on the exam is punishable "up to 7 years in a state prison."

57. ANSWER: D

REASON: this was a gift. To get commissions, the individual must be a registered agent.

58. ANSWER: C

REASON: gotta be a very careful reader. Choices I and III are designed to LOOK like violations, but if you break down the words carefully, you see that they're both okay. Non-exempt registered securities-what's wrong with that? Unregistered exempt securities-what's wrong with that?

59. ANSWER: A

REASON: if the wife is going to give the husband the power to buy and sell securities in her account, we need a power of attorney from her granting him that power. No margin going on here, and although we DO need a new account form, that does NOT have to be signed by any customer. That was a trick-hope you didn't fall for it. But if you did, that'll just make you less likely to fall for the next trick.

60. ANSWER: B

REASON: what can you do? Not a darned thing. If this were a discretionary account, you could make the trade, but it isn't discretionary, so you have to talk to the client. If she can't be reached, oh well. No commissions from her today, keep moving.

61. ANSWER: C

REASON: you can't recommend the same stock to 350 investors, even if you explain the risks. You haven't determined suitability if you're making these "blanket recommendations." It's not fraud; it's just a no-no.

62. ANSWER: A

REASON: no testimonials for investment advisers. A broker-dealer can use testimonials, but they follow tight disclosure rules from the NASD/NYSE. Remember that the Big-A doesn't use the word "approve," and your principal can't override the rules with her magic signature.

63. ANSWER: C

REASON: if there's no rule against it, it's okay to take custody . . . as long as the Administrator is informed.

64. ANSWER: B

REASON: only way you can make this purchase is if you have discretion. No waivers of compliance are allowed or enforceable. Seems like a likely testable point-the regulators want to see if you'll start buying and selling stuff for customers when they can't be reached due to your insatiable appetite for commissions and action.

65. ANSWER: C

REASON: sounds like a recall may be a 'brewin up there in Minnesota there. The mayor is completely wrong. Nobody is exempt from anti-fraud provisions. Nobody. If you chose "D," you need to SLOW DOWN.

66. ANSWER: D

REASON: sometimes markups and commissions are higher than usual. Just make sure there's a good reason and that the customer knows ahead of time. "Oh, by the way, Mrs. Reynolds, you just paid an extra \$100 for that transaction. That's cool, right?"
Not.

67. ANSWER: C

REASON: which name is the most misleading?

68. ANSWER: C

REASON: I guess we've already made this point a couple of times. Agents must be registered if they want commissions. In fact, that's why many students get their securities license. They've been happily getting commissions on fixed annuities and whole life policies, but they can't get paid on referrals for variable annuities or variable life policies without a securities license.

69. ANSWER: C

REASON: in a joint account, all checks must be payable to all names on the account.

70. ANSWER: D

REASON: if you feel there is something wrong going on here, please tell me what it is. Exempt securities don't have to be registered. Non-exempt securities must be registered. The third choice is "arbitrage," which is perfectly acceptable and nice work when you can get it. The final choice shows a rep NOT ignoring a client's instructions.

71. ANSWER: C

REASON: there is definitely a conflict of interest when the IA will get a commission from one party while recommending the transaction to their advisory client. They can not recommend both sides of the deal, since buyers want the lowest price and sellers want the highest price they can get. Choice D would be true if we eliminated the word "not."

72. ANSWER: D

REASON: if you missed this one, you were going too fast. Read each choice carefully and eliminate the bad choices. You can't use any lower standard of ethics for institutional, "sophisticated" investors. Fraud is fraud no matter who you are, no matter what the security was, and no matter who the other side happened to be.

73. ANSWER: B

REASON: SIPC and FDIC are NOT the same thing. If they were the same thing, why would they be two totally different organizations with two totally different names?

74. ANSWER: B

REASON: frontrunning is definitely a violation. You can't take advantage of a customer's pending order by running in front (frontrunning) of the order. Tempting, yes, but prohibited. They take all the fun out this business, unfortunately.

75. ANSWER: A

REASON: that's all it takes to make somebody an "insider." It's not dependent on their job status. They could be unemployed. If they have inside information, they're an insider, and they had better not pass around the information or use it to their benefit.

76. ANSWER: A

REASON: use your test-taking skills. In three choices the agent actively does something with the information. In the right choice, A, the agent does nothing. You can stop recommending the stock-you just can't call all the current owners and tell them to dump it. Big difference between the two, right?

77. ANSWER: C

REASON: many "no-load" funds do have 12 b-1 fees. If the fee exceeds $\frac{1}{4}$ of 1% (25 basis points) of net assets, the fund has to drop the "no-load" from their sales pitch. So, there's no way to know in this question if the statement is misleading, since we don't know the extent of the 12 b-1 fee.

QUIZ 4, Registration of Persons

1. Which of the following is not considered a person under the USA?
 - A. child
 - B. corporation
 - C. city government
 - D. state government

2. According to the Uniform Securities Act, which of the following investment advisers would not have to register in the state?
 - A. adviser with no office in the state who advises 7 high net-worth individuals who are residents of the state
 - B. adviser with an office in the state who advises 5 non-institutional clients who are residents of the state
 - C. adviser with an office in the state who advises 11 pension funds located in the state
 - D. adviser with no office in the state who advises 11 pension funds located in the state

3. The officers and directors of ABC, Inc. will be selling shares of ABC to banks and savings institutions. Therefore:
 - A. the officers do not need to register because this is an exempt transaction
 - B. the officers do not need to register because they represent an issuer
 - C. the officers need to register because they represent an issuer
 - D. the officers need to register because they do not fit the definition of "agent"

4. Which of the following persons are excluded from the definition of "investment adviser"?
 - A. certified financial planners
 - B. sports agents
 - C. banks
 - D. broker-dealers

5. All of the following are investment adviser representatives except
 - A. individual hired by an IA to help determine recommendations to clients
 - B. individual hired by an IA to sell the advisory services
 - C. individual hired by an IA to do filing and clerical work
 - D. individual who supervises a staff of solicitors for the firm

6. Which of the following persons would be defined as an "agent"?
- A. a broker-dealer with no office in the state who effects transactions for insurance companies located in the state
 - B. an individual representing an issuer in a non-exempt transaction
 - C. a broker-dealer with an office in the state who effects transactions for insurance companies located in the state
 - D. an individual representing an issuer in an exempt transaction
7. All of the following persons would be considered "agents" except an individual
- A. representing a non-exempt issuer in a non-exempt transaction
 - B. representing a broker-dealer selling exempt securities
 - C. representing an exempt issuer in an exempt transaction
 - D. representing a broker-dealer selling non-exempt securities
8. Which of the following individuals must register as an agent?
- A. represents General Electric in selling GE commercial paper to a money market mutual fund
 - B. represents a broker-dealer selling GE commercial paper to a pension fund
 - C. is a partner or director of the firm who does not effect sales
 - D. represents the city of Cleveland selling Cleveland GO bonds to mutual funds
9. Heather Hanks is a registered representative for a broker-dealer in New Hampshire. She would also like to do business in Vermont, effecting transactions in exempt securities only. Therefore, Heather
- A. need not register in Vermont
 - B. must register in Vermont
 - C. need not register in Vermont, but must pay fees to the state
 - D. must submit to a polygraph administered by the state securities Administrator of Vermont
10. A person in the business of effecting transactions in securities for the accounts of others or its own account is defined as a(an)
- A. agent
 - B. broker
 - C. investment adviser
 - D. broker-dealer

11. All of the following professionals qualify for an exemption to registration as an IA provided their advice is not an integral component of their practice except
- A. lawyer
 - B. accountant
 - C. teacher
 - D. economist
12. As a result of NSMIA, the SEC is responsible for overseeing all of the following except
- A. listing standards for regional exchanges
 - B. capital formation
 - C. competition in the securities industry
 - D. improvement and oversight of market efficiency
13. All of the following are excluded from the definition of "investment adviser" except
- A. bank
 - B. savings institution
 - C. financial planner
 - D. trust company
14. Which of the following is defined as an "agent" under the USA?
- A. a broker-dealer with an office in the state
 - B. individual representing an exempt issuer
 - C. individual representing an issuer in a non-exempt transaction
 - D. broker-dealer selling exempt securities
15. At what point may a new representative begin selling securities for a broker-dealer?
- A. as soon as she passes her Series 6 or 7
 - B. as soon as she passes both her Series 6/7 and 63
 - C. when she is affiliated with a broker-dealer
 - D. when she is affiliated with a broker-dealer and has been granted a state license
16. Joan Jarvis terminates her employment as an agent with Broker Dealer A in order to take a position at Broker Dealer B-also located in the state-as a registered representative. According to the Uniform Securities Act, who must notify the Administrator?
- A. Joan only
 - B. Broker Dealer A
 - C. Broker Dealer B
 - D. Joan, Broker Dealer A, Broker Dealer B

17. For how long must state-registered investment advisers maintain business records?
- A. indefinitely
 - B. 5 years
 - C. 3 years
 - D. 7 years
18. An individual represents an issuer in selling securities to banks and S&L's. If the individual receives a commission
- A. she must register as a broker-dealer
 - B. she must register as an investment adviser
 - C. she is an agent but need not register
 - D. she is not an agent and need not register
19. Amber Adams has represented Coca-Cola for four years, selling Coca-Cola stock to Coca-Cola employees and receiving commissions. She has now decided to terminate her employment with the company and take a position at a broker-dealership. Which statement below best describes required procedure at this point?
- A. because Coca-Cola is an exempt issuer, no notification must be provided the state Administrator
 - B. Coca-Cola, Amber, and the new employer must notify the state Administrator
 - C. only the new employing broker-dealer must provide notification
 - D. because Coca-Cola issues only exempt securities, no notification is required
20. In order to register your firm as an investment adviser or broker-dealer, you may be required to provide all of the following to the Administrator except
- A. fingerprints
 - B. consent to service of process
 - C. application fees
 - D. surety bond
21. When a broker-dealer applies/registers with the Administrator, the firm will most likely be asked to provide information on all the following except
- A. form and place of business
 - B. qualifications of any partner, officer, or director of the firm
 - C. proposed method of doing business
 - D. type of employee benefit plans offered at the firm

22. Which of the following is a true statement concerning registration of a successor firm?

- A. this practice is illegal in a majority of states
- B. the successor firm's registration is good for the unexpired portion of the year
- C. this practice is illegal in a plurality of states
- D. the successor firm must be in existence at the time of registration

23. Which of the following is a true statement concerning minimum net capital requirements?

- A. the Administrator must require minimum net capital at least as high as the federal requirement
- B. the Administrator may require net capital requirements in excess of federal requirements
- C. rather than using a fixed dollar amount, some states use the ratio of net capital to aggregate indebtedness when determining minimum net capital requirements
- D. minimum net capital requirements are only for those firms with discretion or custody

24. Broker-Dealers registered within a state generally keep records for a period of

- A. five years
- B. three years
- C. 10 years
- D. indefinitely

25. Broker-dealers, investment advisers, and registered representatives share all of the following requirements for registration except

- A. consent to service of process
- B. surety bonds
- C. minimum net capital
- D. filing fees

26. A consent to service of process must accompany all the following except

- A. initial application for an agent
- B. initial application for a broker-dealer
- C. registration form for a security
- D. civil complaint against an investment adviser

27. Which of the following persons is/are considered a fiduciary?
- I. Investment Adviser for a non-discretionary client
 - II. Investment Adviser for a discretionary client
 - III. Registered representative
 - IV. Broker-dealer
- A. II only
 - B. II, IV only
 - C. I, II only
 - D. I, II, III, IV
28. Which of the following broker-dealers must register in the state of South Carolina?
- A. a firm properly registered in North Carolina doing business exclusively with banks, S&L's, and trust companies located in South Carolina
 - B. a firm properly registered in South Carolina doing business exclusively with banks, S&L's, and trust companies located in South Carolina
 - C. an agent with an office in South Carolina
 - D. a firm properly registered in North Carolina doing business exclusively with large pension funds located in South Carolina
29. None of the following persons is defined as an agent except
- A. individual representing an issuer in a non-exempt transaction
 - B. individual representing an issuer in an exempt transaction
 - C. individual representing an exempt issuer
 - D. individual representing an issuer selling exempt securities
30. An individual representing an issuer of which of the following securities would be required to register as an agent?
- A. State of Ohio Revenue Bond
 - B. State of New Jersey Turnpike Bond
 - C. General Electric preferred stock
 - D. Treasury bonds
31. Karen just passed her Series 6 and Series 63 exams. She may begin to sell securities within a state as soon as
- I. she likes
 - II. she receives written permission from a principal
 - III. she is granted a license by the Administrator
 - IV. she is affiliated with a broker-dealer
- A. I only
 - B. I, II only
 - C. II, IV only
 - D. III, IV only

32. Under the Uniform Securities Act and NSMIA, offerings of which of the following securities may be subject to the filing of sales literature/advertising with the state Administrator?
- A. Indianapolis General Obligation Bond
 - B. Microsoft
 - C. IBM
 - D. Stock trading regularly on the OTC Bulletin Board
33. Michele's new job is to set appointments for money managers by using an approved list of prospects. Michele is paid a small percentage of any fees charged and collected by her employer, a registered investment adviser. Therefore, under the Uniform Securities Act, Michele must register as:
- A. an agent of the broker-dealer
 - B. a principal of the investment adviser
 - C. an investment adviser
 - D. an investment adviser representative
34. Which of the following best describes the activities of an investment adviser?
- A. individual charging commissions when selling non-exempt securities
 - B. firm charging commissions when selling exempt securities
 - C. firm dispensing specific investment advice on securities for a flat fee
 - D. firm dispensing advice on real estate purchases
35. Marcy works for a broker-dealer registered in every state. She herself is registered only in the state of Connecticut. Yesterday, Marcy received a phone call from a customer residing in the state of Georgia. Marcy should
- A. immediately report this activity to the SEC
 - B. accept this unsolicited order
 - C. not accept this order
 - D. accept this order if the customer signs a written acknowledgment of the "unsolicited" nature of the order
36. The president of a bank has been selling securities of the issuer for several months now. Therefore the president
- A. is guilty of a felony
 - B. is guilty of fraud
 - C. is an agent and must register
 - D. is not an agent and need not register

37. Under the Uniform Securities Act, which of the following may be required for registration of broker-dealers, investment advisers, and registered representatives?

- A. consent to service of process
- B. business/employment history
- C. surety bonds
- D. all choices listed

38. Which of the following statements is true?

- A. in order to register as an investment adviser, the person must also be registered as a broker-dealer
- B. an investment adviser may not also register as a broker-dealer
- C. the Administrator may condition the registration for broker-dealer on the person not acting as an investment adviser if the person is not qualified to do so
- D. all of the above

ANSWERS TO QUIZ 4, Registration of Persons

1. ANSWER - A

REASON - the only three "non-persons" are: minor/child, deceased/dead, mentally incompetent. Everything/everybody else IS a person. That way, the law can define a broker-dealer as a "person in the business of trading for the accounts of others or its own account," or an investment adviser as a "person who provides advice on securities for a fee." A person can be an individual, a firm, a government. Just remember the three things a person is not: dead, minor, mentally incompetent.

2. ANSWER - D

REASON - if the adviser has an office in the state, they usually have to register. But, if the office is out of state, usually they don't. They get an exemption/excuse if the clients are all institutionals. They can advise 5 little guys/non-institutional clients, which is why the IA in choice "A" has to register. The "de minimus exemption" allows the out-of-state adviser to have only 5 non-institutional clients. If the clients are institutional clients (pension funds, banks, other advisers, mutual funds), the number is immaterial. The IA's in choices B and C have offices in the state. Unless it said they only advise insurance companies and/or mutual funds, assume they have to register in the state.

3. ANSWER - A

REASON - if the issuer is exempt, or the security is exempt, or the transaction is exempt, the individual representing an issuer is NOT an agent.

4. ANSWER - C

REASON - banks are not investment advisers. They are banks. The other three could end up as advisers. Once they start selling investment advice for a fee, they're an adviser. Banks are specifically excluded from the definition of IA. Broker-dealers often are also IA's. That's why the USA says the Administrator may consider that a broker-dealer or agent is not qualified to be an IA and may grant their registration on the condition that they NOT try to act as an IA.

5. ANSWER - C

REASON - good test taking skills would lead you to choice "C". The other folks are making recommendations, selling the services of the firm and supervising those who sell. Then, the other individual is doing clerical work. Use reasoning and process of elimination to win this game. And also memorize that the folks who do clerical/ministerial/filing work are not IA reps.

6. ANSWER - B

REASON - Choices A and C should have been thrown out as soon as you saw the word "broker-dealer," right? Broker-dealers are not agents and vice versa. So, now you're left with two individuals representing issuers. In one choice you see the excuse word "exempt," and in the other-no excuse. That's why you had to choose "B," where the transaction has no excuse.
Non-exempt.

7. ANSWER - C

REASON - when the individual represents a broker-dealer, call that dude an agent and move on with your life. When the individual represents an issuer, the only way he/she is an agent is when the issuer, the security, or the transaction just can't find an excuse. In choice "C," both the issuer and the transaction get an excuse, right? That's why you're not an agent when you represent exempt issuers or you represent issuers in selling exempt securities or securities through an exempt transaction. And this will all make you a better agent, right? :)

8. ANSWER - B

REASON - when the individual represents a broker-dealer, it really doesn't matter what is being sold. Had the individual been representing the issuer of the paper, GE, he/she would not have had to register as an agent, as in choice "A". Choices "C" and "D" probably weren't even tempting. In choice "C" we see a partner/officer/director who is NOT selling. How could that be an agent? In choice "D" we have an exempt issuer and exempt securities—municipal bonds. If the individual sold those munibonds for a broker-dealer, he/she would be an agent. But not if he/she represents the issuer of those bonds.
Fun stuff to be sure.

9. ANSWER - B

REASON - if she wants to do business in Vermont, she must register in Vermont. An exempt transaction only applies to the security and the transaction itself. The agents still have to be registered.

10. ANSWER - D

REASON - just the definition of a broker-dealer. The word is hyphenated because the firm can effect transactions for the accounts of others (broker) or its own account (dealer).

11. ANSWER - D

REASON - economists get no exemption. That would make too much sense.

12. ANSWER - A

REASON - the regional exchanges would take care of their own listing standards. The SEC is responsible for the other three, which are overall market concerns.

13. ANSWER - C

REASON - SEC Release IA-1092 made it clear that most CFP's and sports agents end up being IA's and must register. Not only do CFP's not get an exemption—this release goes out of its way to pull them (reluctantly) into the fold of registered, regulated IA's. Banks, savings institutions, and trust companies are not defined as investment advisers but are defined, rather, as banks, savings institutions, and trust companies.

14. ANSWER - C

REASON - eliminate the "broker-dealer" choices immediately. Broker-dealers are firms—agents represent those firms. So, they can't be the same thing. You are about to represent a firm, but you are not the firm yourself, right? Even if your first name happens to be Morgan and your last name Stanley, surely you don't confuse yourself with Morgan-Stanley, right? So, you're left with two individuals representing issuers. In choice "B" the issuer is exempt/excused, so the individual is not an agent. In choice "C" the transaction gets no excuse and you see no excuse for the issuer or the security. So that individual IS an agent and must fill out a U-4, pay some fees, and study for some stupid test like this one.
Harsh.

15. ANSWER - D

REASON - no offense, but if you missed this one, you're at least three weeks away from being ready for the exam. You have to be able to nail these easy questions every time. What would a regulator want me to pick if she were standing over my shoulder?

16. ANSWER - D

REASON - I would expect this type of question on both the 63 and 65/66.

Memorize it and move on.

17. ANSWER - B

REASON - broker-dealers keep records for three years, IA's five years. Memorize it.

18. ANSWER - D

REASON - if you represent an issuer in an exempt transaction, you are not an agent/you don't have to register. A transaction between an issuer and a financial institution (bank, S&L, thrift, credit union) is an exempt transaction.

19. ANSWER - B

REASON - this is precisely the kind of question the exam loves to ask. It forces you to make one determination before you can make the next one. So, you determine that Amber IS an agent of Coca-Cola(r), since she gets commissions. Therefore, that issuer employs her as an agent. So, the former employer, the agent (Amber), and the new employer—this time a broker-dealer—must all notify the Administrator.

20. ANSWER - A

REASON - just the kind of silly question the exam might ask. Fingerprints to the SEC, but not to the Administrator. Certainly not because of anything under the USA, anyway. If New Jersey requires fingerprints, fine. But the USA doesn't tell them to. The USA has, apparently, never caught an episode of The Sopranos©.

21. ANSWER - D

REASON - who cares about employee benefit plans, except maybe the employees? Memorize the other three requirements for registration, though.

22. ANSWER - B

REASON - maybe a broker-dealer is changing from an LLC to a Ccorporation.

So, they register the successor C-corp, even before it's in existence. There is no fee to pay at this point because the firm's registration is still valid, and the successor can use what time is left on the existing registration. Nothing illegal about this practice, and no chance the exam will have you distinguish between a plurality and a majority. In case you're curious, electoral politics will give the presidency of the United States to the candidate with the most votes, even if there were three candidates, and the dude (or dudette) only got, like, 32% of

the votes. That's a plurality. If the candidate needed a majority, he/she would need 51% of the vote. Which is, apparently, too much to ask of a candidate before handing him the presidency.

Okay, no more veering from the test like that.

23. ANSWER - C

REASON - Darn, that was a tough question. Easy to get confused about choice "D". Discretion/custody can lead to surety bonds, but minimum net capital requirements depend on what type of activities the firm is doing, how much risk they're taking on. The states can not have a higher minimum net capital requirement than the one used by the feds, the SEC. The USA gives the state Administrator the power to establish net capital requirements, not the obligation to do so.

24. ANSWER - B

REASON - broker-dealers - three years. IA's - five years.

25. ANSWER - C

REASON - agents do not have minimum net capital requirements. The other three are all requirements or at least possible requirements for all three persons.

26. ANSWER - D

REASON - a consent to service of process is filed with initial applications to register securities, broker-dealers, IA's, and representatives. No need to file one when you're suing an IA, although the fact that the IA signed one might make your job easier. You can now just serve all papers on the Administrator, who was given the IA's "consent to service of process" when the IA registered.

Convenient, isn't it?

27. ANSWER - C

REASON - Investment Advisers are fiduciaries, whether they have discretion or not. A registered rep or broker-dealer would only be a fiduciary if they had discretion over an account. The exam wants you to know that IA's are held to a higher standard-they always have to put the client's interests ahead of their own.

28. ANSWER - B

REASON - if you thought there were two right answers to this one, you are absolutely . . . wrong. Choice C doesn't even have a broker-dealer in it!

Sure, the AGENT would have to register, but try not to answer questions that aren't being asked. Choice B is the only B/D with an office in South Carolina, so this one was a gimme.

You're welcome.

29. ANSWER - A

REASON - some of these questions are like optical illusions: if you can't see it from the current angle, try looking at it from another. There are three choices with the word "exempt" in them, which means "excused." Then there's this other choice with the word "non-exempt," which means "no excuse." Nail these questions through patience and dogged persistence. You can win this game.

30. ANSWER - C

REASON - you know that Treasuries and muni's are exempt, so GE is the only good choice to make here. Don't confuse "federal covered" with "exempt." GE preferred and common stock must be registered, but with the SEC, not the states. That doesn't make them an exempt issuer, like the Department of Treasury or municipal issuers.

31. ANSWER - D

REASON - this seems like a likely question for the exam to ask. Just to check to see if you think you can start selling as soon as you pass the test.

Nope.

Gotta be granted a license by the state, and agents are not really agents when not associated with a broker-dealer. Also very important on the exam.

32. ANSWER - D

REASON - the only security here not federal covered or exempt is the OTC Bulletin Board stock. That's the one that would have to register with the state by coordination or qualification.

33. ANSWER - D

REASON - Michele is selling the services of an IA, which makes her an IA rep.

34. ANSWER - C

REASON - dispensing/giving/rendering specific advice on securities for compensation describes the activities of an IA. Getting commissions is for broker-dealers and agents. If the test wanted to get real cute, they could say that a financial planner who puts together a specific financial plan for a client and then gets paid through commissions on all the variable annuities and mutual funds the client buys when implementing the plan is an investment adviser. But the planner would still not be an IA rep, so even if you went that route, you should have come back to choice C. Or not. No big deal. You gotta miss a lot of these questions until you start getting the majority of them right.

35. ANSWER - C

REASON - Ole' Marcy better get herself registered in the state a' Georgia fore she starts taking orders from the good people of Georgia, ya' hear? Don't make no never mind about solicited/unsolicited here. No, sir! That's fancy Yankee talk. Agents have to be registered in any state they're doing business. If Marcy had an existing customer just visiting Georgia for 30 days or less, okay. But that's not what the question said.

36. ANSWER - D

REASON - not sure why the test wants you to know this, but if an individual represents a bank, he/she is not an agent and does not have to register. You register as an agent if you represent a broker-dealer or nonexempt issuer.
Not a bank.

37. ANSWER - D

REASON - memorize.

38. ANSWER - C

REASON - you can be a broker-dealer, or an investment adviser, or both. But if the Administrator doesn't think your experience as a broker-dealer or agent qualifies you to be an IA, he can grant your registration/renewal on the restriction that you will NOT try to be an IA.

QUIZ 5, Registration of Persons

1. An applicant for registration as an investment adviser indicates that the firm will base its investment decisions on a controversial new method of analysis not accepted by most in the investment community.

According to the Uniform Securities Act:

- A. The Administrator may deny registration.
- B. The Administrator may not deny registration based solely on the fact that the method of analysis is controversial.
- C. The Administrator must review the track record of the applicant to determine the effectiveness of the method of analysis.
- D. The Administrator should appoint a supervisory analyst to help determine the merits of the applicant's registration request.

2. Randall Baxter has passed the Series 63 exam but has not been granted registration by the Administrator. At this point he may participate in:

- A. Primary market offerings only
- B. None of the activities of an agent
- C. Prospecting by telephone only
- D. Accepting unsolicited orders only

3. An agent's registration may include the filing of:

- A. An application, personal balance sheet, and consent to service of process
- B. An application, consent to service of process, and filing fees
- C. An application, filing fees, and credit report issued by at least two major reporting agencies
- D. An application, fingerprints, and college transcripts

4. Susan is an agent for Smith Securities, a broker-dealer located in State X. She would also like to register as an agent for Jones Securities, an unaffiliated broker-dealer, in both States X and Y. Which of the following statements is true?

- A. This would be considered an example of fraud.
- B. Susan could register only as a dual agent if the state securities administrator granted a waiver.
- C. Dual agency is generally not allowed, but is permitted in certain states.
- D. Susan could register in both states without restriction.

5. According to the Uniform Securities Act, which of the following statements is/are CORRECT?
- I. When an agent's license is suspended, the broker-dealer's registration is suspended
 - II. When an investment adviser's license is suspended, the investment adviser representative's license is no longer in effect
 - III. When a broker-dealer is suspended, the agent's license is no longer in effect
 - IV. When an investment adviser representative's license is suspended, the investment adviser's license is no longer in effect
- A. I only
 - B. I and III only
 - C. II and III only
 - D. I, II, III, IV
6. Under the Uniform Securities Act, the Administrator may waive the requirement that a broker-dealer maintain a bond:
- A. When the broker-dealer accepts unsolicited orders only
 - B. When the broker-dealer accepts unsolicited orders from institutional clients primarily
 - C. When the registrant's net capital requirement exceeds a certain amount
 - D. When the annual filing fee has been paid
7. An agent who is registered in State A contacts an individual in State B. The individual wishes to buy a security through the agent. If the broker-dealer is registered in State B but not the agent, the agent MAY:
- A. Not sell the security
 - B. Sell the security if the security is registered in State B
 - C. Sell the security if it is exempt
 - D. Sell the security with prior principal approval
8. Under the Uniform Securities Act, all of the following are true concerning an agent's registration except
- A. An agent can only sell securities that have been properly registered in a state or qualify for an exemption from registration.
 - B. An agent can only solicit business in a state if both the agent and broker-dealer are registered in that state.
 - C. An agent's registration to sell securities expires at the end of the broker-dealer's fiscal year.
 - D. If an agent leaves a broker-dealer to go to another broker-dealer, the agent and both broker-dealers must notify the Administrator of the change.

9. An agent's application includes which of the following?
- A. A filing fee
 - B. Work history
 - C. A consent to service of process
 - D. All of the above
10. An Administrator may deny a broker-dealer's registration for all of the following reasons EXCEPT:
- A. Not meeting minimum financial standards
 - B. Not posting a bond
 - C. Not passing an oral and/or written examination
 - D. Not having at least four years' experience in the brokerage business
11. Under the Uniform Securities Act, an investment adviser who has no place of business in a state need not register in that state if:
- I. the adviser had no more than 5 clients in that state within the last 12 months.
 - II. the adviser had no more than 15 clients in that state within the last 12 months.
 - III. the adviser provided advice only to investment companies in that state.
 - IV. the adviser provided advice only to employee benefit plans in that state with assets in excess of \$1 million.
- A. II and IV only
 - B. I and IV only
 - C. III and IV only
 - D. I, III, and IV only
12. Renewal of an agent's license is accomplished by
- A. Completing continuing education courses
 - B. Passing an examination
 - C. Paying a fee
 - D. Publishing an announcement of renewal in a newspaper published in the state
13. Which of the following statements is/are true?
- A. An agent may only sell securities that have been properly registered in a state or qualify for an exemption
 - B. An agent's registration is in effect until December 31 and then must be renewed
 - C. An agent may only solicit business in a state if both the agent and broker-dealer are registered in the state
 - D. All of the above

14. An unregistered agent employed by a licensed broker-dealer is allowed to sell exempt securities to the public:
- A. Under no circumstances
 - B. If the transaction is exempt
 - C. If the security is federal covered
 - D. If the employee is not paid a salary or commission
15. An agent could sell to a resident of another state if:
- A. The agent is registered with the SEC
 - B. The agent is a licensed supervisory analyst
 - C. The security being sold is registered in that state
 - D. Both the agent and broker-dealer are registered in that state
16. An investment advisor with no place of business in a state will not be required to register with the Administrator under which of the following conditions?
- A. The advisor has not been the subject of any disciplinary action.
 - B. If the advisor has been in business for five years.
 - C. The advisor will only provide advice to non-institutional investors.
 - D. The advisor will only provide advice to 401(k) plans with assets of at least \$1 million.
17. Under the Uniform Securities Act, a broker-dealer's original application filed with the state includes all of the following EXCEPT:
- A. Form of business organization
 - B. Place of business
 - C. Fingerprints
 - D. Type of services rendered
18. If the Administrator has summarily suspended an agent's registration, within how many days of the agent's written request must a hearing be scheduled?
- A. 3
 - B. 10
 - C. 15
 - D. 60
19. Under the Uniform Securities Act, which of the following is CORRECT regarding a bond posted by a broker-dealer?
- A. The Administrator may refuse to accept securities in lieu of a cash deposit.
 - B. It protects against brokerage firm fraud.
 - C. It is used to cover the costs of possible legal actions.
 - D. Real property can be accepted in lieu of a bond.

20. All of the following are grounds for revocation of an agent's license EXCEPT:
- A. The agent has been convicted of a non-securities related felony
 - B. The agent lacks an undergraduate degree or higher from an accredited institution
 - C. The agent has been convicted, although not fined or sentenced to jail, in connection with a securities-related misdemeanor
 - D. The agent has been expelled by the NYSE
21. Which of the following statements are true regarding the Administrator's authority to examine the records of a broker-dealer registered in the state?
- I. The Administrator may examine the broker-dealer's records even if they are located in another state
 - II. If the records are located in another state, the Administrator must obtain the consent of the Administrator of the other state to examine the records
 - III. The Administrator may examine the broker-dealer's records under any circumstances
 - IV. The Administrator may examine the broker-dealer's records with good reason
- A. I, II, and III only
 - B. I and IV only
 - C. II and III only
 - D. II and IV only
22. Which of the following are reasons for the Administrator to deny an agent's registration?
- A. The applicant has engaged in dishonest or unethical practices in the securities business
 - B. The applicant filed a misleading application pertaining to a material fact
 - C. The applicant has willfully violated or willfully failed to comply with the provisions of the Uniform Securities Act
 - D. All of the above
23. Which of the following are grounds for the denial of a registration by the Administrator?
- A. The registrant was arrested for mail fraud
 - B. The registrant was charged in a market manipulation scheme
 - C. The registrant was convicted of a non-securities related felony
 - D. The registrant was convicted of a misdemeanor

24. According to the Uniform Securities Act, if an employee of an issuer is soliciting the issuer's employees for the purpose of selling securities, which of the following statements is true?
- A. If the employee did not receive commissions, he would not be required to register as an agent.
 - B. If the employee receives commissions, he must register with a broker-dealer in that state.
 - C. The employee would not be considered an agent, whether he received commissions or not.
 - D. If the employee was an officer or director of the issuer he could receive commissions and would not be considered an agent.
25. According to the Uniform Securities Act, a federally covered adviser is an adviser:
- A. Registered with the SEC
 - B. Excluded from the definition of "investment adviser" under the Investment Advisers Act of 1940
 - C. Both choices listed
 - D. Neither choice listed

ANSWERS TO QUIZ 5, Registration of Persons

1. ANSWER: B

WHY: it would be tough to prove that ANY method of analysis actually works. Warren Buffett is an active stock picker; Efficient Market Theorists say that active stock selecting is useless. Some base decisions on charts, some on who won the Super Bowl. So, we don't let the state Administrator decide which method of analysis may be used by IA's to make recommendations.

2. ANSWER: B

WHY: what do you suppose this exam would want you to say about this question?

The regulators want you to know that when you pass this test, it's not okay to walk out of the testing center selling securities over your mobile phone. Wait until you have, like, an actual license to sell securities.

3. ANSWER: B

WHY: memorize and keep moving.

4. ANSWER: C

WHY: memorize and keep moving.

5. ANSWER: C

WHY: what this question is talking about is that when the firm's license is suspended or revoked, the agents or IAR's working for the firm don't have an effective license, either. It doesn't work the other way around, though.

A firm doesn't lose their license when ONE of their thousands of rep's screws up, right?

6. ANSWER: C

WHY: if the firm has enough net capital, they might not have to buy a surety bond.

A surety bond is used to offset any costs that could potentially be incurred when taking legal action against the firm, by the way.

7. ANSWER: A

WHY: very basic point here--you can't sell in any state where YOU are not registered as an agent. Both YOU and your BROKER-DEALER must be registered in the state. The security might not have to be registered there, but you and your firm absolutely must be.

You only consider the type of security if the individual represents the ISSUER.

8. ANSWER: C

WHY: registrations for persons expire on December 31st unless properly renewed, period.

If the firm's fiscal year ends June 30th, good for the firm.

Registrations for persons expire on December 31st unless properly renewed. But, the real point of the question is that the other three statements are true.

9. ANSWER: D

WHY: because.

10. ANSWER: D

WHY: lack of experience all by itself would not be a fair or good reason to deny a person's registration. If they didn't give you a chance to get experience, how would you ever get the required experience?

11. ANSWER: D

WHY: an out-of-state adviser can have 5 non-institutional clients in the state without registering in that state. This question said "5 clients." Be flexible.

If the number is 5, did it really matter if they were institutional or not? No. If the clients are all institutional, as they are in choices "III" and "IV," the IA would not have to register either, regardless of number.

12. ANSWER: C

WHY: memorize and keep moving.

13. ANSWER: D

WHY: do any of the answer choices seem surprising? Can you eliminate any of them?

14. ANSWER: A

WHY: if the individual represents a broker-dealer in selling securities, the individual must register. All that stuff about "exempt issuer/exempt security/exempt transaction" only matters if the individual represents the ISSUER.

15. ANSWER: D

WHY: one of the basic points the exam wants to make is that both the agent and the broker-dealer have to be registered in the state.

16. ANSWER: D

WHY: if you chose "C," chances are you were reading too fast.

17. ANSWER: C

WHY: a tough question, since you may have already submitted fingerprints to the SEC. Oh well. You won't submit fingerprints to the Administrator under the USA.

18. ANSWER: C

WHY: a memorization point. Note that "60" is the right answer if the question asks how long a person whose license has been denied/suspended/revoked has to file an appeal to a court of law. 60 days. It also happens to be the same number of days you'd have to appeal an SEC order to suspend your license if you were registered with the big boys and girls.

19. ANSWER: C

WHY: note that the Administrator must issue a rule on which securities are acceptable in lieu of cash and must accept either those securities or cash.

20. ANSWER: B

WHY: a conviction of any felony or any securities related misdemeanor can lead to a denial, suspension, or revocation. If an SRO such as the MSRB/NYSE/NASD have expelled the person, that seems like a good enough reason to keep him/them from doing business in our fair state.

21. ANSWER: B

WHY: the Administrator does need a good reason to examine the broker-dealer's records, but it doesn't matter where those darned records have gotten themselves off to. If the Big A wants to see them, he gets to see them. If the firm refuses, that's called contumacy, and the Big A will probably ask a court to issue a court order to turn the darned records over. Disobey that order, and that's contempt of court. Which is bad.

22. ANSWER: D

WHY: wouldn't it be great if all 60 questions on the test were this easy? You definitely need to know the reasons for deny/suspend/revoke orders on the test and--more important--in the "real world." The Administrator can issue these orders against both persons and securities that are or are trying to get themselves registered.

23. ANSWER: C

WHY: process these questions. First, what looks right? The words "arrested/charged" or the word "convicted"? Convicted, right?

Now, which answer choice looks right: felony or misdemeanor having nothing to do with securities?

Wait, it said "non-securities related felony."

So? It's a felony, and they don't get picky when it comes to felonies.

The misdemeanor would have had to be "securities-related."

If you can process these questions in this way, you'll win on one attempt.

24. ANSWER: A

WHY: if the employee does not make commissions, he/she does not have to register as an agent of the issuer. Choice "B" almost makes sense, except that it says "broker-dealer." We're talking about an issuer.

25. ANSWER: C

WHY: if you don't fit the definition of "investment adviser," or if you register with the SEC, you are "federal covered."

QUIZ 6, Securities

1. A security registered under the Uniform Securities Act is effective for
 - A. 9 months
 - B. 1 year from the effective date
 - C. 3 years, \$5,000
 - D. a period not less than 2 years and not longer than 5 years

2. All of the following transactions are exempt except
 - A. a broker-dealer sells a primary offering to a retail customer
 - B. an executor liquidates the assets of an estate
 - C. a sheriff liquidates securities at public auction
 - D. an issuer sells common stock to an S&L or bank

3. All of the following are exempt transactions except
 - A. isolated non-issuer transaction in outstanding securities
 - B. private placement
 - C. municipal bonds
 - D. unsolicited non-issuer orders effected through a broker-dealer

4. None of the following securities is subject to the state's requirement of registration and filing of advertising materials except
 - A. General Electric common stock
 - B. Starbuck's preferred stock
 - C. South Florida Revenue Bonds
 - D. OTC Bulletin Board stock

5. Which of the following companies will most likely use registration by qualification?
 - A. DLT plans an IPO in all 50 states and has filed an S1 with the SEC
 - B. ABC will effect an IPO in the state of Arizona
 - C. R1Corp. has filed a Standard Registration Statement with the SEC and plans an IPO in the lower 48 states
 - D. QRTZ, a company in operation only four years, plans to make an additional offering in all 50 states and has filed an S1 with the SEC

6. Which of the following terms is/are associated with federal covered securities being sold in a state?

- I. notice filing
- II. coordination
- III. consent to service of process
- IV. fees

- A. I, III, IV only
- B. III only
- C. II only
- D. II, IV only

7. Which of the following securities is exempt from the state's registration requirements?

- A. bond issued by St. John's United Church
- B. debt obligation of an insurance company
- C. securities of a public utility
- D. all of the above

8. Which of the following securities is exempt from the state's registration requirements?

- A. investment contract issued in connection with a pension plan
- B. general obligation bond of the Government of Quebec
- C. common stock in Menomonee Falls State Bank
- D. all of the above

9. All of the following securities are exempt from the state's registration and filing of advertising requirements except

- A. general obligation of the national government of Mexico
- B. general obligation of the provincial government of Quebec
- C. general obligation of the national government of France
- D. general obligation of the municipal government of London

10. Which of the following could cause a security's registration statement to be denied, suspended, or revoked?

- I. incomplete information
- II. failure to pay filing fees
- III. excessive underwriter compensation
- IV. a stop order affecting the security in another state

- A. I, II, III, IV
- B. I, II only
- C. IV only
- D. II, III, IV only

11. The Administrator has the power to do all the following concerning an offering of securities except

- A. require that securities sold under coordination or qualification be sold using a prescribed subscription form
- B. require monthly progress reports from issuers
- C. require that issuers of securities sold under coordination or qualification collect proceeds in an escrow account, whose proceeds are impounded by the state and not released until a minimum amount has been raised
- D. revoke an exemption for a security issued by a non-profit organization

12. Which of the following methods of securities registration leads to an effective date established solely by the Administrator?

- A. filing
- B. notice filing
- C. qualification
- D. coordination

13. Securities registered under which of the following methods are effective when so ordered by the Administrator?

- A. filing
- B. qualification
- C. notice filing
- D. coordination

14. None of the following methods of securities registration would require a specific response from the Administrator except

- A. filing
- B. notice filing
- C. qualification
- D. coordination

15. Which of the following is not a security?
- A. 401(k) plan
 - B. variable life insurance
 - C. bank security
 - D. mutual fund
16. Which of the following does not have to be specified in a securities registration statement?
- A. an adverse order from the Administrator of another state affecting the effectiveness of the security in that state
 - B. total amount of proceeds anticipated within the state
 - C. names of all states in which the securities will be offered
 - D. total amount of proceeds for all states.
17. Which of the following transactions are non-exempt?
- A. isolated non-issuer transactions effected through a broker-dealer
 - B. transactions between an issuer and a pension fund
 - C. sales to retail investors
 - D. unsolicited non-issuer transactions effected through a broker-dealer
18. If an issuer has filed an S1 with the SEC, they would least likely register their securities by
- A. coordination
 - B. qualification
 - C. filing
 - D. notice filing
19. A security that is exempt from registration is also exempt from the state's
- I. requirement to file advertising and sales literature
 - II. merit test
 - III. anti-fraud provisions
- A. I, II, III
 - B. III only
 - C. I, II only
 - D. II only
20. Which of the following securities would be considered non-exempt under the USA?
- A. T-bond
 - B. GO bond
 - C. Bond issued by a Canadian corporation
 - D. Bond issued by a public utility

21. An individual (natural and legal person) is acting as an agent of a registered broker-dealer. The individual may work in an unregistered capacity
- A. provided proper disclosure is provided to all customers
 - B. provided proper disclosure is provided to all retail customers
 - C. under no circumstances
 - D. provided the securities are exempt
22. Unregistered, non-exempt securities may be sold
- A. under no circumstances
 - B. with prior principal approval
 - C. through private placements
 - D. to retail clients only
23. The maximum number of subscribers to pre-organization certificates in an exempt transaction is
- A. 5
 - B. 10
 - C. 35
 - D. 12
24. Which of the following methods of registration for securities tends to be the most arduous?
- A. filing
 - B. notice filing
 - C. qualification
 - D. coordination
25. The Administrator has the power to do all the following in connection with securities offerings except
- A. issue injunctions
 - B. allow information to be omitted from registration statements
 - C. require the filing of advertising for non-exempt issuers
 - D. require the filing of a consent to service of process for a federal covered security
26. Which of the following represents a true statement?
- A. the Administrator may not issue a stop order against a security based on a fact known to him at the time of registration unless the action is initiated within 30 days
 - B. the Administrator has one calendar year in which to challenge a registration's effectiveness
 - C. the Administrator may issue a stop order with or without prior notice and opportunity for a hearing
 - D. the Administrator may cancel, but not revoke, a security's registration

27. Which of the following is/are required for the Administrator to issue a stop order against a security?

- A. prior notice
- B. opportunity for a hearing
- C. findings of fact, conclusions of law
- D. all of the above

28. Who may file a registration statement for a security?

- A. issuer
- B. underwriters
- C. person on whose behalf the offering is being made
- D. all of the above

29. A federal covered security is being sold through a notice filing. The issuer may be required to provide the state

- I. documents filed with the SEC
- II. consent to service of process
- III. fees
- IV. fingerprints of officers and directors

- A. I, III only
- B. III only
- C. I, II, III only
- D. I, II, III, IV

30. Which of the following represent exempt transactions?

- I. U.S. Treasury bonds
- II. U.S. Treasury notes
- III. Unsolicited orders
- IV. Transactions between issuers and underwriters

- A. I, II, III, IV
- B. III, IV only
- C. I, II only
- D. IV only

31. Which of the following is not a security?

- A. common stock in a state-chartered bank
- B. commercial paper
- C. whiskey warehouse receipt
- D. term life insurance

32. As a result of the Howey Decision, a "security" is anything that
- I. can be purchased or sold
 - II. represents an investment whereby the investor hopes to profit through the efforts of a third party
 - III. represents an investment in a common enterprise
 - IV. involves money at risk
- A. I, II only
B. II, III, IV only
C. I, II, III, IV
D. IV only
33. Which of the following is not a security?
- A. 10% ownership of a cattle herd
B. a dairy cow
C. whiskey warehouse receipt
D. pre-organization certificate
34. Which of the following would be subject to the state's registration and filing of advertising requirements?
- A. GE
B. IBM
C. MSFT
D. Pink Sheet stock
35. A security would not have to be registered if sold through any of the following transactions except
- A. unsolicited order effected through a broker-dealer
B. reciprocally immune transaction
C. isolated, non-issuer transaction
D. transaction between an issuer and a financial institution

ANSWERS TO QUIZ 6, Securities

1. ANSWER: B

WHY: just something to memorize.

2. ANSWER: A

WHY: something more to memorize.

3. ANSWER: C

WHY: a municipal bond is not a transaction; it's a security. An exempt security, to boot, but this question is asking about transactions, not securities. Read each question very carefully.

4. ANSWER: D

WHY: the bulletin board stock is the only security that is not either exempt from the Act of 1933 or federal covered (exchange listed, NASDAQ, investment company share).

5. ANSWER: B

WHY: this is an intra-state offering all happening within the state of Arizona, so the issuer will just register with the state of Arizona. The SEC handles inter- or multi-state offerings such as choice A. If the issuer files with the SEC, they won't be using qualification-they'll be using coordination or filing.

6. ANSWER: A

WHY: coordination is only for issuers not listed or not on NASDAQ. Federal covered securities involve notice filings (a heads-up to the Administrator) plus fees, and the proverbial consent to service of process.

7. ANSWER: D

WHY: memorize and keep moving.

8. ANSWER: D

WHY: memorize and keep moving.

9. ANSWER: D

WHY: unless you're talking about Canada, the bond has to be issued by the national/federal government. London is a city. England/Britain is the country.

10. ANSWER: A

WHY: all four could snag an offering of securities.

11. ANSWER: B

WHY: the progress reports for the slow, painful offerings are required no more often than quarterly, not monthly.

12. ANSWER: C

WHY: only under qualification would the Administrator have that much power.

13. ANSWER: B

WHY: only under qualification would the Administrator have that much power.

14. ANSWER: C

WHY: only under qualification would the Administrator have that much power.

15. ANSWER: A

WHY: a retirement *plan* is not a security—securities are held inside a tax-deferred account, but the account itself is not a security. A bank security is EXEMPT from registration but still a security. A mutual fund share is also a security, a share of common stock to be precise. But a whole life or term policy is strictly an insurance product.

16. ANSWER: D

WHY: you have to tell the Administrator the total amount of securities to be offered in his state plus the names of all the states where you'll be offering/selling securities. He doesn't need the total for, say, Kansas or Arkansas, if he's the Administrator of Illinois. He does need to know about Kansas and Arkansas and would sure be curious if either state had a problem with the security or the underwriters. If the exam asked me if the Administrator wants the total amount of the offering and the total amount for his state, I'd say yes. The U-1 form for registering securities at the state level available under NASAA's library at www.nasaa.org clearly asks for the total amount of the offering, then the amount to be offered in a particular state.

Would they split hairs on the language like that? The Series 63?
Hmm.

17. ANSWER: C

WHY: be able to make a list of exempt securities and exempt transactions. That way, if the answer choice doesn't seem to match up with the list, well, that should help move you closer to the right answer.

18. ANSWER: B

WHY: qualification is really only used when the issuer will NOT file an S1 or any other registration statement with the SEC.

19. ANSWER: C

WHY: many securities are exempt from filing requirements but no person is exempt from anti-fraud regulations. Just means that if you sell an exempt security, i.e. a T-bond, fraudulently, you're in just as much trouble as if it were a share of unlisted stock.

20. ANSWER: C

WHY: the Canadian thing is for governments, ey? Not corporations, ey? Not even Molson, ey?

21. ANSWER: C

WHY: any other answer would really tick off the regulators scoring your exam.

22. ANSWER: C

WHY: this one was nasty. You're welcome. Unregistered securities can be sold through private placements, which may include up to 10 non-institutional investors. Remember, about the only thing you can do because you have "prior principal approval" is to effect transactions not recorded on the employer's books. And I have no idea where the heck that one's going. Perhaps I'll track it down some day if I'm really bored.

23. ANSWER: B

WHY: for private placements, the number of non-institutional buyers is 10-the number of institutions is unlimited. But, for pre-organization certificates, the maximum number is 10, period.
Aren't you glad you know that? Good luck working it into a cocktail conversation.

24. ANSWER: C

WHY: gotta provide whatever the Administrator says and the security will only be effective "when so ordered"

25. ANSWER: A

WHY: only courts can issue injunctions and not just for securities violations. This morning the Chicago Sun-Times has a story about a building contractor who has been enjoined (prevented) by the courts from doing any construction work throughout the City of Chicago as a result of a tragic porch collapse that killed 13. When the courts want somebody to stop jeopardizing the well-being of the public, they slap an injunction on their negligent or fraudulent you-know-what. But it takes

a court to do that-the Administrator has to ask the court to issue an injunction-he can't issue the thing him/herself. He can do the deny/suspend/revoke thing, but even there the other side gets a heads up, a hearing, and an explanation of what they did wrong. He has lots of power; he isn't Mussolini.

26. ANSWER: A

WHY: A is the only true statement. And since "A" is true, choice "B" is not. The Administrator has to challenge a registration/try to stop it within 30 days based on a fact known to him at the time of registration. Of course, if something funky comes to light later on, he can issue a cease & desist, or initiate a suspension or revocation. So, if the fact is known to him at the time of registration, he has to do something about it within 30 days. After that, should something new come to light, he can take action as he sees fit-there is no one-year time limit. A "stop order" is a denial/suspension/revocation. Those orders are issued AFTER prior notice has been given, with an opportunity for a hearing, and showings of fact/conclusions of law. In other words, not just cuz the Big A says so. The only two things that can happen without prior notice and opportunity for a hearing are cease & desist orders and the summary suspension of a pending registration. Choice D is wrong-the Administrator can deny, suspend, or revoke a security's registration.

27. ANSWER: D

WHY: all three for sure. Before a denial/suspension/revocation is issued, the affected party must receive prior notice with an opportunity to request a hearing, and the Big A has to show them why they're getting nailed with a nasty Administrative order.

28. ANSWER: D

WHY: memorize it and move on. Not worth delving into.

29. ANSWER: C

WHY: if the security is federal covered, it's really under the jurisdiction of the SEC (the federal regulators). But, since it's being sold within states, the issuer also provides fees, a heads up called a "notice filing" and a consent to service of process. No fingerprints are required. Now, the point of the question isn't so you know you don't need the fingerprints-it's so you know the three things that ARE required.

30. ANSWER: B

WHY: Treasury bonds, notes, bills, and STRIPS are all exempt . . . securities. This question asked for exempt TRANSACTIONS. Read each word very carefully on this exam!

31. ANSWER: D

WHY: insurance products are insurance products, not securities. Variable annuities and variable life policies are BOTH insurance products and securities, but whole and term life have fixed, guaranteed payments. Remember, if your money is secure, it's NOT a security.

32. ANSWER: B

WHY: anything that can be purchased or sold? Hmm, that's going a bit far, right? You can probably think of about a thousand things that can be purchased or sold that are not securities. Blue jeans, for example, are not securities. Nor is toilet paper, even if it does end up in the same place as many securities.

33. ANSWER: B

WHY: a cow is a cow. An ownership interest in a racehorse or a farming operation is totally different and, because of the Howey Decision, would clearly be a security, since it represents money at risk and an investment in a common enterprise whereby the investor hopes to benefit through the efforts of others. Why would anybody care to define a "security" so carefully? Well, how would a regulator bust somebody for selling a security deceptively before he/she/they clearly defined that the thing being sold fraudulently is, in fact, a security. Those Administrative orders (like the ones on the State of Ohio's website) always clearly define that the thing that was sold in a way that really ticked off the regulators is, in fact, a security as defined by a specific statute(s). Then, the order proceeds to explain why the manner in which this security was sold violated a particular law or laws. In other words, if I sell you my used car deceptively, I'm in trouble. But certainly not under securities laws, since a car is not a security.

34. ANSWER: D

WHY: if it's listed or traded on NASDAQ, it is NOT subject to the state's requirements. The bulletin board or "pink sheet" stocks ARE subject to those requirements. The test might expect you to know that any stock with 3 or fewer letters in its symbol is listed. And MSFT (ORCL, INTC, PSFT) are all NASDAQ stocks. They probably won't insist that you know that, but you're about to become a sales rep, so I think you should know something as basic as the fact the MSFT trades on NASDAQ, even if it's not on the exam.

35. ANSWER: B

WHY: no idea what the heck B is trying to say-eliminate the funky answer choices. You're at least somewhat familiar with the other three-if one of the choices just looks weird, eliminate it and move on with your life.

QUIZ 7, Securities

1. Which of the following would allow a security to be sold in a state without registration?
 - A. The security is sold in a private placement
 - B. The firm selling the security is excluded from the definition of a broker-dealer
 - C. The security is common stock trading on the non-NASDAQ OTC market
 - D. None of the above
2. Securities sold through a private placement are:
 - A. always required to first be registered with the SEC
 - B. unregistered, non-exempt securities
 - C. exempt from the antifraud provisions of the USA
 - D. allowed to be sold to 15 non-institutional buyers
3. All of the following are true regarding the registration of securities under the Uniform Securities Act except
 - A. A security is considered registered for one year from the effective date of its registration statement.
 - B. If the registration statement for a security is declared effective by the Administrator of one state, it is also effective in any state in which an identical registration statement has been filed.
 - C. The filing of a registration statement may be done by a person other than the issuer.
 - D. The registration statement must include the amount of securities to be offered in the state as well as the names of other states where the securities will be offered.
4. All of the following transactions are exempt except:
 - A. A transaction by the administrator of an estate
 - B. An unsolicited non-issuer transaction effected through a broker-dealer
 - C. transactions between an issuer and retail investors
 - D. a bona fide pledge of securities as collateral to secure a loan
5. Registration by coordination would most likely be used:
 - A. for inter-state initial public offerings
 - B. by issuers of Nasdaq national market securities
 - C. for intrastate offerings
 - D. by issuers in business at least 36 consecutive months, with stock trading for at least \$5 per share

6. Under the Uniform Securities Act which of the following information is required when registering securities for sale on the primary market?

- I. The amount of securities to be offered
 - II. Specimen of the security
 - III. Consent to service of process
 - IV. All other states where filing has been or will be made
- A. I, II only
 - B. II, III only
 - C. I, II, III, IV
 - D. I, IV only

7. Which of the following statements are true concerning securities registered by coordination?

- I. The state and federal registration statements must be filed at the same time
 - II. The issuer must file with the Administrator three copies of the latest prospectus filed with the SEC
 - III. State registration is effective when the federal registration statement becomes effective
 - IV. Registration by coordination may not be used if the federal registration statement has already been declared effective
- A. I, II only
 - B. II, and III only
 - C. II, III, and IV only
 - D. I, II, III, and IV

8. Which of the following securities is nonexempt?

- A. A bank holding company's securities
- B. Canadian government bonds
- C. U.S. Treasury notes
- D. Stock of a building & loan association

9. An application for securities registration in a state could be denied for which of the following reasons?

- I. Excessive underwriter compensation and/or promoter profits
 - II. The terms under which the offering is made are unfair to investors
 - III. The issuing corporation has no place of business in the state
 - IV. The issuer has not registered the offering with the SEC
- A. III only
 - B. I and II only
 - C. III and IV only
 - D. I, II and IV

10. Under the Uniform Securities Act, commercial paper is exempt from the state's registration and filing of advertising requirements if it is:
- A. Issued in denominations of at least \$100,000
 - B. Issued in denominations exceeding \$100,000
 - C. Rated in one of the three highest rating categories from a recognized rating organization
 - D. Issued by an NYSE-listed or NASDAQ NMS corporation
11. A private placement is exempt under the Uniform Securities Act as long as all of the following requirements are met EXCEPT:
- A. The securities cannot be offered to more than 10 non-institutional investors in 12 consecutive months
 - B. No payment is made by any subscriber
 - C. Subscribers receive unregistered securities
 - D. The seller must reasonably believe that all buyers are purchasing for investment purposes only
12. Under the Uniform Securities Act, all of the following are exempt securities EXCEPT:
- A. General Obligation bonds
 - B. Bank securities
 - C. Subordinated debentures
 - D. Securities issued by religious organizations
13. Under the Uniform Securities Act, when a security is exempt, this implies that:
- A. Transactions involving the security are not subject to the antifraud provisions of the Act
 - B. The security does not need to be registered with the state to be sold there
 - C. A broker-dealer that underwrites a new issue of the securities does not need to be registered with the state
 - D. An agent who sells the security does not have to be registered with the state
14. Under the Uniform Securities Act, which of the following does NOT constitute grounds for denial, suspension, or revocation of a securities registration statement?
- A. The issuer is engaged in an illegal enterprise
 - B. The security is not registered with the SEC
 - C. The application is incomplete or misleading in a material way
 - D. The offering has been or would be made with excessive amounts of compensation

15. Under the Uniform Securities Act, private placement securities are considered to be:
- A. of higher investment quality
 - B. approved for sale by the state
 - C. Unregistered
 - D. Registered
16. Under the Uniform Securities Act, securities exempt from registration under state law would NOT include:
- A. Credit union securities
 - B. Bank holding companies
 - C. Securities issued by national governments with diplomatic relations with the U.S.
 - D. Microsoft common stock
17. According to the Uniform Securities Act, which of the following would NOT be exempt from registration?
- A. A variable rate bond issued by a bank
 - B. T-bill
 - C. Preferred stock issued by a Canadian corporation
 - D. An investment contract issued in connection with an employee profit-sharing plan
18. Under the Uniform Securities Act, an issuer of registered securities is required to file statements or reports with the Administrator as long as some of the securities remain:
- A. Unsold
 - B. Outstanding
 - C. Under \$10 per share
 - D. In the hands of institutional investors
19. According to the Uniform Securities Act, exempt transactions include which two of the following?
- I. Two individuals trading common stock without a broker-dealer as an intermediary
 - II. A dealer trading stock from its inventory with a commercial bank
 - III. A syndicate distributing shares of preferred stock to retail investors
 - IV. An offering limited to 25 retail investors
- A. I and II
 - B. I and III
 - C. II and III
 - D. II and IV

20. A broker-dealer is participating in an initial public offering. Which of the following documents is the broker-dealer required to deliver to a client who has purchased these securities?

- A. A registration statement
- B. A research report
- C. A final prospectus
- D. A list of all of the broker-dealers involved in the offering

21. Under the National Securities Markets Improvement Act (NSMIA), which of the following statements concerning mutual funds is correct?

- A. They may be required to provide notice filings to the states.
- B. They must be registered with state securities administrators.
- C. They are regulated by state securities administrators.
- D. They are no longer required to be registered with the SEC.

22. Which of the following choices would be considered a security under the USA?

- I. Interest in a cattle farming operation
- II. Interest in a multilevel marketing program
- III. A SEP-IRA or Keogh plan
- IV. Whiskey warehouse receipt

- A. I and II only
- B. I, II, III, IV
- C. I, II, and IV only
- D. IV only

23. All of the following would be considered an institutional account except:

- A. An account with a total value in excess of \$1.5 million.
- B. An account for a pension plan
- C. An account for a qualified purchaser
- D. An investment adviser's omnibus trading account

24. An exempt transaction would include:

- I. An unsolicited, non-issuer order in outstanding, non-exempt securities
- II. A trade where the customer signs a notarized suitability statement
- III. A transaction between an issuer and their underwriters
- IV. The purchase of an equipment trust certificate

- A. I and III
- B. I and IV
- C. II and III
- D. I, III, and IV

25. The Administrator has the power to deny, revoke or suspend the registration statement of an issuer of securities. However, under the Uniform Securities Act, which of the following issuers is, in fact, subject to this action?

- I. Stock listed on a foreign exchange
- II. Federal Savings and Loan Associations
- III. Federal credit unions
- IV. For-profit corporations

- A. I and IV only
- B. II and III only
- C. III and IV only
- D. I, II, III, and IV

26. Under the Uniform Securities Act, all of the following would have to be disclosed when filing a registration by qualification EXCEPT:

- A. A statement analyzing the issuer's profit margin over the last three years compared to the profit margins of its primary competitors
- B. The capitalization and long-term debt of the issuer and any significant subsidiary
- C. The general character and location of the issuer's business and a statement of the general competitive conditions within the industry or business in which it operates
- D. The estimated cash proceeds to be received by the issuer from the offering

27. Under the Uniform Securities Act, registration by coordination becomes effective:

- I. If no stop order is in effect
- II. Concurrent with SEC-declared effectiveness provided the registration statement has been filed with the Administrator for at least 10 days
- III. Provided that a prospectus has been filed with the Administrator

- A. I and II only
- B. I and III only
- C. II and III only
- D. I, II, and III

28. Which of the following are most likely defined as "securities"?

I. viatical settlement

II. fixed annuity

III. ATM leasing contract

IV. Payphone leasing contract

A. I only

B. I, II, IV only

C. II, III only

D. I, III, IV only

ANSWERS TO QUIZ 7, Securities

1. ANSWER: A

WHY: an exempt transaction allows a security to be sold even though it's unregistered. For choice "B" it really doesn't matter whether the firm is excluded from the definition of "broker-dealer." The person selling the security might not even be in the securities business. Still, a security has to be registered in the state, except if it doesn't have to be.

Private placements are exempt transactions, so the securities are not registered. There can only be 10 non-institutional buyers, no commissions can be paid to anyone for soliciting those potential buyers, and the non-institutional buyers agree to hold the securities for investment purposes, which generally means to hold them for a year.

2. ANSWER: B

WHY: securities are NEVER exempt from anti-fraud rules. The maximum number of non-institutional buyers is 10, not 15. And some securities are only registered with the state, not the SEC. By eliminating those three choices you get the right answer.

And it's a tough one, because usually "unregistered, non-exempt securities" can not be sold.

Except when they can, which is when the transaction qualifies for an excuse/exemption.

3. ANSWER: B

WHY: if the security is subject to the state's registration requirements, it doesn't become effective just because another state says so. And, this is tricky, because under registration by coordination or registration by filing, once the SEC gives the effective date, the security is effective at the state level (provided it met the requirements of those procedures). But that's the SEC, the feds. One state does not have the authority to tell another state that a security is now effective for sale.

Still, the point of a question like this is usually just to point out that the other three statements are true.

4. ANSWER: C

WHY: a transaction between an issuer and a financial institution is exempt, but nobody said anything about retail investors, who are just Average Joe's and JoAnn's. Again, the point is really to know that the other three are exempt transactions.

5. ANSWER: A

WHY: associate registration by coordination with multi-state IPO's. Intra-state IPO's only involve one state, so we'd use registration by qualification. Choice "D" is talking about registration by filing, used for additional offerings, not the first (initial) offering of securities. And the NASDAQ NMS stock would just register with the SEC, since it's federal covered.

6. ANSWER: C

WHY: good memorization points.

7. ANSWER: C

WHY: memorization points.

8. ANSWER: A

WHY: bank securities are exempt, but not the securities of bank holding companies. For example, the First National Bank of Buda, Illinois would be an exempt issuer. That's a bank, period. But shares of XYZ Bancorp, Inc. are non-exempt. That's a bank holding company, which owns many, many banks and might snatch up that bank in Buda, IL someday. Their stock is publicly traded and has to be registered.

Non-exempt means "not excused."

9. ANSWER: B

WHY: a company would most likely only have a location in one or a couple of states--are we saying they can't sell stock in any other state? Also, some stock is registered only at the state level, not with the SEC. Excessive underwriter or promoter profits or ridiculous warrants/options granted to the ones pushing the offering can certainly get the security's registration canned. And, if you avoided choice "II," you need to develop a better sense of the Administrator's desire to protect investors from unfair practices.

Or, you goofed.

Or, you're tired.

Whatever. Make a few notes and keep moving. This nightmare will all be over soon.

10. ANSWER: C

WHY: something to memorize. Kind of tricky, because there is another short-term debt security called a "jumbo CD" that starts at \$100,000. Of course, who said anything about jumbo CD's in this question?

11. ANSWER: B

WHY: pure evil. The "no payment can be made by any subscriber" wouldn't work on a private placement, where the issuer is trying to raise

money/capital right now. It's the offering of pre-organization certificates where no payment can be made by any subscriber.

Ouch.

Would the test get that technical?

Sure. Not on every question, but on many more than you'd probably like.

12. ANSWER: C

WHY: something more to memorize. Or, if you know the other three are exempt, and you're not sure about "subordinated debentures," choose "subordinated debentures."

This is a game--use strategy.

13. ANSWER: B

WHY: that's what "exempt security" means. The security is exempt/excused from having to be registered. Agents and broker-dealers still need to be registered. And nothing is exempt from anti-fraud rules.

14. ANSWER: B

WHY: the other three look like good reasons to put a stop order on the security, right? Actually, so does "not registered with the SEC," because it's designed to. That's how you write a trick question, by throwing in an assumption you're pretty sure many test-takers will make.

But, think carefully. Are ALL securities registered with the SEC?

Most are.

Registration by coordination and registration by filing (formerly "notification") not only involve SEC registration, they require it.

But, what about the third method, registration by qualification?

If the issuer wants to sell only to investors in their state, it's an intra-state offering and could just be registered with the state, not with the SEC.

The SEC is federal, so they get involved with inter-state commerce.

Not intra-state commerce.

Inter (between). Intra (within).

Yes, English majors have a major edge on this exam.

15. ANSWER: C

WHY: securities are never "approved" by any regulator. Believe it or not, private placement securities aren't registered.

Why not?

The transaction qualifies for an excuse, an exemption. Well, as long as you meet the criteria of the exemption, anyway.

16. ANSWER: B

WHY: bank securities are exempt. Bank holding companies issue publicly traded stock that is granted no special exemption. A bank is a bank. A bank holding company owns several banks, often in several different states.

17. ANSWER: C

WHY: tricky, since any GOVERNMENT securities up north there in Canada are exempt, ey?

But, this is a Canadian CORPORATION, ey?

Sorry, ey?

What about choice "A", ey? Did anyone specifically tell you anything about a "variable rate bond"?

No.

Who's the issuer?

A bank.

Bank securities are exempt.

That's the way you have to be able to reason through these questions.

Sorry, but this test doesn't play nice.

18. ANSWER: A

WHY: memorize and keep moving.

19. ANSWER: A

WHY: a syndicate distributing securities in order to raise money for an issuer really, really gets the Administrator's attention. Two investors selling outstanding stock among themselves is not so terribly intriguing to the state.

Have you read about anything that has to do with "25 institutional investors?"

Me neither.

20. ANSWER: C

WHY: and if they ask when this prospectus must be delivered, tell them "no later than the due date for confirmation."

21. ANSWER: A

WHY: in fact, at www.nasaa.org under "library" you can see a form for a notice filing for investment company securities. It's just a filing of notice, but it often has to be used by these federal covered securities. NYSE/NASDAQ/AMEX securities would not have to provide this notice filing, in case the test decides to get that trivial. Remember, a "notice filing" is not really a registration of securities—just a filing of notice.

22. ANSWER: C

WHY: retirement plans themselves aren't securities. We purchase securities within these plans in order to get tax-deferral, but a Keogh isn't a security. I might own 1,000 shares of GE within my Keogh. The GE stock is a security.

The Keogh is just a protective shell I wrap around my stock in order to let it grow tax-deferred. Geeze, what are we doing here, splitting hairs? Big time.

23. ANSWER: A

WHY: it's not a dollar amount that makes it "institutional." Of course, that makes it a tough question, since "institutional" almost always goes along with "huge dollar amounts."

But "institutional investor" really means that the investor is an institution/organization like a pension fund, insurance company, mutual fund, bank, etc.

24. ANSWER: A

WHY: you'll need to be able to make a list of exempt transactions. If it isn't on the list, it's not exempt.

Or, you forgot to put it on your list.

25. ANSWER: A

WHY: choice "I" was tricky, but "foreign exchange" is a far cry from a recognized "national exchange," right? Don't read too fast: for-profit corporations are a far cry from not-for-profits, right?

26. ANSWER: A

WHY: the issuer doesn't have to prove that they're a better company than their competitors. Heck, a big infusion of capital might help them to become a better company, so give 'em a chance to raise some money, will ya', Mr. Administrator?

27. ANSWER: D

WHY: another one to memorize and hope you don't see on the test. Unless you like that question.

28. ANSWER: D

WHY: only fixed annuities are excluded from the definition here. If you're offered the chance to buy the lease or "own the income stream" from an ATM or payphone, that's almost certainly going to be characterized as an "investment contract," which is a security.

In fact, just about EVERYTHING that is not the following is a security:
fixed annuity, whole/term life insurance, precious metals/stones,
commodities/futures.

QUIZ 8, All Topics

1. Which of the following represent true statements concerning the registration process for investment advisers?
 - I. Form ADV is used whether the adviser is registering with the SEC or a particular state
 - II. An applicant need not disclose the fact that she was fired for cause if the complaint on the part of her clients was never brought to and decided by either a court of law or the NASD
 - III. If an applicant is registering with the SEC and providing notice filings to various states, the states have no authority to charge fees in addition to the SEC-required fees
 - IV. The registrant must indicate whether it will maintain custody or discretion, and whether it accepts prepayment in excess of \$500 six or more months in advance
 - A. II, III, IV only
 - B. II, IV only
 - C. I, IV only
 - D. II, III only

2. An investment advisory partnership located and registered in State A is the subject of an investigation by the State Securities Commissioner, as a result of several complaints from dissatisfied clients. The State Securities Commissioner sends a representative of her office to conduct an unscheduled, onsite inspection of the investment adviser. The inspector informs a principal of the firm that the state would like to review all email correspondence between the firm and three of its clients. The principal of the firm makes a phone call to the firm's legal counsel, then informs the inspector that the emails are covered by attorney-client privilege and, therefore, are not available for inspection at this time. Which of the following statements best addresses this situation?
 - A. the inspection was invalid, as prior notice was not given
 - B. the state has the authority to inspect the emails, and the investment adviser has violated provisions of the Uniform Securities Act
 - C. as a fiduciary, the investment adviser may not divulge the contents of client emails to a third-party
 - D. the investment adviser's legal counsel has 48 hours in which to delete sensitive information and deliver transcripts of the requested emails to the state

3. An investment adviser indicates on its application that its office is located at 110 W. Main Street, Suite 102. Six months later the state securities Administrator sends a duly appointed representative to conduct an unscheduled inspection of the adviser. Arriving at 110 W. Main Street, Suite 102, the representative of the Administrator finds a hair and nail salon occupying Suite 102. After enjoying a perm and manicure, the representative returns to the office, informing the Administrator that there is no investment advisory business at the address indicated on the application. Turns out, the adviser had simply moved three months earlier from Suite 102 to Suite 850 in the adjacent office building located at 112 W. Main Street. Which of the following best addresses this situation?
- A. the Administrator would most likely cancel the adviser's registration, as it has moved
 - B. the adviser is not obligated to inform the Administrator of a change of address until it is time to renew the registration at the end of the calendar year
 - C. the adviser may be subject to disciplinary action for failing to inform the Administrator of a change of material information relating to its registration
 - D. the inspection of the premises was invalid, as only the Administrator, him or herself, has the authority to conduct inspections, whether announced or otherwise
4. A broker-dealer and investment advisory firm were recently suspended by the NASD and fined \$80,000 for failure to pay an arbitration award. Therefore, the Administrator of the state where the firm does business
- A. has no authority to take disciplinary action
 - B. may revoke the firm's license, even before providing prior notice, an opportunity for a hearing, and written findings of fact/conclusions of law
 - C. may institute disciplinary proceedings based on the NASD's actions
 - D. would not consider any development under the NASD's Code of Arbitration relevant to the adviser's state registration

5. On an application for registration an investment adviser indicates that the assets under management equal zero dollars. The state securities Administrator later discovers that at the time of application, the adviser's assets under management, in fact, equaled \$10,000,000. Which of the following best addresses this situation?
- A. the error was clearly made in good faith and was, at worst, a typographical error
 - B. because the typographical error was so egregious, the firm's license will be revoked immediately
 - C. since the assets under management are clearly well below \$25 million, the Administrator will likely consider the misstatement immaterial
 - D. the application was clearly misleading and will likely lead to an Administrative proceeding
6. Heather is a properly licensed agent for Smythe Brothers Broker-Dealers. Yesterday, Heather was unable to contact a non-discretionary client who routinely invests in real estate investment trusts. Heather has been working with the client in excess of one calendar year and knows the investment preferences of her client well. Since the REIT investment fit perfectly with her client's investment profile, she purchased 500 shares with the client's free credit balance. Unfortunately, when the client discovers the purchase on her next monthly account statement, she is extremely unhappy and instructs Heather to liquidate the securities. Because the investment was, in fact, suitable, Heather declines to execute the sale. Which of the following represent(s) true statements concerning this situation?
- I. purchasing the REITS represents unauthorized trading, but not a violation of securities law
 - II. because the investment was suitable, Heather may use her discretion to execute or not execute the customer's order to sell the securities
 - III. as long as a principal approved the order, no violation has occurred
 - IV. Heather executed an unauthorized transaction and also violated provisions of securities law by refusing to execute the sell order
- A. I, IV only
 - B. I, II, III only
 - C. III only
 - D. IV only

7. Bryan is a research analyst employed by Jones & Jackson Securities, a multi-faceted financial services firm performing underwriting, market making, and investment advisory services. Bryan frequently attends sales presentations to prospects with members of the firm's underwriting department. Routinely, Bryan indicates to underwriting prospects that if the company utilizes the firm's services, he and his fellow analysts will do their best to issue positive recommendations on the company's securities. The head of the underwriting department reviews Bryan's performance annually and sets his compensation based partly on the amount of underwriting business he helps to generate. Which of the following best addresses this situation?

A. as long as no positive recommendations are promised, this represents an acceptable business practice

B. as long as no agreement to issue positive recommendations on the company's stock is stipulated in writing, this represents an acceptable business practice

C. as long as Bryan's compensation does not exceed the greater of 10% of new underwriting business directly attributable to his analysis or \$50,000 per annum, no violations have occurred

D. research analysts may not engage in any sales activities for the underwriting department, may not promise favorable ratings to prospective clients, and may not have their compensation set by the underwriting department

8. The securities Administrator for the State of Alabama conducts a review of a broker-dealer's stock ratings generated by the research analyst department the past year. The firm uses a 4-tiered system of "Strong Buy," "Buy," "Hold," and "Sell." The Administrator discovers that the percentages for each of the 4 ratings were as follows:

Strong Buy: 15%

Buy: 75%

Hold: 8%

Sell: 2%

Which of the following statements best addresses this situation?

A. the Administrator has no authority to determine which percentages should be allocated to each of the 4 ratings classes

B. the Administrator would naturally conclude that the firm is extremely bullish on the stock market

C. as long as the firm performs underwriting and market making activities on the companies and stocks in the Buy and Strong Buy categories, this situation represents no violation of securities regulations

D. the Administrator may conclude that the ratings are excessively bullish, especially if the firm performs underwriting and market making activities on the companies and stocks in the Buy and Strong Buy categories

9. A small company doing business in the State of Maryland would like to raise a small amount of capital. They contact a local underwriting firm, who devises a plan to raise capital by selling short-term promissory notes to residents of the state. The underwriting firm sends out a circular to 1,000 investors that announces the investment opportunity as follows:

INVEST IN SHORT-TERM GUARANTEED NOTES YIELDING THE GREATER OF 12.7% OR 5% GREATER THAN PRIME.

THE NOTES ARE GUARANTEED BY THE ISSUER

The issuer does, in fact, have provisions to secure a line of credit from their bank if they require additional funds to cover the guaranteed return. Which of the following best addresses this situation?

- A. the word "guarantee" can never be used in conjunction with an offer of securities, as all securities carry a certain degree of risk
- B. as long as the issuer does, in fact, secure the emergency line of credit, no violation would have been deemed to have occurred
- C. the announcement will most likely be deemed to be misleading, and the underwriters can be disciplined by the state securities Administrator
- D. the announcement will most likely be deemed to be misleading, but only the underwriters can be disciplined for fraudulent practices, since the issuer is not a registered broker-dealer

10. An investor receives a brochure for an offering of 8% preferred stock that states that 1,000,000 shares of \$100 par value 8% guaranteed preferred stock are being offered by XYZ Corporation through its principal underwriter, Jackson-Huget, and a syndicate of seven other firms. Since the company's cash flow has been strong for over two decades, the issuer and underwriters foresee no difficulty in maintaining the 8% dividend, even if emergency funding would need to be sought as a result of weak financial results. Which of the following represent(s) true statements concerning this situation?

- I. only the underwriters could be considered to have misled investors, since the XYZ Corporation is neither a registered broker-dealer nor investment adviser
- II. since dividends, whether preferred or common, are not, in fact, guaranteed, this brochure is deceptive and/or misleading
- III. as long as the XYZ Corporation's free cash flow has proved sufficient to sustain a hypothetical 8% dividend for a period of not less than 5 years, no deception has taken place

- A. I only
- B. II only
- C. III only
- D. I, II, III

11. Marty Cohen, DBA Big-Hitter Advisory Services, is convinced that the State of Texas is unfairly disciplining him for various practices that are not, in fact, violations of securities regulations. The State of Texas alleges the following:

- Marty distributed advertisements listing the stocks he recommended that showed positive returns in excess of 5%
 - The advertisements covered a period of 3 months, with the returns then annualized for the sake of clarity
 - Marty's management fees were not deducted, and no mention of that fact was made in the advertisement
 - Marty allowed certain friends and family to pay reduced or, in some cases, no management fees without disclosing this to his other clients
- Which of the following represent true statements concerning Marty's business practices?

- I. the stock recommendations should have covered a period of at least one year
- II. the recommendations should have included ALL recommendations and not just the ones that went up over 5%
- III. the advertisement should have either shown the effects of the deduction of management fees, or made it clear that the computation of said management fees would have reduced the returns presented
- IV. it is perfectly acceptable to let friends and family pay reduced or no fees without disclosure to other clients

- A. I only
- B. II only
- C. I, II, III only
- D. I, II, III, IV

12. Financial impairment of an investment adviser must be disclosed to prospects and clients in which of the following cases?

- A. the adviser will maintain custody of clients' funds/securities
- B. the adviser will have discretion over the account
- C. the adviser accepts prepayment of >\$500 six or more months in advance
- D. all of the choices listed

13. Which of the following represent true statements concerning disclosure to prospects and clients on the part of an investment adviser?
- I. disclosure of regulatory action must be made 48 hours before contract signing or at the time of signing if the client has five days to cancel
 - II. the adviser must disclose regulatory actions taken over the past 3 years only
 - III. actions taken by the SEC, other state regulators, SRO's, or any federal or state court must be disclosed
 - IV. an NASD fine in excess of \$2,500 must be disclosed to prospects/clients
- A. I, III, IV
 - B. II only
 - C. I, II, III, IV
 - D. III, IV only
14. Investment Advisers must deliver disclosure brochures (essentially Form ADV Part II) to which of the following clients?
- A. clients for whom the adviser performs impersonal advisory services requiring payment of less than \$200
 - B. investment companies
 - C. non-institutional clients for whom supervisory services are performed
 - D. all of the choices listed
15. Under the Uniform Securities Act, which of the following situations require that the investment adviser maintain a specified minimum net capital?
- A. the adviser maintains custody of client funds/securities
 - B. the adviser has discretion over the account(s)
 - C. the adviser accepts prepayment of >\$500 six or more months in advance
 - D. all of the choices listed

16. An investment adviser registered in five states announces its services through a website. The website is, of course, accessible in all 50 states. Therefore:

- I. the adviser is in violation of advertising rules for investment advisers
- II. as long as the website contains a legend clearly stating that the investment adviser may only transact business in those states where they are registered or not required to be registered, no violation has occurred
- III. as long as the website does not involve the rendering of investment advice for compensation but merely disseminates information about the adviser's services, no violation has occurred
- IV. since the Internet clearly involves inter-state commerce, only the SEC has jurisdiction over any Internet-based advertisements or advisory activities

- A. I only
- B. IV only
- C. II, III only
- D. II, III, IV only

17. Slippery Rock Investments was not registered in the state of Georgia as a broker-dealer at the time that one of its sales representatives represented to a Georgia resident that the shares of preferred stock being offered were guaranteed and appropriate for a retiree looking to preserve income. The shares were never registered, the sales representative was not registered as an agent, nor was the broker-dealer. Although dividends on the preferred stock were to be paid quarterly, after 18 months no dividends have been paid. When the Georgia investor attempted to liquidate his investment, he was told that the stock didn't actually trade in the secondary market, and the broker-dealer was not interested in purchasing it from him at this time. The issuer of the preferred stock has subsequently filed for bankruptcy protection, and it is unclear if the preferred stock has any value at this point. Which of the following represent(s) likely outcomes of this unfortunate situation?

- I. the Administrator may order the firm to perform an offer of rescission
- II. the sales representative may be subject to an Administrative order
- III. the sales representative's actions were deceptive, manipulative, and fraudulent
- IV. the broker-dealer can not be subjected to any Administrative action since they are not registered in the state of Georgia

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

18. An agent properly registered in the state with a broker-dealer properly registered in the state has been holding investing seminars for senior citizens. As an agent with 10 years' experience, she is well qualified to speak on the topics of annuities and wealth preservation and has earned her CFP distinction. The Administrator discovers that the agent has not informed her firm of the seminars and that she made several statements at several of the seminars that were misleading and deceptive. Therefore, which of the following represent(s) true statements of this situation?

- I. as an expert, the agent was not obligated to inform her firm of the seminars
- II. as a representative of the broker-dealer, the agent was obligated to inform her firm of the seminars and have the compliance department approve all invitations, handouts, computer slide shows, etc.
- III. as long as no money was collected and no contracts were signed at the seminars, no fraud could have taken place, as no offers of securities could, therefore, have occurred
- IV. the agent will likely be the subject of an Administrative proceeding for her conduct

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

19. Jason is registered as an agent and investment adviser representative for a firm properly registered in the state. Four of his clients have complained to the Administrator that their IRA accounts have been turned over in excess of 5 times during the current year, many of the trades having taken place without their knowledge. Which of the following represent(s) accurate statements about this situation?

- I. this is merely the investors' word against Jason's and until the Administrator can prove beyond a reasonable doubt that the clients had no knowledge of the transactions, it must be assumed that Jason acted lawfully
- II. as a fiduciary, it is Jason's discretion to trade the accounts as often as he sees fit
- III. the trading appears to be excessive
- IV. the Administrator will likely subpoena the account records and consider the sworn testimony of four separate investors representing that the trades were unauthorized to be compelling evidence against Jason, and reason enough to suspend or revoke his licenses

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

20. Allen, a properly registered agent with a broker-dealer properly registered in the state, is a proponent of market timing and frequent trading. It is not uncommon for him to buy and sell the same security several times in a given week, basing his trades on a thorough understanding of technical analysis and market timing. Recently, three of his clients have complained to the state securities Administrator that the commissions charged their account appear excessive, along with the excessive nature of the trading. Many of the trades were executed without their knowledge, and one customer discovered that she was in a margin account, although she claims she was never informed of this. The debit balance of the margin account is \$5,000, and she is struggling to pay the interest charges. Which of the following represent(s) accurate statements about this situation?
- I. since Allen is a professional trader, the trading can not be deemed excessive, especially if the clients' accounts show capital appreciation
 - II. customers frequently claim that commissions are excessive; therefore, their statements to the Administrator will likely carry very little weight
 - III. Allen may be subject to an Administrative order to suspend or revoke his license, after being given the opportunity to request a hearing
- A. I
 - B. I, II
 - C. III
 - D. II

21. Susan is an agent properly registered with a broker-dealer registered in the state. During a recent meeting with a married couple planning to retire in the next year, she sensed that their demand for "safety" and "capital preservation" were excessive, given their financial means and lack of any debt. During the fact-finder meeting, the couple tell her that they would like most of their money invested in safe, income-producing investments that will supply a modest monthly income and not subject their principal to any significant risk. After the couple fund the account with a check for \$250,000 Susan decides to put \$10,000 into a money market mutual fund and invests the rest in straight preferred stock of a small issuer paying a 9% annual dividend. When the couple receive their first account statement they call Susan to inquire if the preferred stock will produce dependable monthly income, and Susan assures them that it will. The preferred stock is scheduled to pay dividends semiannually and since it is 9% straight preferred, it will pay \$21,150 every year, working out to a monthly income of \$1,762.50. Which of the following best addresses this situation?
- A. Susan used her knowledge of investments to help provide her clients with a higher level of income than Treasury or Agency securities could provide
 - B. As long as the preferred stock pays timely dividends at the 9% stated rate, this represents a suitable investment
 - C. As long as Susan was granted written discretionary authority, no violation has taken place
 - D. Susan has abused her authority, whether granted discretion or not, has made an unsuitable recommendation, and may be subject to disciplinary action by the Administrator

22. Vincent is a properly registered agent of a broker-dealer registered in the state. On a recent appointment, he meets with a woman who immigrated to the United States five years ago and mistrusts the banking system very much. She informs Vincent that her life savings are actually in a jar, and when she shows him the jar, he discovers that she is holding \$50,000 in currency. Alarmed and concerned for the safety of the money, Vincent convinces the woman to meet him at the office later that day so that they can put the money into something safer than currency, which is subject to loss, theft, fire, etc. The woman comes to the office at 7 PM that evening and, as instructed, she enters the building through the back door, since the main office is closed for the day. With her son present, the woman gives Vincent the \$50,000 and asks for a written receipt. Vincent informs her that since the office is closed, he has no way of drawing up a receipt, but that he will invest the money into safe, interest-bearing money market securities as soon as the office and markets re-open in the morning. When the woman receives her first account statement, the balance is recorded as \$5,000 cash. When she calls, Vincent assures her that it is the result of a "typo" and that she should simply add a zero to the statement with a red, felt pen. After three more statements are delivered showing a balance of \$5,000, her son and she inform the Administrator of the situation. Which of the following best addresses this situation?
- A. chances are, the money was simply miscounted, and if the account statements reflect a \$5,000 balance, then that is, in fact, the account balance
 - B. an agent may never accept cash from a client
 - C. Vincent may be subject to an Administrative proceeding and if the Administrator can show beyond a reasonable doubt that \$45,000 was stolen, he may have his license revoked, but no criminal charges could be filed
 - D. Vincent may be subject to an Administrative proceeding and criminal proceedings
23. Which of the following statements is/are true concerning registrations in the investment advisory business?
- I. Form ADV is used by the advisory firm
 - II. Form U-4 is submitted for each representative of the firm
 - III. Form ADV is used whether registering with the SEC or the states
 - IV. Form U-5 is submitted when a representative of the firm is terminated
- A. I, II only
 - B. I only
 - C. I, II, III, IV
 - D. IV only

24. Melissa meets with a current client at the client's home. The client is a 73-year-old widow who collects \$20,000 a year from her deceased husband's pension and has no other source of income. In order to provide income, Melissa recommends that her client purchase a deferred variable annuity. Six months after selling the annuity, Melissa recommends that her client invest the value of her annuity contract into a safe, income-producing intermediate-term Treasury mutual fund that her firm is rolling out. The client surrenders the annuity, paying a 7% surrender charge, and transfers the money into the mutual fund that pays income monthly. Which of the following statements best addresses this situation?
- A. Melissa made a suitable recommendation when selling the variable annuity
 - B. Melissa made a suitable recommendation when converting the annuity contract's value into the mutual fund
 - C. Because of the surrender charges and the client's life expectancy, the deferred annuity was a suitable recommendation
 - D. Recommending the deferred annuity and recommending the surrender, in light of the contingent deferred sales charges, are both grounds for potential regulatory action against Melissa

25. Joey Darlington is a registered representative of a properly registered broker-dealer. Last January Joey met with a newly retired couple who instructed him that they wanted to preserve their principal of \$100,000 and generate approximately \$1,500 per month in safe, dependable income that would not subject their principal to risk. After checking the yields on Treasury notes, Treasury bonds, and GNMA mutual funds, Joey is unable to find anything in that category providing for the yield his clients seek. But, desiring to help his clients, he informs them that he will come up with an alternative investment that will suit their needs. The next week Joey meets with the president of a successful local plastic injection molding company who is putting together a private placement of high-yielding convertible preferred stock for accredited investors. The company's income statement and balance sheet are strong, and it has a line of credit at a local bank that could be tapped in order to guarantee the generous dividend payment. Joey tells his clients to sign an accredited investor form and promptly invests their \$100,000 into the 9.5% convertible preferred stock of the local company. Unfortunately, the private placement memorandum (PPM) used in connection with the offer made several misleading statements. It indicated that the stock would be listed for trading on the NYSE, which never came to fruition. Also, the line of credit at the bank was overstated by \$10 million and the company, after making only one dividend payment, has now opted to suspend the dividend indefinitely. Which of the following statement(s) represent true and accurate statements concerning this situation?

- I. Joey Darlington is a moron and is the reason I have to take some stupid regulatory exam like this
- II. Joey acted in his clients' best interest by attempting to secure the level of income they sought
- III. The issuer can not be subject to fraud charges, as it is not a registered broker-dealer
- IV. Joey violated suitability requirements and misled his investors on the nature of their preferred stock investment

- A. I, II, III only
- B. I, III only
- C. I, II only
- D. I, IV only

26. Joey Darlington is a registered representative of a properly registered broker-dealer. Last January Joey met with a newly retired couple who instructed him that they wanted to preserve their principal of \$100,000 and generate approximately \$1,100 per month in safe, dependable income that would not subject their principal to any risk. After checking the yields on Treasury notes, Treasury bonds, and GNMA mutual funds, Joey is unable to find anything in that category providing for the yield his clients seek. But, desiring to help his clients, he informs them that he will come up with an alternative investment that will suit their needs. The next week Joey finds a tombstone in the Wall Street Journal announcing a primary offering of high-yielding unsecured, subordinated notes issued by a large Fortune 500 company. The notes, yielding 11%, will provide the level of income his clients desire and, issued by a Fortune 500 company, will not subject the principal to significant risk. Unfortunately, after making just one interest payment, the notes go into default and soon afterward, the company seeks bankruptcy protection. Which of the following represent(s) accurate statements concerning this situation?
- I. Since the issuer was a Fortune 500 company, Joey performed due diligence in recommending the securities
 - II. Since the issuer was able to afford a tombstone in a major publication such as the WSJ, Joey can reasonably construe that as prima facie evidence of the notes' credit quality
 - III. Joey has violated suitability requirements
 - IV. Joey should have told his investors at the first meeting that their objective of obtaining a 13.2% yield without subjecting their principal to risk was unrealistic and should have considered allocating part of their principal to guaranteed, fixed-income securities and, perhaps, after carefully considering suitability, allocating a small part of the principal to a more aggressive investment, such as the unsecured notes, REITS, etc.
- A. I only
 - B. I, II only
 - C. III, IV only
 - D. II only

27. Joey Darlington has a client who invested \$40,000 with him, an amount representing 80% of her life's savings. In an attempt to secure a high yield for his investor Joey invested the proceeds into commercial paper issued by a local manufacturing company. With a maturity of just 6 months, Joey determined that the non-rated commercial paper yielding a promised 11% was the best investment for his client. Unfortunately, the issuer defaults on the paper, and the client's principal is now tied up in bankruptcy proceedings. Also, the commercial paper was not registered in the state and no offering documents were supplied to the investor. Which of the following represent(s) accurate statements concerning this situation?
- I. Joey can not be faulted for merely trying to help his investor of modest means earn a yield commensurate with her financial needs
 - II. The commercial paper was exempt from the state's registration requirement
 - III. Joey could be subject to an Administrative proceeding for failure to meet suitability requirements and for selling an unregistered, non-exempt security
 - IV. Joey should have provided an offering document to his client no later than the due date for confirmation
- A. I only
 - B. II only
 - C. III, IV only
 - D. I, II only

28. Joey Darlington has a client who invested \$40,000 with him, an amount representing 80% of her life's savings. In an attempt to secure a high yield for his investor Joey invested the proceeds into commercial paper issued by a local manufacturing company. With a maturity of just 6 months, Joey determined that the non-rated commercial paper yielding a promised 11% was the best investment for his client. Unfortunately, the issuer defaults on the paper, and the client's principal is now tied up in bankruptcy proceedings. Feeling embarrassed and partly responsible for his investor's predicament, Joey writes his client a check for \$10,000 to tide her over until the bankruptcy proceedings are concluded. He also promises to refund her principal out of the year's commissions and bonuses should she recover an unsatisfactory amount of her principal. Which of the following statement(s) accurately address this situation?

- I. since the security was exempt, no violations have occurred
- II. the investment recommendation was unsuitable
- III. writing the personal check to help the client represents a good example of observing high standards of commercial honor and just and equitable principles of trade
- IV. Joey violated regulations by writing the check and promising to provide a refund of any part of the client's principal

- A. I only
- B. I, II only
- C. III only
- D. IV only

29. While dining out the other night, Lester met a man who runs a local ministry for evangelical Christians. Lester informed the man that he used to work for K-Mart, where he used his advanced technical skills to design the company's website. Lester's advanced technical skills have allowed him to retire from K-Mart and use a very sophisticated computerized trading system to make in excess of \$3,000 per day daytrading stocks. Taking the man back to his home, Lester shows him an impressive array of computers and explains his very complex trading system. Lester informs the minister that he kneels before the computer every morning before the market opens, places his hands on the keyboard, and asks the Lord for the wisdom to know when to buy and when to sell a position. Lester shows him his own trading results, which average 50% profits per month. The minister listens to Lester's sales pitch to invest a sum of money and let Lester trade the account, with profits to be split 60/40. The minister tells members of the congregation about Lester, and soon Lester is investing over \$500,000 for several different people. Although the minister and several church members originally ask for a written contract, Lester declines, saying that "as a man of God I would be uncomfortable having to resort to a written contract." Since his profits are so impressive, most people decide to invest with him without a written agreement. Unfortunately, Lester's profits were not only overstated, but also non-existent. When the investors begin to see their balances decline by as much as 90%, they inform the state Administrator, who conducts an investigation. The following facts are uncovered:

- Lester never worked for K-Mart
- Lester's own trading accounts showed substantial losses even before contacting the minister
- Lester was not registered as an agent or broker-dealer in the state

Therefore, which of the following statement best addresses this situation?

- A. since Lester was not an agent, he can not be subject to anti-fraud regulations
- B. whether he worked at K-mart or not was not material information
- C. since this situation involves church members, the separation of church and state will preclude the state from taking any action
- D. Lester will likely be subject to an Administrative proceeding and could be subject to penalties appropriate under anti-fraud statues

30. Which of the following represents a true statement concerning the powers of the Administrator?
- A. if a self-regulatory organization expels a member firm, the state may not use that as a reason to take action against the firm
 - B. if a national exchange registered under the Securities Exchange Act of 1934 expels a member, that fact may not be used by the Administrator against the party
 - C. both A and B
 - D. neither A nor B
31. Philip Mancuso publishes an Internet newsletter offering opinions to readers as well as market data concerning various stock indices, interest rates, etc. Philip's attorney has determined that Philip does not meet the definition of "investment adviser" under the Investment Advisers Act of 1940, or the Uniform Securities Act. Both pieces of legislation exclude "a publisher of any bona fide newspaper, news column, newsletter, news magazine, or business or financial publication or service that does not consist of the rendering of advice on the basis of the specific investment situation of each client." Therefore, which of the following accurately address this situation?
- A. Philip must disclose if he receives payment from any broker-dealer making a market in the stocks that Philip reviews favorably.
 - B. Philip must disclose if he receives payment from any issuer whose securities are reviewed favorably
 - C. Both choices listed
 - D. Neither choice listed
32. Marcy is a registered investment adviser and also a registered agent of a broker-dealer. All of the following represent true statements except:
- A. Marcy is in direct violation of both federal and state securities law.
 - B. Marcy must make reasonable investment recommendations independent of outside influences
 - C. Marcy must select broker-dealers based on their ability to provide the best execution of trades for accounts where she has authority to select the broker-dealer
 - D. Marcy must always place client interests ahead of its own

33. When examiners review advisory books and records, they will be on the lookout for undisclosed or misrepresented conflicts of interest and prohibited practices. Some examples of practices that advisers should avoid are:
- A. Charging unreasonable fees
 - B. Failing to disclose to all customers the availability of fee discounts
 - C. Using contracts which seek to limit or avoid an adviser's liability under the law
 - D. All of the choices listed
34. In order to avoid regulatory action, investment advisers should avoid:
- A. Limiting a client's options with regard to the pursuit of a civil case or arbitration
 - B. Borrowing money from or lending money to clients
 - C. Acting as an issuer or affiliate of an issuer of securities
 - D. All of the choices listed
35. Which of the following situations likely require disclosure on the part of an investment adviser?
- A. The adviser or its employees are also acting as a broker-dealer and/or securities agent
 - B. The adviser is receiving transaction-based compensation, including 12b-1 or other marketing fees, related to securities recommended to its clients
 - C. Hidden fees in the form of undisclosed service charges, wrap fees or expenses reimbursed by other parties.
 - D. All of the choices listed
36. Which of the following represent true statements concerning an investment adviser's disclosure brochure?
- A. can be ADV Part 2 or a document containing at least the same information
 - B. should clearly spell out the details of the advisory relationship
 - C. should clearly spell out the details of the other business interests of the adviser.
 - D. All of the choices listed

37. Ellen is a licensed insurance and securities agent. Recently, she established an independent financial planning firm. Some of Ellen's financial plans recommend purchasing mutual funds and variable annuities paying 12b-1 fees. Therefore:
- A. Ellen is in direct violation of federal and state securities law
 - B. Ellen must disclose the 12b-1 compensation to her clients
 - C. Ellen must disclose the 12b-1 compensation to clients only if asked
 - D. Ellen must disclose the 12b-1 compensation pursuant to a written request by the client or prospect
38. Mary Pat is a registered investment adviser whose sister-in-law is a senior partner of a broker-dealer firm also registered in the state. Mary Pat frequently refers her advisory clients to her sister-in-law's broker-dealership and, rather than sharing a percentage of commissions, Mary Pat, instead, receives a flat fee of \$105. Which of the following represent accurate statements of this arrangement?
- A. Mary Pat must provide disclosure to prospects and clients of this arrangement
 - B. Mary Pat may be subject to further licensing requirements with her state regulator
 - C. If Mary Pat's sister-in-law's firm charges commissions and markups that exceed the industry average, further disclosure is required
 - D. All of the choices listed
39. A client reports to the state securities Administrator that she has been taken advantage of by her investment adviser. The burden of proof in this dispute lies with
- A. the client
 - B. the adviser
 - C. the Administrator
 - D. opposing counsel

ANSWERS TO QUIZ 8

1. ANSWER: C

WHY: form ADV is used for both SEC and state registration. If you're registering with the SEC, you also check the states who need to receive a copy of the form for a notice filing. Filing fees can be charged because states really like filing fees.

2. ANSWER: B

WHY: if the test were in an especially geeky mood, they could refer to this power as "visitatorial powers." It means that the Administrator can send a representative to do an inspection if there is a good reason to do so--meaning, it provides necessary protection to investors/is in the public interest. They do not need to provide prior notice to inspect your records. The prior notice comes before they render a final order to deny, suspend, or revoke your license.

3. ANSWER: C

WHY: the state regulators are out to protect investors. The way to do that is to license/register investment professionals in order to keep tabs on them. Pretty tough to keep tabs on an investment firm if it moves without informing the regulators.

4. ANSWER: C

WHY: this is very common. Once the NASD takes disciplinary action or makes the investment professional pay money to investors, the state usually finds out. Review the reasons for issuing an Administrative order. Getting in trouble with any other regulator is a good reason for the state to heap some more trouble on the person's head. And, if you have to pay money to investors, that fits pretty neatly under "engaged in dishonest or unethical practices in the securities industry."

5. ANSWER: D

WHY: this type of question is very representative of how the Series 63 will haze--I mean prepare--you. Yes, the "error" was egregious, but does that mean the license will be immediately revoked? Licenses are never immediately revoked. You have to give the moron--I mean the professional--a chance for a hearing first. Using a number such as \$25 million but using it out of context is another common trick the exam uses. That way the test-taker sits there going, "Well, I know there's *something* about \$25 million of assets under management . . . " That's why you have to use process of elimination. Nothing is immediately revoked--so eliminate that choice. The \$25 million has to do with federal vs. state registration--eliminate that one. Now, you just have to decide whether it's a minor typo or clearly misleading. Which

argument is easier to make--typo, or misleading? If it were a typo, why did the number *start* with a zero? I mean, I could see "10,000" being a typo for "100,000," maybe. But "0" versus "10,000,000" seems a bit of a stretch, yes?

6. ANSWER: D

WHY: unless you've been granted discretion over the account, you may not--ever--execute an order that you have not discussed with your client or someone granted trading authorization over the account. It's also a real bad idea to refuse to sell one of the client's stocks. Why? Because it's the client's stock. Unauthorized trading is definitely a violation. If you've visited www.nasaa.org under "contact your regulator," it probably didn't take long to find agents executing unauthorized transactions. Usually, they go ahead and churn the account, too, just to make sure they lose their license once the state finds out.

7. ANSWER: D

WHY: the Attorney General of the State of New York got the large "federal covered" advisers on Wall Street to pay out a \$1.2 billion settlement for just this type of nonsense. See, the Attorney General felt that when a firm's analysts publish recommendations to buy a security, the recommendations should be based on the fact that the security is something worth buying. Instead, the cheerleaders--I mean analysts--were simply trying to make the issuing company happy enough to use the firm's underwriting services next time they wanted to do a merger, acquisition, or additional offering of securities. Gee, perhaps just a bit misleading, don't you think? The NASD and NYSE have adopted rules that forbid tying the analyst's pay to the underwriting business he/she generates. Now, when the firm says "strong buy," they also have to disclose if they have an underwriting relationship with the issuer. And, they have to provide lots of disclosure so that investors have a fighting chance of figuring out if this is an actual recommendation or just an analyst trying to make somebody like Bernie Ebbers happy enough to do business with the underwriting department.

8. ANSWER: D

WHY: isn't it just a bit unlikely that 98% of all stocks should be held or purchased? Only 2% of all stock recommendations are sell recommendations? And, wouldn't it be a coincidence if that firm's underwriting department happened to have a relationship with the issuers whose stock is being labeled a "buy" or "strong buy"? See, underwriters compete for the business of say, Bernie Ebbers of MCI Worldcomm. They know that Mr. Ebbers holds massive amounts of stock options on his company's stock. For every dollar the analysts can push the stock price over Mr. Ebbers' exercise price, maybe Bernie makes another \$10 million. And, maybe he'll be so gosh-darned

appreciative of this little favor that he'll use the underwriters to do an acquisition or another offering of stock that generates the underwriters several million in fees. What if 10 million average investors lose 100% of their money buying a crappy stock that the analysts are cheerleading? Who cares about the average investor? Luckily, the State Securities Administrators do.

9. ANSWER: C

WHY: hint to investors--if somebody offers you a guaranteed rate of return in excess of what you can get on a US Treasury run, don't walk, to the nearest exit. Does the issuer look like they're in a position to guarantee 12.7%+ returns? Do they actually have a line of credit, or do they have plans to get it? I know, some of you are math/science/engineering types and this type of vague, subjective question drives you nuts. You want to plug some numbers into a formula and know for sure that you're right.

Sorry--we're in the world of humanities now, where a "BS" degree takes on a whole new meaning.

Also, remember in the Pass the 63 book how hard I pounded home the concept that fraud can be committed by "any person" in connection with the offer, sale, or purchase of "any security." So, if one of the answer choices says that the issuer can't be held accountable because they're not broker-dealers, you know that one is wrong. Any person, any security.

10. ANSWER: B

WHY: guaranteed dividends? Is that like "SEC approval" or "jumbo shrimp"? Again, all persons are subject to anti-fraud provisions. Whether they need to be registered as broker-dealers, investment advisers, or investment representatives is a whole nuther matter.

11. ANSWER: C

WHY: how would you feel if you discovered that you had been paying 1% of assets while other clients paid $\frac{1}{2}$ that amount or nothing at all? Wouldn't you have appreciated a little disclosure? Also, careful how you report your stock tips--don't just bring up the profitable ones, like the dude buying shots at the corner of the bar. Don't play tricks where you get lucky for 3 months and then multiply that return by 4 to get an "annualized return." We want an actual annual period, not one day times 365 or any other clever, misleading variation.

12. ANSWER: D

WHY: good points to memorize. If you're going to let the firm hold your cash and securities, or let them trade your account as *they* see fit, wouldn't you sort of like to know that they're on solid financial footing?

13. ANSWER: A

WHY: the period is 10 years, not 3 years. See what a pain in the neck it is getting in trouble? You can lose your license, which is bad. Then, if you're lucky enough to get another license after the suspension ends, you still have to disclose the regulatory problems to potential clients, which makes it real hard to get them to sign on the dotted line. Or, you could conceal the regulatory actions and maybe lose your license permanent-like.

14. ANSWER: C

WHY: seems more like a Series 65/66 question, but you could lose a lot of points making a lot of assumptions about what will or won't show up on your exam. The better approach is to be ready for just about anything.

15. ANSWER: D

WHY: absolutely. All three situations make the regulators a bit nervous, so the firm had better be on solid financial ground before taking possession of a client's assets, taking control of the account with discretion, or taking money so far in advance of actually doing anything for the client--what is it, a prepayment or a Ponze scheme?

16. ANSWER: C

WHY: NASAA says that anything in the Uniform Securities Act or any of their model rules and policy statements is considered "fair game." So, I figure it's *possible* they'll ask about the use of the internet--poke around their website and you'll find the exciting document yourself. Or, send us an email. Or, buy the Pass the 63 book.

17. ANSWER: B

WHY: could you imagine how hard it would be to protect investors if you could only come after those firms kind enough to register? If that were true, then my firm could stay out of trouble simply by refusing to follow your requirement to register in your state. Try to develop this skill of taking an answer choice and stretching it to its natural conclusion. "If that's the case, then what you're saying is . . . " It takes some very strong analytical skills to pass the Series 63. Also, this is a perfect case where the state will probably make the firm buy back the worthless stock for the price paid, plus interest, minus the income paid by the security--which in this case would be "minus nothing."

18. ANSWER: D

WHY: if you chose any other answer, I'm not just worried about your test-taking skills, I'm worried about your sense of ethics--or lack thereof. Are you concluding things such as, "well, as long as no money actually changed hands, no violation occurred." If so, get out of the securities

industry and into an industry more in line with such ethical sensibilities—politics, for example.

19. ANSWER: D

WHY: the burden of proof is not on the Administrator. This is not a court of law. Or, if we want to think of it as a court, the Administrator is the JUDGE, not the prosecutor. Four investors say Jason executed orders without first talking to them. That's really compelling evidence that Jason requires a time-out.

20. ANSWER: C

WHY: can you defend any other answer choice? If so, give us a call or send us an email. We'll help you work through your total lack of ethics.

21. ANSWER: D

WHY: wow, Susan's name is going to be all over her state regulator's website! Preferred stock doesn't pay monthly income, and a dividend can always be suspended if the company is going through a rough spot. If your client says she needs monthly income, and you tell her that a quarterly or semi-annual payment works out to be so much per month, you're not listening and just asking for trouble. By the way, are you getting tired of these long questions? The Series 63 asks several that are this long, several that require you to *scroll* just to read them. Seriously.

22. ANSWER: D

WHY: this might sound far-fetched; unfortunately, there are plenty of real-world situations just like it. The Administrator doesn't have to prove anything beyond a reasonable doubt. At an Administrative hearing the standard is a "preponderance of the evidence." Which is just fancy legalese for "if it looks pretty likely that you're a problem, guess what--you're a problem." Also, Vince buddy could certainly lose his securities license, but the district attorney or attorney general's office also might want to have a whack at him for, like, stealing.

23. ANSWER: C

WHY: four good things to know about the registration process. Also, you can obtain any of these forms with a quick web search. The more tangible you can make this stuff, the better.

24. ANSWER: D

WHY: at www.nasaa.org and www.nasd.com I see the regulators getting really nervous about rep's putting senior citizens into deferred annuities, which have long surrender periods during which the investor gets nailed for pulling money out. If the surrender period is 7 years,

what is the chance that a 73-year-old might need to take an early withdrawal to cover an emergency?
Real good, so I don't know what the heck Melissa was thinking about, other than the fat commissions and trailers she makes on annuity sales.

25. ANSWER: D

WHY: what would you do if I told you I needed you to A) preserve my principal and B) give me an 18% guaranteed rate of return? Isn't it time for you to use some of the knowledge you've gained from studying for the Series 6, 7, 65, and 63, plus whatever training your firm provides? "Yes, ma'am, I understand you would like a no-risk, high-yield investment. You would probably also like a new Jaguar every Friday and a chance to star in your own reality series. Well, let's talk about that reality thing, first, okay?"

26. ANSWER: C

WHY: does an "unsecured, subordinated note" sound like a good place to park your money in order to preserve principal and generate dependable income? Heck no--it's a junk bond, appropriate for high-risk investors not looking to live off the income it very likely won't pay.

27. ANSWER: C

WHY: that commercial paper is *exactly* the sort of "investment" that makes the regulators nervous. Commercial paper is only exempt if it's in the top three credit tiers (AAA-AA-A, Aaa, Aa, A). Why? Because if S&P or Moody's has done rigorous analysis of the issuer's credit quality and come up with a strong credit rating, that's one thing. But an unrated promissory note is a mighty dangerous thing to be selling--so let's register the thing and let's see what your little offering documents are going to say and imply to investors.

28. ANSWER: D

WHY: often the long, wordy questions are easy--provided you're willing to read them carefully. If you skipped over this one, thinking I had accidentally repeated a question, that's a major red flag that you are not willing to read these questions carefully.
Get willing at your earliest convenience.

29. ANSWER: D

WHY: any time you build up somebody's trust through false statements, the regulators are going to be mighty ticked. Whether you're registered or not has nothing to do with whether you committed a fraud.

30. ANSWER: D

WHY: both of these facts would be real good reasons to deny, suspend, or revoke somebody's license. Again, if other regulators have a problem with you, we probably have a problem with you. Since selling securities or investment advice is not your birthright, the regulators tend to err on the side of caution.

31. ANSWER: C

WHY: fine, you don't fit the definition of "investment adviser." Just make sure you don't fit the definition of "misleading huckster about to get popped by the regulators and the courts."

32. ANSWER: A

WHY: only way to miss this question is to get yourself into a big hurry. Of course, tiring you out with the long-winded Joey Darlington questions might tempt you to hurry at this point . . . so don't let that cheap tactic work against you.

33. ANSWER: D

WHY: found this at the www.nasaa.org website--read the info they provide to Investment Advisers.

34. ANSWER: D

WHY: looks like good advice to me.

35. ANSWER: D

WHY: no way to miss this question, unless you're really tired.

36. ANSWER: D

WHY: three things to know about the disclosure brochure an IA must provide to prospects and clients.

37. ANSWER: B

WHY: investment advisers must disclose all potential conflicts of interest. So, when Ellen advises you to buy a mutual fund, wouldn't you like to know that she'll get paid when you do, on top of what you're already paying her for the advice?

38. ANSWER: D

WHY: were any of these answer choices surprising?

39. ANSWER: B

WHY: come on in and show us why we shouldn't take away your license, Mr. Investment Adviser. Or, better yet, fail to request a hearing.