

[UPDATED FINRA Series63 Certification Exam Questions [Q56-Q80]



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Q56. Which of the following is not one of the criteria for a security to be eligible for registration by notification?

- * The issuer must have preferred stockholders as well as common stockholders.
- * The issuer must have a net worth of \$4 million, or its net income before tax for at least two of the
- * The issuer must never have defaulted on any bond or long-term lease obligation.
- * If the security to be issued is an equity interest in the firm, its offer price has to be at least \$5 a

Explanation

The issuer does not have to have both preferred stockholders and common shareholders in order to be eligible for registration by notification. If, however, the issuer does use preferred stock financing, it must not have missed a preferred stock dividend payment.

Q57. Ms. Muffet is employed by Spyder Broker-Dealers. Her job duties include providing price quotes and

executing purchases and sales for the firm's clients. She is paid a salary plus commission. Ms. Muffet is

- * a broker-dealer.
- * an agent.

- * an investment adviser.
- * an investment adviser representative.

As an employee of Spyder Broker-Dealers who executes trades for clients, Ms. Muffet is an

agent who works for the broker-dealer Spyder. She does not provide investment advice for a fee, so she

is neither an investment adviser nor an investment adviser representative.

Q58. Mr. Sailor is cruising through the Bahamas when he learns that a healthcare company in which he owns stock is being sued by former patients, doctors, nurses, and even the federal government. He doesn't have his broker's number handy, and he doesn't have internet access, so he calls his son and tells him to call the broker and instruct the broker to sell his shares. As a registered agent for his broker, you take the call.

Should you execute this transaction?

- * Yes. This is a legitimate request from a client, and you are required to follow the client's instructions.
- * No, not unless you and your broker-dealer have a written document that gives Mr. Sailor's son the power-of-attorney to trade on his account.
- * Yes, as long as the son presents proper identification that proves his relationship to Mr. Sailor, such as a birth certificate.
- * Yes, as long as the son is at least 21 years old and not a minor child.

Explanation

No, you cannot execute this transaction unless you and your broker-dealer have a written document that gives Mr. Sailor's son the power-of-attorney to trade on his account. Otherwise, you will be executing an order from an unauthorized third party, which is a prohibited practice, and you can lose your license for doing so.

Q59. You had the misfortune of working as a registered agent for an unscrupulous broker-dealer. You weren't privy to any of it, but apparently, your broker-dealer was guilty of some fraudulent activities and has had his license revoked. In this instance,

- * you can simply find another broker-dealer to hire you and have your license transferred to him.
- * you are no longer a licensed agent with the state and must reapply for a license in order to work for another broker-dealer.
- * the state Administrator will assign you and any other affected agents to work for other broker-dealers registered with the state.
- * you must wait until the broker-dealer's day in court before you can work in the securities industry again because the Administrator will want to be certain that you knew nothing of it.

Explanation

If you were employed as an agent for a broker-dealer who has had his license revoked, you are no longer a licensed agent with the state and you will have to reapply for a license and pay the requisite filing fees in order to work for another broker-dealer. Your license terminated when your affiliation with the unscrupulous broker ended, even though it was through no fault of your own. Since you have done nothing for which to be penalized, however, your registration becomes effective upon your filing and paying your fees.

Q60. An investment adviser suggests that his client, Arnold, a 74-year old gentleman, should consider a

reallocation of the assets in his portfolio. The adviser tells Arnold that he has far too much invested in

bonds, which don't earn as much as stocks. He advises Arnold to take 80% of the money he has in bonds

and invest it in an aggressive growth mutual fund that has provided an average annual return of 40% over

the past three years. Arnold is impressed and follows this advice. Shortly thereafter, there is a steep drop

in the market in general, and the net asset value of the aggressive growth mutual fund falls 85%. Does

Arnold have any remedies available to him?

* No. Arnold had the choice and got greedy. As the old saying goes, "Bulls get rich, and bears get rich,

but pigs get led to slaughter."

* Yes. Arnold can sue for the amount of his losses, plus interest, as well as an amount assessed by the

court for pain and suffering;

* No. The investment adviser had no way of knowing that the market was going to fall when he provided

the advice, so the adviser did not fail in his fiduciary responsibility to Arnold.

* Yes. Arnold can sue for the amount of his losses, plus interest, court costs, and attorneys' fees.

If Arnold loses his money because he took the advice of his investment adviser and

reallocated a large percentage of his money from bonds to an aggressive growth mutual fund, he can sue

the investment adviser in civil court for the amount of his losses, plus interest, court costs, and attorneys'

fees. The courts do not award damages for pain and suffering; in these cases. The investment adviser

failed in his fiduciary responsibility to Arnold in recommending that a 74-year old man reallocate a large

percentage of his money from the relative safety of bonds to the much riskier investment of an aggressive

growth mutual fund.

Q61. Which of the following is a security as defined by the Uniform Securities Act (USA)?

* a debenture

* a futures option contract on wheat

* a term life insurance policy

* Both A and B are securities as defined by the Uniform Securities Act.

Both a debenture and a futures option contract on wheat are securities as defined by the

USA. A debenture is a long-term, unsecured debt instrument and is specifically listed as a security in the

Act. Although commodity futures contracts are not considered to be securities as defined by the Act,

options on commodity futures contracts are.

Q62. Mr. Bigwig, CEO of HiGrowth Corporation, meets with the president of BigFee Investment Bankers and

arranges for BigFee to underwrite an Initial Public Offering (IPO) for the firm. When the IPO comes to

market, GetErDone Broker-Dealers is part of the selling group, which handles the sale of the stock to the

public. In this scenario, which party is acting as a dealer?

* HiGrowth Corporation

* Mr. Bigwig

* BigFee Investment Bankers

* GetErDone Broker-Dealers

BigFee Investment Bankers is acting as a dealer. In underwriting the securities, the firm is

purchasing them from HiGrowth and selling the securities to the public. If the securities don't sell for the

amount that BigFee thinks they can, BigFee takes the loss as owner of the securities.

Q63. Which of the following trades is illegal?

- * a short sale
- * a margin transaction
- * a market-not-held order
- * the sale of a mutual fund if the purchaser hasn't received a prospectus

It is illegal to sell a mutual fund if the purchaser hasn't received a prospectus. The purchaser

must receive this no later than the date on which the trade confirmation is due. Short sales, margin

transactions, and market-not-held orders are all legitimate.

Q64. Which of the following is an example of commingling?

- * Sly is an agent with a broker-dealer who recently executed a stock purchase for his client and had the client make the check for the purchase out to Sly for deposit in Sly's broker-dealer account.
- * In order to generate more commissions for herself Ms. Fox makes trades on some of her client's accounts and has the trade confirmations sent to a P.O box she owns.
- * Mr. Hawk encourages his clients to leave their securities in 'street name' with the broker-dealer for which Mr. Hawk works.
- * All of the above are examples of commingling.

Explanation

When Sly has his client pay for a stock purchase by making the check out to Sly himself, he has engaged in the prohibited practice of commingling. Ms. Fox is also engaged in a prohibited practice, but she is engaged in making unauthorized transactions. Mr. Hawk is doing nothing wrong. It is typical for clients to leave securities on deposit with their broker-dealers in what is called 'street name.' This makes it easier for the client to sell the securities later on since he physically will not have to deliver the securities to the broker, for one thing.

Q65. Ms. Ding is an administrative assistant to the manager of a mutual fund. Most of her day is spent entering data onto a spreadsheet for her boss and answering phone calls. Some of the calls require her to provide information about the some of the fund's financial aspects, such as its closing net asset value on the previous day.

What type of registration does Ms. Ding require in order to perform her duties?

- * Ms. Ding needs to apply for registration as an agent since she is providing financial information.
- * Ms. Ding needs to apply for registration as an investment adviser representative since she is providing information about a specific mutual fund.
- * Ms. Ding will need to apply for registration as both an agent and an investment adviser representative in this case since she is providing information about a mutual fund.
- * Ms. Ding does not need to apply for any type of registration. She is merely supplying information and is not engaged in the purchase or sale of the fund shares.

Explanation

Since Ms. Ding is an administrative assistant who is merely providing some information about the fund and is not engaging in the purchase or sale of the fund shares, she does not need to apply for any type of registration.

An employee who simply provides price and/or some other pertinent information to the public, but who does not engage in the purchase or sale of securities to the public and does not receive a commission based on the sale of securities is not considered to be an agent or an investment adviser.

Q66. Which of the following may be given to prospective investors during the “cooling off period?”

- * a tombstone advertisement
- * a final prospectus
- * a copy of the registration statement
- * all of the above

Explanation

During the “cooling off period” prospective investors may be given only a tombstone advertisement for the security.

Q67. Which of the following practices would be prohibited in connection with the sale of investment company shares?

I. selling a client shares of a load stock fund when a no load stock fund with the same investment objective exists II. selling the client shares of five S&P 500 Index mutual funds, offered by different fund families III. encouraging a client to swap his money between two funds in the same family without informing him that this creates a taxable event

- * I, II, and III
- * I and II only
- * I and III only
- * II and III only

Explanation

The scenarios described in Selections II and III only would be prohibited. Five S&P 500 Index mutual funds, even if offered by different fund families, all have the same investment objective-duplicating the returns earned on the S&P 500 Index, and they will be invested in very similar stocks. Therefore, the client is getting little or no more diversification of risk by investing in five funds over investing in just one. The agent is just getting richer from more commissions. Encouraging a client to swap his money between two funds in the same family without informing the client that this creates a taxable event is not providing the client with “full and fair disclosure.” It may well be in the client’s best interest to make the switch, but he needs to be made aware of the tax consequences. It is not necessarily prohibited to sell a client shares of a load stock fund when a no load stock fund with the same investment objective exists as long as the agent believes that the load stock fund is a better investment for his client.

Q68. Which of the following may an investment adviser not use in an attempt to solicit new clients?

- * testimonials of satisfied clients
- * a complete list of the stocks they have recommended in the past year, even if a statement is included that states that past performance is no guarantee of future performance
- * a free initial consultation, with no obligation on the part of the potential client
- * a free financial planning kit, with no obligation on the part of the potential client

Explanation

Investment advisers may not use testimonials of satisfied clients to solicit new clients. They may provide past stock picks, as long as they provide a complete list, that compilation period for the list is at least a year, and as long as they are careful to note that past performance is no guarantee of future performance. They can also offer freebies, such as a free initial consultation or a free financial planning kit, as long as these are indeed offered “free,” with no obligation on the part of the client.

Q69. Which of the following statements about agents is (are) false?

- * If an agent files for bankruptcy, the Administrator may elect to terminate that agent’s registration if the

Administrator believes it is in the public interest; to do so.

* When an agent has a change of address, both he and his broker-dealer affiliate must inform the

Administrator.

* An agent must demonstrate a specific minimum level of financial stability for his registration application

to be accepted.

* All of the above are false statements.

The statement that an agent must demonstrate a specific minimum level of financial stability

for his registration application to be accepted is false. The Administrator may require an agent to post a

bond, but there are no specific minimum financial requisites that must be met. The Administrator also has

the right to terminate an agent's registration if the agent becomes bankrupt. Both the agent and his

broker-dealer affiliate are required to inform the Administrator whenever there is a change in the agent's

personal information, such as a name change or a change of address.

Q70. Ari Gaunt is a registered agent employed by Small & Associates Broker-Dealers. He has been notified of a hearing regarding the revocation of his license for making unauthorized trades on some of his clients' accounts.

Which of the following statements is necessarily true?

* If Ari is found guilty and has his license revoked, Small & Associates will have its license revoked as well and must reapply for reinstatement by filling out an application and paying the requisite filing fees.

* If Ari is found guilty and has his license revoked, Small & Associates will be subject to a fine.

* If Ari is found guilty and has his license revoked, he can appeal the decision in a court of law if he files the appeal within sixty days.

* The Administrator of the state can assess Ari with both civil and criminal penalties.

Explanation

If Ari is found guilty of making unauthorized trades on his clients' accounts and has his license revoked, he can appeal the decision in a court of law if he files the appeal within sixty days. Small & Associates license is not in danger as long as the firm has been providing competent supervision of Ari and its other agents. It will not be required to pay a fine based on Ari's fraudulent activities. Ari may end up with civil and criminal penalties, but the Administrator cannot assess them. Only a court of law can do that.

Q71. A broker-dealer is required to keep his records for how long?

* at least three years

* at least five years

* at least seven years

* broker-dealer is required to keep his records for as long as he is registered in the state.

Explanation

A broker dealer is required to keep his records at least three years.

Q72. Which of the following persons is required to maintain its records in accordance with state dictates and meet the minimum net capital requirement imposed by the state?

I. federal covered adviser

II. state-registered investment adviser

III. investment adviser representative

- * I and II only
- * I, II, and III
- * II and III only
- * II only

Only the investment adviser that is required to register with the state must maintain its

records in accordance with state dictates and meet the minimum net capital requirement imposed by the state. A federal covered adviser is registered with the SEC and need only execute a notice filing with the state. Its record-keeping rules and net capital requirement are dictated by the SEC. An investment adviser representative must register with the state, but there are no record-keeping or minimum net capital requirement dictates for representatives.

Q73. Rich Quick is a broker-dealer registered in the state of Massachusetts. He occasionally trades on abnormalities he observes in bond yield spreads for his own account, short selling a bond that appears to be overpriced based on its yield and buying a bond that is identical in almost every respect except for the price, which is less than that of the other bond. He has been able to earn arbitrage profits 95% of the time when he does this. Rich Quick

- * is in violation of securities laws. Arbitrage is a prohibited activity.
- * is skilled if he is able to earn profits 95% of the time using this strategy.
- * is trading on insider information, which is a violation of securities laws.
- * engaged in a fraudulent activity.

If Rich Quick is able to earn profits 95% of the time by trading on abnormalities he observes

in bond yield spreads, he is skilled. There is nothing illegal in what he is doing. Arbitrageurs attempt to earn profits when they observe what they believe to be mispriced securities, and this is an accepted activity. Rich is not using insider information; bond yields are publicly available information.

Q74. A bond issue has recently been registered with the state Administrator.

Which of the following statements are true?

- * An investor can feel secure in buying the bond because it has recently been registered, which means that the state Administrator finds it to be of sound quality at this point in time.
- * The bond may now be offered for sale in the state.
- * The issuer may now offer this bond for sale, and any other bonds that the issuer may want to offer for sale in the future will be

able to be sold after the issuer executes a notice filing.

- * Both A and B are true statements.

Explanation

When a bond issue has been effectively registered with the state Administrator, it can be offered for sale in the state. The bond's acceptance by the Administrator simply means that the issuer has supplied enough information in order for an investor to judge the quality of the bond for himself; it in no way implies that the bond is of sound quality. It could, in fact, be a very risky security and still have met the registration requirements.

Q75. Erin is a registered agent who works for SecureMoney Brokers-dealers. One of her clients, Mrs. McTurk, is a recently-widowed woman who relies on Erin for advice about her investment portfolio. Mrs. McTurk reminds Erin of her own grandmother, and she is happy to provide guidance within the sphere of her own knowledge.

Based on these facts, which of the following statements is true?

- * SecureMoney Broker-dealers must register as an investment adviser since one of its employees is providing investment advice.
- * Erin must register as an investment adviser since she is providing investment advice.
- * SecureMoney Broker-dealers must register as an investment adviser since one of its employees is providing investment advice, and Erin must register as an investment adviser representative as the firm's employee.
- * Neither SecureMoney Broker-dealers nor Erin must register as an investment adviser based on the facts provided.

Explanation

Neither SecureMoney Broker-dealers nor Erin must register as an investment adviser based on the facts provided since neither the broker-dealer nor Erin is receiving any compensation for the advice Erin is giving Mrs. McTurk. In this instance, the advice provided is considered incidental to the broker-dealer business.

Q76. A-2-Z Associates is a full service brokerage and is also in the investment advisory industry, charging its

clients for investment advice for additional remuneration. Which of the following statements is true?

- * A-2-Z can charge an individual client an advisory fee for its advice or a commission when it executes a

trade that the client makes based on that advice, but not both.

- * A-2-Z can charge the client both an advisory fee for its advice and a commission on any trade the client

makes based on the advice. This is all laid out in the advertising brochures full service brokerage firms

like A-2-Z provide their prospective clients.

- * A-2-Z can charge the client both an advisory fee for its advice and a commission for the execution of a

trade based on that advice, but it must inform the client of its potential conflict of interest in doing so and

get the client's written consent.

- * A-2-Z can charge the client only an advisory fee when it is serving as an investment adviser; no

commissions may be collected.

A-2-Z can charge a client it advises an advisory fee for its advice and a commission for the

execution of a trade based on that advice, but it must inform the client of the potential conflict of interest

and get the client's written consent. It must also provide an itemized statement of all such agency cross

transactions performed for the client at least annually.

Q77. Elizabeth is the owner of Lizbeth Investment Advisers, a small, state-registered investment advisory firm. She has decided that her firm needs a niche and has learned that a consulting group is coming to the area and offering a 3-day seminar on asset allocation for senior citizens offered by Advantage for Retirement Persons (ARP). The seminar will cost \$1,000 per individual, but after attending the seminar, each attendee will receive a certificate verifying their involvement in the program. Elizabeth decides this is the niche she has been looking for and signs up herself and her three investment adviser representatives for the program. After attending the seminar and receiving their certificates, Elizabeth and her team can

- * represent themselves as certified senior citizen investment advisers.
- * have the words "Senior-Citizen Investment Specialists" printed on their business cards.
- * indicate that they are certified by the ARP program since money was paid for their attendance.
- * do none of the above.

Explanation

After attending the ARP seminars on asset allocation for senior citizens, Elizabeth and her team cannot represent themselves as certified senior citizen investment advisers, print "Senior-Citizen Investment Specialists" on their business cards, or indicate that they are certified by the ARP program. Under the NASAA model rules, their attendance does not entitle them to say they are in any way especially certified to serve senior citizens. The attendance certification they received does not have any competency requirements attached.

Q78. An investment adviser

- I. provides investment advice to clients.
 - II. sells securities to clients.
 - III. buys and sells securities in their clients' accounts for the clients.
- * I only.
 - * I and II only.
 - * I and III only.
 - * I, II, and III.

An investment adviser provides investment advice to clients and may also buy and sell

securities in their clients' accounts for the clients. He does not, however, sell securities to his clients.

Q79. Your client calls you with a market order to purchase 500 shares of the stock of Oracle and asks when

payment will be due. If today is Wednesday, September 15th, you inform the client that payment is due on

- * Monday, September 20th.
- * Thursday, September 16th.
- * Friday, September 17th.
- * Saturday, September 18th.

If your client places an order to purchase 500 shares of Oracle on the open market on

Wednesday, September 15th, payment will be due on Monday, September 20th. The settlement date for stock transactions is T + 3, which means the third business day after the trade. Saturday is not a business day.

Q80. Which of the following may be given to prospective investors during the “cooling off period?”

- * a tombstone advertisement
- * a final prospectus
- * a copy of the registration statement
- * all of the above

During the “cooling off period” prospective investors may be given only a tombstone advertisement for the security.

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