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FINRA Investment Company and Variable Contracts Products
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QUESTION 1

An exchange-traded fund (ETF):

- A. can be structured as either a mutual fund or a unit investment trust.
- B. is a type of closed-end investment company.
- C. is bought and sold at the net asset value of the fund.
- D. charges no management fees.

Correct Answer: A

Explanation: An exchange-traded fund (ETF) can be structured as either a mutual fund or a unit investment trust, which means it is not a type of closed-end company. Shares are bought and sold on exchange floors, just as shares of a closed-end company are, however. Therefore, the price of an ETF is set by supply and demand, so an ETF can not necessarily be bought and sold at its net asset value. Like their cousins, ETFs charge management fees.

QUESTION 2

Rank the following entities with regard to the priority of their claims on a firm-from the highest priority to the lowest priority-in the event of bankruptcy.

- I. common shareholders
- II. preferred shareholders
- III. secured bondholders
- IV. debenture holders

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

Correct Answer: C

Explanation: Choice C correctly ranks the entities with regard to the priority of their claims on the firm in the event of



bankruptcy, from the highest priority to the lowest priority. Secured bondholders get paid first, then debenture (unsecured bond) holders, followed by preferred shareholders. Common shareholders come in last.

QUESTION 3

Dottie is a newly-minted, registered representative and is doing some cold calling to line up appointments with prospects. When doing so, Dottie:

- I. must not call anyone on her firm's do-not-call list.
 - II. must not call anyone on the FTC's national do-not-call-list.
 - III. must not call anyone before 7 a.m. or after 7 p.m., based on the time zone of the person being called.
 - IV. must provide the person called with her name, the name and contact information of her firm, and the purpose of her call.
- A.
I and III only
- B.
I and IV only
- C.
I, II, and IV only
- D.
I, II, III, and IV

Correct Answer: C

Explanation: Only Selections I, II, and IV are correct. When Dottie does her cold calling, she must not call anyone listed on either her firm's do-not-call list or the FTC's national do-not-call list, and she must provide the person called with her name, the name and contact information of her firm, and the purpose of her call. Under FINRA's telemarketing rules, she must not call anyone before 8 a.m. or after 9 p.m., based on the time zone of the person being called.

QUESTION 4

What did the Howey Decision?

- A. provided for fixed annuities to be excluded from the definition of a security.
- B. defined an investment contract as any investment of money in a common enterprise with the expectation of earning a profit from the efforts of others.
- C. stipulated that all general partnerships were investment contracts and, therefore, securities, as defined by the Securities Exchange Act of 1934.



D. determined that certificates of deposit issued by a bank and insured by the FDIC did not qualify as securities, as defined by the Securities Exchange Act of 1934.

Correct Answer: B

Explanation: The Howey Decision defined an investment contract as any investment of money in a common enterprise with the expectation of earning a profit from the efforts of others. General partnerships do not fall under the definition of investment contracts since the general partners are actively involved in the business operations. Although both fixed annuities and bank CDs are excluded from the definition of a security, this was not part of the Howey Decision.

QUESTION 5

Which of the following is not a function performed by an investment banker as part of a full commitment underwriting?

- A. provides advice to the issuing firm on the projects in which it should invest the money raised
- B. provides advice to the issuing firm on what type of security should be issued in order to raise the funds
- C. purchases the securities from the issuing firm
- D. provides short-term price support for the security after it begins trading in the secondary market

Correct Answer: A

Explanation: The investment banker does not advise the issuing firm on the projects in which it should invest the money raised in a full commitment underwriting. It does advise the issuing firm on what type of security it should issue in order to raise the money; it purchases the securities from the issuing firm for immediate resale to the public; and it provides price support for the security for a short time after it begins trading in the secondary market.

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