



FINRA-SERIES-6^{Q&As}

FINRA Investment Company and Variable Contracts Products
Representative Examination (IR)

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QUESTION 1

Which of the following statements about mutual funds is false?

- A. Mutual funds may be organized as corporations, statutory trusts, or partnerships.
- B. Mutual funds are organized under state law.
- C. Mutual funds issue redeemable shares.
- D. Mutual funds may be either actively or passively managed.

Correct Answer: A

Explanation: The false statement is that mutual funds may be organized as corporations, statutory trusts, or partnerships. Mutual funds may be organized only as corporations or statutory (business) trusts.

QUESTION 2

Which of the following would be the most suitable investment for a client who has retired and needs some current income to augment her social security check?

- A. growth fund
- B. variable life policy
- C. money market fund
- D. U.S. government bond fund

Correct Answer: D

Explanation: Of the choices provided, the most suitable investment for a client who has retired and needs some current income to augment her social security check would be a U.S. government bond fund. The growth fund is mostly invested in stocks that provide their return in the form of capital appreciation, not dividend income. The variable life policy would not offer her the current income she needs and may even have a surrender charge. Furthermore, these policies are insurance, not investments. A money market fund is good for capital preservation and some of her funds should be invested in a money market fund to meet this objective, but it will not provide her with current income. A U.S. government bond fund is less risky than other bond funds--although its value will fluctuate with interest rate changes--and will provide her with the supplemental income she requires.

QUESTION 3

Sarah Bean is a registered representative with NewWave Investments, a family of mutual funds. She has recommended one of NewWave's funds to a client and given him a prospectus. The prospectus provides information about the fund's breakpoints and indicates that an investment of \$25,000 or more will lead to a reduced front-end load. The prospectus also clearly explains the details of a letter of intent. Sarah's client invests \$23,000 in the fund then and there without even opening the prospectus.

Has Sarah violated any of FINRA's rules of conduct?



- A. No. Sarah properly provided her client with a prospectus prior to selling him shares of the fund.
- B. Yes. Sarah is required to explain the concepts of breakpoints and letters of intent to her client.
- C. Yes. Sarah needed to tell her client that he would have to read through the prospectus to ensure he understood all aspects of the investment before she could take any money from him.
- D. Yes. Sarah is not permitted to accept funds from a client without the presence of her immediate supervisor.

Correct Answer: B

Explanation: Yes. Sarah is required to explain the concepts of breakpoints and letters of intent to her client and her failure to do so is a violation of FINRA's rules of conduct. A registered representative selling mutual fund shares is required to explain the salient facts contained in a fund's prospectus to a client before selling him the fund shares. Sarah's failure to do so is deemed "inconsistent with just and equitable principles of trade."

QUESTION 4

Mandatory guidelines for the prospectuses of which of the following are dictated by the Investment Company Act of 1940?

- I. mutual funds
 - II. closed-end investment companies
 - III. unit investment trusts
 - IV. variable contracts
- A. I and II only
 - B. II only
 - C. I, II, and III only
 - D. I, II, III, and IV

Correct Answer: D

Explanation: Mandatory guidelines for the prospectuses of all of the selections are dictated by the Investment Company Act of 1940.

QUESTION 5



Mr. Shortfall placed a market order to buy 100 shares of Google (GOOG) with GetErDone Broker-Dealers. The market order was executed at \$530 a share. In accordance with Regulation T:

- A. Mr. Shortfall must pay for the purchased shares within 3 business days.
- B. Mr. Shortfall must pay for the purchased shares within 5 business days.
- C. GetErDone can request an extension from FINRA or another SRO for Mr. Shortfall if he is unable to pay for the shares within 5 business days.
- D. Both B and C are true statements.

Correct Answer: D

Explanation: After his market order to buy shares of GOOG is executed, Mr. Shortfall must pay for the shares within 5 business days. If he is unable to do so within this time period, GetErDone can request an extension from FINRA or another SRO for him.

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