FINRA-SERIES-6 Q&As

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

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QUESTION 1

Private placements are exempt from the registration requirements of the Securities Act of 1933 under the rules contained in: A. Regulation A.

B. Regulation D.

C. Regulation E.

D. the Securities Exchange Act of 1934.

Correct Answer: B

Explanation: Private placements are exempt from the registration requirements of the Securities Act of 1933 under the rules contained in Regulation D. Regulation D dictates the qualifications that must be met for the security to be exempted, such as the maximum number of unaccredited investors and the investors to whom the security may be sold. Regulation A dictates the rules to qualify an issue for a small issue exemption. The Securities Exchange Act of 1934 deals with the secondary market, not the new issue market.

QUESTION 2

Ms. Newbie, a newly-minted registered representative with Savvy Investments, just had her first client walk through the door. The new account form that the client receives a copy of must contain the signatures of:

I. the client.

II. Ms. Newbie.

III.

Ms. Newbie\\'s branch manager/supervisor.

A.

I only

B.

I and II only

C.

II and III only

D.

I, II, and III

Correct Answer: C

Explanation: The new account form that Ms. Newbie\\'s client will receive must contain the signatures of both Ms. Newbie and her branch manager/supervisor. The signature of the client is not a requirement.

QUESTION 3

Which of the following types of securities would not be traded in the over-the-counter market?

I. stock options

II. government bonds

III. corporate bonds

IV.

corporate stocks

A.

I only

B.

I and IV only

C.

III and IV only

D.

All of the choices are traded in the over-the-counter market.

Correct Answer: D

Explanation: All of the choices listed-and more-are traded in the over-the-counter market: stock options, government bonds, corporate bonds, and corporate stocks. Additionally, securities such as warrants, rights, forward contracts, and foreign currencies also trade in the over-the-counter market.

QUESTION 4

Under the Investment Company Act of 1940, an investment company is:

A. required to register with the SEC.

B. any company that holds investment securities that have a value that is greater than 40% of the company\\'s total assets.

C. any issuer whose primary business involves investing, reinvesting, or trading in securities.

D. All of the above accurately describe an investment company as defined by the Investment Company Act of 1940.

Correct Answer: D

Explanation: All of the choices accurately describe an investment company as defined by the Investment Company Act of 1940.

QUESTION 5

Which of the following statements about non-qualified employer-sponsored retirement plans is false?

A. An employer does not have to offer the plan to all employees over 21 years old.

B. The earnings on the plan\\'s contributions remain untaxed until they are withdrawn.

C. The plan does not have to abide by ERISA\\'s vesting requirements.

D. The plan may be either funded or unfunded.

Correct Answer: B

Explanation: The false statement is that the earnings on the plan\\'s contributions remain untaxed until they are withdrawn. Earnings on non-qualified employer-sponsored retirement plans do not grow tax-deferred except for a special situation in which a sizeable forfeiture risk exists. All the other statements are true since non-qualified employer-sponsored plans are exempt from most, if not all, of ERISA\\'s requirements.

QUESTION 6

Which of the following statements regarding a mutual fund\\'s expenses are true?

A. A mutual fund that has a front-end load cannot also charge 12b-1 fees.

B. A mutual fund\\'s record maintenance fees cannot exceed 0.25% of average net assets.

C. The expense ratio of a mutual fund cannot exceed 1.0%.

D. A mutual fund family is prohibited from charging a fee when an investor exchanges his shares of one of its funds for another.

Correct Answer: B

Explanation: The true statement regarding a mutual fund\\'s expenses is that a mutual fund\\'s record maintenance fees cannot exceed 0.25% of average net assets. Mutual funds are permitted to have both front-end loads and charge 12b-1 fees, and the expense ratio of a mutual fund can exceed 1.0% (although a common recommendation is to select a fund with an expense ratio ? 1.0%.) Mutual fund families have the option of charging an “exchange fee” when an investor switches between their funds.

QUESTION 7

Ms. Scatty is a registered representative with a well-known family of mutual funds. When selling one of the funds, she forgets to give her buyer a prospectus.

Which of the following statements is true?

A. Ms. Scatty can be held civilly liable under the Securities Act of 1933.

B. Ms. Scatty can be held criminally liable under the Securities Act of 1933.

C. Since mutual funds are not covered under the Securities Act of 1933, there is no liability in this instance.

D. Both A and B are true statements.

Correct Answer: A

Explanation: If Ms. Scatty forgets to give her buyer a prospectus when selling one of the funds, she can be held civilly liable under the Securities Act of 1933. Unless there was an intent to defraud, she is not subject to criminal penalties. The purchase and sale of mutual fund shares fall under the Securities Act of 1933.

QUESTION 8

A feature that gives a bondholder or the owner of preferred stock of a corporation the option to exchange his security for shares of the common stock of the firm is called a:

A. call feature.

B. warrant.

C. convertible feature.

D. right.

Correct Answer: C

Explanation: A convertible feature on a bond or preferred stock gives the bondholder or the preferred stock owner the option to exchange the security he owns for shares of common stock of the firm.

QUESTION 9

Which of the following correctly describe differences between a profit-sharing plan and a money purchase plan?

I. An employer can elect to make no contribution to a profit-sharing plan in a bad year, but the employer must make contributions to a money purchase plan, regardless.

II. Only employers make contributions to profit-sharing plans whereas both employers and employees can contribute to a money purchase plan.

III.

A profit-sharing plan is a defined benefit plan whereas a money purchase plan is a defined contribution plan.

A.

I only

B.

I and II only

C.

I and III only

D.

I, II, and III

Correct Answer: B

Explanation: Selections I and II correctly describe differences between a profit -sharing plan and a money purchase plan. Under a profit-sharing plan, an employer can elect to make no contribution in a bad year, but an employer must make contributions to a money purchase plan, regardless. Only employers make contributions to profit-sharing plans, but both employers and employees can contribute to a money purchase plan. Both profit-sharing plans and money purchase plans are defined contribution plans, so the statement made in Selection III is false.

QUESTION 10

Ari Gaunt was affiliated with Savvy Investments and was terminated after some of the female representatives associated with Savvy filed sexual harassment complaints against him. Mr. Gaunt believes that he is still due money for some transactions he executed prior to his termination; Savvy believes otherwise. Under FINRA\\'s Code of Arbitration:

A. Ari may either sue Savvy in a civil court of law or submit his claim to arbitration. If Ari submits his claim for arbitration and is unhappy with the panel\\'s decision, he can then sue

B. Savvy in a civil court of law.

C. Ari has six years to submit his claim to arbitration.

D. both B and C are true statements.

Correct Answer: C

Explanation: If Mr. Gaunt believes he is still due money from Savvy, and Savvy disagrees, Ari has six years to submit his claim to arbitration under FINRA\\'s Code of Arbitration. Ari cannot sue Savvy in a court of law, and the decision of the arbitration panel is final.

QUESTION 11

Andy and Annie Raggedy own their own graphics art business that they operate out of their home and, happily, generate enough income to meet their current needs. The couple is planning on having children in the not too distant future,

however, and they want to start putting money aside for their children\\'s college education and also want to start saving for retirement more aggressively.

Which of the following describes one of their primary investment objectives?

A. tax-exempt income

B. preservation of capital

C. current income

D. capital appreciation

Correct Answer: D

Explanation: Since Mr. and Mrs. Raggedy\\'s stated goals are to save for their future children\\'s college education and to save for retirement, one of primary investment objectives is capital appreciation. That is, they will want to invest their monies in assets that will grow at a sufficient rate for them to be able to meet these targets. They have enough income to meet their current needs, so Choices A and C are not primary objectives, and although we'd all like to preserve capital, we need to take some risk in order to get the returns we require.

QUESTION 12

Under FINRA\\'s rules regarding proper supervision, member firms must:

I. have clear written procedures to supervise the activities of its principals, registered representatives, and other associated persons.

II. designate as an office of supervisory jurisdiction (OSJ) any office of the member that engages in maintaining custody of the funds and/or securities of the member\\'s customers.

III. prohibit the use of any electronic communication method, including personal electronic devices, for business-related communications unless the use of the devices can be properly supervised and the communications retained.

IV.

regularly evaluate the effectiveness of its supervisory policies.

A.

I and IV only

B.

I, II, and IV only

C.

I, III, and IV only

D.

I, II, III and IV

Correct Answer: D

Explanation: Under FINRA\\'s rules regarding proper supervision, member firms must engage in the activities described in all four statements, including prohibiting the use of personal electronic devices for business-related communications unless the devices can be properly supervised and the communications retained.

QUESTION 13

Ms. Newbie is a registered representative with Savvy Investments and has recently gotten married. (Her new name is Mrs. Newbie-Oldman.)Her husband has been a client of hers, and the couple now wants to put her name on the account. In this case:

A. Ms. Newbie is a registered representative with Savvy Investments and has recently gotten married. (Her new name is Mrs. Newbie-Oldman.)Her husband has been a client of hers, and the couple now wants to put her name on the account. In this case:

B. Mrs. Newbie-Oldman must obtain written authorization from Savvy Investments to put her name on the account.

C. Mrs. Newbie-Oldman\\'s husband must provide written authorization to Savvy Investments for his new bride to be included on the account.

D. Both B and C are true statements.

Correct Answer: D

Explanation: If Mrs. Newbie-Oldman and her new husband want her name on what was previously his account, she must obtain written authorization from her employer, Savvy Investments, and her new husband must provide his written authorization to Savvy. She is exempted from the proportional investment requirement as Mr. Oldman\\'s spouse, but not from the written authorization requirements under FINRA Rule 2150.

QUESTION 14

Which of the following statements about hedge funds is true?

A. They are fairly low risk since the portfolio managers use investment strategies designed to “hedge their bets.”

B. They are not regulated by the Investment Company Act of 1940.

C. They are considered to be very liquid investments.

D. They have low management fees, like index funds.

Correct Answer: B

Explanation: The true statement about hedge funds is that they are not regulated by the Investment Company Act of 1940. They are very risky, are illiquid-investors may only make contributions and withdrawals at specified times-and they have extremely high management fees.

QUESTION 15

Which of the following persons is not permitted to open an investment account?

I. a general partnership

II. a corporation

III. the executor of an estate

IV.

a 16-year-old entrepreneur

A.

I and II only

B.

I, II, and III only

C.

I, II, and IV only

D.

IV only

Correct Answer: D

Explanation: Only the 16-year-old entrepreneur is not permitted to open an investment account. As a minor, he is not a legal person. All the other selections are legal persons and can establish investment accounts.