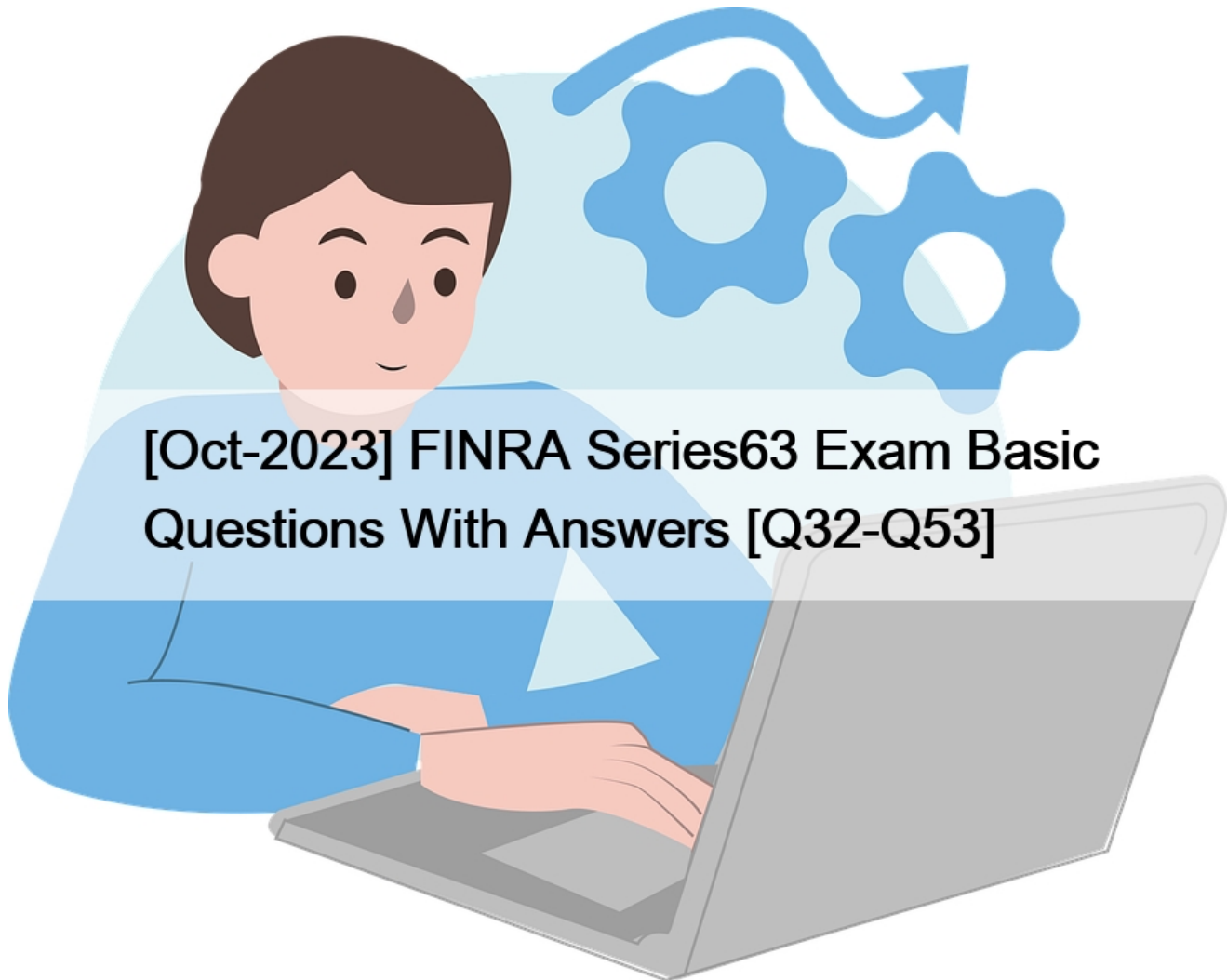


[Oct-2023 FINRA Series63 Exam Basic Questions With Answers [Q32-Q53]



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[Oct-2023] FINRA Series63 Exam: Basic Questions With Answers
New 2023 Realistic Free FINRA Series63 Exam Dump Questions and Answer

NO.32 You are an agent with a broker-dealer and have learned of limited partnership interests being sold by a small company that is planning to come out with a product that you think is going to wow the market. You would like to get in on the action, but the minimum investment needed is \$10,000, and you don't have that kind of dough lying around. You talk to your brother, who is also one of your clients, and get him interested in investing in the firm, too. The two of you decide to pull your money together, each putting in \$ 5,000, and you agree to split any profits or losses. Is this permitted?

* No. Under no circumstances can an agent enter a joint investment with a client under the guidelines of

the Uniform Securities Act.

- * Yes. This is permitted since the agreement is between you and a family member.
- * Maybe. But it will require written consent from both your brother and your firm.
- * Yes, as long as your brother provides your firm with his written consent.

It may be permissible for you and your brother to open a joint account to invest in this

partnership since he is a family member, but it will require the written consent of both your brother and

your firm, and your firm is under no obligation to give its consent.

NO.33 Which of the following securities would be exempt from state registration requirements, according to the Uniform Securities Act?

I. a municipal bond issued by the Canadian province of Nova Scotia

II. a bond issued by the county of Cork, Ireland

III. a bond issued by Nationwide Insurance Company

- * All of the selections would be exempt from state registration requirements under the Uniform
- * Selection I only
- * Selection I and III only
- * Selection III only

Explanation

The municipal bond issued by the Canadian province of Nova Scotia and the bond issued by Nationwide Insurance Company are both exempt securities under the Uniform Securities Act. Bonds issued by Canadian government entities at both the national and the municipal level and bonds issued by domestic entities in highly regulated industries, as is the case with insurance companies, are exempt. The bond issued by a county in Ireland is not exempt; with the single exception of Canada, only bonds issued by national governments with which the U.S. has diplomatic relations are exempt.

NO.34 You are a newly licensed agent and are making cold calls to generate business. According to the Telephone Consumer Protection Act of 1991 (TCPA), you may only place your calls between the hours of

- * 8 a.m. and 9 p.m., based on your time zone.
- * 8 a.m. and 9 p.m., based on your prospective customer's time zone.
- * 8 a.m. and 7 p.m., based on your prospective customer's time zone.
- * 8 a.m. and 7 p.m., based on the Pacific Time Zone.

Explanation

The TCPA mandates that you place your calls only between the hours of 8 a.m. and 9 p.m., based on your prospective customer's time zone. This is a rule that applies to all telemarketers.

NO.35 MoeMoney Investment Advisers uses the services of two broker-dealers exclusively when it executes trades for its clients' accounts. The larger of the two broker-dealers provides MoeMoney with research from its analyst department in return for the business and also serves as the custodian for some of MoeMoney's clients' accounts. The smaller of the two broker-dealers picks up the utility bill for MoeMoney. MoeMoney is careful to disclose this form of soft dollar compensation to its clients.

Is it in violation of any securities laws?

- * Yes. Investment advisers are prohibited from receiving any soft dollar compensation whatsoever.

- * No. Investment advisers are entitled to receive soft dollar compensation from broker-dealers with which it has a relationship as long as they disclose this to their clients.
- * Yes. Although investment advisers are permitted to receive some forms of soft dollar compensation from broker-dealers with which it has a relationship, such as research or custodial services, other forms of soft dollar compensation, including the payment of overhead expenses, are prohibited.
- * Yes. Investment advisers are required to use more than two broker-dealers when executing trades on its clients' accounts.

Explanation

Yes. MoeMoney is in violation of securities laws in accepting payment of its utility bills for directing business to the smaller broker-dealer because this form of soft dollar compensation is prohibited. Some forms of soft dollar compensation are permitted, such as the research and custodial services MoeMoney receives from the larger broker-dealer, but the payment of any office overhead expense is not. Allowed soft dollar compensation is deemed to benefit both the investment adviser and its clients; soft dollars that seem to benefit only the adviser are not allowed.

NO.36 Which of the following constitutes a non-punitive order?

- * summary license suspension
- * registration cancellation
- * registration denial
- * All of the above are punitive orders.

Registration cancellation is a non-punitive order. The Administrator issues a cancellation

order if a registered person dies, becomes mentally incompetent, is no longer in business, or is unable to

be located.

NO.37 Julia Hasty has recently applied with the Administrator to be a registered investment adviser in the state. Eager to open her new business, she has business cards printed that indicate that she is a state-registered investment adviser and visits some local businesses, asking them for permission to put some of her cards in their waiting rooms.

Has Julia violated any of the provisions of the Uniform Securities Act by distributing her business cards?

- * No. As long as her application has been submitted and is pending acceptance, Julia has not violated any provisions of the Uniform Securities Act.
- * No. The provisions of the Uniform Securities Act relate to securities, not people.
- * Yes. Julia is not permitted to advertise as a state-registered investment adviser until she receives notification of the acceptance of her application by the state Administrator.
- * No. Julia has merely put her business cards in waiting rooms. She has not opened her business to clients yet.

Explanation

Yes. Julia has violated a provision of the Uniform Securities Act by distributing business cards that indicate she is a state-registered investment adviser because she has not yet received notification of the acceptance of her application by the state Administrator. The filing of an application for registration is not the same as registration, and the placement of the cards is, at this early point, false advertising.

NO.38 Which of the following entities are subject to post-registration provisions?

I. broker-dealers

II. agents

III. investment advisers

IV. investment adviser representatives

- * I and II only
- * I and III only
- * II and IV only
- * All of the entities are subject to post-registration provisions.

Only selections I and III are subject to post-registration provisions. Broker-dealers and

investment advisers can be required to file advertising materials and financial reports with the

Administrator, as specified by the Administrator. They are also required to keep records to the

specifications of the Administrator. These records will include items such as client e-mails, client letters of

complaint, and advertising brochures and must be kept for three years.

NO.39 Your next-door neighbor's brother works for a large pharmaceutical company and confided in her that one

of the company's chemists has just discovered a compound that will cure baldness and that the firm plans

to make the discovery public later in the week. Your next-door neighbor passes this information on to you

over a cup of coffee the next morning. You immediately call your broker and place an order to buy shares

of the company's stock. Has any illegal insider trading taken place?

- * Yes. The agent who executes your purchase order has engaged in illegal insider trading.
- * No. You are in no way related to your next-door neighbor's brother, and she could have been lying.
- * Yes. You, your neighbor, and her brother are all guilty of illegal insider trading.
- * Yes. You are guilty of illegal insider trading because you traded on information that had not yet been

made publicly available.

Yes. You are guilty of illegal insider trading because you traded on information that was not

yet public. Your neighbor and her brother did not execute any trades based on the information, so they're

innocent, as is the agent who executed your purchase order, who had no way of knowing that you had

insider knowledge when you placed the order.

NO.40 Which of the following statements regarding registration by qualification is true?

- * Registration by qualification refers to the fact that certain categories of securities are exempt from state registration requirements.
- * Registration by qualification is the preferred method used by issuers since it requires the least amount of paperwork.
- * In its simplest form, registration by qualification requires the issuer to supply voluminous amounts of

information about both the firm and its directors, officers, and major shareholders.

- * Registration by qualification refers to the fact that the highest quality bonds, i.e., those with a AAA

rating, are exempt from registration with the state.

Registration by qualification, in its simplest form, requires the issuer to supply voluminous

amounts of information about both the firm and its directors, officers, and major shareholders. The state

Administrator also has the authority to require even more documentation. It is the least favorite method of

registration for obvious reasons.

NO.41 The current yield on a bond fund refers to

- * the percentage increase in the fund's net asset value.
- * the return that the fund earned because of the capital appreciation of the securities in the fund.
- * the total return that the fund has earned over the most recent 12-month period.
- * the return that the fund earned based only on the interest income it received

Explanation

The current yield on a bond fund is the return that the fund earned from interest income only. The return from interest income plus the return due to the capital appreciation of the securities make up the total return earned by the fund. The investor's total return is equal to the return on the income received from the fund plus any change in the net asset value of the fund.

NO.42 Moe is a registered investment adviser doing business under the name of MoeMoney Investment

Advisers, LLC. Larry, Curly, and Mary all hold positions with the firm. Larry is on the board of directors;

Mary is a sales representative for the firm; and Curly is an administrative assistant, who performs clerical

duties. Given that Moe is already a registered investment adviser, which of the other three are

automatically registered as investment adviser representatives?

- * Larry only
- * Larry and Mary only
- * Larry, Mary and Curly
- * Mary and Curly only

As a director of the firm, Larry would automatically be registered as an investment adviser

representative of MoeMoney Investment Advisers. Although directors and officers of the firm are

automatically registered as investment adviser representatives, Mary, as a sales representative, would

have to apply for her own registration. Curly does not need to be registered since he performs only clerical

duties.

NO.43 Which of the following does not describe a prohibited practice for broker-dealers under the NASAA Model Rules?

I. SecureMoney Broker-Dealers has received a request from a client who wants SecureMoney to identify a few solid firms in the Asian market and invest up to \$20,000 in them; SecureMoney executes the purchases and receives the requisite signed discretionary authorization from the client before the settlement date.

II. CanDo Broker-Dealers executes a margin transaction for a client, promptly receiving a signed, written margin agreement from the client after the transaction takes place.

III. GetErDone Broker-Dealers receives a call from a client who wants to purchase some securities on margin.

GetErDone has the client come into the office to sign a properly executed margin agreement prior to effecting the transaction.

- * None of the selections are prohibited practices.
- * I and III only
- * II and III only
- * III only

Explanation

Neither Selection II nor Selection III describes a prohibited practice for broker-dealers under the NASAA Model Rules. Broker-dealers are permitted to execute margin transactions for clients as long as they receive a signed, written margin agreement promptly after the initial margin transaction takes place. The agreement need not be signed beforehand. Discretionary authorizations do need to be signed before the broker-dealer executes any discretionary transactions for a client, so Selection I describes a prohibited practice.

NO.44 S. White and Associates is an investment adviser registered in the state of Kentucky and, as such, is meeting Kentucky's minimum net capital requirement for investment advisers. The firm recently registered with the state of Virginia and has opened an office there. Virginia has a significantly higher net capital requirement for its investment advisers.

Which of the following statements is true?

- * According to the Uniform Securities Act, S. White will have to meet Virginia's higher requirement.
- * According to the Investment Advisers Act of 1940, S. White needs only to meet the net capital requirement of Kentucky.
- * According to the Securities Exchange Act of 1934, S. White needs to meet at least the minimum net capital requirement specified by that Act since it is now operating in multiple states.
- * According to the Investment Advisers Act of 1940, S. White will have to maintain a minimum net capital equal to the average of the net capital requirements of the two states.

Explanation

Since S. White is already registered in the state of Kentucky and meeting the net capital requirement of that state, the Investment Advisers Act of 1940 stipulates that Virginia cannot require a higher minimum net capital. The Act states that if an investment adviser is registered in one state and is meeting its net capital requirement, a second state cannot impose a higher net capital requirement on the investment adviser.

NO.45 Jack Bean is employed by Giant Investment Advisers, LLC. His job duties include advising clients on the

asset allocations of their portfolios. Jack Bean is

- * an investment adviser representative.
- * an investment adviser.
- * an administrative assistant.
- * an agent.

As an employee of Giant Investment Advisers who provides investment advice to clients,

Jack Bean is an investment adviser representative. Giant is the investment adviser. Agents are employed

by broker-dealers.

NO.46 Bootstraps, Inc. is a family-owned business that has experienced enormous growth in the last couple of years.

The business needs more cash to support this growth and has decided to issue some promissory notes, each with a face value of \$5,000, for sale to the general public. The firm plans to hire three individuals to help them sell these notes. These individuals will earn a commission based on the notes they sell.

Given these facts, which of the following is true?

- * The notes must be registered with the state, and the three individuals hired to sell the notes must be registered as agents with the state.
- * The notes must be registered with the state, but the individuals hired to sell them are not required to be registered.
- * Neither the notes nor the individuals selling the notes need to be registered with the state.
- * Either the firm must register the notes with the state, or the individuals that are hired to sell the notes must be registered as agents with the state, but not both.

Explanation

If Bootstraps hires three individuals to sell promissory notes to the public, both the notes and the three individuals hired to sell the notes must be registered with the state. The promissory notes are securities and, therefore, are required to be registered with the state before they can be offered for sale. The three individuals are working for the issuer, Bootstraps, to sell its securities to the public. This makes them agents, according to the Uniform Securities Act, and they must be registered as agents with the state.

NO.47 Which of the following would a firm not be expected to provide to the Administrator when registering an issue of securities with the state?

- * all sales and advertising materials that will be used in conjunction with the offering.
- * the agreement between the issuing firm and the underwriters.
- * the agreement among the underwriters themselves.
- * The firm will be expected to provide all of the above to the Administrator when registering an issue of securities with the state.

Explanation

The firm will be expected to provide all of the above-sales and advertising materials to be used in the offering, the agreement between the issuing firm and its underwriters, and the agreement among the underwriters themselves.

NO.48 You execute a stock transaction for a client on Thursday, September 23rd. The settlement date on the

order ticket will be

- * Thursday, September 23rd.
- * Monday, September 27th.
- * Friday, September 24th.
- * Tuesday, September 28th.

If you execute a stock transaction for a client on Thursday, September 23rd, the settlement

date for that trade will be Tuesday, September 28th, which is T + 3, meaning three business days after the

trade date.

NO.49 The 1988 Insider and Securities Enforcement Act indicates that a person convicted of insider trading can be subject to which of the following penalties?

- * up to 10 years in prison and a fine of \$1 million or up to 3 times the amount of profits gained, or
- * up to 3 years in prison, a \$5,000 fine, or both
- * up to 5 years in prison and a fine of \$1,500,000 or both
- * up to 7 years in prison and a fine equal to 200% of the amount of profits gained or losses avoided

Explanation

The 1988 Insider Trading and Securities Enforcement Act increased the penalties for a person convicted of insider trading to up to 10 years in prison and a fine of \$1 million or up to 3 times the amount of profits gained, or losses avoided.

NO.50 Most individual state securities laws today are based on:

- * the Uniform Securities Act of 1956.
- * the Uniform Securities Act of 2002.
- * the National Securities Markets Improvement Act of 1996.
- * the Gramm-Leach-Bliley Act of 1999.

Explanation

Most individual state securities laws continue to be based on the 1956 Uniform Securities Act. Although the Uniform Securities Act was revised in 1985, 1988, and 2002, none of these revisions have been widely incorporated by the individual states. The National Securities Markets Improvement Act of 1996 dealt mainly with the definition of federal covered securities and more efficient management of mutual funds. The focus of the Gramm-Leach-Bliley Act of 1999 was on financial institutions.

NO.51 Which of the following scenarios describes activities that are disallowed under the NASAA Model Rules?

I. Broker-dealer Anon observes that a client placed a stop loss order to sell her 1,500 shares of

Amazon.com stock for \$131 when the stock was selling for \$134. Anon sold the stock for \$133 when it started to fall during the day and credited the client's account with \$131 per share when stock dropped further to \$129 a share.

II. Penny is an agent with Broker-dealer Anon. She recently recommended that a client buy a stock that Penny thought would do well. As it turned out, Penny was wrong, and she offers to refund the commission that the client paid her.

III. Broker-dealer Anon is part of the selling group of a hot new IPO. As such, the firm purchases 50% of the shares for its own portfolio and sells the remainder to the public.

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

Selections I, II, and III are all disallowed under the NASAA Model Rules. In Selection I,

Broker-dealer Anon has made an unauthorized transaction and has also stolen from his client. The stop order indicated that the client's Amazon.com order should be effected only if the stock dropped to \$131 a share or less. Anon jumped the gun and sold it for \$133, but only gave the client the specified price of \$ 131 a share. In the scenario described in Selection II, Penny's intentions might have been good, but an agent is not allowed to refund commissions. Anon is also in violation in Selection III's scenario. A member

of the selling group is expected to make bona fide public offerings of the securities allotted him. To purchase some of the securities for itself is prohibited.

NO.52 Switch Advisory is a small investment adviser partnership registered in a single state. A larger investment adviser firm, Bait Investment Adviser, is registered in the same state as well as two other states. Bait has offered to buy out three of Switch's partners who want to retire. This will give Bait a 60% ownership in Switch Advisory.

Which of the following statements are true?

I. Switch Advisory must obtain the approval of its clients before the partners can sell their interests to Bait.

II. Switch Advisory must notify the state Administrator of this event.

III. Switch Advisory must notify their clients of this event, but does not need the clients' approval.

IV. Switch Advisory must notify the SEC of this event.

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

Explanation

Only Selections I and II are true. Switch must obtain the approval of its clients before the partners can sell their interests, and Switch must notify the state Administrator of this event. Whenever a change in partnership will result in new ownership of the business, which is the case when an external entity acquires a 60% interest, an investment adviser must get its clients' approval. As a state-registered investment adviser, switch also needs to notify the state Administrator. The SEC does not require notification since Switch is not a federal covered investment adviser.

NO.53 Which of the following is not a prohibited practice for a broker-dealer?

- * waiting 36 hours before mailing a check after receiving a request for a cash withdrawal from a client if

the client has that much cash available in his account

- * requiring that a client who is engaged in margin transactions leave the securities with the broker-dealer

in street name;

- * recommending a security to a new client without first ascertaining that client's level of risk tolerance
- * executing a trade for an account holder based on instructions from the account holder's spouse

It is not prohibited for a broker-dealer to require that a client who is engaging in margin

transactions to leave the securities with the broker in street name. This is the normal business practice.

A margin transaction means that the client is borrowing part of the funds he's investing, and the securities

are serving as collateral for the loan. It is illegal to delay sending a check upon receiving a request for a

cash withdrawal, assuming the client has the cash available in his account; to recommend a security to a

client without knowing anything about him, including his tolerance for risk; and to execute a trade on

instructions from anyone other than the account holder unless that party has at least limited power of attorney.

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