Uniform Securities State Law Examination

FINRA Series-63

Version Demo

Total Demo Questions: 32

Total Premium Questions: 324

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Topic Break Down

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QUESTION NO: 1

on No: 239

A tombstone advertisement is

A. an offer to sell a new security.

B. the announcement of a new security that may become available for purchase.

C. the only type of advertisement that an investment advisory firm is allowed to use.

D. an offer to sell a new security that is being issued by an Arizona firm.

ANSWER: B

Explanation:

The announcement of a new security that may become available for purchase is correct. A tombstone advertisement is a limited, factual notice used in connection with a public offering. It typically identifies the issuer, the type and amount of securities being offered, the names of the underwriters, and where a preliminary prospectus may be obtained. Its function is to notify the public that an offering is contemplated or pending; it is not itself a solicitation to buy the securities. Under the Securities Act of 1933, after a registration statement has been filed but before it becomes effective—the pre-effective or "cooling-off" period—communications must comply with the statutory restrictions on offers. A properly prepared tombstone notice may be published under Securities Act Rule 134 because it contains only specified factual information and appropriate legend language. The ultimate sale of registered securities can occur only after the registration statement is effective and investors have access to the required prospectus information. This distinction is important under state securities-law examination concepts because tombstone communications are informational notices, rather than completed offers or sales. See the SEC's overview of the registration process at SEC: Registration Statements and the text of SEC Rule 134.

QUESTION NO: 2

The Administrator may require a firm to supply it with any prospectus, pamphlet, advertisement, or other sales literature intended for prospective investors unless the security

I. will be sold only through an investment advisory firm.

II. is a federal covered security.

III. is issued by a state credit union.

A. I, II and III

B. I only

C. II only

D. II and III only

E. will be sold only through an investment advisory firm.
II. is a federal covered security.
III. is issued by a state credit union.

ANSWER: D

Explanation:

II and III only is correct. Under the Uniform Securities Act framework tested on the Series 63 examination, a state Administrator may require the filing of prospectuses, advertisements, pamphlets, and other sales literature in connection with securities offerings subject to the state's authority. That authority does not extend to a federal covered security in the same manner as a state-registered security because federal law preempts substantial portions of state registration and review authority for securities that meet the federal-covered-security definition. The Securities and Exchange Commission summarizes this federal preemption under the National Securities Markets Improvement Act: [SEC—NSMIA and state-law preemption]().

A security issued by a state credit union is also an exempt security under the Uniform Securities Act's exempt-security provisions. The exemption is based on the status of the issuer as a regulated credit union organized and supervised under state law, rather than on the manner in which the security is distributed. Accordingly, the Administrator cannot impose this sales-literature submission requirement for that exempt security. FINRA's Series 63 content outline identifies exempt securities, federal covered securities, and Administrator authority as core state-securities-law topics: [FINRA Series 63 Content Outline]().

QUESTION NO: 3

Which of the following statements would not be in violation of NASAA rules regarding the sale of investment company shares?

I. "Investing your money in shares of this money market mutual fund is identical to putting your money in a savings account at a bank, except the money market fund provides a higher return."

II. "Our U.S. government bond fund is invested only in government bonds issued by the U.S. government and is, therefore, a risk-free investment."

III. "You are investing $22,000 in this fund today. The fund has a 5% load at this investment level, but if you sign a letter of intent to invest another $3,000 within the next 13 months, your load will be reduced to 4%. If something comes up and you can't invest the extra $3,000 within 13 months, you will only need to pay the difference in the two loads."

A. I only

B. I and II only

C. III only

D. I, II, and III

E. "Investing your money in shares of this money market mutual fund is identical to putting your money in a savings account at a bank, except the money market fund provides a higher return."

II. "Our U.S. government bond fund is invested only in government bonds issued by the U.S. government and is, therefore, a risk-free investment."
III. "You are investing $22,000 in this fund today. The fund has a 5% load at this investment level, but if you sign a letter of intent to invest another $3,000 within the next 13 months, your load will be reduced to 4%. If something comes up and you can't invest the extra $3,000 within 13 months, you will only need to pay the difference in the two loads."

ANSWER: C

Explanation:

"III only" is correct because the described letter of intent arrangement properly applies a breakpoint discount based on the investor's stated intention to reach the $25,000 investment level within 13 months. A letter of intent permits an investor to receive the lower sales charge immediately, even though the qualifying purchase amount has not yet been fully invested. Here, the investor's initial $22,000 investment plus the intended additional $3,000 reaches the stated breakpoint, reducing the front-end load from 5% to 4%.

If the investor does not complete the additional $3,000 purchase during the 13-month period, the appropriate consequence is an adjustment for the sales-charge discount that was received. The investor pays the difference between the 5% charge applicable to the actual $22,000 purchase and the 4% charge initially assessed. This accurately describes the essential operation of a letter of intent and does not impose an improper penalty or misstate the investment's terms. NASAA's investment-company-share sales-practice standards address fair and accurate communications and proper treatment of sales charges and breakpoint opportunities. See NASAA's [Statements of Policy]() and the SEC's investor guidance concerning [mutual fund breakpoints]().

QUESTION NO: 4

The Administrator of a state will deny the registration of a security if

I. the mandated filing fee has not been paid.

II. the compensation of the underwriters is excessive.

III. the registration statement is incomplete.

IV. the issuer is registering the security through the registration by coordination process and has not complied with all the stipulated requirements.

A. I, II, III, or IV

B. I or III only

C. III or IV only

D. I, III or IV only

E. the mandated filing fee has not been paid.
II. the compensation of the underwriters is excessive.
III. the registration statement is incomplete.
IV. the issuer is registering the security through the registration by coordination process and has not complied with all the stipulated requirements.

ANSWER: A

Explanation:

I, II, III, or IV is correct because each listed circumstance gives a state securities Administrator a valid basis to prevent a registration from becoming effective or to deny it under the Uniform Securities Act framework tested on the Series 63 exam. A registration filing must include the prescribed fee and required, complete disclosure materials. The Administrator may also review an offering's terms, including whether underwriter compensation is unreasonable or excessive. This is an example of merit-based authority that many states retain in administering securities registrations. Registration by coordination is conditional on satisfying the statutory filing, disclosure, timing, and federal-registration-related requirements applicable to that process. Failure to meet those requirements means the coordinated state registration cannot proceed as submitted. Accordingly, the filing fee, excessive underwriting compensation, an incomplete registration statement, and noncompliance with coordination requirements each support denial of registration. FINRA identifies the Series 63 as the Uniform Securities State Law Examination and notes that state-law concepts are central to the examination: FINRA Series 63 examination information. Additional background on state securities regulation and the role of state regulators is available from NASAA.

QUESTION NO: 5

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

A. The issuer must have preferred stockholders as well as common stockholders.

B. The issuer must have a net worth of $4 million, or its net income before tax for at least two of the

C. The issuer must never have defaulted on any bond or long-term lease obligation.

D. If the security to be issued is an equity interest in the firm, its offer price has to be at least $5 a

ANSWER: A

Explanation:

The issuer must have preferred stockholders as well as common stockholders is the item that is not a registration-by-notification eligibility criterion. Registration by notification is a streamlined state registration method available to certain established issuers that satisfy specified financial-history, default-history, and offering-price requirements. The relevant preferred-stock condition is conditional: if an issuer has preferred stock outstanding, it must meet the applicable dividend-payment requirement. The rule does not require an issuer to have issued preferred stock, nor does it require the issuer to have both preferred and common shareholders. Therefore, an otherwise eligible issuer that has only common stockholders is not disqualified merely because it lacks preferred stockholders. This distinction is important for Series 63 questions: the test is whether the issuer meets the stated notification standards, not whether it has used every possible form of corporate financing. Registration requirements are governed by state blue-sky laws and the Uniform Securities Act framework, which NASAA administers and on which the Series 63 examination is based. See NASAA's issuer and industry resources and Cornell Law School's overview of blue-sky laws.

QUESTION NO: 6

Once a person has filed an application with the Administrator, and in doing so has truthfully disclosed every material fact, how long does the Administrator have after the effective date of the registration to commence a proceeding to deny, suspend, or revoke that person's license based on those facts?

A. 30 days.

B. 60 days.

C. 90 days.

D. one year.

ANSWER: D

Explanation:

one year. Under the Uniform Securities Act's administrative enforcement provisions, when the facts or transactions supporting a denial, suspension, or revocation proceeding were known to the Administrator at the time the registration became effective, the Administrator must institute the proceeding within one year after that effective date. Truthful, complete disclosure in the application is important because it establishes that the Administrator had knowledge of those material facts when the registration took effect. The one-year limit prevents an Administrator from relying indefinitely on disclosed, known information as the basis for a later disciplinary action. This limitation applies to proceedings based on those known facts; it does not prevent action based on subsequently discovered facts, later misconduct, or information that was not known to the Administrator when the registration became effective. The rule is reflected in the Uniform Securities Act's provision governing denial, suspension, and revocation proceedings. See the text of the Uniform Securities Act of 2002 and the substantially similar limitation in Arizona Revised Statutes § 44-1964.

QUESTION NO: 7

As executor of her father's estate, Maria sells shares of stock owned by her father through a registered broker-dealer. The shares are neither registered nor exempt securities.

Under the Uniform Securities Act (USA), this transaction is:

A. an exempt transaction.

B. an exempt security.

C. a federal covered transaction.

D. a transaction requiring registration by coordination.

ANSWER: A

Explanation:

The transaction is exempt from securities registration as a sale by an executor. The Uniform Securities Act exempts transactions by an executor, administrator, sheriff, marshal, receiver, trustee in bankruptcy, guardian, or conservator acting within the scope of authority granted by law or by a court.

This is a transaction exemption, not an exemption for the security itself. The shares do not become exempt securities merely because an executor sells them. In addition, the Act's antifraud provisions continue to apply to an exempt transaction. See Section 202 of the Uniform Securities Act of 2002.

QUESTION NO: 8

An investment adviser representative with Capital Investment Advisors, Inc. advised his client to invest $5,000 in bonds of a firm that the adviser claimed was an investment "almost as risk-free as investing in U.S. government bonds; maybe even more so, given the magnitude of the government deficit these days." The client paid a total of $200 for this advice. The bonds paid interest at the rate of 6%, with semiannual payments, and the client received $300 in interest payments before the firm went belly-up at the end of a year, and its bonds were deemed worthless. The client has filed suit, and its attorneys' fees and court costs are expected to be $1,000. When the investment is a bond, the state has recently been assessing an interest rate equal to the interest rate paid by the security as an equitable interest payment guideline in civil penalties.

The maximum the client can expect in civil penalties is

A. $5,900.

B. $6,200.

C. $5,200.

D. $6,000.

ANSWER: B

Explanation:

$6,200. is the maximum recovery under the facts given. The client's recoverable out-of-pocket amount includes the $5,000 invested in the bonds and the $200 paid for the investment advice that led to the transaction. In addition, the client may recover the anticipated $1,000 of court costs and reasonable attorneys' fees. This produces a base recovery of $6,200.

The stated equitable-interest guideline does not change that total. The bonds paid 6% annually, so the client received $300 in bond interest during the year. Applying the same 6% rate as interest on the recoverable investment amount results in an offsetting interest component. Thus, the interest credited to the client is matched by the interest used in calculating the equitable recovery, leaving no net addition or subtraction for interest. The client can therefore seek return of the investment-related loss and advisory fee, plus litigation expenses, for a total of $6,200.

This treatment is consistent with the Uniform Securities Act's civil-liability approach, which permits recovery of consideration, interest where applicable, costs, and reasonable attorneys' fees, with appropriate treatment of income received. See the NASAA Uniform State Law resources and the Cornell Legal Information Institute's securities-law overview.

QUESTION NO: 9

Kevin has a pair of season tickets to the Boston Red Sox games. He and his wife can't attend all the games themselves, so Kevin has created "packages" of eight games each that he is listing for sale on Craig's List.

Do these "packages" meet the definition of securities, and, if so, does Kevin need to register them with the state before offering them for sale?

A. If Kevin will be profiting from the sale of the packages, the packages are defined to be securities, but since he's selling the packages to only a few people, he will not have to register them with the state. (Kevin may, however, be guilty of violating ticket scalping laws.)

B. Only if Kevin will be selling the packages at or below cost are the packages not considered to be securities, in which case Kevin will not have to register them with the state.

C. The packages are not considered to be securities since each package is merely a purchase and sale agreement between Kevin and another person. There is no third party involved. Because they do not meet the definition of securities, Kevin does not need to register them with the state.

D. Statements A and B are both true statements.

ANSWER: C

Explanation:

The packages are not considered to be securities since each package is merely a purchase and sale agreement between Kevin and another person. There is no third party involved. Because they do not meet the definition of securities, Kevin does not need to register them with the state. A ticket package gives its purchaser the contractual right to attend specified baseball games; it is a consumer purchase, not an interest in a business or enterprise. It does not give the buyer an ownership interest, a claim on earnings, or a right to share in profits generated by the Red Sox, Kevin, or a ticket-resale venture.

For an arrangement to be an investment contract—a security under state and federal securities-law principles—it generally must involve an investment of money in a common enterprise with an expectation of profits to be derived from the managerial or entrepreneurial efforts of others. The Supreme Court's foundational formulation of this test appears in SEC v. W. J. Howey Co. Kevin is simply transferring tickets for personal use, rather than offering an investment whose value depends on a promoter's efforts. Therefore, the state securities-registration provisions do not apply to these ticket packages. The SEC also describes securities as financial instruments and explains the regulatory purpose of securities registration in its small-business offering guidance.

QUESTION NO: 10

Under the Uniform Securities Act (USA), which of the following statements would be disallowed?

A. The government of the U.S. guarantees a 3% interest rate, to be paid semiannually, on a new 5-year Treasury note.

B. A sales representative of GetErDone Broker-Dealers guarantees that a client can expect an average annual rate of return of 2% on a mutual fund investment the sales representative is selling, pointing to the fact that the fund has returned an average annual rate of return of 6% over the past ten years.

C. An insurance company guarantees a fixed payment of $300 a month for life on an annuity it is selling.

D. Neither the statements in Selections B or C would be allowed under the guidelines of the Uniform Securities Act.

ANSWER: B

Explanation:

A sales representative of GetErDone Broker-Dealers guarantees that a client can expect an average annual rate of return of 2% on a mutual fund investment the sales representative is selling, pointing to the fact that the fund has returned an average annual rate of return of 6% over the past ten years. This statement would be disallowed because an agent may not guarantee an investment result or represent that an investor will receive a particular return. A mutual fund's historical average annual return is performance information about a prior period, not a promise of future performance. Using that history to assure the customer of a stated annual return converts past-performance information into an impermissible guarantee and is misleading because mutual-fund values and returns can fluctuate. The Uniform Securities Act's antifraud provisions prohibit employing a device, scheme, or artifice to defraud, as well as making an untrue statement or omitting a material fact in connection with a securities transaction. A guaranteed return claim by an agent can therefore constitute a prohibited fraudulent or deceptive practice. See the Uniform Securities Act antifraud standard in Section 501 of the Uniform Securities Act (2002). FINRA likewise requires communications to be fair, balanced, and not false, misleading, or promissory; see FINRA Rule 2210.

QUESTION NO: 11

Paula purchases an unregistered security from an issuer in violation of the Uniform Securities Act (USA). Six months later, Paula tenders the security to the issuer and seeks rescission.

If Paula establishes civil liability under the USA, she may recover:

A. only the difference between the purchase price and the security's current market value.

B. the consideration paid, plus interest, costs, and reasonable attorneys' fees, less income received on the security.

C. punitive damages equal to three times the amount invested.

D. rescission only if the issuer intended to defraud Paula.

ANSWER: B

Explanation:

Paula may recover the consideration she paid for the security, plus interest, costs, and reasonable attorneys' fees, less any income received on the security, upon tendering the security. This is the rescission remedy available to a purchaser who still owns the security and establishes that the seller is civilly liable under the Act.

If Paula no longer owned the security, her remedy would generally be damages rather than rescission. The purchaser's remedy is separate from administrative sanctions or criminal penalties that may also arise from the violation. See NASAA's Uniform Securities Act resources.

QUESTION NO: 12

In order to maintain its registration with a state, a broker-dealer may be required to:

I. take a written or oral exam.

II. pay an annual filing fee.

III. maintain a minimum net capital.

IV. file all advertising material with the Administrator.

A. I and II only

B. II and III only

C. II, III, and IV only

D. I, II, III, and IV

ANSWER: D

Explanation:

I, II, III, and IV is correct because the Uniform Securities Act gives a state securities Administrator broad authority to establish and enforce broker-dealer registration standards, including conditions associated with continued registration and renewal. The Administrator may require examinations to establish that persons associated with a broker-dealer possess the necessary qualifications and knowledge. Registration is generally renewed annually, and the Administrator may require payment of a renewal or filing fee as part of that process.

The Administrator may also establish financial requirements, including a minimum net-capital standard, to help ensure that a broker-dealer remains financially able to meet obligations to customers and creditors. In addition, the Administrator has authority to require broker-dealers to file advertising, sales literature, circulars, and similar communications. This permits review of materials used in the offer or sale of securities and supports the Act's investor-protection purpose. These requirements fall within the Administrator's rulemaking, registration, recordkeeping, and supervisory authority. See the North American Securities Administrators Association's Uniform Securities Act resources and the Cornell Legal Information Institute overview of state securities, or "blue sky," laws.

QUESTION NO: 13

Don is a state-registered agent with GetErDone Broker-Dealers. He has three other friends who are licensed agents-Huey, Dewey, and Louie. Huey is also an agent with GetErDone Broker-Dealers. Dewey is an agent with a different firm in the same city, CanDo Broker-Dealers. Louie works for a Broker-Dealer with an office just across the state line.

Don can enter a commission-splitting agreement with

A. Huey only

B. either Huey or Dewey or both

C. Dewey only

D. Either Huey, Dewey, or Louie or any combination of the three

ANSWER: A

Explanation:

Huey only is correct because Huey and Don are both registered agents of GetErDone Broker-Dealers. Under the NASAA model rule governing unethical business practices of broker-dealers and agents, an agent may not split commissions, profits, or other compensation arising from securities transactions with someone who is not also registered as an agent of the same broker-dealer. The rule is designed to ensure that compensation connected with securities activity remains within the properly registered and supervised broker-dealer relationship.

Accordingly, Don and Huey may establish a commission-sharing arrangement, provided it is consistent with their firm's supervisory procedures and applicable regulatory requirements. Their shared affiliation with GetErDone Broker-Dealers satisfies the key same-broker-dealer condition presented by the question. The relevant NASAA standard appears in its model-rule materials addressing unethical business practices by broker-dealers and agents. See NASAA's Model Rules page and FINRA's related discussion of compensation arrangements in FINRA Rule 2040. For this Series 63 question, the controlling fact is that Huey is the only named person registered with Don's same broker-dealer.

QUESTION NO: 14

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.

A. I only

B. I and II only

C. I and III only

D. I, II, and III

ANSWER: D

Explanation:

I, II, and III is correct because each scenario involves conduct treated as dishonest, unethical, or prohibited under the NASAA Model Rules governing broker-dealers and agents. A stop order must be handled according to the customer's instructions. Selling before the stated stop price is triggered is an unauthorized execution, and retaining the favorable difference between the actual sale price and the amount credited to the client compounds that misconduct. An agent also may not use a refund of commissions to compensate a customer for an unsuccessful recommendation; the Model Rules prohibit practices that amount to sharing in a customer's losses or otherwise guaranteeing the customer against loss. Finally, a broker-dealer participating in a public offering must make a bona fide public distribution of its allotment. Withholding a substantial portion of a hot IPO for the firm's own investment account, rather than offering those shares publicly, violates the requirement for a bona fide public offering. These rules promote faithful execution of customer instructions, prevent improper loss guarantees, and preserve fair distribution in offerings. NASAA's regulatory resources are available at NASAA Model Rules; FINRA also outlines standards governing fair dealing with customers at FINRA Rule 2010.

QUESTION NO: 15

Assuming there is not a stop order or a proceeding pending, under the registration by coordination process a security's registration with the state becomes effective:

A. only when it is approved by the state Administrator, regardless of whether it has been approved by the SEC.

B. immediately after approval by the SEC as long as the registration statement has been on file for at least 20 days or the Uniform Securities Act has provided an exemption to this waiting period.

C. immediately subsequent to approval by the SEC, regardless of how long the registration statement has been on file.

D. only when it is approved by the state Administrator, who will review the registration documentation upon notification that SEC approval has been granted.

E. at the same time as the federal registration becomes effective, provided the state registration statement has been on file for at least 10 days, unless the Administrator waives that requirement.

ANSWER: E

Explanation:

Under the Uniform Securities Act's traditional registration-by-coordination provisions tested on the Series 63 examination, a state registration becomes effective at the same time as the related federal registration becomes effective. This automatic coordination is conditioned on the state registration statement having been on file for at least 10 days, unless the Administrator waives or modifies that filing-period requirement. The question's stated 20-day period is therefore inaccurate; the applicable statutory period is 10 days. Registration by coordination is designed to align the state-effective date with the SEC registration's effective date while still giving the state Administrator a brief opportunity to review the filing. The assumption that no stop order is in effect and no relevant proceeding is pending is essential to that automatic effectiveness. Washington's enactment of the Uniform Securities Act illustrates this rule: its coordination provision makes the registration effective concurrently with the federal registration, subject to the 10-day filing condition and the absence of a stop order or proceeding. See RCW 21.20.180. For broader context on uniform state securities-law standards and their administration, consult NASAA's Uniform Securities Act resources.

QUESTION NO: 16

Big Bo is an investment adviser representative who has a lot of the members of a well-known professional football team as clients. In advertising his services, Big Bo can

A. list the names of the players he's advising as long as he lists the names of all his other clients, too.

B. list the names of the players he's advising as long as he doesn't provide any other specifics, such as the amount each one has invested with him.

C. list the names of the players he's advising as long as he has their written permission to do so.

D. use testimonials from any of the players who willingly provide them without compensation.

ANSWER: C

Explanation:

"list the names of the players he's advising as long as he has their written permission to do so" is correct because an investment adviser and its representatives have a duty to protect the confidentiality of client information. A client's identity and relationship with an adviser are private matters; therefore, an adviser representative may disclose that a particular person is a client only when the client has affirmatively authorized that disclosure. Written permission provides clear, demonstrable evidence of the client's consent and establishes the scope of what may be used in the advertisement. This remains especially important where the clients are prominent athletes, since identifying them could imply endorsement or reveal personal financial relationships. The Uniform Securities Act framework permits state securities administrators to regulate investment-adviser advertisements and unethical practices, while NASAA's model-rule materials address adviser conduct standards used by many states. For the examination's state-law context, the key principle is that client-identifying information may be used only with the client's written consent. See NASAA's Investment Adviser Model Rules and the Uniform Securities Act provision concerning prohibited practices at Cornell Law School's Uniform Securities Act overview.

QUESTION NO: 17

During an investigation, the state Administrator issues a subpoena requiring a witness to appear and produce records. The witness refuses to comply.

Under the Uniform Securities Act (USA), the Administrator may:

A. hold the witness in contempt and sentence the witness to imprisonment.

B. apply to a court for an order compelling compliance with the subpoena.

C. revoke the witness's driver's license.

D. issue a criminal conviction against the witness.

ANSWER: B

Explanation:

The Administrator may apply to a court to enforce the subpoena. The Administrator has investigatory authority to issue subpoenas, compel testimony, and require the production of books and records. If a person refuses to obey a subpoena, however, judicial assistance is required to compel compliance.

A court may issue an order directing the person to comply and may impose consequences for continued noncompliance. The Administrator cannot independently hold the witness in contempt of court. See Section 602 of the [Uniform Securities Act of 2002].

QUESTION NO: 18

A-2-Z Associates advertises itself as a full service brokerage firm that will buy and sell securities for its clients, as well as provide investment advice to them. Its brochure provides a variety of plans to which a client can subscribe. The basic plan is the cheapest and allows the client a maximum number of trades per month for a specified fee. Another, slightly more expensive, plan provides the client with the same maximum number of trades per month, but the client also receives a personalized quarterly review of his portfolio along with advice for restructuring his portfolio based on such factors as current market conditions and specific industry or company information. The most expensive plan is one in which the client is assigned to an individual portfolio manager, who will take total responsibility for the asset allocation of the client's portfolio and will provide the client with monthly reports. Based on the services A-2-Z provides, it must register with the state as:

A. a broker-dealer.

B. an investment adviser.

C. both a broker-dealer and an investment adviser.

D. an investment adviser representative.

ANSWER: C

Explanation:

Both a broker-dealer and an investment adviser is correct because A-2-Z is conducting two separately regulated lines of securities business. By offering to buy and sell securities for customers, it is effecting transactions in securities for the accounts of others and is operating as a broker-dealer. Its basic trading plan reflects that brokerage activity.

A-2-Z also provides personalized securities advice for compensation under its higher-tier plans. The quarterly portfolio review includes recommendations to restructure a client's portfolio based on market, industry, and company information. The portfolio-manager plan goes further by assuming responsibility for the client's asset allocation. These are advisory services involving advice about securities and the management of securities portfolios. Although a broker-dealer may provide advice that is solely incidental to brokerage services without being treated as an investment adviser under the federal broker-dealer exclusion, that exclusion also requires that the broker-dealer receive no special compensation for the advice. Here, the advisory features are offered through more expensive subscription plans, demonstrating separately charged advisory services rather than merely incidental brokerage advice.

Accordingly, absent an applicable registration exemption, A-2-Z must be registered in the state in both capacities. See the federal definitions and broker-dealer exclusion in 15 U.S.C. § 80b-2 and NASAA's Investment Adviser Model Rules.

QUESTION NO: 19

The Turnover Corporation, a firm with 25,000 employees, has recently hired 50 new employees, many of whom have been hired to replace middle-level managers who have retired. Turnover has omitted this fact from its prospectus. Turnover is guilty of

A. fraud.

B. misrepresentation.

C. misusing insider information.

D. nothing. The hiring of 50 new employees by a firm with 25,000 employees is not a material fact.

ANSWER: D

Explanation:

"Nothing. The hiring of 50 new employees by a firm with 25,000 employees is not a material fact." is correct because securities-law disclosure obligations focus on material information. An omitted fact is material when there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision, or when disclosure would significantly alter the total mix of available information. In this situation, the company's workforce is 25,000 people, while the hiring involves only 50 employees, many filling ordinary vacancies created by retirements of middle-level managers. On these stated facts, the personnel change is routine and quantitatively insignificant, with no indication of a meaningful effect on the issuer's operations, financial condition, management direction, or securities value. Therefore, the omission does not constitute a material omission from the prospectus. The materiality principle is reflected in the SEC's requirement that registration statements include further material information when necessary to make required statements not misleading. See SEC Rule 408. The reasonable-investor standard for materiality is also discussed by the U.S. Supreme Court in TSC Industries, Inc. v. Northway, Inc..

QUESTION NO: 20

The C&S Railroad is in the process of issuing new bonds. Before these bonds can be offered for sale,

A. they must be registered with the SEC since railroads are involved in interstate commerce.

B. they must be registered in every state in which the bonds will be sold to investors.

C. they must be registered with the SEC and in each state through which the railroad passes.

D. None of the above statements is true.

ANSWER: D

Explanation:

"None of the above statements is true." is correct because a security issued by a railroad carrier subject to federal transportation regulation is an exempt security under the Uniform Securities Act framework tested on the Series 63 examination. This exemption is issuer-based: it applies because of the railroad's status as a federally regulated carrier, rather than because the offering occurs in interstate commerce or because the bonds are offered in particular states. Accordingly, the bonds do not require registration with the SEC under the Securities Act of 1933 exemption for securities issued by qualifying carriers, and they are likewise exempt from state registration under the Uniform Securities Act's exempt-security provisions. The exemption from registration does not eliminate all legal obligations. For example, the issuer and persons involved in the offering remain subject to applicable antifraud rules, which prohibit material misstatements and omissions in connection with an offer or sale. The federal statutory exemption for qualifying carrier-issued securities appears in Securities Act Section 3(a)(6), available at 15 U.S.C. § 77c. The Uniform Securities Act's treatment of exempt securities, including federally regulated transportation carriers, is available in the Uniform Securities Act (2002).

QUESTION NO: 21

A limited power-of-attorney gives the designated person the right to

I. order the sale of an asset owned by the account holder and have a check written to the account holder for the amount of the proceeds.

II. obtain account statements, including tax statements, on behalf of the account holder.

III. order the purchase of an asset for the account holder's account.

A. I, II, and III

B. I and II only

C. II and III only

D. I and III only

E. order the sale of an asset owned by the account holder and have a check written to the account holder for the amount of the proceeds.
II. obtain account statements, including tax statements, on behalf of the account holder.
III. order the purchase of an asset for the account holder's account.

ANSWER: C

Explanation:

"II and III only" is correct because a limited power of attorney, commonly called limited trading authorization, permits the designated person to act for the customer in executing securities transactions in that customer's account. This authority includes directing purchases for the account and, in practice, obtaining the account information needed to monitor and administer that trading authority, such as periodic account statements and tax reporting documents on the customer's behalf. The authorization is limited to trading and account-related access; it does not grant broad control over the customer's assets or cash disbursements. Firms must obtain and maintain the customer's written authorization before allowing discretionary trading authority, and the scope of the authorization controls what the agent may do. FINRA Rule 3260 addresses discretionary accounts and requires prior written customer authorization for a member or associated person to exercise discretionary power in a customer account. FINRA's investor guidance also explains that a power of attorney can authorize a person to handle financial matters but should be carefully limited to the authority the customer intends to provide. See FINRA Rule 3260—Discretionary Accounts and FINRA: Power of Attorney.

QUESTION NO: 22

Which of the following would not be found in a tombstone advertisement?

A. the price at which the security will be offered

B. the names of the underwriters

C. the name of the issuer

D. the interest rate and time to maturity of a bond issue

E. All of these items may be found in a tombstone advertisement.

ANSWER: E

Explanation:

"All of these items may be found in a tombstone advertisement" is correct because the premise of the question is incomplete under the Securities Act rules governing notices that are not deemed prospectuses. A tombstone advertisement may identify the issuer and the underwriters and may state information about the securities being offered. For an offering of debt securities, this permitted information can include basic terms of the issue, such as its interest rate and maturity. The rule also permits a notice to state the amount offered and the offering price, along with other limited factual details. Accordingly, none of the listed items is categorically excluded from a tombstone advertisement; each can be included when presented within the limits applicable to a Rule 134 notice. The key regulatory principle is that a tombstone is a limited factual communication, rather than a full selling document, and investors must be directed to the statutory prospectus for complete offering information. See SEC Rule 134, [17 CFR § 230.134], and the SEC's overview of the registration and prospectus requirements, [SEC: Registration Process].

QUESTION NO: 23

A hypothecation agreement refers to

A. an agreement wherein a client gives his broker-dealer discretion to purchase securities that the broker-dealer deems appropriate in whatever quantity the broker-dealer feels appropriate and at a time and price the broker-dealer believes is a good deal.

B. an agreement that a client must sign prior to executing any short sales with the broker-dealer.

C. an agreement signed by a client who is executing a margin transaction that allows the broker to hold the margined securities in street name as collateral for the loan.

D. a document signed by a client indicating that he or she understands that some of the charts and examples presented in a broker-dealer's advertising literature are based on hypothetical trades.

ANSWER: C

Explanation:

A hypothecation agreement is the customer's written authorization for a broker-dealer to use securities in a margin account as collateral to secure the credit extended for that account. When an investor borrows from the firm to purchase or carry securities, the securities held in the margin account secure the resulting debit balance. The agreement gives the firm the legal ability to pledge, or rehypothecate within applicable limits, those customer securities to a bank or other lender in obtaining financing for margin loans. This arrangement is fundamental to margin lending because the broker-dealer needs a collateral interest in the securities supporting the customer's loan. Securities are generally maintained in street name, meaning that they are registered in the name of the broker-dealer or its nominee rather than individually registered in the customer's name, while the customer retains beneficial ownership. FINRA's customer-protection rule addresses the permitted use and segregation of customer securities, including securities that may be pledged in connection with margin indebtedness. See [FINRA Rule 4330] and the SEC's customer-securities hypothecation rule, [Exchange Act Rule 8c-1].

QUESTION NO: 24

Needy Investment Advisers, LLC needs a loan. One of its wealthier clients has offered to lend the firm the money at the prime rate of interest. A promissory note is drawn up stipulating the terms of the loan. Based on these facts,

A. Needy will be in violation of securities laws unless a waiver of compliance form is signed by the client and submitted to the administrator.

B. Needy is in violation of securities laws by acting as an issuer of securities.

C. Needy is in violation of securities laws only if the face value of the note is for $50,000 or more.

D. Needy is not in danger of violating any securities laws since the loan was unsolicited and has been properly executed via a promissory note.

E. Needy is in violation of securities laws because an investment adviser may not borrow from a client unless the client is in the business of lending money.

ANSWER: E

Explanation:

Needy is in violation of securities laws because investment advisers generally may not borrow money from advisory clients. This prohibition is an unethical business practice under the NASAA model rule commonly used as the basis for state securities-law examination questions and state regulation. The rule is designed to prevent the conflicts of interest, undue influence, and potential exploitation that can arise when an adviser has a personal or business debt obligation to a client. The relevant exception applies when the client is in the business of lending money, such as a bank or other financial institution. The facts identify the lender only as a wealthy client, not as a person or entity engaged in lending as a business, so the exception does not apply. The client's willingness to make the loan, the prime interest rate, and the use of a formal promissory note do not alter the adviser's prohibited borrowing relationship. State administrators may enforce this conduct standard against investment advisers operating under their jurisdiction. NASAA's investment-adviser materials discuss the model rules and state-law framework at NASAA Model Rules. FINRA's Series 63 examination outline also identifies prohibited and unethical practices as a tested area: FINRA Series 63 Exam.

QUESTION NO: 25

An investment adviser or its representative may

A. only exercise any discretionary power in the purchase or sale of securities for a client's account after receiving written authority prior to the execution of the transactions.

B. exercise discretionary power in the purchase or sale of securities for a client's account as long as it receives written discretionary authority over the account within 10 business days of the first discretionary transaction placed, assuming oral authority has already been given.

C. exercise discretionary power in the purchase or sale of securities for a client's account as long as.

D. exercise discretionary power in the purchase or sale of securities for a client's account only after.

ANSWER: B

Explanation:

"Exercise discretionary power in the purchase or sale of securities for a client's account as long as it receives written discretionary authority over the account within 10 business days of the first discretionary transaction placed, assuming oral authority has already been given" is correct under the NASAA-based state investment-adviser rule commonly tested on the Series 63. Discretion exists when an adviser or investment adviser representative decides which security to buy or sell, or determines the amount of securities to buy or sell, for the client. Before using that authority on an ongoing basis, the adviser must obtain the client's written discretionary authorization. The rule permits a limited 10-business-day period following the first discretionary transaction to obtain the written authorization, provided the client had already granted oral authority. This timing recognizes that a client may give an adviser permission to act promptly while documentation is being completed, but it still requires the adviser to promptly memorialize the client's authorization in writing. The authority is account-specific and should clearly establish the scope of the adviser's discretion. This state-law standard is distinct from a broker-dealer's discretionary-account requirements, so the Series 63 question must be analyzed under investment-adviser regulation. See NASAA's Model Rule on Unethical Business Practices and the SEC's Investment Advisers Act recordkeeping rule.

QUESTION NO: 26

When a client has purchased securities on margin, the broker-dealer

A. may require that the client leave all his securities, even those not purchased on margin, in street name.

B. must keep the securities that the client paid cash for separate from the securities that the client purchased on margin.

C. may use any securities that the client purchased on margin as collateral for a loan from a bank upon receiving a written agreement signed by the client.

D. Both B and C are correct statements.

ANSWER: D

Explanation:

“Both B and C are correct statements.” is correct because a broker-dealer must distinguish a customer’s fully paid securities from securities held in a margin account that may support the customer’s debit balance. Securities for which the customer has paid in full are subject to customer-protection and possession-or-control requirements; they cannot simply be treated as available margin collateral. By contrast, securities purchased on margin may be pledged or rehypothecated by the broker-dealer to obtain bank financing, but only pursuant to the customer’s written authorization—commonly included in the margin agreement—and subject to applicable limits. This written authorization is important because it documents the customer’s consent to the broker-dealer’s use of margin securities as collateral. The rule governing hypothecation also limits the amount of customer securities that a broker-dealer may pledge in connection with a customer’s indebtedness, helping ensure that the firm does not use customer collateral beyond permitted levels. These requirements reflect the distinction between securities owned free and clear by the customer and securities held in a margin relationship, where the broker-dealer has a properly authorized security interest. See SEC Rule 8c-1 and SEC Rule 15c2-1.

QUESTION NO: 27

Mr. and Mrs. Cleaver are nearing retirement and have made an appointment with Mr. Eddie, an investment adviser representative who works for Haskell Investment Advisers, to get advice on how they can better structure their investments to meet their retirement goals. Their son, Theodore, who has recently graduated college and has a great job as a software writer for a video game company, accompanies them. Mr. Eddie explains that the main goal of any plan is diversification and recommends that Mr. and Mrs. Cleaver spread their investment monies equally among six load mutual funds that Mr. Eddie can sell them. He suggests that Theodore follow suit and invest any monies he has equally among the same ten funds.

Has Mr. Eddie done anything wrong?

A. Yes. Mr. Eddie has advised his clients to invest in load funds when no load funds are clearly better investments.

B. No. Diversification should, in fact, be the goal, and he has advised a well-diversified plan for his clients.

C. Yes. Clients who are ready to retire have different investment needs than a client who is just entering the work force. The recommendation that both Theodore and his parents have the same asset allocation is clearly unsuitable.

D. Yes. Mr. Eddie is guilty of misappropriation, a prohibited practice.

ANSWER: C

Explanation:

“Yes. Clients who are ready to retire have different investment needs than a client who is just entering the work force. The recommendation that both Theodore and his parents have the same asset allocation is clearly unsuitable.” is correct because an investment adviser representative must make recommendations based on each client’s individual circumstances, objectives, and needs. A portfolio recommendation cannot be justified solely by stating that diversification is generally desirable. Diversification is a risk-management concept, but the appropriate allocation among investments depends on such facts as age, investment time horizon, retirement-income needs, liquidity needs, risk tolerance, tax status, financial situation, and other investments.

Mr. and Mrs. Cleaver are nearing retirement, so their recommendation must be evaluated in light of their likely need to preserve capital and potentially draw income from their investments in the near term. Theodore has just entered the workforce and ordinarily has a substantially longer time horizon before retirement. Recommending the same allocation to both, without an individualized analysis supporting it, fails to account for that material difference. State securities-law standards treat recommendations that are unsuitable in light of a client’s investment objectives and circumstances as an unethical business practice. FINRA’s suitability standard similarly requires reasonable diligence concerning a customer’s investment profile: FINRA Rule 2111. See also NASAA’s investment-adviser regulatory resources: NASAA Investment Advisers.

QUESTION NO: 28

In which of the following scenarios is an investment adviser representative required to disclose the fact that someone other than the representative performed the research on which his advice to the client is based?

I. The investment adviser representative recommends the same asset allocation for his client that a buddy of his did after his buddy had done some research for a client with similar characteristics.

II. The investment adviser representative provides a recommendation for his client based on research provided by a broker-dealer that provides the investment adviser with its analysts' recommendations in return for trades that the investment adviser executes using the services of the broker-dealer, as well as a couple of other research sources he finds on the internet.

III. The investment adviser representative submitted his client's information to a data base that provided a recommendation for the asset allocation of the client's investment monies that the adviser deemed was sound and, therefore, recommended it to his client.

A. I only

B. II only

C. III only

D. I and III only

ANSWER: D

Explanation:

I and III only is correct because the representative's advice in each of those situations is derived from another person's or system's research and recommendation, rather than from the representative's own substantive analysis. Recommending an allocation developed by a friend for a similar client is effectively adopting the friend's research. Likewise, entering client information into a database and adopting the allocation it generates means the recommendation is based on analysis performed externally. In either case, disclosure is required so the client has material information about the source and basis of the recommendation and can evaluate the nature of the adviser representative's service.

This result reflects the investment adviser fiduciary framework: an adviser must provide full and fair disclosure of material facts needed for a client to make an informed decision. The SEC explains that an adviser's fiduciary duty includes a duty of care and a duty of loyalty, with disclosure playing a central role in addressing material conflicts and information relevant to the advisory relationship. See the SEC's Interpretation Regarding Standard of Conduct for Investment Advisers and NASAA's Investment Adviser Model Rules.

QUESTION NO: 29

A variable annuity is:

A. not a security and, therefore, does not have to be registered with the state.

B. not a security, but is still required to be registered with the state before it can be offered for sale.

C. a security and, therefore, has to be registered with the state before it can be offered for sale.

D. a security, but is exempt from state registration.

ANSWER: D

Explanation:

A variable annuity is a security, but it is not subject to state securities registration when it is a federal covered security. Unlike a fixed annuity, whose payout obligation is backed by the insurer's general account, a variable annuity places premiums in separate-account investment options and the contract owner bears investment risk. This investment-risk feature is why variable annuities are treated as securities under federal law. The U.S. Supreme Court recognized this principle in *SEC v. Variable Annuity Life Insurance Co.*, holding that variable annuities fall within the federal securities-law concept of an investment contract. See the decision at Justia's case text.

For Series 63 purposes, the key state-law result is that variable annuities offered through registered investment-company separate accounts generally qualify as federal covered securities. Section 18 of the Securities Act of 1933 preempts state registration requirements for covered securities, including securities issued by investment companies registered under the Investment Company Act of 1940. The statute is available through Cornell Law School's text of 15 U.S.C. § 77r. A state may retain limited notice-filing and fee authority in applicable circumstances, but that does not convert the contract into a security requiring state registration. Therefore, "a security, but is exempt from state registration" is the correct characterization.

QUESTION NO: 30

Today's edition of the Wall Street Journal carried a front page story regarding a federal lawsuit that has been filed against a software manufacturer for monopolistic practices. The CFO of the company called his broker today and sold some of the shares he owns in the company.

Which of the following statements are true?

I. The CFO is guilty of illegal insider trading.

II. If the agent who effected the transaction for the CFO knew he was CFO of the software company, the agent is guilty of illegal insider trading.

III. The broker-dealer for whom the agent works may have its license suspended or revoked if its agent has knowingly executed this illegal insider trade for not having supervised the agent properly.

A. I only

B. I and II only

C. I, II, and III

D. None of the statements is true.

E. The CFO is guilty of illegal insider trading.
II. If the agent who effected the transaction for the CFO knew he was CFO of the software company, the agent is guilty of illegal insider trading.
III. The broker-dealer for whom the agent works may have its license suspended or revoked if its agent has knowingly executed this illegal insider trade for not having supervised the agent properly.

ANSWER: D

Explanation:

None of the statements is true. Illegal insider trading requires trading while in possession of material, nonpublic information in breach of a duty of trust or confidence, or tipping another person who then trades on that information. Here, the lawsuit and its allegations were reported in a prominent, publicly available news source before the CFO's sale. Information that has been publicly disseminated is not nonpublic merely because it concerns the CFO's own company. The stated facts therefore do not establish that the CFO traded on any undisclosed material information.

A corporate officer may buy or sell the issuer's securities when not aware of material nonpublic information, subject to applicable reporting obligations and company trading-window policies. The fact that the executing agent knows the customer is the CFO does not itself create an insider-trading violation. Likewise, there is no stated illegal transaction requiring supervisory action by the broker-dealer. The SEC describes insider trading as buying or selling a security while in possession of material, nonpublic information and explains that corporate insiders may legally trade when they comply with the relevant rules. See the SEC's insider trading overview and Exchange Act rules guidance.

QUESTION NO: 31

The 1988 Insider and Securities Enforcement Act indicates that a person convicted of insider trading can be subject to which of the following penalties?

A. up to 10 years in prison and a fine of $1 million, with a civil penalty of up to 3 times the amount of profits gained or losses avoided

B. up to 3 years in prison, a $5,000 fine, or both

C. up to 5 years in prison and a fine of $1,500,000 or both

D. up to 7 years in prison and a fine equal to 200% of the amount of profits gained or losses avoided

ANSWER: A

Explanation:

"Up to 10 years in prison and a fine of $1 million, with a civil penalty of up to 3 times the amount of profits gained or losses avoided" reflects the enhanced enforcement framework established by the Insider Trading and Securities Enforcement Act of 1988. The Act substantially strengthened the consequences applicable to insider-trading violations. For an individual, it raised the maximum criminal sanction to 10 years' imprisonment and a $1 million fine. It also authorized the Securities and Exchange Commission to seek a civil monetary penalty of up to three times the profit gained or loss avoided through the unlawful trading. The phrase "profits gained or losses avoided" captures both ways an insider can benefit from material nonpublic information: by trading to make a gain or by selling or avoiding a transaction to prevent a loss. The question's reference to a conviction concerns the criminal component, while the treble-profit measure is the related civil enforcement penalty created by the statute. The legislation and its historical statutory provisions are available through Congress.gov's record of H.R. 5133; the SEC also summarizes its authority to pursue insider-trading enforcement and penalties at SEC.gov.

QUESTION NO: 32

uestion No: 157

An investment adviser may act as a custodian for a client's securities if

I. the Administrator of the state doesn't have a rule prohibiting custodial arrangements.

II. he informs the state Administrator in writing that he will be acting as a custodian for the client.

III. he arranges to pay an independent certified public accountant to perform an unannounced audit of his books each year so that the accountant can report his findings to the state Administrator.

A. I only

B. I and II only

C. I and III only

D. I, II and III

ANSWER: D

Explanation:

I, II and III is correct. Under the Uniform Securities Act framework, an investment adviser's custody of client funds or securities is permitted only subject to conditions imposed by the state Administrator. Therefore, the adviser must first ensure that the applicable state rules do not prohibit the proposed custodial arrangement. Where custody is permitted, the adviser must provide written notice to the Administrator that it has, or may have, custody of client assets. This notice allows the regulator to identify advisers with heightened access to client property and to apply the relevant custody safeguards.

A key safeguard is the annual, unannounced examination of the adviser's books and records by an independent certified public accountant. The accountant's examination is designed to test the existence and proper handling of client assets, and the accountant reports the results to the Administrator. The adviser bears the cost of this independent review. These requirements reflect the central regulatory objective of custody rules: protecting client funds and securities through disclosure, independent verification, and regulatory oversight. State requirements can include additional operational conditions, but the stated conditions accurately describe the core requirements tested here. See NASAA's investment-adviser regulatory resources and the SEC's related custody-rule provisions.