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General Securities Representative Qualification Examination (GS)

FINRA Series-7

Version Demo

Total Demo Questions: 47

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Topic Break Down

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QUESTION NO: 1

Under which of the following conditions may a registered representative of a firm that is an underwriter of a new offering of common stock send to a client a copy of the firm's research report on that stock?

A. if it is accompanied by a red herring

B. if he has permission of his employer

C. if his firm is not the managing underwriter

D. under no circumstances

E. after the applicable FINRA research-report restricted period has ended

ANSWER: E

Explanation:

After the applicable FINRA research-report restricted period has ended, a registered representative may send the firm's research report, provided that the report otherwise complies with FINRA's research, disclosure, supervision, and communications requirements. FINRA Rule 2241 does not impose a permanent prohibition on research concerning an issuer simply because the firm participated as an underwriter. For an initial public offering, a firm acting as a manager or co-manager is subject to a restricted period beginning 10 days before pricing and ending 40 days after pricing. A participating underwriter or dealer that is not a manager or co-manager is subject to a restricted period ending 10 days after pricing. Once the relevant period has elapsed, the underwriting role alone does not prevent distribution of the report. The rule is intended to address potential conflicts and undue promotional influence surrounding an offering while preserving the ability to provide research outside the defined restricted periods. The particular report still must be prepared and distributed consistently with applicable standards, including required disclosures of material conflicts. See FINRA Rule 2241—Research Analysts and Research Reports and FINRA guidance on research reports.

QUESTION NO: 2

Which of the following is a right for shareholders of common stock?

A. the right to have the stock price increase

B. the right to vote about important matters of the company

C. the right to dividends

D. both B and C

ANSWER: B

Explanation:

The right to vote about important matters of the company is a fundamental ownership right of common shareholders. Common stock represents an equity interest in the issuer, and holders generally may vote in corporate elections and on significant matters submitted to shareholders. These matters commonly include electing the board of directors, approving mergers or other major corporate transactions, and voting on other proposals that require shareholder approval. Voting may occur in person at an annual or special meeting, or through proxy voting, which permits a shareholder to authorize another party to vote the shares according to the shareholder's instructions. The number of votes ordinarily corresponds to the number of shares owned, subject to the issuer's governing documents and applicable state corporate law. This right gives common shareholders a means of participating in the corporation's governance and influencing the selection of the directors who oversee management. The Securities and Exchange Commission explains that proxy materials provide shareholders with information and a means to vote on matters presented at shareholder meetings. See the SEC's Investor Bulletin on Proxy Voting and overview of stocks.

QUESTION NO: 3

A tax-free rollover of assets between qualified retirement plans for the benefit of a specific individual is permitted so long as it is accomplished within:

A. 30 days

B. 60 days

C. 90 days

D. one year

ANSWER: B

Explanation:

60 days is the applicable rollover-completion period for an eligible distribution that is paid to an individual and then rolled over to another eligible retirement plan. To preserve tax-deferred treatment, the individual must contribute the eligible amount to the receiving qualified plan or IRA no later than the 60th day after receipt of the distribution. This is commonly called an indirect rollover. The rule applies to rollovers made for the benefit of the same participant; it is not a period measured from the date the participant leaves employment or from the end of the tax year.

The Internal Revenue Code permits the IRS to waive the 60-day requirement in limited circumstances, such as events beyond the taxpayer's reasonable control, and IRS procedures provide avenues for requesting or self-certifying eligibility for a waiver in appropriate cases. Those exceptional relief provisions do not change the standard Series 7 rule: a rollover must ordinarily be completed within 60 days. For further details, see IRS Retirement Topics—Tax on Early Distributions and IRS Publication 575, Pension and Annuity Income.

QUESTION NO: 4

The FINRA markup policy applies to:

A. agency sales OTC

B. principal transactions in municipal bonds

C. mutual fund sales

D. new issues of corporate securities

ANSWER: A

Explanation:

agency sales OTC is correct. FINRA Rule 2121 is commonly called the markup rule, but its customer-pricing protections extend beyond principal markups and markdowns. In an agency transaction, a broker-dealer executes the customer's order with another party rather than trading from its own inventory. The firm's charge is ordinarily a commission, not a principal markup. Nevertheless, Rule 2121 requires that commissions charged in agency transactions be fair, considering all relevant circumstances, including the transaction's nature, the value of the services rendered, the amount of money involved, and the firm's expenses. Thus, an over-the-counter agency sale falls within the rule's fair-pricing framework even though its customer charge is labeled a commission.

The rule is intended to ensure that customers receive prices reasonably related to the prevailing market and that transaction charges are fair. FINRA evaluates these standards using the facts and circumstances of each transaction; the often-cited five-percent policy is guidance rather than an automatic permitted charge. The governing provision is FINRA Rule 2121, Transactions With Customers. FINRA also summarizes the historical five-percent policy and the factors relevant to fair commissions in its markup and markdown guidance.

QUESTION NO: 5

Feasibility studies and engineering surveys are most necessary prior to which of the following new offerings?

A. general obligation bonds

B. limited tax bonds

C. revenue bonds

D. corporate debentures

ANSWER: C

Explanation:

Revenue bonds are the correct answer because repayment depends primarily on the revenues generated by a particular project or facility, rather than on the issuer's general taxing power. Before issuing bonds to finance a toll road, bridge, airport, water system, hospital, or similar enterprise, the issuer and underwriters need a sound basis for evaluating whether the project can be built as planned and whether it is likely to produce sufficient income to meet operating costs and debt-service requirements. Engineering surveys help assess construction design, projected costs, timing, capacity, and operational requirements. Feasibility studies evaluate expected demand and usage—for example, traffic levels on a toll road, passenger volume at an airport, or customer usage for a utility system—and translate those expectations into estimated revenue. These analyses are central to establishing the economic viability of the pledged revenue stream and to preparing appropriate disclosures for investors. Revenue bonds may be supported by user fees, charges, rents, or other facility-specific income, so the reliability of those projected revenues is a fundamental credit consideration. FINRA describes municipal revenue bonds as obligations supported by revenues from a specific project or source; see FINRA's municipal bonds overview. Additional information on municipal securities and their repayment sources is available from the MSRB.

QUESTION NO: 6

Bubba buys a 5% municipal bond maturing in 15 years that is trading at a market price of 85 . What is the nominal yield?

A. 5.88%

B. 5.1%

C. 5.00%

D. cannot be determined

ANSWER: C

Explanation:

The correct answer is **5.00%**. A bond's nominal yield, also called its nominal rate or coupon rate, is the annual interest rate stated on the bond's face value when it is issued. Because this municipal bond has a 5% coupon, it pays annual interest equal to 5% of par value—typically $50 per $1,000 bond—regardless of its current market price or its remaining 15-year maturity. Therefore, its nominal yield remains 5.00%.

The quoted market price of 85 means the bond is trading at 85% of par, or $850 per $1,000 principal amount. Market price is relevant when calculating current yield and yield to maturity, but it does not alter the stated coupon rate. For example, the annual $50 coupon divided by the $850 market value would be used in a current-yield calculation. FINRA's Series 7 content outline includes understanding the relationship among bond price, coupon rate, current yield, and yield to maturity. See the FINRA Series 7 Content Outline and the SEC's bond investor education overview.

QUESTION NO: 7

A corporation makes a rights offering to raise $10 million of new capital by issuing one million shares of common stock. If it already has six million shares outstanding at the time of the offering.

How many rights will the corporation distribute to its shareholders?

A. one million

B. six million

C. ten million

D. sixteen million

ANSWER: B

Explanation:

six million is correct because, in a traditional rights offering, the issuer distributes one subscription right for each share of common stock outstanding on the record date. Since the corporation has six million shares outstanding, its existing shareholders collectively receive six million rights. The rights allow shareholders to participate in the offering and preserve their proportionate ownership if they choose to subscribe.

The one million newly issued shares determines the subscription ratio, not the number of rights initially distributed. In this case, shareholders as a group need six rights to purchase one new share: six million outstanding shares produce six million rights, and six rights per new share permits the purchase of the one million shares being offered. The stated $10 million capital objective would establish an implied offering price of $10 per newly issued share, but it does not alter the number of rights distributed. Rights offerings are a mechanism through which current owners receive an opportunity to purchase additional shares before, or alongside, sales to others. See the SEC's discussion of registered offerings in Registered Offerings and FINRA's Stocks overview.

QUESTION NO: 8

In regard to discretionary accounts, which of the following statements is correct?

A. the customer must approve each transaction in writing before the order is entered

B. the customer must grant written authorization to the member firm to exercise discretion in the account

C. the account must be accepted in writing by a designated principal of the member firm

D. both the customer's written authorization and written acceptance by a designated principal are required

ANSWER: D

Explanation:

Both the customer's written authorization and written acceptance by a designated principal are required. A discretionary account permits a registered representative to decide the securities to buy or sell, and/or the amount to buy or sell, without obtaining the customer's prior approval for each individual transaction. Because this authority creates heightened supervisory responsibilities, FINRA Rule 3260 requires the member to obtain the customer's prior written authorization before exercising discretionary power. The rule also requires that discretionary accounts be accepted in writing by a designated principal of the member firm. These requirements establish the customer's consent to the arrangement and ensure that the firm has formally reviewed and approved the account before discretionary trading occurs. The authority must be documented and retained in the firm's records, and the account remains subject to ongoing supervision under the firm's supervisory procedures. Importantly, discretionary authority does not eliminate the obligation to act in the customer's best interest or to make suitable recommendations when recommendations are involved. FINRA's specific requirements for discretionary accounts are set out in FINRA Rule 3260. Additional supervisory expectations for member firms are addressed in FINRA Rule 3110.

QUESTION NO: 9

Which of the following sources provides news of prospective municipal securities sales to underwriters?

A. the Blue List

B. the daily Bond Buyer

C. the SEC News Digest

D. The Wall Street Journal

ANSWER: B

Explanation:

The correct answer is *the daily Bond Buyer*. The Bond Buyer is a specialized municipal-finance publication that reports municipal market activity and publishes information relevant to forthcoming primary-market issues, including anticipated sales, offering calendars, issuer financing plans, and underwriting activity. This type of advance market intelligence helps municipal underwriters identify prospective negotiated and competitive offerings and prepare for potential participation in an issue. In the municipal securities business, awareness of upcoming new-money and refunding financings is particularly important because underwriters may need to evaluate an issuer's credit, structure a proposal, assemble a syndicate, or prepare to bid on a competitive sale before the securities are actually offered to investors. The publication's continuing focus on the municipal primary market makes it an established industry source for this purpose. Its current market coverage and municipal-finance resources are available through The Bond Buyer. FINRA's Series 7 examination covers municipal securities activities, including primary offerings and the roles of market participants; see FINRA's Series 7 content outline for the municipal securities topic area.

QUESTION NO: 10

In June, Bubba bought 100 shares of XYZ at $35. In November, he bought a listed put in XYZ with a $35 strike price and a July expiration for a premium of $600.

If Bubba sells the stock at $45 in July, what is his resulting tax liability for that transaction?

A. no liability established until the offsetting option position is closed

B. a $400 gain

C. a $1,000 gain

D. a $400 capital loss

ANSWER: C

Explanation:

a $1,000 gain is correct because the tax result on the stock sale is determined from the stock's own cost basis and sale proceeds. Bubba paid $35 per share for 100 shares, giving him a $3,500 basis. Selling the 100 shares at $45 per share produces $4,500 of proceeds. The resulting gain on that stock transaction is therefore $1,000 ($4,500 − $3,500). The $600 premium paid for the listed put is not added to the basis of the stock sold at a gain. Instead, the put is a separate option position and a separate capital asset for tax-reporting purposes; its tax result is determined when that position is closed, exercised, expires, or is otherwise disposed of. Thus, the transaction specified—the sale of the XYZ shares—creates a $1,000 capital gain. Depending on the applicable holding-period and straddle rules, the character and timing of related gains or losses can require additional analysis, but those rules do not change the stated dollar gain from the stock sale. FINRA includes options and their tax considerations within Series 7 options knowledge requirements; see the FINRA Series 7 Content Outline. General federal tax treatment of options and related positions is discussed in IRS Publication 550, Investment Income and Expenses.

QUESTION NO: 11

Bubba buys a US treasury bond. The interest he earns is:

A. subject to federal and state income tax

B. exempt from federal and state income tax

C. subject to state income tax but exempt from federal income tax

D. subject to federal income tax but exempt from state income tax

ANSWER: D

Explanation:

Interest paid on a U.S. Treasury bond is subject to federal income tax. Treasury securities, including Treasury bonds, notes, bills, and TIPS, are direct obligations of the U.S. government, and the interest income an investor receives must generally be included in gross income for federal tax purposes. However, federal law exempts interest on U.S. government obligations from state and local income taxation. Therefore, the correct treatment is “subject to federal income tax but exempt from state income tax.” This tax feature is particularly relevant when comparing Treasury obligations with municipal securities: Treasuries offer exemption from state and local income taxes, while their interest remains federally taxable. The exemption applies to the interest income; it does not eliminate all possible tax consequences associated with owning or disposing of the bond. For example, a gain realized upon sale before maturity may be subject to applicable capital-gains taxation. Investors should also recognize that tax treatment can depend on their individual circumstances and should consult a qualified tax professional when needed. The U.S. Treasury’s investor guidance confirms that Treasury interest is subject to federal tax but exempt from state and local taxes. See TreasuryDirect: Treasury Bonds and IRS Publication 550, Investment Income and Expenses.

QUESTION NO: 12

Under what conditions may an FINRA member firm sell an IPO to an employee of another broker/dealer?

A. if the amount of the purchase is small and the transaction accords with the employeeâ€™s normal investment practice

B. if the member firm notifies the other broker/dealer of the transaction

C. if the employing broker/dealer guarantees that resale of the securities acquired by its employee will be restricted for two years

D. under no circumstances

ANSWER: D

Explanation:

“under no circumstances” is correct because FINRA Rule 5130 generally prohibits a member from selling a new issue, including an IPO, to a restricted person. A restricted person expressly includes an employee of a FINRA member or other broker-dealer. The restriction applies to purchases made directly by that employee and to accounts in which the employee has a beneficial interest. Its purpose is to prevent industry participants from receiving preferential access to potentially underpriced new issues, often described as “spinning” or improper IPO allocations.

Before allocating a new issue, the selling member must obtain a representation from the account holder that confirms the account is eligible to purchase under Rule 5130, generally within the preceding 12 months. An employee of another broker-dealer cannot make that eligibility representation merely because the purchase is small, consistent with prior investing, disclosed to the employing firm, or subject to a resale restriction. Rule 5130 contains specific, narrowly defined exemptions for certain account types and transactions, but none permits an individual broker-dealer employee to receive an IPO allocation on those stated conditions. See FINRA Rule 5130—Restrictions on the Purchase and Sale of Initial Equity Public Offerings and FINRA’s IPO guidance.

QUESTION NO: 13

Which of the following would not normally be a function of an investment banker?

A. providing short-term capital needs to client companies

B. underwriting new issues of securities

C. providing long-term capital needs to client companies

D. assisting in large secondary offerings of securities

ANSWER: A

Explanation:

“providing short-term capital needs to client companies” is correct because meeting a company’s routine, near-term funding requirements is traditionally a commercial-banking lending function, rather than an investment-banking function. Short-term capital generally supports needs such as working capital, inventory purchases, payroll timing, or other operating-cycle expenses. It is commonly obtained through bank loans, revolving credit facilities, lines of credit, and similar credit arrangements in which the lender advances funds and expects repayment under agreed terms.

An investment banker’s core role is instead to advise issuers and help them access the capital markets. That work includes structuring and distributing securities offerings, participating in underwriting, and advising companies on significant financing and strategic transactions. The distinction tested here is therefore between direct, short-term bank credit and capital-market financing services. FINRA’s Series 7 content outline identifies investment banking and securities offerings as examined functions within the representative’s knowledge base, while the Federal Reserve describes commercial banks as institutions that make loans to businesses and consumers. See the FINRA Series 7 Content Outline and the Federal Reserve’s description of commercial banks.

QUESTION NO: 14

Bubba Corporation has a registered public offering of 750,000 shares at $40. An underwriter of 30,000 shares is advised by the manager that its retention will be 70%.

How many shares may the underwriter sell to its own customers?

A. 30,000

B. 21,000

C. 9.000

D. as many as it can up to a maximum of 51,000

ANSWER: B

Explanation:

21,000 is correct. In an underwriting syndicate, the syndicate manager can establish a retention percentage for each participating underwriter. Retention is the percentage of the member’s original underwriting allotment that the member may keep and distribute to its own customers. Here, the underwriter’s allotment is 30,000 shares and its authorized retention is 70%. Multiplying 30,000 by 70% produces 21,000 shares available for sale to that underwriter’s customers. The calculation does not depend on the offering price or the total number of shares registered; those facts provide context for the public offering but do not alter the retention calculation. The portion of the allotment not retained is available to the syndicate manager for handling under the syndicate’s allocation arrangements, including possible redistribution to members that have customer demand. This reflects the manager’s central role in administering syndicate allocations and coordinating the distribution of securities in an offering. FINRA’s underwriting compensation rule addresses the regulation of underwriting terms and arrangements in public offerings: FINRA Rule 5110. FINRA’s Series 7 content outline also identifies underwriting and distribution concepts as examinable knowledge: Series 7 Content Outline.

QUESTION NO: 15

What is represented by the net investment income of an open-end investment company?

A. net profits from the investment company operation

B. net gains on sales of portfolio securities

C. dividends, interest, and net gains on sales of securities

D. net income from dividend and interest paid on securities in the fund portfolio

ANSWER: D

Explanation:

Net investment income of an open-end investment company, commonly called a mutual fund, is the income the fund earns from its portfolio investments—principally interest on debt securities and dividends on equity securities—net of the fund's operating expenses. This amount is distinct from appreciation or depreciation in the value of portfolio holdings and from profits realized when the fund sells securities. A mutual fund generally distributes its net investment income to shareholders as income dividends, although the shareholder may elect to receive the distribution in cash or reinvest it in additional fund shares. For Series 7 purposes, the key distinction is that investment income arises from dividends and interest generated by the securities held in the portfolio. The wording "net income from dividend and interest paid on securities in the fund portfolio" correctly identifies that source of fund income; "net" recognizes that applicable fund expenses are deducted in determining the amount available for distribution. The SEC explains that mutual funds may earn income through dividends and interest and distribute that income to shareholders. See the SEC's Mutual Funds investor bulletin and FINRA's Mutual Funds overview.

QUESTION NO: 16

Which of the following does not appear in a municipal syndicate letter to underwriters?

A. the specific bid and offering terms of the issue

B. the amount of each member's participation

C. the extent of the manager's authority in directing the offering

D. the duration of the syndicate account

ANSWER: A

Explanation:

The specific bid and offering terms of the issue do not appear in the municipal syndicate letter to underwriters because that letter is used to organize the underwriting group before the transaction's final pricing terms have been established. It documents the syndicate arrangement: the members' respective commitments, the authority granted to the syndicate manager, and operational provisions governing the account. In a competitive municipal underwriting, the syndicate must first determine how it will participate and coordinate its bid; the final bid terms are established when the bid is submitted and the issue is awarded. The public offering terms, including the prices and yields at which maturities will be offered, are likewise established in connection with pricing and distribution of the bonds. Therefore, those transaction-specific bid and offering terms cannot be a completed element of the preliminary syndicate letter. This distinction is consistent with MSRB Rule G-11, which governs syndicate practices and requires disclosures and records concerning syndicate arrangements and related terms. See MSRB Rule G-11 and FINRA's municipal bond overview.

QUESTION NO: 17

Which of the following municipal bonds may be grouped under the classification of â€œrevenue bondsâ€?

A. special tax

B. new housing authority

C. general obligation

D. limited tax

ANSWER: A

Explanation:

Special tax is correctly classified as a revenue bond. Revenue bonds are municipal securities whose debt service is paid from a specifically identified revenue source rather than from the issuer's unrestricted taxing power. With a special-tax bond, the pledged source is revenue from a designated tax, commonly a sales tax, hotel-occupancy tax, utility tax, or similar tax imposed for a stated purpose. Bondholders therefore look to the collections from that particular tax and to the legal pledge of those collections for payment of principal and interest. The issuer's general taxing power is not the fundamental security for the obligation. This revenue-source distinction is a key Series 7 concept: municipal obligations are commonly categorized according to the source of repayment, and special-tax financing falls within the revenue-bond category because a particular stream of tax receipts is dedicated to debt service. The FINRA Series 7 content outline includes municipal securities and the distinctions among municipal debt types as tested knowledge areas. See FINRA's Series 7 Content Outline and the MSRB's Special Tax Bond glossary definition.

QUESTION NO: 18

Under a leaseback arrangement used to finance construction of local schools, who is the issuer of the municipal bonds?

A. the state in which the schools are located

B. the local school district

C. a legal authority created for this purpose

D. a public housing authority commissioned by the federal government

ANSWER: C

Explanation:

The correct answer is **"a legal authority created for this purpose."** In a school leaseback financing, a separate governmental or public-purpose entity—commonly called a building authority, school building authority, or municipal authority—is established to undertake the project and issue the municipal securities. The authority uses bond proceeds to construct or acquire the school facilities, then leases those facilities to the local school district. Lease payments made by the district provide the revenue stream used to pay debt service on the authority's bonds.

This structure can allow a district to obtain needed facilities while matching financing payments to its use of the property. The issuer is therefore the entity legally empowered to borrow and own or manage the financed project, rather than simply the governmental body that occupies the school. Investors evaluate the authority's legal obligations, the lease terms, available appropriations or revenues supporting lease payments, and any stated security provisions in the offering documents. Municipal bonds may be issued by states, local governments, and governmental authorities or agencies for public purposes; the precise issuer and repayment source are disclosed in the official statement. See the MSRB's overview of municipal bonds and the SEC Investor.gov municipal-bond bulletin.

QUESTION NO: 19

The Securities Act of 1933 provides for:

A. extension of credit in the securities industry

B. establishment of the Securities and Exchange Commission

C. regulation of new issues of securities

D. all of the above

ANSWER: C

Explanation:

The Securities Act of 1933 provides for **regulation of new issues of securities**. Often called the "truth in securities" law, the 1933 Act governs the offer and sale of securities in interstate commerce when securities are initially distributed to the public. Its central purpose is to require issuers to provide prospective investors with material, accurate disclosure through registration statements and prospectuses, unless an offering qualifies for an exemption from registration. The required disclosure addresses matters such as the issuer's business, management, financial condition, use of offering proceeds, and the risks associated with the investment. This framework enables investors to make informed decisions in primary offerings and prohibits material misstatements or omissions in connection with those offerings. The Securities and Exchange Commission explains that the statute has two basic objectives: ensuring investors receive financial and other significant information about securities being offered for public sale, and prohibiting deceit, misrepresentations, and other fraud in the sale of securities. See the SEC's overview of the Securities Act of 1933 and its guide to registered securities offerings.

QUESTION NO: 20

What is the loan value on a call option held in a customerâ€™s margin account?

A. 0

B. 50%

C. 30%

D. the compliment of the FRB initial margin requirement for listed stocks

ANSWER: A

Explanation:

The correct loan value is **0**. For ordinary listed call options held long in a customer margin account, the option generally has no loan value. Although a long call is an asset in the account and may have market value, it is not treated as margin collateral that supports a broker-dealer loan under the standard margin rules. Accordingly, the customer must pay for the premium of a purchased call in full rather than borrow against its value in a regular margin account. This treatment reflects the limited and rapidly changing life of an option: its value is affected by time decay, volatility, the underlying security's price, and its expiration date. FINRA's margin rule addresses margin requirements for listed options, while Federal Reserve Regulation T establishes the credit framework applicable to securities transactions in margin accounts. A longer-dated option, such as a qualifying LEAPS position, can receive specialized treatment under applicable margin rules, but that exception is not implicated by the general reference to a call option in this question. Therefore, the standard Series 7 answer is zero loan value. See FINRA Rule 4210 and Federal Reserve Regulation T (12 CFR Part 220).

QUESTION NO: 21

A trust instrument drawn pursuant to the Trust Indenture Act of 1939 sets forth which of the following?

A. the rights of stockholders

B. the duties of the trustee

C. the obligations of the issuing corporation

D. both B and C

ANSWER: D

Explanation:

“both B and C

” is correct because an indenture under the Trust Indenture Act of 1939 is the governing contract for a qualifying debt offering. It establishes the issuer's contractual promises to the holders of the debt securities, such as payment of principal and interest, compliance with covenants, reporting or other required undertakings, and events that may constitute default. It also establishes the trustee's role in administering the indenture for the benefit of security holders, including its powers, responsibilities, and duties—particularly the heightened duties that apply following a default. The Act is designed to ensure that debt holders have the protection of an independent, qualified trustee and that the material terms governing the debt obligation are disclosed in the indenture. Accordingly, the instrument addresses both the issuing corporation's obligations and the trustee's duties. The statutory provisions governing required indenture terms and trustee duties are found in the

Trust Indenture Act, including [15 U.S.C. § 77ooo]. The SEC also provides an overview of the Act and its application to debt securities offerings at [SEC Trust Indenture Act guidance].

QUESTION NO: 22

Municipal bonds would be least attractive as an investment for which of the following?

A. an insurance company

B. a pension fund

C. a commercial bank

D. the executive officer of an industrial corporation in the highest income tax bracket

ANSWER: B

Explanation:

Municipal bonds would be least attractive to **"a pension fund"** because a pension fund generally is a tax-qualified, tax-exempt investor. A principal advantage of municipal securities is that interest on qualifying municipal bonds is generally excluded from gross income for federal income-tax purposes. This tax-exempt income feature can make a municipal bond's lower stated yield attractive to investors that otherwise face significant current income-tax liability. However, a pension fund generally does not pay current federal income tax on its investment income while assets remain in the qualified plan. As a result, the fund receives little or no incremental benefit from the municipal bond's federal tax exemption. It therefore would ordinarily evaluate the bond primarily on its pretax yield, credit quality, maturity, liquidity, call features, and suitability relative to taxable alternatives. A taxable bond with a higher pretax yield may consequently be more appealing to the fund when comparable risk and other investment characteristics are considered. The Internal Revenue Service explains the general federal tax treatment of municipal-bond interest at [IRS Tax Topic 403]. FINRA's Series 7 content outline includes municipal securities and the tax considerations relevant to their recommendation at [FINRA Series 7 Content Outline].

QUESTION NO: 23

The expiration date of a listed option is:

A. the last day of the expiration month

B. the third Saturday of the expiration month

C. the Saturday following the third Friday of the expiration month

D. the third Friday of the expiration month

ANSWER: D

Explanation:

For a standard monthly listed option, the expiration date is the third Friday of the expiration month. This is the date on which the option contract expires under the current standardized-options convention. Trading in an expiring standard monthly option generally ends at the close of business on that Friday, and holders must follow their broker's exercise and contrary-instructions deadlines, which may occur before the market close. The distinction matters because older materials often described expiration as occurring on the Saturday following the third Friday. That was the historical convention, but the Options Clearing Corporation changed the expiration date for standard monthly options to Friday beginning with February 2015 expirations. Therefore, exam material and questions using current rules should identify the third Friday as the expiration date. Options with nonstandard expirations, such as weekly options, can have different expiration schedules; however, the question's reference to a listed option in the traditional monthly-options context calls for the standard monthly expiration convention. See the OCC's [Characteristics and Risks of Standardized Options disclosure document] and Cboe's [options specifications] for current contract-expiration information.

QUESTION NO: 24

The general purpose of the Securities Act of 1933 is to:

A. regulate the activities of investment advisers

B. regulate the sale of securities on national exchanges

C. provide for disclosure of information about new securities offerings

D. provide for disclosure of the financial condition of underwriters

ANSWER: C

Explanation:

The Securities Act of 1933 is principally a federal disclosure statute governing the offer and sale of securities in primary, or new-issue, distributions. Its central purpose is to require issuers to register securities offerings with the Securities and Exchange Commission unless an exemption applies, and to provide prospective investors with material information through a registration statement and prospectus. The required disclosures address such matters as the issuer's business, management, financial condition, use of offering proceeds, and the securities being offered. This framework is designed to enable investors to make informed investment decisions based on full and fair disclosure rather than on incomplete promotional claims. Accordingly, *provide for disclosure of information about new securities offerings* accurately states the Act's general purpose. The SEC describes the Act as requiring registration of offers and sales of securities and disclosure of important financial and other information to investors. See the SEC's overview of the Securities Act of 1933 and its explanation of registered public offerings.

QUESTION NO: 25

Which of the following municipal securities carries the full faith and credit of the US government for payment of interest and principal if the issuerâ€™s funds are insufficient?

A. general obligation bonds issued municipalities

B. special tax bonds issued by municipalities

C. revenue bonds issued by municipal port authorities

D. new housing authority bonds issued by a public housing authority

ANSWER: D

Explanation:

New housing authority bonds issued by a public housing authority are the municipal-security exception that has a federal payment backing. These bonds were issued by local public housing authorities to finance low-income public housing, with federal support provided through the U.S. Department of Housing and Urban Development framework. If the housing authority's available funds are insufficient to make scheduled interest or principal payments, the U.S. government is obligated to provide the required funds. Therefore, this federal commitment gives qualifying new housing authority bonds the full faith and credit of the United States, rather than merely a pledge of the local issuer's taxing power, project revenues, or a specified tax source.

For Series 7 purposes, the important distinction is that the security remains municipal in origin because a public housing authority issues it, while its payment protection includes a direct federal guarantee. This makes the credit quality depend on the federal government's commitment to satisfy the obligation when the issuer cannot do so. FINRA includes municipal securities and their credit features within the Series 7 examination's debt-securities coverage; see the FINRA Series 7 Content Outline. The statutory public-housing program framework is available through 42 U.S.C. Chapter 8.

QUESTION NO: 26

Which are the primary considerations in evaluating the worth of a limited partnership?

A. the size of the tax deductions

B. the cost of assets

C. the adequacy of funding

D. both B and C

ANSWER: D

Explanation:

both B and C is correct because an assessment of a limited partnership's economic worth begins with the quality and cost of the assets acquired and whether the partnership has adequate capital to carry out its business plan. The cost of assets matters because it affects the price paid for the underlying investment, the partnership's potential return, and the reasonableness of the offering's economics. Adequacy of funding is equally central because the partnership must have sufficient capital, including appropriate reserves and financing, to acquire, operate, maintain, and ultimately dispose of its assets without relying on unrealistic assumptions or excessive additional borrowing.

For a registered representative, these factors are part of evaluating the economic soundness of a direct participation program before recommending it. FINRA's direct-participation-program rule requires members to have a reasonable basis for believing that a program is suitable, which entails reasonable investigation and understanding of material aspects of the offering. See FINRA Rule 2310. FINRA's suitability rule also requires that recommendations be based on information about the security and the customer, reinforcing the need to understand the partnership's underlying assets and financial structure: FINRA Rule 2111.

QUESTION NO: 27

The preferred stock of Greatest Technology Corporation has a $100 par and is convertible into four shares of common stock. The preferred is trading at 104.50. The preferred is callable at 101. If the common stock price is presently 27.89, which of the following actions would be a successful arbitrage:

A. purchase 400 shares of common stock and sell 100 shares of preferred stock as "short exempt" (that is, the sale is exempt from the uptick rule)

B. purchase the preferred stock and sell an appropriate amount of the common stock "short exempt"

C. purchase both the common and the preferred stocks as a hedge against further market risk

D. purchase the preferred stock and let it be called, which is inevitable at these market prices

ANSWER: B

Explanation:

"purchase the preferred stock and sell an appropriate amount of the common stock 'short exempt'" is the successful conversion-arbitrage transaction. Each preferred share can be converted into four common shares. At a common-stock price of $27.89, the conversion value of one preferred share is $111.56 (four shares multiplied by $27.89). Because the preferred can be purchased for $104.50, an investor can buy one preferred share and simultaneously sell short four common shares for total proceeds of $111.56. The preferred may then be converted into four common shares, which are delivered to close the short position. The gross arbitrage spread is $7.06 per preferred share, before transaction costs, financing costs, and any applicable borrowing charges. The $101 call price does not eliminate this opportunity when the conversion value exceeds the call price: a preferred holder generally has the ability to elect conversion rather than accept redemption, subject to the security's stated terms. This is a classic use of conversion parity—the comparison between a convertible security's market price and the market value of the common shares obtainable upon conversion. FINRA describes the risks and characteristics of preferred stock in its Preferred Stocks overview; the SEC's financial terms glossary also defines conversion features used in securities offerings.

QUESTION NO: 28

Bubba owns a subordinated debenture in a company that is liquidating.

When will he get paid?

A. after the company pays its outstanding bills, but before paying bank loans

B. after the bills are paid and the bank is paid, but before the preferred shareholders

C. before the holders of secured debt

D. after the shareholders of preferred stock

ANSWER: B

Explanation:

"after the bills are paid and the bank is paid, but before the preferred shareholders" is correct because a subordinated debenture is a debt security and therefore makes its holder a creditor of the issuer, not an owner. In a corporate liquidation, creditor claims are satisfied before any distribution is made to equity holders, including preferred shareholders. However, the defining feature of a subordinated debenture is that its claim is junior to the issuer's senior indebtedness. Thus, assets available in liquidation must first be used to satisfy higher-priority claims, such as secured bank obligations and other senior creditor claims, before subordinated debenture holders may receive a distribution. Once those senior claims have been paid in accordance with their priority, subordinated debenture holders participate ahead of preferred and common stockholders. This is the practical significance of subordination: it affects the debtholder's repayment priority relative to other creditors, but it does not convert the debtholder into an equity owner or place the claim behind shareholders. FINRA's investor materials distinguish bonds as creditor instruments from stock as an ownership interest, and the SEC explains that bondholders generally have priority over stockholders if an issuer liquidates. See FINRA's overview of bonds and the SEC Investor Bulletin on corporate bankruptcy.

QUESTION NO: 29

What is the loan value on a call option held in a customer's margin account?

A. 0

B. 50%

C. 30%

D. the compliment of the FRB initial margin requirement for listed stocks

ANSWER: A

Explanation:

0 is correct because a standard long call option has no loan value in a customer margin account. Loan value is the portion of a margin security's market value that a broker-dealer may lend against it when calculating the customer's debit balance and margin requirement. Listed options generally are treated as non-marginable securities for this purpose: although the customer may hold a long call in a margin account, its premium must be paid in full and the position does not provide borrowing power. Therefore, the call's value cannot be used to support a margin loan, making its loan value zero.

This treatment reflects the limited life and potentially rapid change in value of options. The FINRA margin framework distinguishes standard options from certain qualifying long-term options (LEAPS), which can receive specific margin treatment when they meet the rule's required time-to-expiration conditions. Because the question asks generally about a call option and does not identify it as a qualifying long-term option, the standard zero-loan-value rule applies. FINRA's customer margin requirements are set out in FINRA Rule 4210; related margin-account concepts are also described in the FINRA investor guidance on margin.

QUESTION NO: 30

A dealer buys 100 shares of XYZ common, which is an actively traded stock, at 23.50. Three days later, when XYZ common is quoted at 19.50 - 19.75, he sells the 100 shares to a customer.

The basis for the dealer's markup is:

A. 10 5/8

B. 19 7/8

C. 23 1/2

D. 5% above cost

E. 19 3/4

ANSWER: E

Explanation:

The basis for the dealer's markup is **19 3/4**, the offering (ask) side of the current two-sided quotation. A quotation of 19.50–19.75 means that the dealer community is bidding 19.50 to buy the stock and offering it at 19.75 to sell it. Because the dealer is selling XYZ common to a customer, the relevant prevailing market price is the current offer, 19.75, which is expressed as 19 3/4 in fractional notation.

FINRA's markup policy requires that a dealer's charge in a principal transaction bear a reasonable relationship to the security's prevailing market price. For an actively traded security with a contemporaneous bid-and-ask quotation, that market—not the dealer's earlier acquisition price—provides the appropriate benchmark for determining the markup. The fact that the dealer paid 23.50 three days earlier does not change the current prevailing market price used as the basis. FINRA Rule 2121 addresses the requirement that markups and markdowns be reasonably related to the prevailing market price: FINRA Rule 2121. FINRA's guidance on markups also explains that the prevailing market price is central to evaluating a dealer's charge: Understanding Markups and Markdowns.

QUESTION NO: 31

The price an investor pays for a listed option is called the

A. strike price

B. spread

C. premium

D. exercise price

ANSWER: C

Explanation:

The price paid by an investor to purchase a listed option is the **premium**. It is the market price of the option contract and is paid by the option buyer to the option writer (seller). For an equity option, premiums are quoted on a per-share basis, while each standard listed option contract generally represents 100 shares; therefore, a quoted premium of 2.50 ordinarily means that the buyer pays $250, excluding commissions and any applicable fees. The premium is established in the marketplace and reflects factors such as the underlying security's price, the relationship of that price to the option's exercise price, time remaining until expiration, expected volatility, interest rates, and dividends. The buyer's payment of the premium gives that buyer the contractual right, but not an obligation, to exercise the option under its terms. FINRA's options disclosure material describes the premium as the price of an option, and the Options Clearing Corporation likewise identifies premium as the amount paid by an option buyer and received by an option seller. See OCC's Characteristics and Risks of Standardized Options and FINRA's options investing overview.

QUESTION NO: 32

A corporation makes a rights offering to raise $10 million of new capital by issuing one million shares of common stock. If it already has six million shares outstanding at the time of the offering.

What subscription ratio is the corporation establishing for each new share?

A. 6 rights per share

B. 10 rights per share

C. 6 million rights per share

D. 10 million rights per share

ANSWER: A

Explanation:

6 rights per share is correct because a rights offering gives existing shareholders transferable or nontransferable subscription rights based on the shares they own as of the record date. Here, the corporation has 6 million shares outstanding, so it distributes 6 million rights in total—generally one right for each outstanding common share. The offering makes 1 million new common shares available for subscription. Dividing the 6 million rights distributed by the 1 million new shares offered produces a subscription ratio of 6 rights for each new share: 6,000,000 ÷ 1,000,000 = 6.

Thus, a shareholder must tender six rights to subscribe for one newly issued share, typically while also paying the stated subscription price. The $10 million capital objective does not change the rights-to-new-shares ratio; it would be relevant to determining the subscription price, which would be $10 per new share if all 1 million shares are sold. FINRA describes rights as instruments granting existing shareholders the opportunity to purchase additional shares, while the SEC explains that rights offerings allow companies to raise capital from current shareholders. See FINRA's stock investing overview and the SEC Investor.gov rights offering bulletin.

QUESTION NO: 33

Which of the following is not an intangible drilling cost?

A. salaries

B. supplies and fuel

C. machinery and pipe

D. repairs

ANSWER: C

Explanation:

"machinery and pipe" is the item that is not an intangible drilling cost. In an oil and gas drilling program, intangible drilling and development costs generally include expenditures for labor, fuel, repairs, supplies, and similar items that are necessary to drill wells and prepare them for production but have no salvage value after the work is completed. Salaries for drilling-related labor, supplies and fuel consumed in the operation, and repairs associated with drilling therefore fit the general concept of intangible drilling costs.

Machinery and pipe, however, are tangible equipment items. They have physical substance, may retain value, and can ordinarily be recovered, reused, sold, or depreciated as tangible property. For tax purposes, the Internal Revenue Service distinguishes intangible drilling costs from expenditures for tangible equipment, including casing and other equipment that has a salvage value. This distinction matters to investors because intangible drilling costs may generally be elected for current deduction by qualifying taxpayers, whereas tangible equipment costs are generally recovered through depreciation rather than treated as IDCs. See the IRS discussion of Business Expenses, including intangible drilling costs and the IRS guidance on oil and gas expenses.

QUESTION NO: 34

Convertible bonds have all of the following features except:

A. an ability to protect a short position on the stock into which they are convertible

B. permissibility for use as collateral

C. a normally higher yield than non-convertible bonds of the same issuer

D. fluctuations influenced by changes in the price of the underlying common stock

ANSWER: C

Explanation:

“a normally higher yield than non-convertible bonds of the same issuer” is the feature that convertible bonds do not ordinarily have. A convertible bond gives its holder the right to exchange the bond for a specified number of shares of the issuer’s common stock. That embedded conversion privilege has value because the holder may participate in appreciation of the underlying stock while retaining the bond’s stated income and principal features, subject to issuer credit risk. Investors therefore generally accept a lower coupon and lower current yield on a convertible bond than on an otherwise comparable nonconvertible bond issued by the same company. The amount of this yield concession reflects, among other things, the market value of the conversion feature and the outlook for the common stock. As the stock price rises, the conversion privilege can become more valuable and may cause the convertible’s market price to behave increasingly like the stock’s price. FINRA’s Series 7 content outline includes convertible securities among equity-related products and their investment characteristics. See the FINRA Series 7 exam page and the SEC’s investor bulletin on convertible securities.

QUESTION NO: 35

A registered representative privately assures a customer that a certain stock will double within 18 months. During this period the stock the stock performs as predicted.

Which of the following statements is true?

A. the commentary was permissible because the stock advanced as the registered representative forecast

B. this is a violation because the SEC requires all information about stock prices to be publicly announced

C. this statement constituted a form of fraud prohibited under the Securities Exchange Act of 1934

D. the comment is permissible only if the representative had been registered with the SEC under the Investment Advisors Act of 1940

ANSWER: C

Explanation:

“This statement constituted a form of fraud prohibited under the Securities Exchange Act of 1934” is correct. A registered representative may not present an unsupported prediction of a specific future investment result as an assurance to a customer. Saying that a stock *will* double within a stated period conveys certainty about a material investment outcome, even though stock-price performance is inherently uncertain. The critical issue is the nature of the representation when it is made—not whether subsequent market events happen to make the prediction accurate.

Section 10(b) of the Securities Exchange Act and SEC Rule 10b-5 prohibit fraudulent or deceptive practices in connection with securities transactions. An untrue or misleading statement, including a baseless assurance concerning future performance, can fall within those prohibitions when used in selling or recommending securities. FINRA’s communications standards likewise require that communications be fair and balanced and prohibit false, misleading, unwarranted, or promissory claims. The later increase in the stock price does not retroactively validate the representative’s original assurance or remove the misconduct inherent in making an unjustified guarantee. See SEC Rule 10b-5 overview and FINRA Rule 2210.

QUESTION NO: 36

Bubba is buying a Federal Home Loan Bank issue that is offered at 95.22.

How much will he pay to purchase one bond?

A. $95.22

B. $951.63

C. $952.20

D. $956.88

ANSWER: D

Explanation:

$956.88 is correct because a Federal Home Loan Bank bond quotation expressed as 95.22 is read as 95 and 22/32 percent of the bond's par value, rather than as a decimal price of 95.22%. Agency and other debt securities commonly use points and thirty-seconds in this style of quotation. For a $1,000 par-value bond, 95 points equal $950. One thirty-second of 1% of $1,000 is $0.3125, so 22/32 equals 22 × $0.3125, or $6.875. Adding the point value and the thirty-second value produces $956.875. Because payments are stated in dollars and cents, the amount rounds to $956.88 for one bond. This calculation determines the quoted, or clean, purchase price; the question does not provide settlement timing or a coupon rate, so no accrued interest is added. FINRA's Series 7 content outline includes calculating customer purchase and sale prices for debt securities as an examined function: FINRA Series 7 Content Outline. For background on the Federal Home Loan Banks as government-sponsored enterprises and their debt issuance, see Federal Home Loan Banks.

QUESTION NO: 37

Bubba plans to borrow some money and pledge securities as collateral.

Which of the following can he not use as collateral?

A. Series EE bonds

B. US treasury bills

C. US treasury notes

D. US treasury bonds

E. All of the listed securities can be used as collateral.

ANSWER: E

Explanation:

All of the listed securities can be used as collateral is correct. Treasury bills, notes, and bonds are marketable U.S. government securities and are routinely acceptable collateral because their value can be readily determined and they can generally be transferred or liquidated under the terms of a lending arrangement. Although Series EE savings bonds are nonmarketable—meaning they cannot be bought and sold in the secondary market—their nonmarketable status does not prohibit their use as loan collateral. Federal Treasury regulations specifically permit a savings bond to be pledged as collateral for a loan. The bond remains registered to its owner; the pledge does not transfer ownership to the lender. If the borrower defaults, the lender's rights and the handling of the bond are governed by the pledge agreement and applicable Treasury procedures. Series EE bonds also have a redemption value subject to the program's holding-period and redemption rules, which distinguishes them from securities with no realizable value. Therefore, the premise that Series EE bonds categorically have "no collateral value" is inaccurate under current federal rules. See the Treasury regulation on pledging savings bonds at 31 CFR § 353.20 and TreasuryDirect's savings-bond information at TreasuryDirect.

QUESTION NO: 38

Mutual fund salespersons may not represent that a product is like of safer than:

A. an insurance policy

B. a fixed annuity

C. a corporate debt instrument

D. all of the above

ANSWER: D

Explanation:

"All of the above" is correct because a mutual fund salesperson must not make an unqualified or misleading comparison suggesting that a mutual fund has the same safety characteristics as, or is inherently safer than, an insurance policy, a fixed annuity, or a corporate debt instrument. These products can differ substantially in guarantees, issuer obligations, market-risk exposure, liquidity, credit risk, and the availability of insurance protections. A mutual fund's shares are generally subject to investment risk and fluctuation in net asset value; its safety cannot be established through a blanket comparison to another product category.

FINRA communications standards require broker-dealers' communications to be fair and balanced and prohibit false, misleading, promissory, or unwarranted statements or claims. When discussing comparative risk, a representative must have a reasonable basis, present material facts needed to make the communication fair, and avoid implying guarantees or protection that the fund does not provide. The SEC's investment-company sales-literature rule similarly treats statements about relative safety as potentially misleading when they omit relevant limitations, qualifications, or risks. See FINRA Rule 2210 and SEC Rule 156.

QUESTION NO: 39

Bubba has a short margin account with a short market value of $22,000, a credit balance of $42,000, and SMA of $500.

What is the NYSE minimum equity maintenance for this account?

A. $5,500

B. $6,000

C. $6,600

D. $12,600

ANSWER: C

Explanation:

$6,600 is the required minimum equity maintenance amount. For a short stock position, the standard maintenance requirement is 30% of the position's current market value. The short market value given is $22,000, so the maintenance calculation is $22,000 multiplied by 30%, which equals $6,600. The credit balance and the SMA are not inputs to this basic maintenance-equity calculation; the question specifically asks for the minimum maintenance requirement associated with the stated short market value. In a short margin account, equity is generally determined by subtracting the current market value of the securities sold short from the account's credit balance, and the account must maintain at least the applicable maintenance percentage. This calculation tests the standard short-sale maintenance percentage used for margin-account requirements. FINRA's margin provisions address maintenance requirements for short positions in FINRA Rule 4210. FINRA also provides investor education on margin accounts and the risks associated with short positions at FINRA's short-selling resource.

QUESTION NO: 40

A treasury obligation having no fixed rate of interest with a thirty-day maturity due April 22 is most likely a:

A. treasury note

B. tax anticipation bill

C. Series H bond

D. Series EE bond

ANSWER: B

Explanation:

“tax anticipation bill” is correct. Tax anticipation bills were short-term Treasury bills issued in anticipation of seasonal federal tax receipts. Like other Treasury bills, they did not pay periodic stated interest; instead, they were issued at a discount and paid their face (par) value at maturity. The difference between the purchase price and par value represented the investor’s return. A 30-day maturity is consistent with this short-term bill structure.

The April 22 maturity is the key timing clue. Tax anticipation bills were structured around major tax-payment periods and could be used by taxpayers—particularly corporations in the historical context of these instruments—at par value in payment of federal taxes before their stated maturity. This feature encouraged investors with expected tax liabilities to purchase the bills, while allowing the Treasury to manage cash needs before the anticipated inflow of tax collections. Thus, the absence of a fixed coupon, very short maturity, and relationship to the April tax season together identify a tax anticipation bill. Treasury bills are governed under Treasury regulations covering short-term discount obligations; see 31 CFR Part 344. For the basic discount-bill structure, see the Treasury’s Treasury bills overview.

QUESTION NO: 41

Which of the following is least relevant in evaluating the safety of a general obligation bond?

A. per capital debt

B. total GO debt as a percentage of market value of property

C. total GO debt as a percentage of assessed value of property

D. total debt service as a percentage of net operating revenue

ANSWER: D

Explanation:

“total debt service as a percentage of net operating revenue” is least relevant because a general obligation bond is principally supported by the issuer’s taxing power, rather than by operating revenues generated from a particular project or enterprise. Credit analysis of a general obligation issuer therefore focuses on the breadth and stability of its tax base, the value of taxable property, the issuer’s existing debt burden, legal debt limitations, and its ability to levy and collect taxes. Measures that compare general obligation debt with property values, assessed values, or population help an investor evaluate the burden that outstanding debt places on the community and its tax base. Net operating revenue, by contrast, is a central measure when evaluating debt that is paid from the revenues of an operating facility or system, such as water, sewer, toll-road, airport, or utility revenue bonds. The SEC explains that general obligation bonds are backed by the full faith, credit, and taxing power of the governmental issuer, while revenue bonds are generally repaid from a specified revenue source. The MSRB likewise distinguishes these security structures in its investor education materials. See the SEC’s municipal bond investor bulletin and the MSRB overview of municipal bonds.

QUESTION NO: 42

Bubba held one XYZ July 30 listed call option when XYZ split 2 for 1.

What is the resulting position, Bubba has on the Option Clearing Corporationâ€™s record?

A. long one XYZ July 30 call

B. long one XYZ July 30 call and short one XYZ July 30 call

C. long two XYZ July 30 calls

D. long two XYZ July 15 calls

ANSWER: D

Explanation:

long two XYZ July 15 calls is correct because a conventional two-for-one stock split causes an adjustment to the listed option position that preserves its economic value. Before the split, the holder has the right to purchase 100 XYZ shares at $30 per share under one standard call contract. Following a two-for-one split, each pre-split share becomes two shares and the market price per share is correspondingly adjusted. The Options Clearing Corporation adjusts standard option contracts by doubling the number of contracts and halving the exercise price. Thus, the one July $30 call becomes two July $15 calls. Collectively, the adjusted calls cover 200 shares at $15 per share, maintaining the same aggregate exercise-value exposure of $3,000. The expiration month remains July; the adjustment affects the contract quantity and strike price rather than the expiration date. This standard adjustment allows holders and writers to retain equivalent contractual rights and obligations after the issuer's corporate action. The Options Industry Council explains the general treatment of option contract adjustments for stock splits at Options Adjustments FAQ. OCC's role in clearing and adjusting listed options is described at What Is OCC?.

QUESTION NO: 43

A mutual fund custodian is paid according to which of the following specifications when receiving deposits from a shareholderâ€™s reinvestment plan?

A. a commission for each share purchased

B. a percentage of the sales charge

C. a processing fee

D. a percentage of the fundâ€™s net asset value

ANSWER: C

Explanation:

a processing fee is correct. A mutual fund custodian provides the operational and safekeeping infrastructure for fund assets, including processing cash movements and related recordkeeping. When deposits result from a shareholder's dividend or capital-gain reinvestment plan, the custodian's compensation for handling that activity is appropriately structured as a processing fee. This reflects payment for the administrative service involved in receiving, reconciling, and settling the cash associated with the reinvestment transaction.

The important distinction is that a custodian is a service provider to the fund, not a selling agent compensated for distribution activity. Custody arrangements and their fees are generally borne at the fund level and disclosed as fund operating expenses, which are reflected in the fund's expense ratio and financial disclosures. Shareholders participating in an automatic reinvestment plan ordinarily have distributions reinvested in additional fund shares, while the fund's service providers perform the necessary back-office processing. The SEC explains that mutual-fund fees and expenses are disclosed to investors in fund materials, and FINRA's Series 7 content outline includes investment-company operations and associated fees among the tested concepts. See the SEC's investor bulletin on mutual-fund fees and expenses and FINRA's Series 7 content outline.

QUESTION NO: 44

Bubba holds 200 shares of common stock in a utility company and receives rights to subscribe to an additional 100 shares at $20. The utility company is raising $40 million of new capital.

How many rights does Bubba receive?

A. 20

B. 50

C. 100

D. 200

ANSWER: D

Explanation:

200 is correct because a rights offering distributes one subscription right for each share of common stock held as of the record date. Since Bubba owns 200 common shares, he receives 200 rights. The offering terms establish that those rights permit him to subscribe for 100 additional shares, which means that two rights are required to purchase each new share. Thus, the subscription ratio affects how many new shares Bubba may buy with his rights, but it does not change the number of rights initially distributed to him.

The $20 subscription price and the issuer's overall $40 million capital-raising objective are not needed to determine Bubba's rights distribution. Those facts may be relevant to evaluating the offering or calculating aggregate proceeds, but the shareholder's entitlement is based on the number of shares owned. This is consistent with the Series 7 examination's coverage of rights offerings and equity securities, as outlined in FINRA's Series 7 General Securities Representative Examination Content Outline. The SEC also describes registered rights offerings and the disclosure framework governing them in its rights offerings guidance.

QUESTION NO: 45

Regulation A permits a short form of filing for offerings of new securities provided the total amount of the offering does not exceed:

A. $1,000,000

B. $5,000,000

C. $2,000,000

D. $2,500,000

E. $75,000,000

ANSWER: E

Explanation:

$75,000,000 is the current maximum aggregate offering amount permitted under Regulation A during a 12-month period. Regulation A is an exemption from full Securities Act registration that allows eligible issuers to make public offerings using an offering statement filed on Form 1-A and an offering circular, subject to SEC qualification. The SEC's modern Regulation A framework has two tiers: Tier 1 offerings may raise up to $20 million in a 12-month period, while Tier 2 offerings may raise up to $75 million in a 12-month period. Therefore, where the question asks for the maximum total offering amount available under Regulation A without limiting the question to Tier 1, the applicable ceiling is $75 million. The $5 million figure reflects the former Regulation A limit before the SEC adopted the expanded framework under the JOBS Act; it is not the current limit. See the SEC's Regulation A overview at SEC Regulation A and the governing offering-limit rule, 17 CFR § 230.251.

QUESTION NO: 46

Under which of the following conditions are homeowners most likely to refinance existing mortgages?

A. when interest rates rise

B. when interest rates fall

C. when interest rates are stable

D. when the yield curve is inverted

ANSWER: B

Explanation:

Homeowners are most likely to refinance existing mortgages **when interest rates fall**. Refinancing replaces an existing loan with a new mortgage, commonly to obtain a lower interest rate. When prevailing mortgage rates decline below the rate on a homeowner's current loan, a new loan can reduce the periodic payment, lower total interest expense over the remaining life of the mortgage, or both. Borrowers may also choose a shorter repayment term while retaining a manageable payment, depending on the size of the rate decline and their financial objectives.

The refinancing decision is economic rather than automatic: the anticipated savings must justify closing costs, fees, and the time required to reach a break-even point. Nonetheless, declining rates create the principal incentive and are therefore associated with increased prepayments of outstanding mortgages. This relationship is particularly important in mortgage-backed securities, because faster refinancing causes mortgage principal to be returned to investors sooner than expected. FINRA's Series 7 content outline identifies the effects of interest-rate changes and prepayment risk as relevant knowledge for mortgage-backed securities. See the FINRA Series 7 General Securities Representative content outline and the CFPB's overview of mortgage refinancing.

QUESTION NO: 47

Which of the following is not a characteristic of treasury bills?

A. they are quoted on yield-to-maturity percentages

B. their payments are exempt from state income tax

C. the bid price is lower than the offer price

D. they mature one to three years from the date of issuance

ANSWER: D

Explanation:

"They mature one to three years from the date of issuance" is not a characteristic of Treasury bills. Treasury bills are short-term direct obligations of the U.S. government, issued at a discount from their face value and redeemed at par at maturity. Their maturities are one year or less; commonly issued terms include 4, 8, 13, 17, 26, and 52 weeks. The investor's return is the difference between the discounted purchase price and the face amount received at maturity rather than periodic interest payments.

A security with a maturity of one to three years falls outside the Treasury-bill maturity range. In the Treasury market, instruments with longer original maturities are generally categorized as Treasury notes or bonds, depending on term. For Series 7 purposes, the key distinction is that a Treasury bill is a money-market instrument because of its short maturity, whereas securities extending beyond one year are not Treasury bills. The U.S. Treasury describes bills as securities that mature in one year or less, and FINRA's exam-content outline includes Treasury securities among the products a representative must understand. See the U.S. TreasuryDirect explanation of Treasury bills and the FINRA Series 7 Content Outline.