

# FINRA-SERIES-7<sup>Q&As</sup>

FINRA General Securities Representative Examination (GS)

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### QUESTION 1

Which of the following option positions is indicative of the same class of option?

- A. long one XYZ July 70 put and one XYZ July 70 call
- B. long one XYZ October 20 call and one XYZ January 30 call
- C. short one XYZ February 60 put and one ABC February 60 put
- D. short one XYZ June 40 call and one ABC June 20 call

Correct Answer: B

long one XYZ October 20 call and one XYZ January 30 call. Options in the same class are either both puts or both calls on the same security.

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### QUESTION 2

Bubba Corporation has 3,500,000 shares of common stock outstanding and its trading volume in the few weeks has been as follows: Week 1 - 43,000 Week 2 - 30,900 Week 3 - 37,500 Week 4 - 42,600 Week 5 - 33,000 (the most recent week)

If an affiliated person wanted to liquidate some of his holding of 100,000 shares pursuant to SEC Rule 144, how many shares could he sell?

- A. 35,000
- B. 36,000
- C. 37,400
- D. 38,500

Correct Answer: B

36,000. Under Rule 144 up to one percent of the outstanding shares or the average weekly volume for the preceding four weeks, whichever is greater. The total volume for the last four weeks was 144,000 shares. The average is therefore 36,000 shares. This is greater than one percent of the shares outstanding (35,000).

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### QUESTION 3

Service charges by a FINRA dealer for transfer and safekeeping of customer securities held in street name:

- A. may not be levied under FINRA Conduct Rules
- B. may not be levied unless there is no trading in the account for more than six months
- C. may be levied only if the security has a value of less than \$5,000
- D. may be levied only if the charge is fair, reasonable, and non-discriminatory

Correct Answer: D

may be levied only if the charge is fair, reasonable, and non-discriminatory. This is the standard in the FINRA rules.

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#### QUESTION 4

Maintaining a fair and orderly market and acting as a broker's broker are dual functions of the:

- A. competitive trader
- B. odd-lot dealer
- C. specialist
- D. two-dollar broker

Correct Answer: C

specialists. This description defines the function of the specialists.

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#### QUESTION 5

Assuming that the information contained in a registration statement is complete and accurate, the registration statement becomes effective:

- A. 10 days after receipt by the SEC
- B. 20 days after receipt by the SEC
- C. 30 days after receipt by the SEC
- D. only after the SEC specifically clears the issue in writing to the principal underwriter

Correct Answer: D

only after the SEC specifically clears the issue in writing to the principal underwriter. The registration statement becomes effective when notice is received in writing from the SEC.

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#### QUESTION 6

A buy-in of a customer's sale transaction is mandated if the securities have not been received by the broker/ dealer within how many business days following the settlement date:

- A. 5
- B. 10
- C. 20
- D. 30

Correct Answer: B

10. If a customer fails to deliver securities within ten days after settlement, the broker must repurchase the securities.

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#### QUESTION 7

Smart Guys Securities Corporation has given a workable bid to Better Guys Securities Corporation. If market conditions change, Smart Guys may:

- A. not change the bid
- B. not change the bid unless first notifying the other dealer
- C. change the bid only with prior approval of the other dealer
- D. change the bid

Correct Answer: D

change the bid. A workable bid indicates a price level where a dealer is willing to negotiate business. It is not a firm bid and may be changed before becoming firm.

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#### QUESTION 8

Which of the following receives the highest priority of a municipal bond trustee when applying income and revenue derived from a financed toll facility?

- A. renewal and replacement fund
- B. operation and maintenance fund
- C. bond service account fund
- D. reserve maintenance fund

Correct Answer: B

operation and maintenance fund. This receives the top priority followed by debt service, maintenance reserves, and lastly renewal and replacement.

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#### QUESTION 9

In a best efforts distribution of a new non-exempt issue, a broker/dealer:

- A. may allow a selling concession to a bank or trust company
- B. agrees to buy the issue at a specified price
- C. is not required to use an offering circular or prospectus
- D. acts as an agent for the issuer

Correct Answer: D

acts as an agent for the issuer. In a best efforts offering the investment banker acts as an agent for the issuer and makes no guarantee about selling the securities.

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#### QUESTION 10

A mutual fund with an 8% load and a 1% redemption fee carries a current quote of \$6.25 - \$6.79. If an investor has tendered his shares for redemption on that basis, the per share price he will receive is approximately:

- A. \$6.79
- B. \$6.72
- C. \$6.25
- D. \$6.19

Correct Answer: D

\$6.19. The fund has a redemption fee of 1%. This is about 6 cents based upon the bid price. Subtracting that from the \$6.25 bid results in \$6.19.

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#### QUESTION 11

Which of the following best describes phantom income?

- A. income from deductions and tax credits
- B. the non-taxable portion of a distribution
- C. income received but not reported
- D. income reported but not received

Correct Answer: D

income reported but not received. Reportable income that is not distributable includes loan forgiveness.

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#### QUESTION 12

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

Correct Answer: D

total debt service as a percentage of net operating revenue. This ratio is applicable to revenue bonds but not general obligation bonds. The other choices are all used in measuring credit risk in a GO bond.

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### QUESTION 13

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 employee'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

Correct Answer: D

under no circumstances. An FINRA member firm may not, under any circumstances, allocate shares to itself, any of its employees, or to any employee of a firm that underwrites securities.

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### QUESTION 14

In a triple net lease, which of the following is the tenant not responsible for paying?

- A. taxes
- B. financing charges
- C. insurance premiums
- D. maintenance

Correct Answer: B

financing charges. In a triple net lease, the tenant is responsible for taxes, insurance, and maintenance.

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### QUESTION 15

Customers who engage in increased activity of wiring money from their account could indicate which of the following activities?

- A. Interpositioning
- B. Churning
- C. Crossing
- D. Money laundering

Correct Answer: D

money laundering. Potential money laundering activities include excessive wiring of money between accounts.

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