

DUMPS ARENA

Uniform Securities State Law Examination

FINRA Series-63

Version Demo

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QUESTION NO: 1

Mr. L. Ranger is an agent for a broker-dealer and has overheard “talk” that a merger between two well-known high-tech companies is about to take place. Mr. Ranger knows that, on average, in these instances the target firm’s price spikes. He calls his client and good friend, Mr. Tonto, and tells him of the rumor, suggesting that Tonto might want to buy shares in the target firm. He tells Mr. Tonto that if the rumor isn’t true, the target firm’s price may not spike at all and may, in fact, decline, and suggests that Mr. Tonto not invest any money he isn’t willing to lose. Mr. Ranger knows that his friend likes to gamble, and decided he wouldn’t be much of a friend if he didn’t inform Tonto of this potential opportunity.

Has Mr. L. Ranger violated any laws or engaged in any prohibited practices?

- A.** No. Mr. Ranger and Mr. Tonto are friends, so there can be no violations of any laws or practices because of their non-business relationship.
- B.** Yes. Mr. Ranger has engaged in fraud in telling Mr. Tonto about the rumor, given that the merger hasn’t been officially announced by the two companies.
- C.** No. Mr. Ranger has informed Mr. Tonto that the merger is just a rumor and has informed him of the risk involved. Mr. Ranger is knowledgeable about his friend’s risk tolerance level as well and recognizes this investment as one his good friend might want to take.
- D.** Yes. Mr. Ranger is privy to knowledge that is not available to the general public and both he and Mr. Tonto will be guilty of illegal insider trading if Mr. Tonto trades on Mr. Ranger’s information.

ANSWER: C**QUESTION NO: 2**

Iggy recently started his own company. He soon discovered it required more cash to keep it going than he had anticipated. He ran an ad in the local paper for investors and got a response. He found a template for a promissory note on the internet, filled in the requisite information specific to the agreement he and the investor had worked out, and printed it out. On it, he promised to make monthly interest payments of 2% on the loan and to repay the principal amount at the end of 18 months. A few months after the arrangement, Iggy read an article in a small business publication that indicated that promissory notes had to be registered with the state unless they were sold in an exempt transaction, such as one enacted with a financial institution, prior to being offered for sale. The article indicated that a seller who had sold an unregistered note in error could remedy the situation by sending the buyer a formal offer to buy the security back, with interest. Iggy turned to the computer once again, found a form that could be used for a formal offer of rescission, filled it out, and sent it to the investor. Having done this,

- A.** Iggy cannot be sued for civil damages if the investor fails to respond to the offer within 30 days.
- B.** Iggy must follow up with a second notice sent via registered mail if he has not heard from the investor within 30 days.
- C.** Iggy must wait 6 months for a response from the investor. If no response is received by the end of 6 months, Iggy is off the hook.
- D.** Iggy will not be assessed any penalties by the Administrator of the state, but the investor can still sue for damages in civil court.

ANSWER: A**Explanation:**

Since Iggy realized the promissory note he had sold to the investor required state registration and sent a formal offer of rescission to the investor, he cannot be sued for civil damages if the investor has not responded to the offer within 30 days. The investor has 30 days to accept or reject the offer. If he either rejects it or fails to accept it by not responding to the offer at all, the investor has lost the right to sue for damages.

QUESTION NO: 3

Most individual state securities laws today are based on:

- A. the Uniform Securities Act of 1956.
- B. the Uniform Securities Act of 2002.
- C. the National Securities Markets Improvement Act of 1996.
- D. the Gramm-Leach-Bliley Act of 1999.

ANSWER: A**Explanation:**

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

QUESTION NO: 4

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:**

The maximum amount the client can expect in civil penalties in this case is \$6,200. In civil court, the client is awarded the cost of the investment plus any attorneys' fees and court costs, plus any interest that the state deems appropriate, less any income earned on the investment. In this instance, the only income is the interest that the client earned, which is identical to the interest that the Administrator mandates the investment adviser pay, so that is a wash. The investment advisory fee is included as part of the investor's cost, so the client can sue for the recovery of his original investment of \$5,000 plus the \$200 he paid for the investment advice plus the court costs and attorneys' fees of \$1,000, or \$6,200 total.

QUESTION NO: 5

The trade confirmation must be received by the customer no later than

- A. one week after the settlement date.
- B. the settlement date.
- C. the day after the trade takes place.
- D. five business days after the settlement date.

ANSWER: B**Explanation:**

Trade confirmations must be received by the customer no later than the settlement date.

QUESTION NO: 6

Which of the following entities must sign a "consent to service of process," thereby allowing the Administrator to receive legal documents that are meant to be served to the entity in place of that entity?

- I. agents
 - II. investment advisers
 - III. investment adviser representatives
 - IV. broker-dealers
- A. I and IV only
 - B. II and III only
 - C. II and IV only
 - D. I, II, III, and IV
 - E. agents
II. investment advisers

- III. investment adviser representatives
- IV. broker-dealers

ANSWER: D

Explanation:

Agents, investment advisers, investment adviser representatives, and broker-dealers must all sign a consent to service of process, allowing the Administrator to receive legal documents in their stead. The consent to service of process must accompany the application for registration with the state or the documentation provided with a notice filing when permitted.

QUESTION NO: 7

You execute a stock transaction for a client on Thursday, September 23rd. The settlement date on the order ticket will be

- A. Thursday, September 23rd.
- B. Monday, September 27th.
- C. Friday, September 24th.
- D. Tuesday, September 28th.

ANSWER: D

Explanation:

If you execute a stock transaction for a client on Thursday, September 23rd, the settlement date for that trade will be Tuesday, September 28th, which is T + 3, meaning three business days after the trade date.

QUESTION NO: 8

Bootstraps, Inc. is a family-owned business that has experienced enormous growth in the last couple of years. The business needs more cash to support this growth and has decided to issue some promissory notes, each with a face value of \$5,000, for sale to the general public. The firm plans to hire three individuals to help them sell these notes. These individuals will earn a commission based on the notes they sell.

Given these facts, which of the following is true?

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

ANSWER: A

Explanation:

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

QUESTION NO: 9

Alice Wonder called her broker on Tuesday, August 10th, with a market order to buy 10 calls on the stock of Abbott Laboratories. Under normal conditions, Alice will have to pay for the calls on

- A. Wednesday, August 11th.
- B. Tuesday, August 10th.
- C. Friday, August 13th.
- D. Monday, August 16th.

ANSWER: A**Explanation:**

If Alice places a market order to buy call options on Tuesday, August 10th, she will have to pay for them on Wednesday, August 11th, the next business day. Options and U.S. government bonds settle on the day after the trade date, or T + 1.

QUESTION NO: 10

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.

ANSWER: B**Explanation:**

Under the registration by coordination process, the security's registration with the state becomes effective immediately after approval by the SEC as long as the registration has been on file for at least 20 days or the Uniform Securities Act has provided an exemption to this waiting period. This assumes, of course, that there is not a stop order or a proceeding pending.

QUESTION NO: 11

Layered Corporation wants to issue a bond that will have warrants attached. Each warrant gives the holder the right to buy 5 shares of Layered's common stock at a price stipulated on the warrant.

In this instance, Layered must file to register which of the following securities with the state?

- I. the bonds
 - II. the warrants
 - III. the common stock
- A.** I only
 - B.** I and III only
 - C.** I and II only
 - D.** I, II, and III
 - E.** the bonds
II. the warrants
III. the common stock

ANSWER: D**Explanation:**

If Layered issues a bond with warrants attached that give the holder the right to buy shares of its common stock, Layered must register all three securities. The bond is being offered for sale with the warrants attached, so both the bond and the warrant are being offered for sale and must be registered.

Furthermore, the Uniform Securities Act stipulates that the "sale or offer for sale of the right" to buy another security "is considered to include an offer of the other security." Therefore, offering the warrant for sale is effectively an offer to sell the stock as well, so the stock must be registered.

QUESTION NO: 12

Fly-By-Night Investment Advisers has closed its doors.

Which of the following statements is true?

- A.** Fly-By-Night is required to shred all documentation of client transactions and communications.
- B.** Fly-By-Night must send all records of client transactions and communications to the state Administrator for safekeeping.
- C.** Fly-By-Night must preserve and maintain all records, including client transactions and communications, advertising materials, and financial statements of the now-defunct business for five years.
- D.** Fly-By-Night must send each of its former clients its records of all that client's transactions and communications with the firm over the past five years.

ANSWER: C**Explanation:**

Even after Fly-By-Night has closed its doors, it is required to preserve and maintain all records, including client transactions and communications, advertising materials, and the financial statements of the business for five years, under the guidelines of the Uniform Securities Act.

QUESTION NO: 13

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:**

If the CFO called his broker and sold some of the shares he owns today, none of the statements is true. Insider trading is only illegal if the insider trades on information that the public does not yet have. In this case, the information has already been made publicly available, so no one has done anything illegal. Insiders to the company are allowed to buy and sell shares of their firm's stock as long as they are not acting on private information.

QUESTION NO: 14

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:

Only Selection III would not violate NASAA rules regarding the sale of investment company shares because it is the only true statement. If a fund has a breakpoint at \$25,000 that triggers a reduced front-end load and allows an investor to receive the reduced load charge if the investor signs a letter of intent stipulating that the additional investment will be made within 13 months, the only penalty to the investor who doesn't meet the breakpoint is payment of the difference in the two loads. Investing in shares of a money market mutual fund is not identical to putting money in a savings account at a bank. The bank account is insured by the FDIC in most cases; the money market mutual fund is not insured by the FDIC, and the investor can lose money (although, to date, money market mutual funds have covered any losses that they've experienced and not passed those losses onto their investors.) A U.S. government bond fund that is invested only in U.S. government bonds is free from default-risk, but it is still subject to interest rate risk. If interest rates increase, the value of the bonds in these funds—and therefore the fund itself—will decrease.

QUESTION NO: 15

Which of the following conditions is necessary for an act involving securities fraud to be considered criminal and subject to criminal penalties?

A. The act extended across state lines.

B. The perpetrator willfully committed the fraudulent act.

C. The victim(s) lost a combined total of at least \$25,000 because of the act.

D. The Administrator decides to send the case to criminal court.

ANSWER: B**Explanation:**

In order for an act of fraud to be considered criminal, the perpetrator must have willfully committed the fraudulent act. In this case, the Administrator will probably ask the court to impose criminal penalties, but an Administrator can't cause an act of fraud to be criminal by sending it to the criminal court system. If an agent misleads a customer regarding the returns to be expected on an investment but hasn't deliberately done so, it is still fraud, but not criminal fraud, regardless of how much the victims lost.