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Securities Industry Essentials

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Question: 1

Which of the following does the OCC not establish?

- A. The expiration date
- B. The number of shares in the contract.
- C. The exercise price
- D. The premium

Answer: D

Explanation:

The premium is determined by the market place. All of the other choices listed are set by the OCC.

Question: 2

A bond's yield to maturity is all of the following except:

- A. The lowest return if the bond is a premium bond
- B. The most important yield for the investor
- C. The investor's total annualized return
- D. The lowest return if the bond is a discount bond

Answer: D

Explanation:

If the bond is bought at a discounted price, the bond's yield to maturity will be the highest yield. The bondholder will get the full par value at maturity.

Question: 3

Sales Co broker-dealer is acting as the principal underwriter for GTY mutual fund. Sales Co enters into a selling agreement with RKL broker-dealer that will allow RKL broker-dealer to:

- A. Act as an adviser for GTY portfolio
- B. Act as a broker when executing orders for the GTY portfolio
- C. Purchase share of GTY at a discount from POP in order to fill bonafide customer orders that it anticipates receiving
- D. Purchase shares of GTY at a discount from POP and immediately resell them at the POP

Answer: D

Explanation:

A selling agreement allows a broker-dealer who is a selling group member to purchase shares of the mutual fund at a discount from the POP to fill customer orders that it already has by selling the shares immediately to those customers' at the POP.

Question: 4

Which of the following is not a method of retiring bonds?

- A. Redemption
- B. Refunding
- C. Conversion
- D. Term

Answer: D

Explanation:

All of the answers listed are a way of retiring bonds except term. Term is a type of maturity. Bonds are redeemed at maturity, can be refunded by issuing new debt to pay off existing debt, or in the case of a convertible bonds the bonds may be redeemed by the investor by converting the bonds into common shares.

Question: 5

Before opening a new account for any customer, a registered representative must:

- A. Fill out and sign a full financial declaration
- B. Fill out a new account form
- C. Send a declaration of investor intent (DII) to the IRS
- D. Fill out a new account form and present it to the investor for his signature

Answer: B

Explanation:

Before opening a new account for any new customer, a registered representative must fill out a new account form. The new account form does not require the signature of the customer.

Question: 6

ABC subordinated convertible debentures are quoted at 110. They are convertible into XYZ common at \$25 per share. The bonds have been called at 108 and the stock is quoted at \$28. You should advise your client to:

- A. Do nothing at this time
- B. Sell the bonds
- C. Convert the bonds
- D. Tender the bonds

Answer: C

Explanation:

You should advise the customer to convert the bonds. By converting the bonds they will receive stock worth \$1,120 for each bond. \$1,120 is more than the value to be received from selling the bonds or from tendering the bonds into the call.

Question: 7

A quote for a corporate bond from the GSC Company of 96.125 translates into:

- A. \$9,612.50
- B. \$96.13
- C. \$961.25
- D. Cannot be determined

Answer: C

Explanation:

Corporate bonds are quoted as percentage of par. A quote of 96.125 = $96.125\% \times \$1000 = \961.25 .

Question: 8

A 62-year-old woman dies leaving her IRA to her 50-year-old husband as beneficiary with her brother as conditional beneficiary. The 50-year-old husband doesn't need the money and wants to preserve the value of the IRA for his children. To accomplish this he should:

- A. Roll it into a Coverdell IRA for each child
- B. Roll it into a new IRA in his name with his children as beneficiaries
- C. Place the assets in trust for the children
- D. Denounce it

Answer: B

Explanation:

A surviving spouse may elect to be treated as the owner of the IRA instead of the beneficiary so long as they are the sole beneficiary. In this case, the spouse is the sole beneficiary as long as they are alive. So electing to be treated as the owner and rolling it over into a new IRA in his name is the most tax efficient way to preserve the account for the children.

Question: 9

Your existing customer has just been approved by your firm's ROP to trade options. How long do they have to return the signed options agreement?

- A. 30 days
- B. 5 days
- C. 45 days
- D. 15 days

Answer: D

Explanation:

A customer must return the signed options agreement within 15 days of the accounts approval to trade options.

Question: 10

Money market instruments are all of the following except:

- A. A method used to obtain short-term financing
- B. Highly liquid fixed income securities
- C. Issued by corporations with high credit ratings, thus considered safe
- D. Considered risky because of the short-term maturities

Answer: D

Explanation:

The short-term maturity and the fact that the issuers have solid credit ratings make money market instruments very safe.

Question: 11

Fiscal policy:

- A. Determines how to manage the budget and governmental spending

- B. May change levels of interest, taxation, and spending
- C. All of the choices listed
- D. Is controlled by the President and the Executive branch

Answer: A

Explanation:

Fiscal policy is controlled by the President and Congress, and it may change levels of Federal spending and Federal taxation. The federal budget determines how the government allocates money for various projects.

Question: 12

A corporate bond purchased at 150 with an annual interest rate of 8% has what current yield?

- A. 7.50%
- B. 12.00%
- C. 5.33%
- D. 12000.00%

Answer: C

Explanation:

Current yield is always a relationship between income and price. $\text{Current yield} = \text{annual income} / \text{current market price}$. Annual income (\$80) divided by the current market price (\$1,500) = 5.33%.

Question: 13

A US importer is buying \$10,000,000 worth of goods from a Japanese manufacturer. The payment will be made 6 months from now in Japanese Yen. To hedge themselves the US importer would do which of the following ?

- A. Buy calls on the US dollar
- B. Buy puts on the US dollar
- C. Buy Calls on the Japanese Yen
- D. Buy Puts on the Japanese Yen

Answer: C

Explanation:

US importers will always buy calls on the foreign currency to hedge themselves. The Dollar based answer is always wrong. There are no options trading on the US dollar in the US.

Question: 14

In which type of account do all of the assets of one tenant who has died become the property of his estate?

- A. Joint Tenants in Common (JTIC)
- B. Individual Account with Survivorship Rights (IAWSR)
- C. Joint account
- D. Joint Tenant with Rights of Survivorship (JTWROS)

Answer: A

Explanation:

JTIC guarantees that, in the event of the death of one tenant, all of his assets will become the property of his estate, not the other tenant.

Question: 15

Which bonds have been issued with the owner's name on them and whose ownership has been recorded with the issuer

- A. Principal-only bonds
- B. Book entry/journal entry bonds
- C. Registered bonds
- D. Bearer bonds

Answer: C

Explanation:

Registered bonds, the most common type today, are issued with the owner's name on record with the issuer and on the bond certificate.

Question: 16

The PPC Company with assets of \$130,000 and liabilities of \$100,000 has a net worth of:

- A. \$130,000
- B. \$230,000
- C. Unable to determine without more information
- D. \$30,000

Answer: D

Explanation:

Assets minus liabilities equal net worth.

Question: 17

This bond issued by a corporation may be exchanged for common stock:

- A. Zero coupon bonds
- B. Subordinated debentures
- C. Income/Adjustment bonds
- D. Convertible bonds

Answer: D

Explanation:

Convertible bonds may be converted or exchanged for common stock at a predetermined conversion price. A corporation would offer a conversion feature in an effort to sell the bonds with a lower interest rate.

Question: 18

A representative may borrow money from a client:

- A. If the client is a wealthy individual who regularly makes private loans
- B. If the client is a credit union
- C. If the client is the issuer of securities
- D. Under no circumstances

Answer: B

Explanation:

A representative may only borrow from a client if the client is in the business of making loans. i.e. a bank or credit union.

Question: 19

All XYZ Jan 60 Calls would be grouped within the same:

- A. Type
- B. Kind
- C. Class

D. Series

Answer: D

Explanation:

All XYZ Jan 60 calls would be the same series of options.

Question: 20

A customer calls in asking about how to put money aside for his children. He wants to open a custodial account for his two children, Bobby and Sue. He should:

- A. Open two accounts, one for each child with him or his wife as custodians for both
- B. Open one account immediately for both children
- C. Open two accounts for the two children with him being the custodian on one and his wife being custodian on the other as one parent may only be custodian for one child.
- D. Open two accounts for both children with him or his wife as custodian

Answer: D

Explanation:

The rule is one custodian and one minor for each UGMA account there is not rule regarding who must be custodian. Any adult may be the custodian for both or either of the children.

Question: 21

From the choices listed below, pick the investment that is the most secure with regard to its ability to meet its payments in a timely fashion.

- A. AA mortgage bond
- B. AAA subordinated debenture
- C. AA collateral trust certificate
- D. AA equipment trust certificate

Answer: B

Explanation:

The question asks which is the most secure as it relates to the issuer's ability to pay the interest and principal in a timely fashion. The rating has more weight than the collateral. Bondholders never want to take title to the collateral, bondholders invest for the interest payments and return of principal at maturity. S&P rates the issuer's ability to make timely payments. AAA rated bonds are the most secure.

Question: 22

If an investor who is short a stock wants to generate some income and obtain some protection while increasing the credit balance in the account they should :

- A. Buy a call.
- B. Sell a call.
- C. Sell a put.
- D. Buy a put.

Answer: C

Explanation:

An investor who is short a stock who wants to obtain a partial hedge would sell a put.

Question: 23

You report to your customer that they bought 1000 XYZ at 24.35. Upon review of the confirmation you notice that the trade was actually done at 24.55. Which of the following is true?

- A. The firm must absorb the \$200
- B. Either the firm or the representative must absorb the \$200
- C. The representative must absorb the \$200
- D. The customer must pay 24.55 for the shares

Answer: D

Explanation:

An erroneous report is not binding on the firm or the representative. The customer must accept the trade as it was executed not as it was reported.

Question: 24

A registered representative has taken a leave of absence to pursue other interests. They have how long to return to active duty as a representative without being required to take the exam again?

- A. 36 months
- B. 24 months
- C. 12 months
- D. 18 months

Answer: B

Explanation:

A registered representative may leave the business for up to 24 months without having to retake the exam.

Question: 25

Which of the following may always trade in the money market?

- A. Banker's acceptance
- B. T' note
- C. ADR
- D. T' bond

Answer: A

Explanation:

Of the answers listed only banker's acceptances have an original maturity of less than one year. The T note and bond may trade in the money market only after they have one year or less remaining to maturity. An ADR is an equity security and may never trade in the money market.

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