

Finance Series-24

General Securities Principal Certification Exam

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Question: 1

An underwriter that assumes full responsibility and financial liability for an issue is involved in what type of underwriting commitment?

- A. Fill or Kill
- B. Firm commitment
- C. Best efforts commitment
- D. Stand by commitment

Answer: B

Explanation:

An underwriter may participate in an issue by agreeing to a variety of different commitments. A Firm Commitment means the underwriter assumes the role of principal, purchases all of the securities, and is then responsible for selling such securities to the public. The financial liability of such a commitment lies with the underwriter. Best effort implies that the underwriter will try, though not guarantee, to fill all orders but is not liable for any that are unfilled. A stand by commitment means the underwriter is ready to purchase any remaining shares if the offer is undersubscribed Fill or Kill is a type of brokerage order

Question: 2

Jim and Judy want to open a brokerage account together in which Jim has ownership over only 20% of the account, with Judy having ownership and authority over the remainder. What type of account is best for Jim and Judy to open?

- A. Tenancy in Common
- B. Joint Tenancy with Right of Survivorship
- C. Transfer on Death Account
- D. They should each open separate accounts

Answer: A

Explanation:

With unequal ownership, it is best for Jim and Judy to open a Tenancy in Common account. This account will allow them to have joint ownership, but in their respective ownership amounts only. In this case, Jim will have ownership only on his 20% and Judy only on her 80%. This is in contrast to an account titled Joint Tenants with Right of Survivorship, in which each owner has an equal and undivided interest in the entire account. Single accounts could solve the problem, but the questions states that Jim and Judy would like to open a joint account.

Question: 3

All of the following are requirements for a stock or company to be listed on the NYSE except:

- A. There must be a national public interest for ownership and trading in the company
- B. There must be a minimum of 1,100,000 publicly held shares
- C. The company must have pre-tax earnings in the previous year of at least \$5,000,000
- D. The company has at least 2,000 shareholders, each holding at least 100 common shares

Answer: C

Explanation:

The company must have pre-tax earnings in the previous year of \$2,500,000 as a requirement of listing on the NYSE. To maintain their listing, earnings for the previous 3 years should be at least an average of \$600,000. The other answer choices are all necessary requirements for NYSE listing.

Question: 4

NYSE Rule 78 states which of the following about trading?

- A. Firms are prohibited from pre-arranged trades, regardless of circumstances
- B. Firms are prohibited from crossing orders within their own firm, regardless of circumstances
- C. Firms may pre arrange trades, as long as there is full and written disclosure
- D. Firms are prohibited from holding both a buy and sell order on the same security for different clients

Answer: A

Explanation:

NYSE Rule 78 prohibits prearranged trading by a firm (regardless of disclosure) because such a practice is considered market manipulation. Firms are not prohibited from holding both a buy and sell order on the same security for different clients. However, Rule 76 states that these orders may not be crossed within their own firm without first being offered in the trading market.

Question: 5

Rule 134 allows issuers to distribute information about an issue to the public during the 20 day cooling off period. All of the following details can be included in the information except:

- A. Date of offering
- B. Type of security being offered
- C. Size of the offering
- D. Names of the underwriters

Answer: A

Explanation:

Rule 134 allows issuers to distribute information about an issue to the public during the 20 day cooling-off period. Details which may be reported include the name and type of business of the issuer, the type of security being offered, size of the offering, POP and names of the underwriters. In addition, it may also give an estimated offering schedule, though an exact date may not be given. Other information may include what exchange the issue is expected to trade on and the anticipated purpose of the proceeds being collected.

Question: 6

Order tickets must contain which of the following information?

- I. Security name
- II. Number of shares to be bought or sold
- III. Registered representative's information
- IV. Registered representative's manager's signature

- A. I and II only
- B. I, II, and III only
- C. I, II, and IV only
- D. I, II, III, and IV

Answer: D

Explanation:

A valid order ticket must include the following information: whether the customer is taking a long or short position, the number of shares to be bought or sold, identification of the security, duration of the order, price of execution, name and account number of customer, registered representative's information and registered representative's manager's signature.

Question: 7

In an over the counter trade, a Subject Quote is one in which:

- A. The quote may be changed upon confirmation
- B. The quote is the current price
- C. The quote is an estimate
- D. The quote is firm

Answer: A

Explanation:

A Subject Quote is one that may be subject to change upon confirmation. If this type of trade is made, the dealer must specify it is a subject quote upon submission. A quote which a dealer believes is the current price is called a nominal quote. If the quote is an estimate of the price at which the dealer will

trade, this is known as a workout quote. And lastly, a firm quote is the price at which the market maker will trade.

Question: 8

FINRA Rule 6541 protects customer limit orders by:

- A. Disallowing firms from placing limit orders for customers
- B. Ruling that customer limit orders must be placed ahead of the firm's limit orders
- C. Disallowing firms from placing their own limit orders
- D. Ruling that a firm's limit orders must be placed ahead of the customer's limit orders

Answer: B

Explanation:

FINRA Rule 6541 protects customer limit orders by requiring customer limit orders to be placed ahead of the firm's limit orders, giving priority to the public. In this way, a firm may not trade ahead of its customers at a price that is the same or better for the same security. It does not prohibit limit orders from being placed for the firm or customers.

Question: 9

According to Rules 17 A-3 and 17A-4, which of the following records must be maintained by a corporation for the entire life of the firm?

- A. General ledgers
- B. Board meeting minutes
- C. Copies of memos
- D. Order tickets

Answer: B

Explanation:

Rules 17-A-3 and 17 A-4 is related to record keeping of broker-dealers. Records that must be maintained by the firm for its entire existence include its Articles of Incorporation, board meeting minutes, and partnership agreements. Other records are required to be held for defined periods of either three or six years. Copies of memos and order tickets are examples of items that may be held for a period of three years, while general ledgers must be held for six.

Question: 10

Which of the following is most accurate regarding the FINRA manual?

- A. It must be given to all customers at account opening
- B. It must be made available to customers upon request

- C. It must be given to all customers within 30 days of account opening
- D. It is not required to be made available to customers, only to registered representatives and member firms

Answer: B

Explanation:

FINRA rules require that each member firm make available the FINRA manual upon customer request. Thus, each member firm must keep a copy in their office. It is unnecessary to distribute copies of the manual upon account opening, or any other time, other than at the customer's request to view.

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