



Finra Series-63 Practice Questions

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Question 1

Question Type: MultipleChoice

Julia Hasty has recently applied with the Administrator to be a registered investment adviser in the state. Eager to open her new business, she has business cards printed that indicate that she is a "state-registered" investment adviser and visits some local businesses, asking them for permission to put some of her cards in their waiting rooms.

Has Julia violated any of the provisions of the Uniform Securities Act by distributing her business cards?

Options:

- A- No. As long as her application has been submitted and is pending acceptance, Julia has not violated any provisions of the Uniform Securities Act.
- B- No. The provisions of the Uniform Securities Act relate to securities, not people.
- C- Yes. Julia is not permitted to advertise as a "state-registered" investment adviser until she receives notification of the acceptance of her application by the state Administrator.
- D- No. Julia has merely put her business cards in waiting rooms. She has not opened her business to clients yet.

Answer:

C

Explanation:

Yes. Julia has violated a provision of the Uniform Securities Act by distributing business cards that indicate she is a "state-registered" investment adviser because she has not yet received notification of the acceptance of her application by the state Administrator. The filing of an application for registration is not the same as registration, and the placement of the cards is, at this early point, false advertising.

Question 2

Question Type: MultipleChoice

"T + 3" refers to

Options:

- A- the form, also known as a "trade ticket," that is filled out when an order is entered into the market.
- B- the form that is filled out and sent to the client confirming that the trade has been executed.
- C- the fact that the settlement date will be three business days after the trade date, which is the "regular way settlement" for transactions involving stocks and corporate and municipal bonds.
- D- a procedure to minimize the potential for money laundering.

Answer:

C

Explanation:

"T + 3" is an abbreviation indicating that the settlement date will be three business days after the trade date, which is the "regular way settlement" for transactions involving stocks and corporate and municipal bonds.

Question 3

Question Type: MultipleChoice

Switch Advisory is a small investment adviser partnership registered in a single state. A larger investment adviser firm, Bait Investment Adviser, is registered in the same state as well as two other states. Bait has offered to buy out three of Switch's partners who want to retire. This will give Bait a 60% ownership in Switch Advisory.

Which of the following statements are true?

- I . Switch Advisory must obtain the approval of its clients before the partners can sell their interests to Bait.
- II . Switch Advisory must notify the state Administrator of this event.
- III . Switch Advisory must notify their clients of this event, but does not need the clients' approval.
- IV . Switch Advisory must notify the SEC of this event.

Options:

- A- I only

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

Answer:

B

Explanation:

Only Selections I and II are true. Switch must obtain the approval of its clients before the partners can sell their interests, and Switch must notify the state Administrator of this event. Whenever a change in partnership will result in new ownership of the business, which is the case when an external entity acquires a 60% interest, an investment adviser must get its clients' approval. As a state-registered investment adviser, switch also needs to notify the state Administrator. The SEC does not require notification since Switch is not a federal covered investment adviser.

Question 4

Question Type: MultipleChoice

Which of the following statements about agents is (are) false?

Options:

- A- If an agent files for bankruptcy, the Administrator may elect to terminate that agent's registration if the Administrator believes it is "in the public interest" to do so.
- B- When an agent has a change of address, both he and his broker-dealer affiliate must inform the Administrator.
- C- An agent must demonstrate a specific minimum level of financial stability for his registration application to be accepted.
- D- All of the above are false statements.

Answer:

C

Explanation:

The statement that an agent must demonstrate a specific minimum level of financial stability for

his registration application to be accepted is false. The Administrator may require an agent to post a bond, but there are no specific minimum financial requisites that must be met. The Administrator also has the right to terminate an agent's registration if the agent becomes bankrupt. Both the agent and his broker-dealer affiliate are required to inform the Administrator whenever there is a change in the agent's personal information, such as a name change or a change of address.

Question 5

Question Type: MultipleChoice

Trevor is currently a registered agent in the state of Connecticut where he has been employed by Connect & Company, a broker-dealer that is registered in Connecticut and has subsidiary operations in Massachusetts, New Jersey, and New York. Trevor has moved to Massachusetts and is now associated with one of Connect's subsidiaries, a broker-dealer registered in the state. Trevor has applied to the Administrator of Massachusetts for registration as an agent.

Can Trevor execute purchases and sales for clients while his registration is still pending?

Options:

- A- No. Until he is informed by the Administrator of Massachusetts that his application has been accepted, Trevor may not affect any securities transactions in Massachusetts.
- B- Yes. Because Trevor is a registered agent in another state and is affiliated with a broker-dealer that is registered in the state of Massachusetts, he is not restricted from executing trades.
- C- Yes. Trevor can execute trades for new clients he solicits, but only for sixty days while his registration is pending.
- D- It depends. Trevor can execute some purchases and sales, but only for clients that he already had who may have recently relocated to Massachusetts and only for sixty days while his registration is pending.

Answer:

D

Explanation:

It depends. Because he is a registered agent in another state and the broker-dealer he is now affiliated with is registered in the state of Massachusetts, Trevor can execute purchases and sales, but only for existing clients while his registration with the Massachusetts Administrator is still pending and only for sixty days. This assumes, of course, Trevor has no violations that would restrict him from registering in Massachusetts.

Question 6

Question Type: MultipleChoice

Which of the following may an investment adviser not use in an attempt to solicit new clients?

Options:

- A- testimonials of satisfied clients
- B- a complete list of the stocks they have recommended in the past year, even if a statement is included that states that past performance is no guarantee of future performance
- C- a free initial consultation, with no obligation on the part of the potential client
- D- a free financial planning kit, with no obligation on the part of the potential client

Answer:

A

Explanation:

Investment advisers may not use testimonials of satisfied clients to solicit new clients. They may provide past stock picks, as long as they provide a complete list, that compilation period for the list is at least a year, and as long as they are careful to note that past performance is no guarantee of future performance. They can also offer freebies, such as a free initial consultation or a free financial planning kit, as long as these are indeed offered "free," with no obligation on the part of the client.

Question 7

Question Type: MultipleChoice

Which option best is an example of a non-issuer transaction?

Options:

- A- IBM sells a new issue of bonds to an insurance company.
- B- Jose purchases a 10-year bond issued by Progress Energy when it has 6 years remaining to

maturity.

C- Google offers more shares of its stock for sale to the public.

D- NewCorp, which has been a privately held company, is engaging in an initial public offering (IPO) of its stock.

Answer:

B

Explanation:

When Jose buys a 10-year bond that has 6 years remaining to maturity, it is a non-issuer transaction since he is buying it in the secondary market from another investor, and Progress Energy does not benefit from the transaction. If a firm receives money when its securities are sold, it is considered an issuer transaction; otherwise it is a non-issuer transaction. When Progress Energy originally issued the bond, it had ten years to maturity, and Progress Energy received the proceeds from the bond issue; that was an issuer transaction. When Jose buys the bond, another investor is receiving the proceeds. When IBM sells new bonds, regardless of whether it is to the general public or to an institutional investor, IBM receives the proceeds from the transaction, so it is an issuer transaction. Similarly, when a firm that is already publicly held, like Google, sells more shares, the firm receives money from the sale, just as when a firm that is going public for the first time, like NewCorp, receives the proceeds generated through the IPO. Those are examples of issuer transactions.

Question 8

Question Type: MultipleChoice

Joe Treader is the owner of a small, state-registered investment advisory firm that is on the verge of becoming insolvent. One of his clients who has become like a mother to him is aware of his financial difficulties and has offered to sell off some of the assets that he manages for her and loan him the money to get him through this period of economic uncertainty until he is able to get on his feet again.

Can Joe take her up on her offer?

Options:

A- Yes. Based on the facts presented, it is an unsolicited offer and, as such, Joe can (and should) accept it.

B- Yes, but only if Joe draws up a formal loan agreement with a fair interest rate, based on the going market rates, stated in the agreement as well as a firm date for principal repayment.

C- No. As the client's investment adviser, he has a fiduciary relationship with the client.

Entering a loan agreement with this client could lead to conflicts of interest.

D- Both A and B are true.

Answer:

C

Explanation:

No, Joe cannot take his client's offer of a loan because it could lead to a conflict of interest--if not today, perhaps in the future--and as a fiduciary Joe will be expected to put this client's welfare ahead of his own. If it takes him a lot longer than expected to get on his feet again, he may be tempted to act in his own best interest.

Question 9

Question Type: MultipleChoice

Which of the following entities would be required to register with the state as a broker-dealer under the guidelines of the Uniform Securities Act (USA)?

Options:

A- an underwriter with no offices in the state that is helping a firm that is incorporated within the state with the sale of its new bond issue to insurance companies.

B- a credit union that operates within the state and provides loans to its members.

C- an agent who executes the purchase and sale of stocks and bonds for his clientsD.

D- None of the above entities would be required to register with the state as a broker-dealer under the guidelines of the Uniform Securities Act.

Answer:

D

Explanation:

Under the guidelines of the USA, none of the entities described in Selections A, B, or C would be required to register with the state as a broker-dealer since the term, as defined by the USA, does not include agents, savings institutions, or entities with no offices in the state who deal exclusively with issuers and/or other broker-dealers, financial institutions, insurance companies, pension funds, or insurance companies. Selections B and C refer to a financial institution and an

agent, respectively. In the scenario described in Selection A, the underwriter has no offices in the state and is dealing exclusively with the issuer of the bonds and insurance companies.



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