



## Finra SIE Practice Questions

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## Question 1

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Question Type: MultipleChoice

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Beta coefficient is a measure of:

Options:

- A- The volatility of the broad stock market.
- B- Only the upside participation of an individual stock.
- C- The liquidity of an individual stock relative to the sector average.
- D- The volatility of an individual stock relative to the broad stock market.

Answer:

D

Explanation:

The beta coefficient measures the sensitivity of a stock's returns relative to the overall market (usually the S&P 500). A beta of:

1.0 indicates the stock moves in line with the market.

Greater than 1.0 suggests the stock is more volatile than the market.

Less than 1.0 suggests the stock is less volatile.

D is correct because beta specifically compares the volatility of a stock to the market.

A is incorrect as beta does not measure the market's volatility.

B is incorrect as beta considers both upside and downside movements.

C is incorrect as beta does not measure liquidity.

## Question 2

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Question Type: MultipleChoice

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Which of the following terms refers to the process in which the buying firm must pay for the securities and the selling firm must deliver the securities?

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**Options:**

- A- Trade execution
- B- Corporate action
- C- Clearing the trade
- D- Settlement of the transaction

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**Answer:**

D

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**Explanation:**

The process where the buyer's side provides payment and the seller's side delivers securities is settlement, so the correct answer is D. Settlement is the final stage of a securities transaction's lifecycle. After a trade is executed, there are still operational steps required to complete it: confirming details, matching the trade between counterparties, and ensuring each party meets its obligations. Settlement specifically refers to the exchange of money for securities---delivery versus payment---so that ownership is transferred to the buyer and cash is transferred to the seller.

Choice A, trade execution, is the moment the order is filled---when the buyer and seller agree on price and quantity in the market. Execution happens first, but it does not complete the transfer of funds and securities. Choice C, clearing, is the process that occurs between execution and settlement. Clearing includes trade comparison, confirmation, netting of obligations, and risk management steps performed by clearing agencies to ensure the trade can be settled efficiently and accurately. Choice B, corporate action, is unrelated; corporate actions are issuer events like stock splits, dividends, tender offers, and mergers that can affect securities positions.

This is a heavily tested SIE market mechanics concept because it ties to customer account understanding, settlement time frames (e.g., T+1 for many securities in the U.S.), and the roles of clearing corporations and depositories (e.g., DTCC). Knowing the vocabulary---execution vs clearing vs settlement---helps you correctly interpret questions about when obligations arise and when ownership officially changes hands.

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**Question 3**

**Question Type:** MultipleChoice

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Which option best strategies is best for mitigating the risk of a concentrated position?

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**Options:**

- A- Diversification
- B- Use of leverage
- C- Dollar-cost averaging
- D- Dividend reinvestment

Answer:

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A

Explanation:

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Step by Step

Diversification: Spreads investments across multiple securities, industries, or asset classes to reduce exposure to a single security or sector.

Other Options:

Use of Leverage: Increases, not decreases, portfolio risk.

Dollar-Cost Averaging: Reduces timing risk but does not address concentration.

Dividend Reinvestment: Enhances returns but does not mitigate concentration risk.

SEC Guidance on Diversification: SEC Diversification.

## Question 4

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Question Type: MultipleChoice

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Which of the following activities engaged in by a registered person is considered a private securities transaction?

Options:

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- A- Soliciting donations to a charity
- B- Helping a friend raise money for a startup company they founded
- C- Working for an insurance company selling term life insurance policies
- D- Investing personal money in shares of a listed security in a brokerage account

Answer:

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B

### Explanation:

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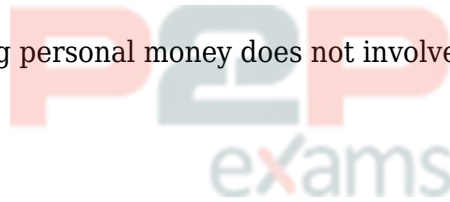
A private securities transaction involves the sale of securities outside the scope of a registered representative's employment with their member firm. Such transactions must be disclosed to and approved by the firm under FINRA Rule 3280.

B is correct because raising money for a startup involves the sale of securities and must be reported as a private securities transaction.

A is incorrect because soliciting charitable donations does not involve securities.

C is incorrect because selling term life insurance policies is not a securities transaction.

D is incorrect because investing personal money does not involve soliciting or selling securities to others.



### Question 5

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**Question Type:** MultipleChoice

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An associated person at a member firm receives a complaint from a customer involving allegations of forgery. Once the complaint is received, which of the following actions is required?

### Options:

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A- The member firm must report the event promptly to FINRA.

B- The member firm is not required to report the event to FINRA but must maintain a file of the complaint for four years.

C- The member firm must complete arbitration to resolve the complaint with the customer before filing a report with FINRA.

D- The member firm must have a principal review the complaint and determine if the forgery occurred before filing a report with FINRA.

### Answer:

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A

### Explanation:

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Step by Step

FINRA Rule 4530: Requires member firms to report certain events, including allegations of

forgery, to FINRA promptly.

Incorrect Options:

Option B: Maintaining a record does not substitute for required reporting.

Option C: Arbitration isn't required before reporting.

Option D: Reporting is mandatory irrespective of internal investigations.

FINRA Rule 4530 (Reporting Requirements): FINRA Rule 4530.

## Question 6

Question Type: MultipleChoice

Which of the following securities issued by a corporation allows the owner to vote on matters of the corporation?

Options:

- A- Warrant
- B- Common stock
- C- Preferred stock
- D- Corporate bond

Answer:

B

Explanation:

Common stock typically provides the owner with voting rights on key corporate matters, making answer B correct. Common shareholders generally vote to elect the board of directors and may vote on significant corporate actions such as mergers, major reorganizations, or other proposals submitted for shareholder approval. Voting rights are a core distinguishing feature of common stock and are frequently tested on the SIE as part of understanding equity ownership and shareholder rights.

A warrant (choice A) is a derivative-like security that gives the holder the right to purchase the issuer's stock at a specified price before expiration. Warrant holders do not have voting rights unless and until they exercise the warrant and become stockholders. Preferred stock (choice C) typically has characteristics closer to a hybrid: it pays a stated dividend and often has priority over common stock in dividends and liquidation, but it usually does not carry voting rights

(though preferred may gain voting rights in special situations, such as when dividends are in arrears, depending on the issue terms). A corporate bond (choice D) is debt; bondholders are creditors, not owners, and generally do not vote on corporate governance matters (though bond covenants may provide protections and certain consent rights in specific restructuring situations).

The SIE emphasizes the relationship between security type and investor rights: equity ownership (common stock) comes with participation in corporate governance through voting, while debt instruments provide contractual cash flows and creditor protections but not ownership voting rights.

## Question 7

Question Type: MultipleChoice

A broker-dealer (BD) signs a selling agreement with the ABC family of mutual funds. To introduce the funds to the BD's sales force, ABC offers a training and education trip at a popular beach resort. The trip expenses will be covered by ABC for the three registered representatives in the BD who have the highest level of production in ABC funds during the month. The BD's branch office managers assess each sale of ABC funds to ensure that the BD's recommendations are aligned with the customers' investment objectives and risk tolerance. Which option best statements best describes the permissibility of this arrangement?

### Options:

- A- The arrangement is not permissible, since the sales incentive is offered by ABC and not the BD.
- B- The arrangement is not permissible, since the trip incentive creates a prohibited conflict of interest.
- C- The arrangement is permissible, since the sole purpose of the trip offered by ABC is training and education.
- D- The arrangement is permissible, since the BD has an established supervisory process to ensure its recommendations fit the customers' investment objectives and risk tolerance.

### Answer:

B

### Explanation:

This arrangement is not permissible because it is a sales contest/incentive tied directly to the sale of a specific investment company's products, and it is funded by the product sponsor (ABC). Even if described as "training and education," the key facts make it a prohibited non-cash

compensation practice: the reward is offered only to the top producers of ABC fund sales during the month, and the trip is to a beach resort---creating a strong incentive to recommend ABC funds to maximize eligibility for the reward. This type of incentive can improperly influence recommendations and creates a conflict of interest between the RR's compensation motivations and the customer's best interest. Therefore, B is the best answer.

Choice A is not the best reason. The issue is not merely that the incentive is offered by ABC instead of the BD; non-cash compensation rules restrict sales contests and special compensation arrangements regardless of who sponsors them when they are tied to the sale of specific securities. Choice C is incorrect because calling something "training and education" does not make it permissible when the eligibility is driven by production in that sponsor's products. True training meetings may be permitted under tightly defined conditions, but they cannot be structured as a sales contest rewarding top sellers. Choice D is also incorrect because even strong supervision does not cure a prohibited compensation structure---supervision is required, but it does not override rules designed to prevent conflicted incentives.

The SIE tests recognition that product-specific sales contests and lavish non-cash incentives are problematic because they can lead to biased recommendations and undermine fair dealing and best interest obligations.

## Question 8

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Question Type: MultipleChoice

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A market maker quotes the market on an NMS equity security as 39.05 - 39.15 [5x10]. Which of the following orders is the market maker required to fill?

Options:

- A- A sell stop order for 500 shares at \$39.00
- B- A sell order for 300 shares at \$39.05
- C- A buy order for 1,000 shares at \$39.10
- D- A buy order for 2,000 shares at \$39.15

Answer:

D

Explanation:

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The quote indicates that the market maker is willing to buy 500 shares at \$39.05 (bid) and sell 1,000 shares at \$39.15 (ask). Market makers are required to honor their quoted size for orders that fall within their bid/ask prices.

D is correct because the market maker is obligated to sell at least 1,000 shares at \$39.15 as it falls within the quoted size and price.

B is incorrect because the bid is at \$39.05, not \$39.00.

C is incorrect because \$39.10 does not match the ask price.

A is invalid as a stop order would not activate at \$39.00.

## Question 9

Question Type: MultipleChoice

An investor holds 1,000 shares of a stock with a total cost basis of \$5,000 in his account when a 1-for-5 reverse stock split is announced. What will be the investor's total cost basis after the payable date of the reverse split?

### Options:

- A- \$1,000
- B- \$2,500
- C- \$5,000
- D- \$25,000

### Answer:

C

### Explanation:

#### Step by Step

Cost Basis in Reverse Split: The total cost basis remains unchanged in a reverse stock split. Only the number of shares and price per share adjust.

Pre-Split: 1,000 shares at \$5 each = \$5,000.

Post-Split: 200 shares at \$25 each = \$5,000.

#### Incorrect Options:

A, B, and D: Do not reflect the unchanged total cost basis.

IRS Guidance on Stock Splits: [IRS Stock Split Info.](#)

## Question 10

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Question Type: MultipleChoice

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Company XYZ files a registration statement for its initial public offering (IPO). XYZ is permitted to communicate all of the following information about the offering in writing to investors except that:

Options:

- A- The IPO is expected to price in early February.
- B- The IPO is being underwritten by Bank ABC and Bank DEF.
- C- A recent industry report supports the company's valuation.
- D- The road show will be held February 6--10 in New York and Boston.

Answer:

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C

Explanation:

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During the 'quiet period' after filing the registration statement, issuers are restricted in what they can communicate to the public to avoid influencing the market.

C is correct because promotional statements, such as those supporting the company's valuation, are prohibited during this time.

A, B, and D are factual, non-promotional statements and are permitted.

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