FINRA-SERIES-6 Q&As

FINRA Investment Company and Variable Contracts Products Representative Examination (IR)

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QUESTION 1

Which of the following persons is not subject to the fingerprinting requirements of the Securities Exchange Act of 1934?

I. a registered transfer agent of a securities exchange

II. a firm that engages only in the sale of mutual fund shares

III. a receptionist at a brokerage firm who answers phones and directs calls to the agents employed by the firm

IV.

a market maker in the over-the-counter market

A.

I and III only

B.

II and III only

C.

II, III, and IV only

D.

III only

Correct Answer: B

Explanation: Only Selections II and III are not subject to the fingerprinting requirements of the Securities Exchange Act of 1934. Firms that engage only in the sale of open-end investment company (mutual fund) shares, as described in Selection II, are exempt; and employees who do not engage in the sale of securities or activities involving any aspect of the securities or monies of a non -exempt firm are exempt, which is the case for the receptionist at the brokerage firm described in Selection III.

QUESTION 2

Jack is an investment adviser representative employed by Giant Investments, a family of mutual funds. Jack has recently read an article posted on the web that he thinks explains some consequences of some tax law changes that are being considered extremely well, and he e-mails his existing retail customers with a summary of the salient facts of the article. Given these facts:

A. Jack has violated FINRA rules if he did not first have a principal of Giant approve his e -mail prior to hitting the send button.

B. Jack must submit a copy of the e-mail to a principal of the company, but he did not need to do so prior to sending the e-mail.

C. a copy of the e-mail must be submitted to FINRA within 10 days of Jack\\'s hitting the send button.

D. Both A and C are true statements regarding this situation.

Correct Answer: B

Explanation: When Jack e-mails some of his existing retail clients with a summary of the tax article, he must submit a copy of the e-mail to a principal of the company, but he does not need to do so prior to sending the e-mail. Since this was sent to Jack\\'s existing retail customers, it falls under the category of “correspondence,” which does not need to be approved by a principal beforehand, but is subject to review and supervision requirements.

QUESTION 3

Total Investments, a family of mutual funds, has prepared some new PowerPoint slides that it will use at a free financial planning seminar it offers to the general public. The new slides:

I. must be signed and dated by a registered principal of Total Investments.

II. must be filed with FINRA 10 business days prior to their first use.

III.

must be kept in a separate file by Total for three years after the date of their first use.

A.

I only

B.

I and II only

C.

I and III only

D.

I, II, and III only

Correct Answer: C

Explanation: Only Selections I and III are correct. The PowerPoint slides that are being used at a financial planning seminar fall under the definition of sales literature and, as such, must be signed and dated by a registered principal of Total Investments and must be maintained in a separate file by Total for three years after the date of their first use. Sales literature must also be filed with FINRA within 10 business days of first use, but not prior to the first use, unless it concerns bond volatility ratings.

QUESTION 4

Which of the following are included in the expense ratio of a fund?

I. 12b-1 fees

II. brokerage costs incurred by the fund when it buys and sells securities

III. redemption fees

IV.

management fees

A.

I and IV only

B.

I, II, and IV only

C.

I, III, and IV only

D.

I, II, III, and IV

Correct Answer: A

Explanation: Of the selections, only 12b-1 fees and management fees are included in the expense ratio of the fund. Brokerage costs that the fund incurs when it buys and sells securities are not included (which is why a fund\\'s turnover ratio is important to consider.) Redemption fees are paid by the shareholder to the fund, so it would not be included in a fund\\'s expense ratio since it is not an expense of the fund.

QUESTION 5

In mid-September, the stock of Oracle (ORCL) is selling for $25.60 a share. Ms. Hedge owns shares of Oracle and buys a put option on the stock with a strike price of $27 that expires in October for $2.20 per optioned share. Just prior to expiration, Oracle\\'s stock is selling for $29. Ms. Hedge should:

A. let her option expire worthless.

B. exercise her option and sell Oracle for $29 a share.

C. exercise her option and buy more shares of Oracle for $27 a share.

D. exercise her option and sell Oracle for $27 a share.

Correct Answer: A

Explanation: If Ms. Hedge owns a put option on Oracle with a strike price of $27 and Oracle\\'s price is $29 just prior to expiration, she should let her option expire worthless. Her put option gives her the right to sell Oracle for $27. If she wants to sell her existing shares of Oracle, she is better off doing so on the open market and receiving $29 a share for them.