

FINRA-SERIES-6^{Q&As}

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QUESTION 1

Private placements may be sold to whom?

- A. only to institutional investors.
- B. only to accredited investors.
- C. to as many as 35 non-accredited investors.
- D. to only 35 investors.

Correct Answer: C

Explanation: Private placements may be sold to as many as 35 non-accredited investors. Non-accredited investors must have a purchaser representative to help them evaluate the investment. There is no restriction on the number of accredited investors to whom the securities can be sold. Accredited investors include wealthier, more sophisticated individual investors as well as institutional investors.

QUESTION 2

In mid-September, the stock of Amazon.com, Inc. (AMZN) is selling for \$147. A January call option on the stock is selling for \$6.10 and has a strike price of \$160. This call option is:

- A. at the money.
- B. in the money.
- C. out of the money.
- D. overpriced. No one should pay \$6.10 for the right to buy a share of stock for \$160 when its current market price is only \$147.

Correct Answer: C

Explanation: If Amazon.com is selling for \$147 and the strike price on the option is \$160, the call option is said to be out of the money since, even if an investor were given the option free, he would not benefit from exercising it at this time. If he did so, he would be paying \$160 for a stock that is selling for only \$147 on the open market. Even so, the option is not necessarily overpriced at \$6.10 because the option has what is known as "time value" on it. The stock of Amazon.com has several months during which it could rise well above the \$160 strike price on the option.

QUESTION 3

Joe Cool is a member of the All Greek Fraternity. A few of the alumni of his fraternity sat for the FINRA Series 6 exam over the past couple of years and, using their cell phones, took pictures of the exam questions. They forwarded these to their fraternity to be included in the test bank file the fraternity keeps in its study room.

Have there been any violations of FINRA/NASD rules in this instance?

- A. No. It is standard practice for sororities and fraternities to compile test banks of old exams, and since the forwarded tests are not copies of an actual future exam that will be administered, there has been no violation of any rules.

B. Yes. It is a violation of Rule 2110 for an exam-past or present-to be reproduced and distributed for study purposes.

C. No. Rule 2110 only prohibits the reproduction and distribution of a previously administered FINRA exam for study purposes if the exams are being sold. As long as there is no compensation involved, a violation has not been committed.

D. Both A and C are true statements.

Correct Answer: B

Explanation: Yes, there have been violations of FINRA/NASD rules in this instance. It is a violation of Rule 2110 for an exam-past or present-to be reproduced and distributed for study purposes. Whether there has been compensation paid or not is irrelevant.

QUESTION 4

The entity through whom investors buy and redeem mutual fund shares is the fund's:

A. custodian.

B. transfer agent.

C. principal underwriter.

D. investment adviser.

Correct Answer: C

Explanation: The entity through whom investors buy and redeem mutual fund shares is the fund's principal underwriter. The fund's custodian is responsible for items such as accounting for the fund's assets and settling securities transactions; its transfer agent maintains records of the shareholders' accounts; and its investment adviser handles the purchase and sale of the securities within the fund.

QUESTION 5

Ms. Ears is an investment adviser representative. During lunch today, she overheard two men talking about a hostile takeover that their firm was preparing to undertake. Based on this information, Ms. Ears does not hesitate to advise the client she meets with immediately after lunch--Mrs. Clueless-- to invest a sum of money in the firm the men had named as the target firm. Ms. Ears remembers that the price of target firms, on average, increases significantly with an announcement of this sort, but she does not inform Mrs. Clueless of the reason underlying her recommendation.

Has there been any violation of insider trading laws in this scenario, as described?

A. No. The scenario does not suggest that Ms. Ears herself made any investment in the target firm, and Mrs. Clueless was not made aware of the basis for Ms. Ears' recommendation.

B. Yes. In making a recommendation based on information that was not publicly available, Ms. Ears has violated insider trading laws and is subject to both civil and criminal penalties.

C. No. Ms. Ears is not considered to be an insider of the company preparing the hostile takeover.

D. Yes. Both Ms. Ears and the two men have violated insider trading laws. The two men are prohibited from discussing such private information in a public setting, and Ms. Ears is prohibited from making a recommendation based on that

information.

Correct Answer: B

Explanation: Yes. In making a recommendation based on overhearing news of an upcoming hostile takeover--information that was not publicly available--Ms. Ears has violated insider trading laws and is subject to both civil and criminal penalties. The men, although guilty of indiscretion in their conversation, have not violated any securities' laws.

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