

## FINRA.SIE.v2026-01-19.q55

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### NEW QUESTION: 1

Which of the following rates is subject to the most frequent changes?

- A. Prime
- B. Call loan
- C. Discount
- D. Federal funds

**Answer: D (LEAVE A REPLY)**

The federal funds rate, which is the interest rate banks charge each other for overnight loans, changes frequently due to daily fluctuations in bank reserves and market conditions.

\* D is correct as it is the most sensitive to short-term market forces.

\* A, B, and C change less frequently.

### NEW QUESTION: 2

Which of the following entities settles broker-to-broker equity, listed corporate and municipal bond, and unit investment trust (UIT) transactions in the U.S. equities markets?

- A. SEC
- B. FINRA
- C. Federal Reserve
- D. National Securities Clearing Corporation (NSCC)

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* National Securities Clearing Corporation (NSCC): A subsidiary of the Depository Trust & Clearing Corporation (DTCC), the NSCC handles the clearance and settlement of broker-to-broker equity, corporate bond, municipal bond, and UIT transactions.

\* Incorrect Options:

\* A: The SEC oversees regulatory compliance but does not settle trades.

\* B: FINRA is a self-regulatory organization, not a clearing entity.

\* C: The Federal Reserve manages monetary policy and banking but is not involved in securities settlement.

References:

\* DTCC Overview of NSCC: DTCC NSCC.

### NEW QUESTION: 3

A customer writes a call for XYZ stock with a strike price of \$35 and receives a premium of \$7. The stock is currently trading at \$40. What is the time value of this option?

- A. \$0
- B. \$2
- C. \$5
- D. \$7

**Answer: B (LEAVE A REPLY)**

An option's premium consists of intrinsic value and time value:

\* Intrinsic value= Current stock price - Strike price = \$40 - \$35 = \$5.

\* Time value= Total premium - Intrinsic value = \$7 - \$5 = \$2.

\* B is correct because \$2 represents the time value.

\* A, C, and D are incorrect because they miscalculate the time value based on the option's total premium.

### NEW QUESTION: 4

The primary market is regulated by the SEC under which of the following acts?

- A. The Securities Act of 1933
- B. The Securities Exchange Act of 1934
- C. The Investment Advisers Act of 1940
- D. The Investment Company Act of 1940

**Answer: A (LEAVE A REPLY)**

The primary market deals with the issuance of new securities, which is regulated under the Securities Act of

1933. This act requires issuers to provide full disclosure of material information to investors to ensure transparency and fairness in new offerings.

\* A is correct because the Securities Act of 1933 governs initial offerings.

\* B is incorrect because the Securities Exchange Act of 1934 regulates secondary market trading.

\* C is incorrect because the Investment Advisers Act of 1940 pertains to investment advisers.

\* D is incorrect because the Investment Company Act of 1940 governs mutual funds and other investment companies.

### NEW QUESTION: 5

Which of the following statements is true of the writer of a listed equity call option?

- A. They have the right to sell stock at a fixed strike price.
- B. They have the right to buy stock at a fixed strike price.
- C. They have the obligation to sell stock at a fixed strike price.
- D. They have the obligation to buy stock at a fixed strike price.

**Answer: C (LEAVE A REPLY)**

Step by Step Explanation:

\* Call Option Writer: When writing (selling) a call option, the writer has the obligation to sell the underlying stock at the strike price if the buyer exercises the option.

\* Incorrect Options:

\* A & B: Only the option buyer has rights, not the writer.

\* D: Obligations to buy stock apply to put option writers, not call option writers.

References:

\* Options Clearing Corporation (OCC) Options Education: OCC Options Education.

### **NEW QUESTION: 6**

Which of the following statements describes a characteristic of exchange-traded funds (ETFs)?

- A. ETFs are offered with front-end or back-end loads.
- B. ETFs are not permitted to be purchased on margin.
- C. ETFs are purchased and sold daily at net asset value (NAV).
- D. ETF expense ratios are generally lower than those of mutual funds.

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* ETF Expense Ratios: ETFs generally have lower expense ratios compared to mutual funds due to their passive management style.

\* Incorrect Options:

\* A: ETFs do not have sales loads; they are traded like stocks.

\* B: ETFs can be purchased on margin, like other equities.

\* C: ETFs are traded throughout the day at market prices, not NAV.

References:

\* SEC ETF Fact Sheet: SEC ETF Info.

### **NEW QUESTION: 7**

Which of the following statements describes a characteristic of Treasury securities?

- A. They are liquid.
- B. They are callable.
- C. They are FDIC-insured.
- D. They are issued by the U.S. government with a high amount of default risk.

**Answer: A (LEAVE A REPLY)**

Treasury securities are among the most liquid investments, as they are backed by the U.S. government and trade actively in large volumes.

- \* A is correct because Treasuries are highly liquid, making them easy to buy and sell.
- \* B is incorrect because most Treasury securities are not callable.
- \* C is incorrect because FDIC insurance applies to bank deposits, not Treasuries.
- \* D is incorrect because U.S. government securities have negligible default risk.

### **NEW QUESTION: 8**

At a prospecting event, a registered representative (RR) provides cards for attendees to write down their contact information if they want to have a follow-up meeting with her. Which of the following actions should the RR take in this situation to comply with telemarketing rules?

- A.** Obtain the broker-dealer's approval before making a call
- B.** Limit contact with prospects to between 9 a.m. and 9 p.m.
- C.** Contact the prospects at will since they provided express written consent
- D.** Prior to contacting the prospects, check all of the names on the cards to make sure they are not on the National Do Not Call Registry

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

- \* Telemarketing Rules (FINRA Rule 3230): Require firms to check the National Do Not Call Registry before contacting individuals, even if those individuals provide their contact information voluntarily.
- \* Incorrect Options:
  - \* A: Approval isn't required for individual follow-ups; compliance with the registry is.
  - \* B: While calls must be limited to appropriate hours, the registry check is still mandatory.
  - \* C: Written consent does not override the registry requirement.

References:

- \* FINRA Rule 3230 (Telemarketing): FINRA Rule 3230.

### **NEW QUESTION: 9**

SEC Regulation S-P (Consumer Privacy) requires certain information to be included in privacy notices delivered to customers of broker-dealers (BDs). Which of the following information is required to be included in the privacy notice?

- A.** The website and telephone number of SIPC
- B.** The website and telephone number of the Consumer Financial Protection Bureau (CFPB)
- C.** The name and telephone number of the BD's chief compliance officer
- D.** The BD's policies and practices for protecting the customer's nonpublic personal information

**Answer: D (LEAVE A REPLY)**

Regulation S-P mandates that broker-dealers disclose how they collect, protect, and share customers' nonpublic personal information. The privacy notice must include:

- \* The categories of information collected.

- \* The firm's policies for safeguarding data.
- \* Opt-out rights for sharing information with unaffiliated third parties.
- \* D is correct because privacy notices must describe policies for protecting customer information.
- \* A, B, and C are incorrect because they do not relate to the required elements of Regulation S-P privacy notices.

### NEW QUESTION: 10

Which of the following responses describes a FINRA member?

- A. An associated person of a registered brokerage firm
- B. A natural person who is employed by a broker-dealer (BD)
- C. A registered representative with a national securities exchange
- D. A BD regulated by a national securities association

**Answer: D (LEAVE A REPLY)**

A FINRA member is a broker-dealer that is registered with FINRA and regulated by a national securities association. Individuals employed by the member firm (e.g., registered representatives) are associated persons, not members themselves.

- \* D is correct because FINRA membership applies to broker-dealers, not individuals.
- \* A, B, and C are incorrect because they refer to individuals or roles within member firms, not the firms themselves.

### NEW QUESTION: 11

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?

- 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: (SHOW ANSWER)**

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.

### NEW QUESTION: 12

Which of the following statements is true regarding the SEC's characterization of a registration statement that has just been made effective?

- A. The SEC has approved the security being offered for sale.
- B. The SEC has found the information presented to be true and accurate.
- C. The SEC has determined that no material information has been omitted.
- D. The SEC has not passed judgment on the merits of the security being offered for sale.

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* SEC Registration Statements: The SEC reviews registration statements for completeness and compliance but does not judge the merits, approve, or endorse the securities being offered.

\* Other Options:

\* A, B, and C: Misrepresent the SEC's role in the registration process.

References:

\* SEC Bulletin on Registration Statements: SEC Registration Process.

### **NEW QUESTION: 13**

A customer receives a confirmation that discloses the firm has acted in a principal capacity. Which of the following statements is the best explanation for this disclosure?

- A. The firm is selling to the customer from its inventory.
- B. The firm is acting as an intermediary between the customer and an unrelated firm.
- C. The firm is acting as an intermediary between the customer and another customer.
- D. The firm matched the customer's purchase with a sell order listed on an electronic communication network (ECN).

**Answer: A (LEAVE A REPLY)**

When a firm acts in a principal capacity, it trades securities for its own account, buying or selling directly to or from its inventory. The firm's role differs from an agency capacity, where it acts as an intermediary.

\* A is correct because principal capacity involves selling directly from the firm's inventory.

\* B, C, and D are incorrect because these scenarios describe agency transactions, where the firm facilitates trades between two parties.

### **NEW QUESTION: 14**

Under SEC Regulation A, which of the following market participants, if deemed to be a bad actor, will disqualify the offering from reliance on this registration exemption?

- A. Custodian
- B. Underwriter
- C. Transfer agent
- D. Clearing corporation

**Answer: B (LEAVE A REPLY)**

SEC Regulation A provides a registration exemption for smaller public offerings but includes a "bad actor" disqualification. If certain key parties, such as the issuer, underwriter, or affiliates, have been involved in securities violations, the exemption is forfeited.

\* B is correct because underwriters are considered essential participants, and their status as bad actors disqualifies the offering.

\* A, C, and D are incorrect because custodians, transfer agents, and clearing corporations are not included in the "bad actor" provisions of Regulation A.

### **NEW QUESTION: 15**

A customer purchases \$3,000 of XYZ, which settles today in a margin account. The customer has no other positions or balances. According to initial margin requirements, what is the amount of the required deposit?

- A. \$1,500
- B. \$2,000
- C. \$2,500
- D. \$3,000

**Answer: B (LEAVE A REPLY)**

Under Federal Reserve Regulation T, customers must deposit at least 50% of the purchase price for margin trades. However, the minimum deposit requirement is \$2,000, regardless of the 50% rule, if the account is below this threshold.

\* 50% of \$3,000 = \$1,500.

\* Since \$1,500 is less than the \$2,000 minimum, the customer must deposit the full \$2,000.

\* B is correct because \$2,000 is the required minimum deposit.

\* A is incorrect because the \$1,500 calculation does not meet the minimum.

\* C and D are incorrect because they exceed the minimum deposit requirement.

### **NEW QUESTION: 16**

An investor generally purchases an open-end mutual fund from which of the following parties?

- A. The NYSE
- B. The fund's custodian
- C. The fund's underwriter
- D. An existing shareholder

**Answer: C (LEAVE A REPLY)**

Step by Step Explanation:

\* Open-End Mutual Funds: Shares are purchased directly from the fund or its underwriter at the current Net Asset Value (NAV), plus any applicable sales charges.

\* Custodian: Holds the fund's assets but does not sell shares.

\* NYSE and Shareholders: Open-end funds do not trade on exchanges or between individual shareholders.

References:

\* SEC Mutual Fund Basics: SEC Mutual Funds.

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### NEW QUESTION: 17

Which of the following events requires reporting on a Form U4?

- A. A misdemeanor speeding ticket
- B. A felony conviction for drunk driving
- C. A bench warrant for missing a court date
- D. A gross-misdemeanor domestic assault conviction

**Answer: (SHOW ANSWER)**

Form U4 (Uniform Application for Securities Industry Registration or Transfer) requires disclosure of any felony convictions, regardless of whether they are securities-related. A felony conviction for drunk driving falls under this requirement.

\* B is correct because a felony conviction must be reported on Form U4.

\* A is incorrect as misdemeanor speeding tickets do not require disclosure unless they involve fraud, theft, or dishonesty.

\* C is incorrect as bench warrants are not reportable unless they lead to a conviction.

\* D is incorrect because gross misdemeanors (except those involving fraud or dishonesty) do not require reporting.

### NEW QUESTION: 18

Which of the following listed securities carries voting rights?

- A. Common stock
- B. Preferred stock
- C. Corporate bond
- D. Convertible bond

**Answer: A (LEAVE A REPLY)**

Step by Step Explanation:

\* Common Stock: Holders of common stock typically have voting rights, which allow them to participate in decisions like electing the board of directors or approving major corporate actions.

\* Other Securities:

\* Preferred Stock: Usually does not carry voting rights.

\* Corporate and Convertible Bonds: Debt instruments, so they do not confer voting rights.

References:

\* SEC Guide on Stock Voting Rights: SEC Voting Rights.

### **NEW QUESTION: 19**

For a customer thinking about purchasing a high-income bond mutual fund, which of the following is considered the primary risk of the underlying securities in the portfolio?

- A. Credit risk
- B. Political risk
- C. Taxability risk
- D. Purchasing power risk

**Answer: A (LEAVE A REPLY)**

High-income bond mutual funds typically invest in lower-rated (junk) bonds that offer higher yields. These bonds are exposed to significant credit risk, as issuers may default on their payments.

- \* A is correct because credit risk is the primary concern with high-yield bonds.
- \* B is incorrect as political risk is more relevant for international investments.
- \* C is incorrect because taxability risk is not specific to bond mutual funds.
- \* D is incorrect because purchasing power risk is more relevant for fixed-income investments during inflationary periods but is not the primary risk here.

### **NEW QUESTION: 20**

Which of the following responses best describes a short sale?

- A. A sale of securities that results in a loss
- B. A sale of securities that the investor does not own
- C. A sale of securities that results in an unsecured debit balance in the investor's account
- D. A sale of securities that the investor had purchased in his cash account but had not yet paid for

**Answer: (SHOW ANSWER)**

Step by Step Explanation:

- \* Short Sale Definition: Involves selling borrowed securities with the expectation of repurchasing them at a lower price.
- \* Investor Ownership: Short sales do not involve securities already owned by the seller.
- \* Other Options: None of the other choices accurately define a short sale.

References:

\* SEC Regulation SHO (Short Selling): SEC Short Sales.

### **NEW QUESTION: 21**

A rating agency downgrades a corporation's credit rating. Which of the following effects is this action most likely to have on the yield and price of the corporation's outstanding bonds?

- A. Yield will fall; price will fall.
- B. Yield will fall; price will rise.
- C. Yield will rise; price will fall.
- D. Yield will rise; price will rise.

**Answer: C (LEAVE A REPLY)**

Step by Step Explanation:

\* Credit Downgrade: Increases perceived risk, causing bond prices to drop and yields to rise.

\* Yield-Price Relationship: Yields move inversely to bond prices. Lower prices lead to higher yields as investors demand more return for increased risk.

References:

\* SEC Guidance on Bond Ratings: SEC Bond Ratings.

### NEW QUESTION: 22

What is the sales load of an open-end investment company with a net asset value (NAV) of \$14.35 and a public offering price (POP) of \$15.50?

- A. 7.40%
- B. 8.00%
- C. 8.50%
- D. 9.25%

**Answer: (SHOW ANSWER)**

The sales load is calculated as a percentage of the POP, using the formula: Sales load =  $(\text{POP} - \text{NAV}) \div \text{POP}$

$\times 100$

\* POP = \$15.50, NAV = \$14.35.

\* Sales load =  $(\$15.50 - \$14.35) \div \$15.50 \times 100 = 8.50\%$ .

\* C is correct because the calculation results in an 8.50% load.

\* A, B, and D are incorrect due to incorrect calculations.

### NEW QUESTION: 23

If an investor is bullish on ABC, which of the following actions will he most likely take?

- A. Buy ABC puts
- B. Buy ABC stock
- C. Sell ABC calls
- D. Sell ABC stock short

**Answer: B (LEAVE A REPLY)**

Step by Step Explanation:

\* Bullish Position: Buying ABC stock aligns with the expectation that the stock's price will rise, allowing the investor to profit.

\* Incorrect Options:

\* A: Buying puts is a bearish strategy.

- \* C: Selling calls benefits from stable or declining prices.
- \* D: Selling short is a bearish strategy anticipating a price drop.

References:

- \* FINRA Guidance on Market Strategies: FINRA Trading Basics.

### **NEW QUESTION: 24**

A grandfather establishes a Uniform Transfers to Minors Act (UTMA) custodial account for his grandson and appoints an attorney as custodian. Which of the following individuals owns the account?

- A.** Attorney
- B.** Grandfather
- C.** Grandson
- D.** Grandson's parent

**Answer: C (LEAVE A REPLY)**

In a UTMA account, the minor is the legal owner of the account. The custodian (in this case, the attorney) manages the account until the minor reaches the age of majority specified by state law.

- \* C is correct because the grandson (the minor) is the account's legal owner.
- \* A is incorrect because the attorney is the custodian, not the owner.
- \* B is incorrect because the grandfather established the account but does not own it.
- \* D is incorrect because the parent does not have ownership unless explicitly named as the custodian.

### **NEW QUESTION: 25**

Rising economic activity is most likely to increase revenues of which of the following sectors?

- A.** Utilities
- B.** Healthcare
- C.** Consumer staples
- D.** Consumer discretionary

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

- \* Consumer Discretionary Sector: Includes products and services that are not essential, such as luxury items, travel, and entertainment. Revenues increase as disposable income rises during economic expansion.
- \* Consumer Staples and Utilities: These sectors are defensive and less impacted by economic cycles.
- \* Healthcare: Also less correlated with economic cycles due to its essential nature.

References:

- \* SEC and FINRA Guidance on Sectors: Investopedia Sector Overview.

**NEW QUESTION: 26**

Which of the following responses describes a warrant?

- A. An interest-paying security
- B. Redemption rights for a debt instrument
- C. The right to purchase a specified amount of shares
- D. A fixed-income security issued by a state or municipality

**Answer: C (LEAVE A REPLY)**

Step by Step Explanation:

\* Warrants: These are long-term options issued by a company that give the holder the right to buy shares at a specific price before expiration. They are typically attached to bond or stock offerings to make them more attractive.

\* Incorrect Options:

\* A: Warrants do not pay interest.

\* B: Refers to callable bonds, not warrants.

\* D: Describes municipal bonds, not warrants.

References:

\* SEC Guide to Warrants and Options: SEC Warrants Information.

**NEW QUESTION: 27**

Which of the following activities is a responsibility of a mutual fund transfer agent?

- A. Underwriting new shares of securities
- B. Distributing the fund's prospectus to investors
- C. Maintaining custody of the fund's securities
- D. Maintaining records of shareholder purchases and redemptions

**Answer: (SHOW ANSWER)**

A transfer agent is responsible for maintaining accurate records of shareholder purchases, redemptions, and account balances. They also handle the issuance and cancellation of shares and ensure shareholders receive appropriate distributions.

\* D is correct because maintaining shareholder records is a core duty of a transfer agent.

\* A is incorrect because underwriting is the responsibility of a broker-dealer.

\* B is incorrect because distributing the prospectus is handled by the fund's distributor.

\* C is incorrect because custody of securities is the role of a custodian, not the transfer agent.

**NEW QUESTION: 28**

How long are unused funds permitted to remain in a Coverdell education savings account?

- A. All funds must be distributed when the beneficiary's age reaches 21 years old.
- B. All funds must be distributed when the beneficiary's age reaches 30 years old.
- C. All funds must be distributed when the beneficiary's age reaches 59 ½ years old.
- D. There is no age limit preventing funds from remaining in a beneficiary's account.

**Answer: B (LEAVE A REPLY)**

Coverdell Education Savings Accounts (ESAs) require that all funds be distributed by the time the beneficiary reaches 30 years old. If the funds are not used for qualified educational expenses, they may be subject to taxes and penalties.

\* B is correct because funds must be distributed by age 30 unless transferred to another eligible family member.

\* A is incorrect as age 21 is not relevant for Coverdell ESAs.

\* C is incorrect because age 59 ½ applies to retirement accounts like IRAs.

\* D is incorrect because there is a distribution deadline for Coverdell accounts.

### **NEW QUESTION: 29**

Which of the following statements best describes the permissibility of a borrowing arrangement between a registered representative (RR) and a customer who is also the RR's grandfather?

**A.** It is permissible subject to FINRA approval.

**B.** It is permissible if the grandfather agrees in writing.

**C.** It is permissible if the loan was made on commercially reasonable terms.

**D.** It is permissible provided that the loan was made in accordance with the firm's policies.

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* FINRA Rule 3240: Permits borrowing or lending arrangements between RRs and customers under specific conditions, including familial relationships, provided the arrangement complies with the firm's policies.

\* Incorrect Options:

\* A: FINRA approval is not required; firm approval is.

\* B: A written agreement alone is insufficient without firm approval.

\* C: Commercially reasonable terms are not the sole criterion for permissibility.

References:

\* FINRA Rule 3240 (Borrowing from or Lending to Customers): FINRA Rule 3240.

### **NEW QUESTION: 30**

Which of the following entities issues certificates of deposit (CDs)?

**A.** FDIC

**B.** Banks

**C.** Broker-dealers

**D.** Federal Reserve

**Answer: (SHOW ANSWER)**

Certificates of Deposit (CDs) are time deposit accounts issued by banks, offering fixed interest rates for a specified term. CDs are insured by the FDIC up to \$250,000 per depositor, but the issuing entity is the bank itself.

\* B is correct because banks issue CDs.

\* A is incorrect because the FDIC insures CDs but does not issue them.

\* Cis incorrect because broker-dealers may facilitate the purchase of CDs but do not issue them.

\* Dis incorrect because the Federal Reserve does not issue CDs; it manages monetary policy.

### NEW QUESTION: 31

A registered representative (RR) at a member firm is the subject of a statutory disqualification. Which of the following statements is true?

**A.** The RR is prohibited from soliciting business but is permitted to accept unsolicited orders.

**B.** The RR is prohibited from any association or employment with a member firm unless he obtains a waiver.

**C.** The RR is prohibited from employment by a member firm in any registered capacity but is permitted to be employed in an unregistered capacity.

**D.** A statutory disqualification, although reportable to CRD, does not affect employment in the securities industry.

**Answer: B (LEAVE A REPLY)**

A statutory disqualification occurs if an RR has been convicted of certain crimes, violated securities laws, or been barred by a regulatory authority. Under FINRA rules, the RR cannot associate with a member firm in any capacity unless they obtain a waiver from FINRA.

\* B is correct because the disqualified person must obtain a waiver to continue employment.

\* A and C are incorrect because the RR is not allowed to associate with the firm in any capacity without a waiver.

\* Dis incorrect because statutory disqualification directly affects the RR's employment status.

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### NEW QUESTION: 32

Which of the following transactions is most profitable if executed prior to a significant rise in a company's stock price?

**A.** Buying a put option

**B.** Buying a call option

C. Selling a put option

D. Selling a call option

**Answer: B (LEAVE A REPLY)**

Buying a call option gives the investor the right to purchase the stock at a fixed price (strike price). If the stock's price rises significantly, the value of the call option increases, allowing the investor to profit.

\* B is correct because a call option profits directly from a stock price increase.

\* A is incorrect because a put option profits from a stock price decline.

\* C and D are incorrect because selling options limits profit potential and exposes the seller to significant risk if the stock moves unfavorably.

### **NEW QUESTION: 33**

In a rising interest rate environment, which of the following statements is true regarding the price of fixed-rate corporate bonds?

A. Their price will remain constant.

B. Their price will revert to par value.

C. Their price will appreciate in value.

D. Their price will depreciate in value.

**Answer: D (LEAVE A REPLY)**

When interest rates rise, the price of fixed-rate corporate bonds falls because the bond's coupon payments become less attractive compared to new bonds issued at higher rates.

\* D is correct as bond prices move inversely to interest rates.

\* A is incorrect because bond prices fluctuate with interest rate changes.

\* B is incorrect because bond prices revert to par only at maturity.

\* C is incorrect because prices do not appreciate when rates rise.

### **NEW QUESTION: 34**

Which of the following products is redeemable at net asset value (NAV)?

A. Corporate stock

B. Municipal bonds

C. Options contracts

D. Open-end mutual funds

**Answer: D (LEAVE A REPLY)**

Open-end mutual funds are redeemable securities, meaning investors can sell their shares back to the fund at the NAV.

\* D is correct because mutual funds allow redemption at NAV.

\* A, B, and C are not redeemable securities.

### **NEW QUESTION: 35**

Under FINRA rules, which of the following activities is not considered an outside business activity (OBA)?

- A. Selling real estate
- B. Selling health insurance
- C. Professionally refereeing athletic events
- D. Passively investing in a multifamily house for rental purposes

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* Outside Business Activity Definition: Per FINRA Rule 3270, an OBA involves compensated business activities outside the scope of the RR's role at their firm. Passive investments are excluded because they do not require active involvement.

\* Incorrect Options:

\* A, B, and C: Selling real estate, selling insurance, and refereeing are considered OBAs as they involve active participation and compensation.

References:

\* FINRA Rule 3270 (Outside Business Activities): FINRA Rule 3270.

### **NEW QUESTION: 36**

Which of the following characteristics is true of open-end mutual fund shares?

- A. They terminate and dissolve on an established date.
- B. Their price is calculated intra-day based on the changing market value of the fund.
- C. They are purchased by investors in the secondary market.
- D. They are purchased by investors directly from the fund or through a broker-dealer offering the fund.

**Answer: D (LEAVE A REPLY)**

Open-end mutual funds do not trade on secondary markets. Instead, shares are continuously issued or redeemed by the fund at the net asset value (NAV), calculated at the market close.

\* D is correct because investors purchase and redeem shares directly through the fund or authorized brokers.

\* A is incorrect because mutual funds do not have a predetermined dissolution date.

\* B is incorrect because mutual fund shares are priced at the NAV calculated once daily after the market closes.

\* C is incorrect because secondary market trading applies to closed-end funds and ETFs, not open-end mutual funds.

### **NEW QUESTION: 37**

A customer holds 1,000 shares of Company XYZ and wants to sell covered calls against this position. What is the maximum number of contracts that the customer could sell and still remain covered?

- A. 5 contracts
- B. 10 contracts
- C. 100 contracts

D. 1,000 contracts

**Answer: B (LEAVE A REPLY)**

Each option contract represents 100 shares. A covered call involves selling a call option while holding an equivalent number of shares to deliver if the option is exercised.

\* The customer owns 1,000 shares.

\* Since 1 contract = 100 shares, the maximum number of contracts the customer can sell is: 1,000 shares

$\div 100 \text{ shares/contract} = 10 \text{ contracts.}$

\* B is correct because selling 10 contracts corresponds to 1,000 shares, fully covering the position.

### **NEW QUESTION: 38**

Which of the following statements is true of the comparison between penny stocks and blue-chip stocks?

A. Penny stocks are generally less liquid than blue-chip stocks.

B. Penny stocks are more likely to pay dividends than blue-chip stocks.

C. Penny stock prices are generally more stable than blue-chip stock prices.

D. Penny stock issuers are generally better capitalized than issuers of blue-chip stocks.

**Answer: A (LEAVE A REPLY)**

Step by Step Explanation:

\* Penny Stocks: These are low-priced, highly speculative stocks often issued by small or distressed companies. They generally have low liquidity, meaning they can be difficult to buy or sell without significantly impacting the price.

\* Incorrect Options:

\* Dividends: Penny stocks rarely pay dividends, unlike blue-chip stocks.

\* Price Stability: Penny stocks are highly volatile compared to blue-chip stocks.

\* Capitalization: Blue-chip companies are far better capitalized.

References:

\* SEC Bulletin on Penny Stocks: SEC Penny Stocks.

### **NEW QUESTION: 39**

Which of the following responses best describes how member firms are required to retain electronic correspondence and internal communications of associated persons?

A. In hard copy

B. On the firm's server

C. In the firm's cloud storage

D. In a non-rewriteable format

**Answer: D (LEAVE A REPLY)**

FINRA Rule 4511 requires member firms to retain records, including electronic communications, in a non-rewriteable, non-erasable format (often referred to as WORM:

Write Once, Read Many). This ensures that records cannot be altered or deleted once stored.

\* D is correct because firms must store records in a tamper-proof format.

\* A, B, and C are incorrect because these formats do not guarantee compliance with the tamper-proof requirements set forth by FINRA and the SEC.

#### **NEW QUESTION: 40**

Under which of the following circumstances, if any, is it permissible for an individual without a Power of Attorney (POA) to sign a customer's name on their behalf?

**A.** Upon approval by a firm principal

**B.** Upon receipt of verbal authorization provided that written authorization is subsequently provided

**C.** When accounts are fully discretionary

**D.** Never permissible to sign a customer's name on their behalf

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* Prohibition on Signing Customer Names: It is never permissible to sign a customer's name without written authorization (POA) due to legal and ethical concerns. Unauthorized signing constitutes forgery and violates FINRA rules.

\* Incorrect Options:

\* A: Firm principal approval does not override this prohibition.

\* B: Verbal authorization is insufficient.

\* C: Discretionary authority does not allow unauthorized signing.

References:

\* FINRA Rule 4512 (Customer Account Information): FINRA Rule 4512.

#### **NEW QUESTION: 41**

Company ABC stock currently trades on an exchange. An ABC insider wants to sell a large number of shares of her privately held ABC stock. ABC files the necessary paperwork to register the shares, but the insider decides to wait and sell the stock at a later date. Which of the following terms best describes the type of offering that is occurring in this situation?

**A.** A rights offering

**B.** A private offering

**C.** An exempt offering

**D.** A secondary offering

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* Secondary Offering: Involves the sale of shares by an existing shareholder, such as an insider, rather than the company itself issuing new shares.

\* Incorrect Options:

\* A: Rights offerings involve giving existing shareholders the opportunity to buy additional shares.

\* B: Private offerings are not registered with the SEC and involve limited investors.

\* C: An exempt offering refers to securities exempt from SEC registration, such as Regulation D offerings.

References:

\* SEC Guide on Secondary Offerings: SEC Secondary Offerings.

### **NEW QUESTION: 42**

Which of the following statements best describes an American Depositary Receipt (ADR)?

**A.** ADRs trade like U.S. issues and are quoted in U.S. dollars.

**B.** ADRs trade like U.S. issues and are quoted in foreign currency.

**C.** ADRs represent shares of a U.S. security held in foreign commercial banks.

**D.** ADRs represent shares of a foreign security held in foreign commercial banks.

**Answer: A (LEAVE A REPLY)**

Step by Step Explanation:

\* ADRs: Represent foreign securities but are issued in the U.S. and quoted in U.S. dollars, making them easier for American investors to trade.

\* Incorrect Options:

\* B: ADRs are quoted in U.S. dollars, not foreign currencies.

\* C & D: ADRs represent foreign securities held by U.S. banks, not foreign banks.

References:

\* SEC Bulletin on ADRs: SEC ADR Overview.

### **NEW QUESTION: 43**

In performing fundamental analysis of an equity, which of the following elements should an investor consider?

**A.** Chart patterns

**B.** Moving average

**C.** Financial statements

**D.** Resistance and support levels

**Answer: C (LEAVE A REPLY)**

Fundamental analysis focuses on evaluating a company's financial health and potential for growth by analyzing its financial statements, such as the income statement, balance sheet, and cash flow statement.

\* C is correct because financial statements provide the data necessary for fundamental analysis.

\* A and B are incorrect because chart patterns and moving averages are tools of technical analysis, not fundamental analysis.

\* D is incorrect because resistance and support levels are also part of technical analysis.

**NEW QUESTION: 44**

If a company with a single outstanding bond issue chooses to extinguish this debt through refunding, which of the following actions will occur?

- A. The company will issue stock to replace the bonds.
- B. The company will retire one debt with the proceeds from another issue.
- C. The company will buy back the bonds, at a discount, from the bondholders.
- D. The company will establish a sinking fund for use in making regular open-market purchases of the bonds.

**Answer: (SHOW ANSWER)**

Refunding involves replacing existing debt with new debt, usually to take advantage of lower interest rates.

- \* B is correct because the company issues new bonds to pay off the existing debt.
- \* A is incorrect as refunding involves issuing debt, not equity.
- \* C is incorrect because the company is not obligated to buy back bonds at a discount.
- \* D is incorrect because a sinking fund is used for gradual repayment, not refunding.

**NEW QUESTION: 45**

Which of the following disclosures is a municipal securities dealer required to provide its customers once every calendar year?

- A. The firm's address
- B. The firm's financial standing
- C. FINRA violations of all registered representatives
- D. The location and availability of the MSRB investor brochure

**Answer: D (LEAVE A REPLY)**

Step by Step Explanation:

\* MSRB Rule G-10: Requires municipal securities dealers to notify customers annually about the availability of the MSRB investor brochure, which explains investor protections and complaint filing procedures.

\* Incorrect Options:

- \* A and B: Address and financial standing are not specifically required disclosures.
- \* C: FINRA violations are not a required disclosure under MSRB rules.

References:

\* MSRB Rule G-10 (Investor Brochure Requirement): MSRB Rule G-10.

**NEW QUESTION: 46**

Which of the following responses best characterizes a money market mutual fund?

- A. It pays a fixed rate of return.
- B. Its price is fixed at \$1 per share.
- C. Its underlying investments are short term.
- D. Its yield always exceeds a savings account rate.

**Answer: C (LEAVE A REPLY)**

Money market mutual funds invest in highly liquid, short-term debt instruments, such as Treasury bills, commercial paper, and certificates of deposit. While the funds aim to maintain a stable \$1 NAV, this is not guaranteed.

- \* C is correct because the fund's investments are short term.
- \* A is incorrect because the rate of return is not fixed; it varies with market interest rates.
- \* B is incorrect because while the fund tries to maintain a \$1 NAV, it is not guaranteed.
- \* D is incorrect because yields do not always exceed those of savings accounts.

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#### **NEW QUESTION: 47**

Which of the following is considered nonpublic information?

- A. Customer's name
- B. Customer's address
- C. Customer's net worth
- D. Customer's telephone number

**Answer: C (LEAVE A REPLY)**

Step by Step Explanation:

\* Nonpublic Information: A customer's net worth is nonpublic personal information that requires confidentiality under Regulation S-P.

\* Incorrect Options:

\* A, B, and D: Names, addresses, and phone numbers may be public unless linked to specific financial or personal details.

References:

\* SEC Regulation S-P (Privacy of Consumer Financial Information): SEC Regulation S-P.

#### **NEW QUESTION: 48**

When is a newly registered person subject to the Continuing Education Regulatory Element requirement?

- A. The calendar year following initial registration
- B. On the anniversary date of initial registration
- C. Every three years after the date of registration
- D. Every five years

**Answer: (SHOW ANSWER)**

Step by Step Explanation:

\* Regulatory Element Requirement: Newly registered persons must complete the Continuing Education (CE) Regulatory Element on the second anniversary of their initial registration and every three years thereafter.

\* Incorrect Options:

\* A: The requirement begins on the second anniversary, not the following calendar year.

\* D: The cycle is every three years, not five.

References:

\* FINRA Rule 1240 (Continuing Education): FINRA Rule 1240.

### **NEW QUESTION: 49**

A Treasury bill is issued under which of the following terms?

**A.** At par

**B.** At par plus interest

**C.** At a discount

**D.** At a stated rate of interest

**Answer: C (LEAVE A REPLY)**

Treasury bills (T-bills) are short-term debt securities issued at a discount to par value. The difference between the purchase price and the par value represents the investor's interest income, which is realized when the T-bill matures.

\* C is correct because T-bills are issued at a discount and mature at par.

\* A is incorrect because T-bills are not sold at par value.

\* B and D are incorrect because T-bills do not pay periodic interest; the return is based on the discount.

### **NEW QUESTION: 50**

Which of the following statements characterizes the typical relationship between the market value of a municipal bond portfolio and interest rates?

**A.** As interest rates increase, the market value goes up.

**B.** As interest rates decrease, the market value goes up.

**C.** As the market value goes down, interest rates decrease.

**D.** As the market value goes up, interest rates stay constant.

**Answer: B (LEAVE A REPLY)**

Step by Step Explanation:

\* Inverse Relationship: Bond prices and interest rates have an inverse relationship. When interest rates fall, existing bonds with higher coupon rates become more valuable, leading to an increase in market value.

\* Incorrect Options:

\* A: Market value decreases as interest rates increase.

\* C: Interest rates and bond values move inversely, not in the same direction.

\* D: Interest rates are not constant; they fluctuate over time.

References:

\* SEC Municipal Bonds Overview: SEC Municipal Bonds.

**NEW QUESTION: 51**

Executing trades using the delivery versus payment (DVP) settlement process requires the buyer to make a cash payment by which of the following deadlines?

- A. On the 5th business day after execution
- B. Before or at the same time as securities being delivered
- C. No later than 3 days after the securities are delivered
- D. By the agreed-upon settlement date with the issuer

**Answer: (SHOW ANSWER)**

Step by Step Explanation:

\* DVP Process: Ensures that payment occurs simultaneously with the delivery of securities, mitigating counterparty risk. Cash payment is made before or at the time of delivery.

\* Incorrect Options:

- \* A: The T+5 timeline is not standard for DVP.
- \* C: Payment must occur at delivery, not after.
- \* D: Settlement date agreements with the issuer are irrelevant for DVP.

References:

\* FINRA Guidelines on DVP/RVP Transactions: FINRA DVP Info.

**NEW QUESTION: 52**

Which of the following types of accounts permits an investor to borrow money from a broker-dealer to help pay for a trade?

- A. Cash
- B. Margin
- C. An individual retirement account (IRA)
- D. Delivery versus payment (DVP) / receive versus payment (RVP)

**Answer: B (LEAVE A REPLY)**

Step by Step Explanation:

\* Margin Accounts: Allow investors to borrow funds to purchase securities, with the securities serving as collateral for the loan.

\* Cash Accounts: Require full payment for securities purchased.

\* IRAs: Do not permit borrowing due to their tax-advantaged status.

\* DVP/RVP: Settlement mechanisms, not account types for borrowing.

References:

\* FINRA Rule 4210 (Margin Requirements): FINRA Rule 4210.

**NEW QUESTION: 53**

An investor is bullish on the technology sector and heavily invests in microchip companies. Impactful regulatory changes are announced that will negatively affect microchip manufacturing. In order to mitigate the risk to his portfolio, the investor should:

- A. Purchase holdings uncorrelated to the technology sector.
- B. Purchase shares of other microchip companies in the technology sector.
- C. Sell holdings that are unaffected by the regulatory changes.
- D. Buy more shares of the microchip companies already in his portfolio.

**Answer: A (LEAVE A REPLY)**

The announcement of negative regulatory changes introduces unsystematic risk, specific to the technology sector. Diversification into unrelated sectors can reduce exposure to this risk.

- \* A is correct because uncorrelated holdings reduce portfolio risk.
- \* B is incorrect because adding more microchip companies increases exposure to sector-specific risk.
- \* C does not address the core issue of over-concentration.
- \* D is the opposite of mitigating risk.

#### **NEW QUESTION: 54**

Which of the following types of securities is an equity?

- A. Preferred stock
- B. Commercial paper
- C. Certificate of deposit (CD)
- D. Exchange-traded note (ETN)

**Answer: A (LEAVE A REPLY)**

Equity securities represent ownership in a company, and preferred stock is a type of equity security that pays dividends and has priority over common stock in liquidation.

- \* A is correct because preferred stock is an equity security.
- \* B is incorrect because commercial paper is a short-term debt security.
- \* C is incorrect because certificates of deposit (CDs) are fixed-income banking products.
- \* D is incorrect because exchange-traded notes (ETNs) are unsecured debt securities.

#### **NEW QUESTION: 55**

Under which of the following circumstances, if any, is a member firm permitted to send gifts to registered representatives (RRs) of another member firm?

- A. No single gift exceeds \$100; no limit on the number of gifts
- B. No single gift exceeds \$100; maximum value of all gifts per RR per year is \$200
- C. Value of all gifts to an RR during a period of one year does not exceed \$100
- D. Under no circumstance

**Answer: C (LEAVE A REPLY)**

FINRA Rule 3220 prohibits member firms from giving gifts exceeding \$100 per individual per year to ensure that gifts do not influence business conduct. The rule applies to gifts given in connection with the firm's business.

- \* C is correct because it adheres to FINRA's \$100 annual limit.
- \* A is incorrect because the total value of gifts must also not exceed \$100 annually.
- \* B is incorrect as there is no \$200 limit.
- \* D is incorrect as gifts are allowed within the \$100 limit.

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