FINRA-SERIES-6 Q&As

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

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QUESTION 1

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.

QUESTION 2

Mr. Walt Street has observed that a Treasury note maturing in November of 2019 and paying a 3.375% coupon has a bid price of 105:25 and an ask price of 105:26.

In this instance, what is the dealers' spread for every $1,000 of par value?

A. $0.31250

B. $0.10000

C. $0.03125

D. $0.03375

Correct Answer: A

Explanation: For every $1,000 of par value, the dealers' spread is $0.31250. The prices of Treasury bonds and notes are quoted in 32nds of a dollar per $100 of par value. Therefore, the bid price is $105 25/32, or $105.78125, per $100 of par, and the ask price is $105 26/32, or $105.8125 per $100 of par. The difference between the two is the dealers' spread per $100 of par value, or $0.03125. The question asks for the dealers' spread for every $1,000 of par value, so this must be multiplied by 10: $0.03125 x 10= $0.31250.

QUESTION 3

Which of the following is not required to be included in a management company\\'s prospectus?

A. the various fees charged by the company

B. the potential risks to which the company\\'s investors are exposed

C. a statement of the investment objective of the company

D. the financial statements of the company

Correct Answer: D

Explanation: The financial statements of the investment company are not required to be included in a management company\\'s prospectus. Management companies, otherwise known as closed-end or open-end investment companies, are required to have a "statement of additional information," however, that would include the financial statements of the company.

QUESTION 4

The Bank Secrecy Act (BSA) requires any financial institution to:

I. file a suspicious activity report (SAR) when a possible violation of a law is suspected.

II. inform its customer that it is filing the SAR.

III. provide any customer that is suspected of engaging in an illegal transaction the opportunity to explain himself prior to filing an SAR.

IV.

obtain specified information on any party sending or receiving a wire transfer of $3,000 or more.

A.

I and II only

B.

I, II, and IV only

C.

I and IV only

D.

I, II, III and IV

Correct Answer: C

Explanation: Only Selections I and IV are accurate statements. The BSA requires any financial institution to file a suspicious activity report when a possible violation of the law is suspected, and it also requires that specified information on any party sending or receiving a wire transfer of $3,000 or more be obtained and kept. The customer remains uninformed.

QUESTION 5

Steel Dynamics (STLD) has a convertible bond issue that matures in four years. The bond has a face value of $1,000 and pays a coupon of 5.125%, with interest paid semiannually. The conversion ratio is 56.9801. If the stock of Steel

Dynamics is currently priced at $15 a share, what is the conversion value of this bond, to the nearest cent?

A. $854.70

B. $569.80

C. $175.50

D. Until it matures, the conversion value of the bond is equal to its face value of $1,000

Correct Answer: A

Explanation: The conversion value of this bond $854.70. It is equal to its conversion ratio of 56.9801 times the current market price of its stock, $15. Thus, 56.9801 x $15 = $854.70.