FINRA-SERIES-6 Q&As

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

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QUESTION 1

In order for the Invest4U Mutual Fund to qualify as a regulated investment company under Internal Revenue Code Subchapter M, it must:

A. distribute at least 90% of its net investment income to its shareholders.

B. distribute at least 98% of its net income from capital gains to its shareholders.

C. invest at least 75% of its monies in diversified securities.

D. Both A and B are required for Invest4U to qualify as a regulated investment company.

Correct Answer: D

Explanation: To qualify as a regulated investment company, Invest4U must distribute at least 90% of its net investment income to its shareholders and distribute at least 98% of its net income from capital gains to its shareholders. Only 50% of its monies needs to be invested in diversified securities to qualify.

QUESTION 2

Which of the following statements about hedge funds is true?

A. They are fairly low risk since the portfolio managers use investment strategies designed to "hedge their bets."

B. They are not regulated by the Investment Company Act of 1940.

C. They are considered to be very liquid investments.

D. They have low management fees, like index funds.

Correct Answer: B

Explanation: The true statement about hedge funds is that they are not regulated by the Investment Company Act of 1940. They are very risky, are illiquid-investors may only make contributions and withdrawals at specified times-and they have extremely high management fees.

QUESTION 3

Mr. R. Retired recently turned 61 and has decided to annuitize a variable annuity contract in which he had been investing. When he does so:

A. he will have to pay a 10% penalty for annuitizing the contract before he turned 62 ½.

B. his accumulation units will be converted into a fixed number of annuity units.

C. the value of his annuity units becomes fixed.

D. Both B and C are true statements.

Correct Answer: B

Explanation: When Mr. R. Retired decides to annuitize his variable annuity contract at the age of 61, his accumulation units will be converted into a fixed number of annuity units. The value of these units will depend on the actual returns earned by the account and the actuarially-determined assumed interest rate; it is not fixed. Mr. Retired will not be subject to a 10% penalty since he is over 59 ½ years old.

QUESTION 4

Which of the following is not a characteristic of all auction stock exchanges in the U.S.?

A. There is a central marketplace.

B. Stocks that are traded on the exchange must meet certain listing requirements, determined by the exchange.

C. In order to conduct a trade on the exchange, a broker must be a member of the exchange or hold a license to trade on the exchange.

D. If a stock is listed on one of these exchanges, it is not permitted to be listed on any other exchange.

Correct Answer: D

Explanation: The statement that does not describe a characteristic of all U.S. auction stock exchanges is D. Dual listing is permitted. Stocks listed on one exchange may also be listed on another. In fact, most of the trading on U.S. regional exchanges is in dual-listed stocks. All of the auction exchanges do have a central marketplace, listed stocks must meet listing requirements, and brokers wishing to conduct trades on the exchange must be members of the exchange or hold a license to trade on the exchange.

QUESTION 5

Which of the following statements regarding a Coverdell Education Savings Plan (ESA) are true?

I. There are income limitations regarding those who may contribute to an ESA.

II. There is a maximum annual aggregate amount that can be contributed to a single beneficiary\\'s account.

III. Contributions to an ESA are tax deductible.

IV.

The monies must be used prior to the beneficiary\\'s 30th birthday for education-related expenses in order to avoid paying both taxes and a penalty.

A.

I and II only

B.

I and III only

C.

I, II, and IV only

D.

I, II, III, and IV

Correct Answer: C

Explanation: Only Statements I, II, and IV regarding an ESA are true. The ability to establish one is limited to those with an adjusted gross income specified by government guidelines, and there is a maximum annual aggregate amount that can be contributed to a single beneficiary\\'s account regardless of how many contributors there are to that account. If the monies are not used for education-related expenses prior to the beneficiary\\'s 30th birthday, there is a mandatory distribution requirement, at which point the distribution will be taxed as ordinary income and a 10% penalty will be assessed.