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FINRA Uniform Securities Agent State Law Examination

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**QUESTION 1**

Treadwater Bank and Trust is selling a portfolio of municipal bonds it owns to the SafeRisk Insurance Corporation. Under the Uniform Securities Act (USA), in this transaction Treadwater is defined as a

- A. broker-dealer.
- B. agent.
- C. issuer.
- D. none of the above.

Correct Answer: D

When Treadwater Bank and Trust sells municipal bonds it owns to SafeRisk, it does not meet the USA definition of a broker-dealer, an agent, or an issuer. As a bank, Treadwater is automatically excluded as a broker-dealer. Nor can Treadwater be defined as an agent since an agent can only be an individual. Treadwater is not the issuer of the securities; the state and local governments that originally issued the securities are.

QUESTION 2

Cal Turner calls his client and recommends that the client sell his shares in the Alpha High Quality Bond Fund and use the proceeds to buy shares in the Omega High Quality Bond Fund. Cal has done nothing unethical if his recommendation is based on the fact that

- A. the Alpha Fund has a back-end load.
- B. the Omega Fund has a front-end load.
- C. the Alpha Fund has been performing poorly relative to other funds in the same category.
- D. It would always be unethical for Cal to recommend that a client sell shares in one fund in order to buy shares of another fund that has the same investment objective.

Correct Answer: C

Cal has done nothing unethical if his recommendation that a client sell his shares in the Alpha Fund and buy shares of the Omega Fund is due to the fact that the Alpha Fund has been performing poorly relative to other funds in the same category. While past performance is no guarantee of future performance, a client may not want to hang on to a fund that isn't returning as much as its competition.

QUESTION 3

To say a security is "exempt," means that

- I. it is exempt from the state's anti-fraud laws.
- II. it is exempt from state registration requirements.
- III.



any transaction involving it is considered to be an exempt transaction.

A.

I, II, and III

B.

I and II only

C.

II and III only

D.

II only

Correct Answer: D

To say a security is "exempt" means only that the security is exempt from state registration requirements. It is not exempt from the state's anti-fraud laws and may or may not be part of an exempt transaction. That is defined by the transaction.

QUESTION 4

The 2003 NASAA Model Rule requires that investment advisers that are not federal covered maintain their records for at least

A. three years.

B. five years.

C. seven years.

D. Investment advisers must maintain their records for as long as they remain registered with the state.

Correct Answer: B

Investment advisers are required to maintain their records for at least five years.

QUESTION 5

In accordance with the National Securities Markets Improvement Act of 1996, which of the following is a federal covered adviser and, therefore, exempt from registering with the state Administrator?

I. An adviser who does business in 26 states.

II. An adviser who manages the portfolio of a mutual fund that is registered with the SEC.

III.

An adviser with \$35 million in assets under management



A.

All of the selections meet the qualifications of a federal covered adviser.

B.

I and II only

C.

II and III only

D.

I and III only

Correct Answer: C

The advisers described in Selections II and III are federal covered advisers and, therefore, exempt from registering with the state Administrator. An adviser who advises a registered investment company, as in Selection II, and an adviser with over \$30 million in assets under management, as in Selection III are exempt. In order to be exempt from registration, the adviser in Selection I would have to be doing business in more than 30 states.

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