



FINRA-SERIES-63^{Q&As}

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**QUESTION 1**

White and Associates is an investment adviser registered in the state of Kentucky and, as such, is meeting Kentucky's minimum net capital requirement for investment advisers.

The firm recently registered with the state of Virginia and has opened an office there.

Virginia has a significantly higher net capital requirement for its investment advisers.

Which of the following statements is true?

- A. According to the Uniform Securities Act, S. White will have to meet Virginia's higher requirement.
- B. According to the Investment Advisers Act of 1940, S. White needs only to meet the net capital requirement of Kentucky.
- C. According to the Securities Exchange Act of 1934, S. White needs to meet at least the minimum net capital requirement specified by that Act since it is now operating in multiple states.
- D. According to the Investment Advisers Act of 1940, S. White will have to maintain a minimum net capital equal to the average of the net capital requirements of the two states.

Correct Answer: B

Since S. White is already registered in the state of Kentucky and meeting the net capital requirement of that state, the Investment Advisers Act of 1940 stipulates that Virginia cannot require a higher minimum net capital. The Act states that if an investment adviser is registered in one state and is meeting its net capital requirement, a second state cannot impose a higher net capital requirement on the investment adviser.

QUESTION 2

Mr. Bigwig, CEO of HiGrowth Corporation, meets with the president of BigFee Investment Bankers and arranges for BigFee to underwrite an Initial Public Offering (IPO) for the firm. When the IPO comes to market, GetErDone Broker-Dealers is part of the selling group, which handles the sale of the stock to the public. In this scenario, which party is the issuer?

- A. HiGrowth Corporation
- B. Mr. Bigwig
- C. BigFee Investment Bankers
- D. GetErDone Broker-Dealers

Correct Answer: A

HiGrowth Corporation is the issuer in this instance. Its stock will be sold, and HiGrowth will receive the proceeds from the sale-less BigFee's underwriting spread. Mr. Bigwig is merely HiGrowth's representative in this instance.

QUESTION 3



Which of the following securities would not necessarily be exempt from state registration?

- A. a stock listed on the Tokyo Stock Exchange
- B. a bond guaranteed by the Canadian government
- C. a bond issued by another state's employees' credit union
- D. a stock listed as a NASDAQ National Market Issue.

Correct Answer: A

Stocks listed on the Tokyo Stock Exchange would not necessarily be exempt from state registration. Stocks that are registered with the SEC, such as NASDAQ National Market Issue stocks, securities issued or guaranteed by the Canadian government, and securities issued or guaranteed by banks or credit unions are all exempt.

QUESTION 4

You are a registered agent with a large brokerage firm. Your client is a very busy woman. She is interested in purchasing 500 shares of Google, but she thinks this morning's opening price is too high. She's going to be in meetings and then on a transatlantic flight. She wants the purchase to take place today because she believes Google's price is just going to keep rising with only the occasional daily ups and downs. She wants you to use your discretion and try to get her the best price for the stock in today's trading session.

Which of the following statements are true?

- A. You have to tell her that you can't do this without a signed discretionary authorization from her, and there's none on file.
- B. You tell her that you can do this for her, but only if you execute it as a margin transaction.
- C. You tell her you can enter it for her as a "market not held" order.
- D. You tell her to have her secretary type up a discretionary authorization for her to sign and drop in the mail before she boards the plane. As long as the written authorization is in the mail, you can place the order.

Correct Answer: C

You can tell her that you will be able to execute this for her as a "market not held" order that permits you to use your discretion in timing the purchase in order to try to get a better price than currently exists. As long as you are only being requested to use your discretion in the timing and price of the transaction, and not in the actual security being traded or the size of the trade, you do not need written authorization. However, if written authorization is required, you must have it in your hand before you can effect a transaction. In other words, it isn't good enough for it to be in the mail.

QUESTION 5

Under NASAA Model Rules, it is permissible for the registered representative of a broker-dealer to split his or her commission with

- I. a client.
- II. the broker-dealer with which the registered representative is affiliated.



III. another registered representative working for the same broker-dealer.

IV.

the administrative assistant who directs calls to the registered representative and provides other services for the agent.

A.

I, II, III, and IV

B.

I, II, and III only

C.

II, III, and IV only

D.

II and III only

Correct Answer: D

Only Selections II and III are correct. Under NASAA Model Rules, a registered representative of a broker-dealer is entitled to split his or her commission only with his or her broker-dealer or with another registered representative of that broker-dealer. He is not permitted to share commissions with a client or with anyone who works for the broker-dealer, but is not a registered agent.

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