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FINRA

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North American Securities Administrators Association (NASAA)



Question: 57

Nancy's Aunt Ethel died, making Nancy executrix of her estate. In going through Aunt Ethel's belongings, Nancy discovered some stock certificates that she learned had been issued by a small New Jersey firm that was still in business. The problem lay in the fact that Nancy's Aunt Ethel had moved from New Jersey to Florida years ago, and the stock is registered only in the state of New Jersey. Nancy herself is a resident of Massachusetts.

What does Nancy have to do in order to sell this stock?

- A. Nancy can sell the stock without a problem as executrix of her aunt's estate.
- B. Nancy will need to contact a securities law firm in Florida to help her register the stock in the state of Florida.
- C. Nancy will need to contact a broker-dealer licensed in the state of New Jersey to help her with the sale of this stock.
- D. Nancy will have to establish a mailing address in New Jersey before she can legally sell this stock.

Answer: A

Explanation:

Nancy can sell the stock without a problem as executrix of her aunt's estate. This is considered to be a fiduciary transaction and, as such, it is an exempt transaction.

Question: 58

Which of the following describes an exempt security, as defined by the Uniform Securities Act (USA)?

- A. An exempt security is any security that is being sold by an institutional investor, such as a bank, to another institutional investor, such as another bank or an insurance company.
- B. An exempt security is one that need not be registered in the state in which it is sold.
- C. An exempt security is any security being sold as a private placement.
- D. An exempt security is any security that is being sold in an isolated non-issuer transaction.

Answer: B

Explanation:

As defined by the Uniform Securities Act, an exempt security is one that need not be registered in the state in which it is sold. Selections A and D describe exempt transactions. Although securities issued by financial institutions, such as banks, are exempt securities, not all securities that a bank purchases and sells qualify as exempt securities. Private placements may also be exempt transactions, but there are other stipulations that must be met.

Question: 59

Which of the following persons falls under the definition of "broker-dealer," as defined by the Uniform Securities Act (USA)?

- A. Marge is a loan officer at Treadwater Bank and Trust.
- B. Juan is employed by TrustUs Corporation to sell shares of the firm's stock to the firm's employees and receives a commission on the shares he sells.
- C. Michaela is employed by GetErDone broker-dealers and sells both exempt and non-exempt securities to GetErDone's clients.
- D. MyTrades is a sole proprietorship owned by Nathan Newmoney, who has established the firm solely to make trades on his own account, thereby avoiding the commissions he would have to pay a middleman.

Answer: A,D

Explanation:

MyTrades falls under the definition of "broker-dealer," as defined by the Uniform Securities Act since Nathan Newmoney is engaged in trading on his own account. The USA defines a broker-dealer as any person that conducts securities transactions on its own account or for others. Both Juan and Michaela are "agents" under the USA definition, and agents are specifically excluded from the definition of a broker-dealer. Marge is also excluded from the definition since she is a loan officer at a bank.

Question: 60

Which of the following persons would not be required to register with the state as an agent under the guidelines of the Uniform Securities Act (USA)?

- A. Keith is a salaried employee of Middlesex County in Massachusetts who sells revenue bonds issued by the county to the public.
- B. John is employed by TrustUs Corporation to sell shares of the firm's stock to the firm's employees and receives a commission on the shares he sells.
- C. Stefan is a sales representative for SecureMoney Broker-Dealers and sells only mutual fund shares.
- D. Preetham is part-owner of SecureMoney Broker-Dealers and executes the purchase and sale of securities for the firm's customers.

Answer: A

Explanation:

Keith would not have to register as an agent since he is a salaried employee of a county in Massachusetts selling county-issued bonds to the public. He is not representing a broker-dealer; he is not receiving a commission on the bonds he sells; and he is selling exempt (government-issued) securities. John receives a commission on his sales, so he is considered to be an agent. Stefan is a sales representative employed by a broker-dealer, which makes him an agent under USA guidelines. Even though Preetham is part-owner of the broker-dealer for which he is effecting transactions, he is acting as an agent in doing so.

Question: 61

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.

Answer: D

Explanation:

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: 62

Under the Uniform Securities Act (USA), the term "investment adviser" does not apply to

- I. an investment advisory firm owned and operated by a sole proprietor.
 - II. a bank or savings institution.
 - III. an investment adviser representative.
 - IV. a broker-dealer or its agents if the advice is incidental to the business although there is a nominal charge for any specific investment advice given.
- A. I, II, III, or I
 - B. I, II, and III only.
 - C. II and III only.
 - D. II, III and IV only.

Answer: B

Explanation:

The term "investment adviser" does not apply to Selections II or III. The term "investment adviser" does not apply to a bank or savings institution or to an investment adviser representative. Those persons are specifically excluded from the definition provided by the USA. Any investment advisory firm, regardless of whether it is owned and operated by a sole proprietor, is considered to be an investment adviser. A broker-dealer that charges for its investment advice, even if it claims that the advice is incidental to its business, would be considered an investment adviser due to the special remuneration the firm receives for its advisory services.

Question: 63

Which of the following statements regarding the registration of broker-dealers and investment advisers is true?

- A. Investment advisers are required to register with both the state and the SEC, while broker-dealers may be registered with only one or the other.
- B. Investment advisers must always be registered with the SEC to conduct business; broker-dealers may be registered with either an individual state or the SEC or both.
- C. Investment advisers are required either to be registered with a state or with the SEC, while broker-dealers must be registered both with the SEC and the state.
- D. Both investment advisers and broker-dealers must be registered with the SEC and with the states in which they have offices.

Answer: C

Explanation:

The true statement is C: Investment advisers are required either to be registered with a state or with the SEC, but broker-dealers must be registered with both the SEC and the state. Investment advisers who are federal covered do not need to be registered with the state as well, but they do have to execute a notice filing with the Administrator of any state in which they have an office.

Question: 64

Under the Uniform Securities Act (USA), which of the following statements would be disallowed?

- A. The government of the
- B. guarantees a 3% interest rate, to be paid semiannually, on a new 5-year Treasury note.
- C. A sales representative of GetErDone Broker-Dealers guarantees that a client can expect an average annual rate of return of 2% on a mutual fund investment the sales representative is selling, pointing to the fact that the fund has returned an average annual rate of return of 6% over the past ten years.
- D. An insurance company guarantees a fixed payment of \$300 a month for life on an annuity it is selling.
- E. Neither the statements in Selections B or C would be allowed under the guidelines of the Uniform Securities Act.

Answer: C

Explanation:

A sales representative (aka an agent) of a broker-dealer may not make any guarantees. Only three entities are allowed to make guarantees under the Act: Parent companies, which may guarantee the securities of one of its subsidiaries, the U.S. government, and insurance companies.

Question: 65

Which of the following would meet the requirements for an exempt security?

- A. a \$500,000 promissory note that matures in two years
- B. commercial paper with a \$100,000 face value and a maturity of five months that is rated AA by Standard and Poors
- C. a \$25,000 promissory note that matures in three months
- D. commercial paper with a \$200,000 face value and a maturity of three months that is rated BB by Standard and Poors

Answer: B

Explanation:

An issue of commercial paper with a \$100,000 denomination and a maturity of five months with an AA rating from Standard and Poors meets the requirements for an exempt security. A short-term security, with no more than 270 days to maturity, that has a denomination of at least \$50,000, and has a rating of AAA, AA, or A from a recognized rating agency is exempt from registration with the state Administrator.

Question: 66

Which of the following describes an investment adviser that is not required to register with the state Administrator?

- A. MoeMoney Investment Advisers, LLC has an office in the state with a client base of fifty individuals.
- B. Financial Freedom Investment Advisers has no offices in the state although it does advise six wealthy individuals who are residents of the state.
- C. CanDo Broker-Dealers is a state-registered broker-dealer. It has begun to offer asset management services to a few of its wealthier clients for a small management fee equal to 0.1% of the assets under management.
- D. Buckeye Investment Advisers has no offices in the state, but it provides portfolio management services to an insurance company located in the state.

Answer: D

Explanation:

Buckeye Investment Advisers is not required to register with the state Administrator since it has no offices in the state and provides portfolio management services to an institutional investor within the state. Both MoeMoney and Financial Freedom must register since they advise more than 5 individual clients. It doesn't matter in that case whether they have offices within the state or not. CanDo is registered only as a broker-dealer, but it has begun offering investment advice for a fee, so it must also register with the state as an investment adviser.

Question: 67

The state official who has regulatory authority over the securities industry within the state is known as the

- A. attorney-general.
- B. administrator.
- C. investor-protection officer.
- D. secretary of state.

Answer: A,B

Explanation:

The state official who has regulatory authority over the securities industry within the state is the administrator.

Question: 68

Which of the following actions is the Administrator of a state empowered to take?

- A. gather evidence
- B. require restitution for the victims of a scam
- C. impose civil penalties in cases of fraud
- D. The Administrator of a state has the authority to take all of the above actions.

Answer: A

Explanation:

The Administrator of a state can gather evidence, but it cannot impose any civil penalties, including the requirement of restitution to victims. These actions can only be performed by a court of law.

Question: 69

Which of the following orders can an Administrator issue without providing prior notice?

- A. license suspension
- B. license revocation
- C. cease and desist
- D. license denial

Answer: C

Explanation:

The Administrator can issue an order to cease and desist without providing the party concerned with prior notice. In the cases involving the denial, suspension, or revocation of a license, the Administrator will provide prior notice, along with the opportunity for a hearing, and a written statement of the facts and the legal consequences involved.

Question: 70

It has come to the attention of the Administrator of the state that Samuel Shyster provided false information on his application to become a registered investment adviser with the state.

Prior to revoking Samuel's license, the Administrator will provide Samuel with which of the following?

- I. prior notice
- II. an opportunity to fill out a new registration statement
- III. an opportunity for a hearing
- IV. a written statement regarding the facts and the legal consequences

- A. I, II, III, and IV
- B. I, II, and III
- C. I, III, and IV

D. I, II, and IV

Answer: C

Explanation:

Prior to revoking Samuel's license, the Administrator will provide Samuel with prior notice (I), an opportunity for a hearing (III), and a written statement regarding the facts and the legal consequences (IV).



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