Practice Exam Questions

FINRA Investor Education FOUNDATION

Series 24

General Securities Principal Qualification

EXAMAIDES

PASS YOUR EXAM AT FIRST TRY

Total Question: 50 QAs

Question No: 1
An underwriter that assumes full responsibility and financial liability for an issue is involved in what type of underwriting commitment?
A. Fill or Kill
B. Firm commitment
C. Best efforts commitment
D. Stand by commitment
Answer: B
Explanation: An underwriter may participate in an issue by agreeing to a variety of different commitments.
A Firm Commitment means the underwriter assumes the role of principal, purchases all of the securities, and is then responsible for selling such securities to the public. The financial liability of such a commitment lies with the underwriter. Best effort implies that the underwriter will try, though not guarantee, to fill all orders but is not liable for any that are unfilled. A stand by commitment means the underwriter is ready to purchase any remaining shares if the offer is undersubscribed. Fill or Kill is a type of brokerage order.

Question No: 2
Which of the following persons would be restricted from the purchase of Company A's IPO?
I. Bob, the brother in law of Company A's CFO
II. Tina, an attorney that works with Company A on legal matters
III. Rosa, Company A's tax accountant
IV. Frank, an associated person of the firm underwriting the IPO
A. IV only
B. I, III, and IV only
C. II, III, and IV only
D. I, II, III, and IV
Answer: D
Explanation: FINRA restricts insiders from involvement in a company's IPO, the initial public offering of company stock. An insider can generally be defined as anyone that has special, non public information about the company. This includes officers and employees of the company, as well as family members and other associated persons. In the case of Company A, all persons would be considered to have inside information about the company, and would be restricted by FI NRA from purchasing shares of the company's IPO.

Question No: 3
Which of the following is true regarding ERISA requirements?
I. Plan assets must be kept separate from other company assets
II. Plan participates must be notified in writing of any important plan changes such as changes in vesting schedule or plan benefits
III. ERISA laws apply to both corporate and governmental plans
IV. An employee that works at least 1,000 hours, has at least one year of service, and is 21 years or older must be covered in a plan if the company offers one
A. I and II only

B. I, II, and IV only
C. I, II, and III only
D. I, II, III, and IV
Answer: B
Explanation: ERISA applies to corporate plans only. It does not apply to Federal or State government plans or employees. ERISA was established to protect plan participants and their assets. It also sets non discrimination standards and requires clear and necessary communication and disclosure to plan participants.

Question No: 4
All of the following are true regarding the Uniform Gifts to Minors Act except:
A. All securities in the UGMA account must be registered in the custodian's name
B. Only a parent or legal guardian may establish an UGMA account for their child, though anyone may contribute to it
C. The custodian of the UGMA account is entitled to reimbursement of expenses associated with managing the account
D. Minors are not allowed to trade in the account
Answer: B
Explanation: Any adult may establish and contribute to a minor's UGMA account, not just the parent or legal guardian. It is correct that all securities in the UGMA account must be registered in the custodian's name, the custodian of the UGMA account is entitled to reimbursement of expenses associated with managing the account, and that minors are not allowed to trade in the account. UGMA laws will vary from state to state.

Question No: 5
The PATRIOT Act, at a minimum, requires firms and financial institutions to do which of the following?
I. Verify and obtain customer information
II. Establish, in writing, anti-money laundering procedures
III. Provide employee training in anti-money laundering procedures
IV. Report any suspicious activity to appropriate authorities within 30 days of observation
A. I only
B. I, II, and IV only
C. I, II, and III only
D. I, II, III, and IV
Answer: D
Explanation: The PATRIOT Act was created after September 11th as an effort for firms and financial institutions to help intercept and prevent terrorist activities. The Act requires that firms establish, in writing, procedures for anti-money laundering practices and train employees in such procedures.
Any suspicious activity must be reported within 30 days of observation. The Act also requires institutions to obtain and verify proper identification from its customers.

Question No: 6
The Federal Telephone Consumer Protection Act of 1991 limits unsolicited calls to:
A. The hours of8:00 a.m. to 9:00 p.m.
B. The hours of7:00 a.m. to 8:00 p.m.
C. The hours of9:00 a.m. to 8:00 p.m.

D. The hours of7:30 a.m. to 7:30 p.m.
Answer: A
Explanation: The Federal Telephone Consumer Protection Act of 1991 limits unsolicited calls to the hours of 8:00 a.m. to 9:00 p.m. When unsolicited calls are placed, the caller is required by the Act to identify him or herself, their firm, and phone number. A popular provision of the Act allows consumers to request placement on the do not call list to avoid unsolicited calls.

Question No: 7
Jim and Judy want to open a brokerage account together in which Jim has ownership over only 20% of the account, with Judy having ownership and authority over the remainder.
What type of account is best for Jim and Judy to open?
A. Tenancy in Common
B. Joint Tenancy with Right of Survivorship
C. Transfer on Death Account
D. They should each open separate accounts
Answer: A
Explanation: With unequal ownership, it is best for Jim and Judy to open a Tenancy in Common account.
This account will allow them to have joint ownership, but in their respective ownership amounts only. In this case, Jim will have ownership only on his 20% and Judy only on her 80%. This is in contrast to an account titled Joint Tenants with Right of Survivorship, in which each owner has an equal and undivided interest in the entire account. Single accounts could solve the problem, but the questions states that Jim and Judy would like to open a joint account.

Question No: 8
The NYSE may de list a stock or company under certain circumstances, including which of the following?
I. Publicly held shares fall below 600,000
II. Pretax earnings for the previous 3 years have decreased to an average of less than $600,000
III. Company files bankruptcy
IV. Company fails to meet debt obligations
A. I and II only
B. II and III only
C. III only
D. I, II, III, and IV
Answer: D
Explanation: Though rare, the NYSE can and may delist a company or stock based on certain requirements not being met. Such circumstances include all of the above mentioned reasons along with the following: number of shareholders with over 100 shares drops below 1,200; aggregate market value of stock is less than $12,000,000 and an aggregate market value of publicly held shares falls below $8,000,000; companies that reduce their operations, issue non-voting common stock, fail to maintain healthy accounting practices, fa il to make adequate public disclosures or fa il to solicit proxies.

Question No: 9
All of the following are requirements for a stock or company to be listed on the NYSE except:
A. There must be a national public interest for ownership and trading in the company

B. There must be a minimum of 1,100,000 publicly held shares
C. The company must have pre-tax earnings in the previous year of at least $5,000,000
D. The company has at least 2,000 shareholders, each holding at least 100 common shares
Answer: C
Explanation: The company must have pre-tax earnings in the previous year of $2,500,000 as a requirement of listing on the NYSE. To maintain their listing, earnings for the previous 3 years should be at least an average of $600,000. The other answer choices are all necessary requirements for NYSE listing.

Question No: 10
Wendy has a lot of money that she would like to ensure is covered under SIPC rules. In order to maximize SIPC coverage, she opens various types of accounts, including a trust account. Which of the following best describes the SIPC coverage of the trust account?
A. The trust account will not be covered by SIPC, because trust accounts are never covered
B. The trust account will be covered by SJPC, because it is a qualifying trust account
C. The trust account may be covered by SIPC, depending upon the amount that is placed in the trust
D. The trust account will not be covered by SJPC, because it is not considered a qualified trust account
Answer: D
Explanation: While trust accounts may qualify for SIPC coverage, this particular trust will not be considered a "qualifying" trust account because the information states that Wendy opened the trust specifically to obtain additional SIPC coverage. A trust is considered qualified for SIPC purposes if it is a valid trust created by written instrument, and not created for the purpose of additional coverage.

Question No: 11
NYSE Rule 78 states which of the following about trading?
A. Firms are prohibited from pre-arranged trades, regardless of circumstances
B. Firms are prohibited from crossing orders within their own fi rm, regardless of circumstances
C. Firms may pre arrange trades, as long as there is full and written disclosure
D. Firms are prohibited from holding both a buy and sell order on the same security for different clients
Answer: A
Explanation: NYSE Rule 78 prohibits prearranged trading by a fi rm (regardless of disclosure) because such a practice is considered market manipulation. Firms are not prohibited from holding both a buy and sell order on the same security for different clients. However, Rule 76 states that these orders may not be crossed within their own firm without first being offered in the trading market.

Question No: 12
NYSE Rule 61 requires that trades be made in round lots. Round lots are considered to be:
I. 10 shares of listed stocks
II. 100 shares of listed stocks
III. $1,000 face amount of listed bonds
IV. $10,000 face amount of listed bonds
A. I and III
B. II and III
C. I and IV
D. II and IV