

# Practice Exam Questions



## Series 63

### Uniform Securities Agent State Law



**EXAMAIDES**

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## Total Question: 311 QAs

Question No: 1

The Uniform Securities Act (USA) is

- A. a body of laws governing the purchase and sale of securities within a single state.
- B. a set of guidelines for individual states to follow when formulating their own securities' laws.
- C. a group of laws requiring state-issued securities, such as municipal bonds, to be registered with
- D. federal legislation that requires all states to adopt the same registration requirements for all

Answer: B

Explanation: The Uniform Securities Act (USA) provides a model for states to follow when formulating their own securities laws. It does not, itself, contain any laws.

Question No: 2

Once you have passed the Series 63 examination, which entity must then approve your application to sell securities?

- A. FINRA
- B. NASAA
- C. SEC
- D. the state administrator

Answer: D

Explanation: Once you have passed the Series 63 exam, it is the state administrator who can approve or deny your registration. NASAA developed the Uniform Securities Agent State Law Examination and FINRA administers it. The SEC is not a party to the state registration process.

Question No: 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.

Answer: A

Explanation: 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 No: 4

Moe is a registered investment adviser doing business under the name of MoeMoney Investment Advisers, LLC. Larry, Curly, and Mary all hold positions with the firm. Larry is on the board of directors; Mary is a sales representative for the firm; and Curly is an administrative assistant, who performs clerical duties. Given that Moe is already a registered investment adviser, which of the other three are automatically registered as investment adviser representatives?

- A. Larry only

- B. Larry and Mary only
- C. Larry, Mary and Curly
- D. Mary and Curly only

Answer: A

Explanation: As a director of the firm, Larry would automatically be registered as an investment adviser representative of MoeMoney Investment Advisers. Although directors and officers of the firm are automatically registered as investment adviser representatives, Mary, as a sales representative, would have to apply for her own registration. Curly does not need to be registered since he performs only clerical duties.

Question No: 5

Jack is employed by NewCorp, which is engaging in an initial public offering (IPO). Jack will need to register as a sales representative if he:

- A. engages in transactions with the underwriters of the IPO for the purpose of taking the firm public.
- B. represents NewCorp in any transactions with financial institutions.
- C. participates in the selling of the new stock to individual investors.
- D. Jack will need to register as a sales representative if he performs any one of the above activities.

Answer: C

Explanation: Jack will need to register as a sales representative if he participates in the sale of new stock to individual investors. Those who deal directly with the public need to register as sales representatives under the Uniform Securities Act. If Jack limits his involvement to transactions with the underwriters or financial institutions, he need not register.

Question No: 6

Blue Sky Laws are designed to:

- A. protect investors from fraud in their securities market transactions.
- B. protect agents, broker-dealers, and investment advisers and their representatives from spurious allegations of fraudulent activity.
- C. enhance the tourism industry within a state.
- D. favor investment in companies that engage in environmentally friendly practices.

Answer: A

Explanation: The main purpose of Blue Sky Laws is to protect individual investors from fraud in their securities market transactions. Requiring the registration of new security issues and the registration of those persons who advise individual investors as well as those involved in the purchase and sale of securities to the public are just some of the regulations designed to do this. There are no provisions designed to protect agents, broker-dealers, or investment advisers and their representatives in any regard.

Question No: 7

An individual who represents a broker-dealer in the buying and selling of securities is called a(n):

- A. underwriter
- B. issuer
- C. agent
- D. administrator

Answer: C

Explanation: An individual who represents a broker-dealer in buying and selling securities is called an agent

or a registered representative. An agent may also work for an issuer, which refers to the entity that is selling securities to raise money for itself. An underwriter is the entity that aids the issuer in bringing the new securities to market. Administrator is the title many states use to refer to the official in charge of enforcing the state's securities regulations.

Question No: 8

Which of the following statements best explains the difference between an agent and a broker-dealer?

- A. An agent is an individual who represents a broker-dealer or an issuer and buys and sells securities he does not own in return for a commission on the transactions he executes. A broker-dealer may also buy and sell securities for his own portfolio, in which case the broker-dealer enjoys any price appreciation on those securities.
- B. A broker-dealer must be licensed in the state in which he conducts business, but there are no separate licensing requirements for agents.
- C. Agents are engaged exclusively in the purchase and sale of stocks whereas broker-dealers also buy and sell bonds and option contracts.
- D. Agents conduct their business exclusively in the secondary market, while broker-dealers also operate in the primary market.

Answer: A

Explanation: The main difference between an agent and a broker-dealer is that an agent represents either a broker-dealer or an issuer and buys and sells securities he doesn't own, receiving a commission for the trades he executes. A broker-dealer, when functioning as a dealer, is buying and selling for his own portfolio, thereby profiting from any price appreciation in the assets in his portfolio. Both agents and broker-dealers must meet state licensing requirements; both engage in the purchase and sale of stocks, bonds, and option contracts; and both operate in both the primary and secondary markets.

Question No: 9

Rich Writewell wants to begin publishing an independent weekly financial newsletter that will provide investment recommendations as well as other financial news items to the general public. Rich hopes that his newsletter will achieve nationwide circulation within a few months. Which of the following statements is true?

- A. Rich will have to register as an investment adviser since his publication will include investment recommendations
- B. Rich will have to register as an investment adviser only if he sells this newsletter to the public. If the publication is to be distributed free of charge, he will not have to register.
- C. Rich may be exempt from registering as an investment adviser if he is a lawyer, accountant, engineer, or teacher. Otherwise, he will have to register.
- D. Rich will not have to register as an investment adviser since he is publishing a legitimate financial newsletter for distribution to the general public.

Answer: D

Explanation: Rich will not have to register as an investment adviser since he is publishing a legitimate financial newsletter that will be distributed to the general public. The definition of the term "investment adviser" excludes publishers of bona fide business or financial publications that are published regularly and have general circulation.

Question No: 10

Erin is a registered agent who works for SecureMoney Brokers-dealers. One of her clients, Mrs. McTurk, is a recently-widowed woman who relies on Erin for advice about her investment portfolio. Mrs. McTurk reminds Erin of her own grandmother, and she is happy to provide guidance within the sphere of her own knowledge. Based on these facts, which of the following statements is true?

- A. SecureMoney Broker-dealers must register as an investment adviser since one of its employees is providing investment advice.
- B. Erin must register as an investment adviser since she is providing investment advice.
- C. SecureMoney Broker-dealers must register as an investment adviser since one of its employees is providing investment advice, and Erin must register as an investment adviser representative as the firm's employee.
- D. Neither SecureMoney Broker-dealers nor Erin must register as an investment adviser based on the facts provided.

Answer: D

Explanation: Neither SecureMoney Broker-dealers nor Erin must register as an investment adviser based on the facts provided since neither the broker-dealer nor Erin is receiving any compensation for the advice Erin is giving Mrs. McTurk. In this instance, the advice provided is considered incidental to the broker-dealer business.

Question No: 11

Which of the following would not fall under the classification of "institutional investor"?

- A. Prudential Insurance
- B. Chase Bank
- C. Nuering Investment Advisers
- D. Franklin Templeton Mutual Funds

Answer: C

Explanation: Nuering Investment Advisers would not fall under the classification of "institutional investor." Institutional investors are defined as banks, insurance companies, mutual funds, some pension plans, and broker-dealers registered under the Securities Exchange Act of 1934. Investment advisers are not part of this group.

Question No: 12

Which of the following is an example of a non-issuer transaction?

- A. IBM sells a new issue of bonds to an insurance company.
- B. Jose purchases a 10-year bond issued by Progress Energy when it has 6 years remaining to maturity.
- C. Google offers more shares of its stock for sale to the public.
- D. NewCorp, which has been a privately held company, is engaging in an initial public offering (IPO) of its stock.

Answer: B

Explanation: When Jose buys a 10-year bond that has 6 years remaining to maturity, it is a non-issuer transaction since he is buying it in the secondary market from another investor, and Progress Energy does not benefit from the transaction. If a firm receives money when its securities are sold, it is considered an issuer transaction; otherwise it is a non-issuer transaction. When Progress Energy originally issued the bond, it had ten years to maturity, and Progress Energy received the proceeds from the bond issue; that was an issuer transaction. When Jose buys the bond, another investor is receiving the proceeds. When IBM sells new bonds, regardless of whether it is to the general public or to an institutional investor, IBM receives the proceeds from

the transaction, so it is an issuer transaction. Similarly, when a firm that is already publicly held, like Google, sells more shares, the firm receives money from the sale, just as when a firm that is going public for the first time, like NewCorp, receives the proceeds generated through the IPO. Those are examples of issuer transactions.

Question No: 13

Which of the following is not considered to be a security, as defined by the Uniform Securities Act (USA)?

- A. a debenture
- B. a certificate of deposit (CD)
- C. a put option
- D. an annuity contract wherein an insurance company promises to pay a fixed sum, either in a lump amount or through periodic payments.

Answer: D

Explanation: The Uniform Securities Act excludes annuity contracts wherein an insurance company promises either to pay a fixed sum, either in a lump amount or through periodic payments, from its definition of a security. Debentures, CDs, and option contracts are all classified as securities under the USA.

Question No: 14

Which of the following scenarios would not be considered a "sale," as defined by the Uniform Securities Act (USA)?

- I. Yoshito owned shares of Minnow Corporation and received shares of Whale Corporation from Whale when it merged with Minnow.
  - II. Olivia's uncle, an agent with SecureMoney Brokers, sold Olivia ten call options on the stock of Microsoft.
  - III. Hans purchased a bond of Indebted Corporation that had detachable warrants and subsequently sold the warrants.
  - IV. Tom pledged some shares of stock he owned personally to secure a business loan for his company.
- A. Neither I nor II would be considered sales.
  - B. Neither II nor III would be considered sales.
  - C. Neither I nor IV would be considered sales.
  - D. Neither III nor IV would be considered sales.

Answer: C

Explanation: Neither Scenario I nor Scenario IV describes sales as defined by the USA. When an investor receives securities from Company X when Company X merges with a company in which the investor owns stock, Company X is not considered to have sold those securities to the investor. Likewise, when a person uses securities he owns as collateral for a loan, the USA does not consider this to be a sale of the securities.

Question No: 15

Jeremy Sly considered himself somewhat of an inventor. The only problem was that his day job interfered with his opportunity to exercise his creativity. He came up with a plan to get outside investors to support his inventive activities. To this end, he produced and distributed a brochure advertising partnership interests with a guaranteed return on investment of at least 15% after the first 12 months, based on what he had allegedly generated from his other (non-existent) inventions. Given these facts, is Jeremy guilty of any security violations under the Uniform Securities Act (USA)?

- A. No. The facts don't indicate whether any partnership interests were actually sold, and there can be no

violation unless there is a sale.

B. No. An interest in a partnership is not considered a security.

C. No. It is not against the law to believe in oneself and promote one's ideas.

D. Yes. Even an "offer" to sell securities must not contain any untruths.

Answer: D

Explanation: Yes. Jeremy is guilty of security violations under the Uniform Securities Act when he provides misleading information when offering securities for sale, even if no securities are actually sold. Partnership interests fall under the definition of securities, and Jeremy's claim to have generated a return of at least 15% on other inventions that he never created is an absolute falsehood.

Question No: 16

Although an Administrator has broad powers, he or she cannot:

A. issue subpoenas involving compulsory attendance.

B. gather evidence.

C. deliver a judicial injunction.

D. formulate rules and orders.

Answer: C

Explanation: An Administrator has broad powers, but he or she cannot deliver a judicial injunction because an Administrator does not have the authority bestowed on a court of law. The Administrator can issue subpoenas to require attendance, participate in evidence gathering, and formulate rules and orders.

Question No: 17

"Federal covered securities" were defined and exempted from state registration requirements by the:

A. National Securities Markets Improvement Act of 1996 (NSMIA.)

B. Gramm-Leach-Bliley Act of 1999 (GLBA.)

C. Uniform Securities Act (USA.)

D. National Conference of Commissioners on Uniform State Laws (NCCUSL.)

Answer: A

Explanation: The National Securities Markets Improvement Act of 1996 defined "federal covered securities" and exempted them from state registration requirements. The Gramm-Leach-Bliley Act focused on financial institutions and provided for their registration as broker-dealers under certain conditions. The National Conference of Commissioners on Uniform State Laws (NCCUSL) is the organization that drafted the Uniform Securities Act, which is not comprised of actual laws itself, but is, instead, just a guideline for each state to use when formulating its own securities laws.

Question No: 18

Rich Quick is a broker-dealer licensed in the state of Massachusetts and has offices only within the state. Two of Rich Quick's clients regularly vacation in Florida during the winter months, and Rich Quick executes trades for them when they call him from out-of-state. Based on these facts,

I. Rich Quick needs to register as a broker-dealer in the state of Florida as well.

II. Rich Quick needs to register only as an agent in the state of Florida.

III. Rich Quick needs to establish an office in the state of Florida in order to transact business.

IV. Rich Quick need not register in Florida.

A. Statements I and III are true.



- B. Statements II and III are true.
- C. Only Statement I is true.
- D. Only Statement IV is true.

Answer: D

Explanation: Based on the facts provided, Rich Quick need not register in Florida since he has no offices in the state of Florida, and he is conducting business for existing clients who are merely vacationing in Florida and are not residents of the state.

Question No: 19

Most individual state securities laws today are based on:

- A. the Uniform Securities Act of 1956.
- B. the Uniform Securities Act of 2002.
- C. the National Securities Markets Improvement Act of 1996.
- D. the Gramm-Leach-Bliley Act of 1999.

Answer: A

Explanation: Most individual state securities laws continue to be based on the 1956 Uniform Securities Act. Although the Uniform Securities Act was revised in 1985, 1988, and 2002, none of these revisions have been widely incorporated by the individual states. The National Securities Markets Improvement Act of 1996 dealt mainly with the definition of federal covered securities and more efficient management of mutual funds. The focus of the Gramm-Leach-Bliley Act of 1999 was on financial institutions.

Question No: 20

BigCash Broker-Dealers is registered in the state and is in the process of purchasing a smaller broker-dealer, Target Investments, as a subsidiary. Target Investments is also registered in the state. After completing the purchase, what actions must BigCash take regarding registration of its new subsidiary?

- A. BigCash need do nothing since Target Investments was already duly registered with the state as a broker-dealer.
- B. BigCash must file a new application with the state to register its new subsidiary, but will be able to utilize the remainder of any annual filing fees that Target Investments had paid for the year.
- C. BigCash must file a new application with the state to register its new subsidiary and must also pay the annual filing fees required by the Administrator.
- D. BigCash will need to pay the annual filing fees required by the Administrator, but will not need to file a new registration application.

Answer: B

Explanation: After completing the purchase, BigCash will have to file a new registration application for its new subsidiary, but BigCash can utilize the remainder of any annual filing fees that Target Investments had paid for the year. Although registration applications are never transferable, annual filing fees are.

Question No: 21

In order to maintain its registration with a state, a broker-dealer may be required to

- I. take a written or oral exam.
- II. pay an annual filing fee.
- III. maintain a minimum net capital.
- IV. file all advertising material with the Administrator.



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

Answer: D

Explanation: In order to maintain its registration with a state, a broker-dealer may be required to take a written or oral exam, pay an annual filing fee, maintain a minimum net capital, and file all advertising material with the state's Administrator. The Administrator of each state has the authority to determine the specific requirements for the state. All of the selections are within the realm of the Administrator's jurisdiction.

Question No: 22

Once a broker-dealer has applied for and been granted state registration, the registration remains valid

- A. until December 31st.
- B. for twelve months.
- C. for three years.
- D. for five years.

Answer: A

Explanation: Once a broker-dealer has been granted state registration, that registration is valid until December 31st of that year. Registration automatically terminates annually on December 31st although an Administrator may elect to revoke or suspend a broker-dealer's registration at any time if the Administrator finds just cause.

Question No: 23

A broker-dealer is required to keep his records for how long?

- A. at least three years
- B. at least five years
- C. at least seven years
- D. A broker-dealer is required to keep his records for as long as he is registered in the state.

Answer: A

Explanation: A broker dealer is required to keep his records at least three years.

Question No: 24

Which of the following entities would be required to register with the state as a broker-dealer under the guidelines of the Uniform Securities Act (USA)?

- A. an underwriter with no offices in the state that is helping a firm that is incorporated within the state with the sale of its new bond issue to insurance companies
- B. a credit union that operates within the state and provides loans to its members
- C. an agent who executes the purchase and sale of stocks and bonds for his clients
- D. None of the above entities would be required to register with the state as a broker-dealer under the guidelines of the Uniform Securities Act.

Answer: D

Explanation: Under the guidelines of the USA, none of the entities described in Selections A, B, or C would be required to register with the state as a broker-dealer since the term, as defined by the USA, does not include agents, savings institutions, or entities with no offices in the state who deal exclusively with issuers and/or

other broker-dealers, financial institutions, insurance companies, pension funds, or insurance companies. Selections B and C refer to a financial institution and an agent, respectively. In the scenario described in Selection A, the underwriter has no offices in the state and is dealing exclusively with the issuer of the bonds and insurance companies.

Question No: 25

Joe Romeo is a broker-dealer registered with the state. He has recently hired Betty Buxom as his administrative assistant. As part of her duties, he has given her the responsibility for effecting the purchases and sales of securities for some of his firm's smaller accounts. Ms. Buxom has never applied for nor been granted registration as a broker-dealer or agent. Based on these facts,

- A. the Administrator is required by the Uniform Securities Act to revoke Joe Romeo's registration and file criminal and civil charges against him.
- B. there is no problem as long as Ms. Buxom registers with the state as an agent within thirty days.
- C. the Administrator may elect to revoke or suspend Joe Romeo's registration, and Joe may also face both civil and criminal penalties.
- D. the Administrator is required to turn the case over to the state's district attorney, who will file criminal charges against both Joe Romeo and Betty Buxom.

Answer: C

Explanation: Since Joe Romeo has allowed Betty Buxom to execute trades, a duty that can legally be performed only by a registered broker-dealer or agent, the Administrator may elect to revoke or suspend Joe Romeo's registration, and Joe may also face civil and criminal penalties. Ms. Buxom needed to be registered as an agent prior to effecting any transactions in the securities markets; there is no grace period. The Administrator is not required to take any action, however.

Question No: 26

Until yesterday Maddie was a registered agent employed by the broker-dealer, QuikDeals. Yesterday afternoon, issues that had been brewing between her and another employee of the firm came to a head, and Maddie impulsively quit her job. At this point,

- A. Maddie has thirty days to find a job with another broker-dealer, or she will need to file a new registration application.
- B. Maddie has sixty days to find a job with another broker-dealer, or she will need to file a new registration application.
- C. Maddie will have to file a new application for registration with the Administrator upon finding employment with another broker-dealer since she is no longer considered to be a registered agent by the state.
- D. Maddie is required to call all of her clients at QuikDeals to inform them she is no longer employed there.

Answer: C

Explanation: When Maddie quit her job, her status as a state-registered securities agent was automatically terminated, and she will need to file a new application for registration with the Administrator upon obtaining a position with another broker-dealer. If she does so within thirty days, her registration will become effective as soon as she has filed her application and paid her application fee. While she is required to notify the Administrator that she has terminated her employment with QuikDeals, there is no requirement that she contact any of her clients at QuikDeals.

Question No: 27

Maddie, a registered agent affiliated with broker-dealer QuikDeals, quit her job on the spur of the moment. Under the guidelines of the Uniform Securities Act (USA), who is responsible for notifying the Administrator?

A. QuikDeals has the sole responsibility for notifying the Administrator. Maddie is no longer deemed to be an agent after she terminated her relationship with QuikDeals, so she need do nothing.

B. Maddie has the sole responsibility for notifying the Administrator.

C. It depends. If Maddie becomes affiliated with another broker-dealer within thirty days, then she must notify the Administrator of her termination with QuikDeals and her current affiliation with the new firm. Otherwise, only QuikDeals must notify the Administrator.

D. Both QuikDeals and Maddie are responsible for notifying the Administrator.

Answer: D

Explanation: Under the guidelines of the USA, when Maddie quits her job as a registered agent with QuikDeals, both QuikDeals and Maddie are responsible for notifying the Administrator. Both the broker-dealer and the agent involved are required to notify the Administrator whenever an agent begins or ends her association with the broker-dealer.

Question No: 28

Trevor is currently a registered agent in the state of Connecticut where he has been employed by Connect & Company, a broker-dealer that is registered in Connecticut and has subsidiary operations in Massachusetts, New Jersey, and New York. Trevor has moved to Massachusetts and is now associated with one of Connect's subsidiaries, a broker-dealer registered in the state. Trevor has applied to the Administrator of Massachusetts for registration as an agent. Can Trevor execute purchases and sales for clients while his registration is still pending?

A. No. Until he is informed by the Administrator of Massachusetts that his application has been accepted, Trevor may not effect any securities transactions in Massachusetts.

B. Yes. Because Trevor is a registered agent in another state and is affiliated with a broker-dealer that is registered in the state of Massachusetts, he is not restricted from executing trades.

C. Yes. Trevor can execute trades for new clients he solicits, but only for sixty days while his registration is pending.

D. It depends. Trevor can execute some purchases and sales, but only for clients that he already had who may have recently relocated to Massachusetts and only for sixty days while his registration is pending.

Answer: D

Explanation: It depends. Because he is a registered agent in another state and the broker-dealer he is now affiliated with is registered in the state of Massachusetts, Trevor can execute purchases and sales, but only for existing clients while his registration with the Massachusetts Administrator is still pending and only for sixty days. This assumes, of course, Trevor has no violations that would restrict him from registering in Massachusetts.

Question No: 29

Ms. Ding is an administrative assistant to the manager of a mutual fund. Most of her day is spent entering data onto a spreadsheet for her boss and answering phone calls. Some of the calls require her to provide information about some of the fund's financial aspects, such as its closing net asset value on the previous day. What type of registration does Ms. Ding require in order to perform her duties?

A. Ms. Ding needs to apply for registration as an agent since she is providing financial information.

B. Ms. Ding needs to apply for registration as an investment adviser representative since she is providing

information about a specific mutual fund.

C. Ms. Ding will need to apply for registration as both an agent and an investment adviser representative in this case since she is providing information about a mutual fund.

D. Ms. Ding does not need to apply for any type of registration. She is merely supplying information and is not engaged in the purchase or sale of the fund shares.

Answer: D

Explanation: Since Ms. Ding is an administrative assistant who is merely providing some information about the fund and is not engaging in the purchase or sale of the fund shares, she does not need to apply for any type of registration. An employee who simply provides price and/or some other pertinent information to the public, but who does not engage in the purchase or sale of securities to the public and does not receive a commission based on the sale of securities is not considered to be an agent or an investment adviser.

Question No: 30

Which of the following statements about agents is (are) false?

A. If an agent files for bankruptcy, the Administrator may elect to terminate that agent's registration if the Administrator believes it is "in the public interest" to do so.

B. When an agent has a change of address, both he and his broker-dealer affiliate must inform the Administrator.

C. An agent must demonstrate a specific minimum level of financial stability for his registration application to be accepted.

D. All of the above are false statements.

Answer: C

Explanation: The statement that an agent must demonstrate a specific minimum level of financial stability for his registration application to be accepted is false. The Administrator may require an agent to post a bond, but there are no specific minimum financial requisites that must be met. The Administrator also has the right to terminate an agent's registration if the agent becomes bankrupt. Both the agent and his broker-dealer affiliate are required to inform the Administrator whenever there is a change in the agent's personal information, such as a name change or a change of address.

Question No: 31

Which of the following entities must sign a "consent to service of process," thereby allowing the Administrator to receive legal documents that are meant to be served to the entity in place of that entity?

I. agents

II. investment advisers

III. investment adviser representatives

IV. broker-dealers

A. I and IV only

B. II and III only

C. II and IV only

D. I, II, III, and IV

Answer: D

Explanation: Agents, investment advisers, investment adviser representatives, and broker-dealers must all sign a consent to service of process, allowing the Administrator to receive legal documents in their stead. The consent to service of process must accompany the application for registration with the state or the

documentation provided with a notice filing when permitted.

Question No: 32

Which of the following would fall under the definition of “agent,” as defined by the Uniform Securities Act (USA)?

- A. Joe works as an administrative assistant for broker-dealer GetErDone, doing data entry, filing client forms that contain confidential information, and directing calls to registered representatives of the firm.
- B. Freedom broker-dealers executes the purchase and sale of securities for its customers.
- C. TrustUs Bank has a subsidiary operation that sells mutual funds to the public.
- D. None of the above would fall under the definition of “agent,” as defined by the Uniform Securities Act (USA.)

Answer: D

Explanation: None of the selections describe an “agent,” as defined by the Uniform Securities Act (USA.) Joe is not executing trades for clients of the broker-dealer, and clerical assistants are not classified as agents. Agents must be individuals, so a firm like Freedom broker-dealers would not be considered an agent. A bank is not an individual, and banks are even excluded from the definition of a broker-dealer.

Question No: 33

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.

Answer: B

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

Question No: 34

Individual states are prohibited from requiring a broker-dealer or investment adviser to file financial reports more frequently than:

- A. once a year.
- B. twice a year.
- C. four times a year.
- D. twelve times a year.

Answer: C

Explanation: Individual states are prohibited from requiring a broker-dealer or investment adviser to file financial reports more frequently than four times a year. Under the Securities and Exchange Act of 1934, individual states are prohibited from imposing more stringent requirements than those already required by the SEC, and the SEC requires quarterly reporting. Therefore, a state may not require that a broker-dealer or investment adviser file monthly reports with it.

Question No: 35

A-2-Z Associates advertises itself as a full service brokerage firm that will buy and sell securities for its clients, as well as provide investment advice to them. Its brochure provides a variety of plans to which a client can

subscribe. The basic plan is the cheapest and allows the client a maximum number of trades per month for a specified fee. Another, slightly more expensive, plan provides the client with the same maximum number of trades per month, but the client also receives a personalized quarterly review of his portfolio along with advice for restructuring his portfolio based on such factors as current market conditions and specific industry or company information. The most expensive plan is one in which the client is assigned to an individual portfolio manager, who will take total responsibility for the asset allocation of the client's portfolio and will provide the client with monthly reports. Based on the services A-2-Z provides, it must register with the state as:

- A. a broker-dealer.
- B. an investment adviser.
- C. both a broker-dealer and an investment adviser.
- D. an investment adviser representative.

Answer: C

Explanation: Based on the services A-2-Z provides, it must register with the state as both a broker-dealer and an investment adviser. It is receiving compensation as a broker-dealer for executing purchases and sales of securities for its clients under its basic plan, but it is receiving additional compensation for acting as an investment adviser under the two higher level plans.

Question No: 36

MoeMoney Investment Advisers, LLC is registered in the state of Texas, and its three offices are all located in the greater Dallas-Fort Worth area. Five of its clients-all individuals-have relocated to Colorado and all have indicated a desire to retain the services of MoeMoney. In order for this to be possible,

- A. MoeMoney will need to apply for and be granted registration as an investment adviser in the state of Colorado.
- B. each client will have to write a letter to the Administrator of the state of Colorado on MoeMoney's behalf.
- C. MoeMoney will need to apply for and be granted registration as an investment adviser representative in the state of Colorado.
- D. Neither MoeMoney nor its clients need do anything.

Answer: D

Explanation: In order for MoeMoney to continue servicing its five individual clients who have relocated to Colorado, neither MoeMoney nor its clients need to do anything. The National Securities Markets Improvement Act of 1996 (NSMIA) established a "de minimis" exemption for investment advisers if they have no office in a state and do business with "no more than five non-institutional clients" during a one-year time frame.

Question No: 37

Sam Shade had his agent's license revoked by the state of Washington for repeatedly making misleading claims about various investment to investors. He had had it with all the rain anyway and decided to move to the sunshine state of Florida. His brother-in-law was a computer whiz who made money on the side (more than his day job provided, in fact) by supplying illegal immigrants with official-looking documentation, including social security numbers. Sam Shade became Ian Creed in a few clicks of the mouse. As Ian Creed, Sam was hired by Sunny Investment Advisers, an investment adviser firm located in the Florida Keys, in a clerical role. As such, Sam/Ian had access to the confidential information of the firm's clients, which he and his brother-in-law utilized for the purpose of identity theft. Under the Uniform Securities Act guidelines, when Sam and his brother-in-law are caught in their illegal activities,

- A. Sunny Investment Advisers will not be held liable if it can prove that there was no way it could have or should have known of the revocation of Sam Shade's (aka Ian Creed) license.
- B. Sunny Investment Advisers will be subject to criminal prosecution for employing an individual whose license had been revoked by the Administrator of another state since it obviously did not use due diligence in hiring Ian Creed, aka Sam Shade.
- C. Sunny Investment Advisers will be subject to civil penalties for employing an individual whose license had been revoked by the Administrator of another state.
- D. Sunny Investment Advisers will be subject to both criminal prosecution and civil penalties for employing an individual whose license had been revoked by the Administrator of another state since it obviously did not use due diligence in hiring Ian Creed, aka Sam Shade.

Answer: A

Explanation: When Sam and his brother-in-law are caught, Sunny Investment Advisers will not be held liable if it can prove that there was no way it could have or should have known of Sam Shade/Ian Creed's license revocation. The drafters of the Uniform Securities Act were cognizant of the fact that employees can be remarkably deceptive when applying for a position, and because of this the Act indicates that the investment adviser must either "have known or should have known" of the Administrator's adverse decision against the employee in order to itself be deemed liable.

Question No: 38

Which of the following statements regarding an investment adviser representative who has an office in the state is true?

- A. If the investment adviser is registered with the SEC, then neither the investment adviser nor any of its affiliated investment adviser representative needs to be registered with the state.
- B. Regardless of whether the investment adviser is registered with the SEC or is registered with the state, all investment adviser representatives of the firm must be registered with the state if they have offices in the state.
- C. If the investment adviser that the investment adviser representative is affiliated with is itself registered with the state, then the investment adviser representative does not need to apply for a separate registration, regardless of whether the investment adviser representative has an office in the state.
- D. If an investment adviser representative is registered with the SEC, he or she need not obtain state registration, regardless of whether the investment adviser representative has an office in the state.

Answer: B

Explanation: Regardless of whether the investment adviser is register with the SEC or is itself registered with the state, all of its investment adviser representatives (IARs) are required to register with the state if they operate a place of business in the state.

Question No: 39

A variable annuity is:

- A. not a security and, therefore, does not have to be registered with the state.
- B. not a security, but is still required to be registered with the state before it can be offered for sale.
- C. a security and, therefore, has to be registered with the state before it can be offered for sale.
- D. a security, but is exempt from state registration.

Answer: D

Explanation: A variable annuity is defined as a security, but is exempt from state registration in the opinion of