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FINRA Uniform Securities Agent State Law Examination

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**QUESTION 1**

Which of the following does not describe a prohibited practice for broker-dealers under the NASAA Model Rules?

I. SecureMoney Broker-Dealers has received a request from a client who wants SecureMoney to "identify a few solid firms in the Asian market and invest up to \$20,000 in them." SecureMoney executes the purchases and receives the requisite signed discretionary authorization from the client before the settlement date.

II. CanDo Broker-Dealers executes a margin transaction for a client, promptly receiving a signed, written margin agreement from the client after the transaction takes place.

III.

GetErDone Broker-Dealers receives a call from a client who wants to purchase some securities on margin. GetErDone has the client come into the office to sign a properly executed margin agreement prior to effecting the transaction.

A.

None of the selections are prohibited practices.

B.

I and III only

C.

II and III only

D.

III only

Correct Answer: C

Neither Selection II nor Selection III describes a prohibited practice for broker-dealers under the NASAA Model Rules. Broker-dealers are permitted to execute margin transactions for clients as long as they receive a signed, written margin agreement promptly after the initial margin transaction takes place. The agreement need not be signed beforehand. Discretionary authorizations do need to be signed before the broker-dealer executes any discretionary transactions for a client, so Selection I describes a prohibited practice.

QUESTION 2

Bob Gogetter is an agent with CanDo Broker-Dealers. One of Bob's clients is out of the country and cannot be contacted. The client holds some stock in a company that just released some information that should make its stock price soar. Bob knows that this client would probably want to increase his holdings, so Bob opens a margin account for his client and borrows the money to buy shares. As it happened, the stock price did soar, and Bob's client earned a sizeable profit.

Is Bob in violation of any securities acts?

A. No. Bob has a fiduciary responsibility to his client to act in his best interest, and Bob knew this.

B. No, but only because Bob's client profited from Bob's intervention. If the stock had declined in.



- C. Yes. It is against the law for an agent to open a margin account for a client without the client's.
- D. Yes. Bob is guilty of prohibited practice of churning.

Correct Answer: C

Yes. When he opened a margin account for a client without the client's written authorization, Bob committed a securities violation. This is strictly prohibited regardless of whether the client profited or not.

QUESTION 3

An arrangement wherein a terminally ill person sells a second party his life insurance policy at a discount from its face value, giving the buyer the right to the policy's face value when the seller dies is called a:

- A. death warrant.
- B. viatical settlement.
- C. deceased option.
- D. life straddle.

Correct Answer: B

A viatical settlement is an arrangement under which a terminally ill person sells a second party his life insurance policy at a discount from its face value. When the terminally ill person dies, the buyer of the policy receives its face value. Some states consider viatical settlements to be securities, and they have come under the scrutiny of the NASAA since there is a significant potential for fraud in the writing of these contracts.

QUESTION 4

Under the Uniform Securities Act, which of the following does not need to be included when filing to register a security issue with the state?

- A. a copy of the firm's articles of incorporation and bylaws, or the equivalent
- B. copies of the underwriter agreements
- C. a copy of any indenture applying to the security being registered
- D. All of the above documents must be included when filing to register a security with the state.

Correct Answer: D

The Uniform Securities Act specifies that the initial registration statement should be accompanied by all of the documents listed in the first three selections—a copy of the firm's articles of incorporation and bylaws or their equivalent; copies of any underwriter agreements; and a copy of any indenture that applies to the security being registered. Moreover, these are only some of the documents that need to be included.

QUESTION 5



The state of Massachusetts has issued a general obligation (G.O.) bond that pays 3% interest. As an agent selling this bond, you can legitimately tell the investor that

- A. the bond is guaranteed by the state of Massachusetts and is, therefore, a risk-free investment.
- B. the interest income the investor receives from the bond will be free from federal taxation.
- C. all state general obligation bonds are also guaranteed by the federal government.
- D. all of the above statements are true.

Correct Answer: B

An agent selling a Massachusetts general obligation bond can legitimately tell the investor that the interest income he receives from the bond will be free from federal taxation. It is not, however, a risk-free investment. States may default on their bond issues, and bonds issued by states are not guaranteed by the federal government.

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