Operations Professional Qualification Examination (Test Series 99)

Content Outline

© 2012 FINRA

Table of Contents

INTRODUCTION ii

PURPOSE OF THE OPERATIONS PROFESSIONAL EXAMINATION ii

DEPTH OF KNOWLEDGE ii

ELIGIBILITY REQUIREMENTS iii

APPLICATION PROCEDURES iii

ORGANIZATION OF THE CONTENT OUTLINE iii

STRUCTURE OF THE EXAMINATION iv

DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAMINATION iv

THE ADMINISTRATION OF THE EXAMINATION v

HOW THE EXAMINATION IS SCORED v

CANDIDATES' TEST RESULTS v

SAMPLE TEST QUESTIONS v

THE OPERATIONS PROFESSIONAL CONTENT OUTLINE 1

APPENDIX

RULES AND REGULATIONS REFERENCES A-1

SAMPLE QUESTION TYPES B-1

SAMPLE QUESTIONS B-2

INTRODUCTION

This content outline provides a comprehensive guide to the topics covered on the Financial Industry Regulatory Authority's (FINRA) Operations Professional Qualification Examination (Series 99). The outline is intended to familiarize candidates with the range of subjects covered on the examination, as well as the depth of knowledge required. In addition, a list of rules and regulations references that provide background for some of the definitions and concepts being tested is provided. Sample questions are also included to acquaint candidates with the principal formats of multiple-choice questions used on the examination and the types of subject matter included in the questions. It is recommended that candidates refer to the content outline as part of their preparatory studies. Candidates are responsible for planning their course of study in preparation for the examination**.**

PURPOSE OF THE OPERATIONS PROFESSIONAL EXAMINATION

The purpose of the Operations Professional Qualification Examination is to provide reasonable assurance that certain operations personnel associated with a FINRA member, "covered persons" as defined by FINRA Rule 1230, understand their professional responsibilities, including key regulatory and control themes, as well as the importance of identifying and escalating regulatory red flags that may harm a firm, its customers, the integrity of the marketplace or the public.

The Operations Professional Qualification Examination is designed to assess a candidate's broad understanding and basic knowledge of:

- a broker-dealer's business at a fundamental level;
- the operations functions that support a broker-dealer's business;
- the regulations that are designed to achieve investor protection and market integrity;
- the regulations that drive operations processes and procedures conducted at a broker-dealer; and
- regulatory red flag issues and the ability to identify and escalate these issues to the appropriate persons within the member firm, and/or to a regulatory body, if necessary.

DEPTH OF KNOWLEDGE

Given the diversity of job functions covered under the Operations Professional registration category, the examination will test candidates' knowledge at a basic level of understanding and application. For each section and subsection on the content outline, the candidate will be tested on the basic knowledge of the subject matter. This will include definitions of key terms, the basic characteristics of certain products and general concepts associated with certain standard business practices and rules. For example:

- under Section 1.2.1, a candidate will be expected to know the definition and basic characteristics of equity securities, but will not be expected to know the same level of detail about equity securities as a product specialist or a representative selling equity securities to customers;
- under Section 2.3.3, a candidate will be expected to know the basic differences between restricted and common stock positions but will not be expected to know the process for removing restrictive legends from a security.

ELIGIBILITY REQUIREMENTS

The candidate must be sponsored by a FINRA member firm to be eligible to take the Series 99 Examination. For more information on eligibility requirements, please see FINRA Rule 1230(b)(6), which can be viewed through the following web link:
http://finra.complinet.com/en/display/display.html?rbid=2403&record_id=13967&element_id=10208&

APPLICATION PROCEDURES

The member firm that sponsors the candidate must file a Form U4, Uniform Application for Securities Industry Registration or Transfer (Form U4) in the Central Registration Depository (Web CRD®), and request the Operations Professional position (OS) on the Form U4.

ORGANIZATION OF THE CONTENT OUTLINE

The Operations Professional Content Outline includes three major content areas and an appendix of Rules and Regulations References that will be useful in gaining an understanding of the general concepts included in the content outline. An underlying component that is assessed in all three content areas is the ability to identify and appropriately address certain activities or practices that constitute a regulatory red flag and may harm a firm, its customers, the integrity of the marketplace or the public. Given this objective, ethical and best practice-based questions are associated with all three content areas. The content outline is organized as follows:

- **Section 1: Basic Knowledge Associated with the Securities Industry** includes essential product and market knowledge for an operations professional, including definitions and characteristics of major product categories and basic knowledge of a broker-dealer's business and the securities industry

- **Section 2: Basic Knowledge Associated with Broker-Dealer Operations** includes broad-based knowledge regarding the covered operations functions that support a broker-dealer's business

- **Section 3: Professional Conduct and Ethical Considerations** includes knowledge of associated person conduct rules, such as registration requirements, supervision and control, duties and conflicts, and data integrity

- **Appendix:** This section of the document includes: **(1) Rules and Regulations References** that provide a resource for learning and understanding the definition of terms, knowledge and concepts contained in Sections 1, 2 and 3, and **(2) Sample Question Types and Sample Questions**

STRUCTURE OF THE EXAMINATION

The examination consists of 100 multiple-choice questions, which are distributed among the three major content areas. The allocation of test questions for each major content area is listed in the table below.

Number of Questions by Major Content Area

Section	Major Content Area	Number of Questions
1	Basic Knowledge Associated with the Securities Industry	32
2	Basic Knowledge Associated with Broker-Dealer Operations	48
3	Professional Conduct and Ethical Considerations	20
	Total	100

DEVELOPMENT AND MAINTENANCE OF THE CONTENT OUTLINE AND EXAMINATION

The content outline, test questions and the distribution of test questions were developed and validated by a committee of industry representatives. The committee was comprised of industry professionals with extensive experience and oversight of the covered functions at FINRA member firms.

To ensure and sustain the relevance of the examination, a committee of industry representatives writes, reviews and validates all test questions under the guidance of FINRA staff. Test questions are subjected to multiple reviews prior to inclusion on the examination and each question is linked directly to a component of the content outline. Test questions vary in difficulty and complexity. Each question will have only one correct or best answer.

The bank of test questions changes constantly as a result of amendments to, or the introduction of, government and/or industry rules and regulations, changes in practice and/or the introduction of new products. It is the candidate's responsibility to keep abreast of such changes when preparing to take the examination. Test questions and their statistical performance are analyzed routinely by FINRA staff and the committee to ensure that test questions continue to be relevant to the Operations Professional. Test questions are updated when necessary to reflect current definitions and basic concepts related to industry practices and regulations. If industry practices, rules and/or regulations pertinent to the examination are amended or added, FINRA will republish the content outline at or around the time the industry practice changes or the amended rules and/or regulations become effective.

THE ADMINISTRATION OF THE EXAMINATION

The examination is administered via computer. A tutorial on how to take the examination is presented prior to taking the examination. Each candidate's examination includes ten additional, unidentified pretest questions that do not contribute toward the candidate's score. The ten questions are randomly distributed throughout the examination. Therefore, each candidate's examination consists of a total of 110 questions (100 scored and 10 unscored). Each scored test question is worth one point. There is no penalty for guessing. Therefore, candidates should try to answer all questions. The appointment time for the examination will be 3 hours with 2.5 hours provided to complete the examination.

Scratch paper and basic electronic calculators will be provided to candidates by the test center administrator and must be returned to the test center administrator at the end of the testing session. Some test questions involve simple calculations such as addition, subtraction, multiplication and division (Please refer to the Appendix for examples of test questions involving a simple calculation). Only calculators provided by the test center administrators are allowed for use during the examination.

Candidates will not be permitted to bring any reference material to their testing session. Severe penalties are imposed on candidates who cheat or attempt to cheat on FINRA-administered examinations.

HOW THE EXAMINATION IS SCORED

The passing score for the examination is the minimum number of test questions that a candidate has to answer correctly to pass the examination. A committee of industry representatives using a standard setting procedure establishes the passing score for the examination. The passing score is an absolute standard, and it is independent of the performance of candidates taking the examinations. The passing score is a 68%.

CANDIDATES' TEST RESULTS

Candidates will receive a score report of their test results both on screen and in paper format at the end of their test session. The score report will indicate pass/fail status, the total score and a score profile indicating performance based on each major content area covered on the examination. It is recommended that candidates who fail the examination review the information provided on the score report, as they may want to focus on the areas in which they performed poorly when preparing to take the examination again. For security reasons, the examination and/or individual test questions are not available for review after taking the examination.

SAMPLE TEST QUESTIONS

Sample multiple-choice test questions are presented in the Appendix on pages B-1 – B-9. The sample questions are included to provide examples of the basic types of multiple-choice test questions used in the examination. They also provide an illustration of the typical difficulty level of the actual test questions and the subject matter covered on the examination.

THE OPERATIONS PROFESSIONAL CONTENT OUTLINE

1. Basic Knowledge Associated with the Securities Industry

1.1 Purpose of the Marketplace

- Regulatory and self-regulatory organizations (SROs)
- Types of markets
- Depositories and clearing facilities

1.2 Characteristics of Securities and Products

- Public securities offering versus private securities offering
- Initial public offering (IPO) versus secondary offering
- Exempt versus non-exempt securities
- Registered versus unregistered securities
- Priority of debtors' claims in bankruptcies
- Securities Investor Protection Corporation (SIPC) versus Federal Deposit Insurance Corporation (FDIC)

1.2.1 Characteristics of the following products:

- Equities
- Debt/fixed income
- Derivatives
- Packaged securities/alternative investments (e.g., mutual funds, VAs, REITs, ETFs)

1.3 Basic Knowledge of the Characteristics of Broker-Dealers

- Broker-dealer versus registered investment advisor (RIA)
  - Suitability obligation
  - Commissions/mark-ups versus fee-based
  - Customer statement versus performance report

1.3.1 Regulatory requirements of broker-dealers

- Financial and Operations Principal (FINOP)
- Financial and Operational Combined Uniform Single (FOCUS) report
- General ledger
- Net capital and the reserve formula calculation

1.3.2 Types of broker-dealer businesses

- Executing broker-dealer versus clearing prime broker
- Introducing broker-dealer versus clearing broker-dealer
- Clearing broker-dealer versus clearing facility
- Institutional clearing and settlement arrangements
- Commission management/soft dollars

2. Basic Knowledge Associated with Broker-Dealer Operations

2.1 Basic Knowledge of Account Opening and Maintenance

2.1.1 Types of retail, institutional and prime brokerage customer accounts

- Types of customer account registrations (e.g., individual, corporate)

2.1.2 Types of individual and employer-sponsored retirement accounts

- Contribution limits and required minimum distributions (RMD)
- Transfer versus rollover

2.1.3 Account opening

- Entities authorized to open and transact business in the account
- New account paperwork and appropriate approvals
- Standing settlement instructions (SSIs)

2.1.4 Anti-money laundering (AML) reviews

- AML compliance program
- Required customer information and documentation
  - Customer Identification Program (CIP) requirements
  - "Know Your Customer"(KYC)
- Office of Foreign Asset Control (OFAC) and the Specially Designated Nationals and Blocked Persons (SDNs) list
- Financial Crimes Enforcement Network (FinCEN)
- Suspicious activity reports (SARs)

2.1.5 Maintenance of accounts

- Escheatment process
- Updating customer account records
- Restricting account activity or freezing accounts
- Accounts for associated persons of member firms

2.1.6 Types of disclosures

- Product specific disclosures (e.g., illiquid securities)
- Account specific disclosures (e.g., options disclosure document, mutual fund prospectus)

2.2 Basic Knowledge of Cashiering and Account Transfers

2.2.1 Movement of funds and securities

- Methods of fund transfer (e.g., wires, ACHs, journals)
- Methods of giving instructions (e.g., letter of authorization)
- Transfer processes for various account types
- Medallion signature guarantee program
- Currency Transaction Reports (CTRs)
- Reinvestments and sweeps

2.2.2 Transfers or partial transfers of accounts between broker-dealers

- Automated Customer Account Transfer Service (ACATS) versus non-ACATS transfers
- Residual and residual credit processing

2.2.3 Handling checks

- Characteristics of negotiable checks
- Check issuance
- Maintenance of a check blotter

2.2.4 Prohibited activities related to cashiering and account transfers

- Structuring, layering and other money laundering activities
- Check kiting or altering checks
- Holding checks for extended periods
- Not processing (or holding) account transfers for an extended period

2.3 Basic Knowledge of Custody and Control of Securities

2.3.1 Custody and control of securities

- Safekeeping versus segregation
- Custody and control
- Street name
- Directly held mutual fund shares
- Securing customer assets
- Periodic physical count of securities ("box count")
- Maintenance of a stock record and verifying securities

2.3.2 Securities transfers

- Registered versus bearer certificates
- Good delivery, transfer agent and stock/bond power
- Validation of a certificate
- Maintenance of a securities blotter
- Handling lost certificates
- Direct Registration System (DRS) and Deposit/Withdrawal At Custodian (DWAC)
- Types of securities that are depository eligible

2.3.3 Stock legends

- Impact of a legend on the negotiability of a certificate
- Control and restricted securities (SEC Rule 144)
    - Holding periods for the removal of legends (reporting versus non-reporting companies)

2.4. Basic Knowledge of Trade Reporting and Trade Corrections

- Trading orders and strategies: long and short, buy and sell, naked and covered, bearish and bullish
- Trade reporting systems
- Best execution, trading capacity and quotation
- Regular market hours versus extended hours
- Trader corrections "as/of" and past settlement date
- Error accounts

- Knowledge of prohibited activities related to trading, including front-running, churning or excessive trading, market manipulation, excessive mark-ups , prohibited breakpoint sales, and improper sharing in profits and losses with customers

2.5 Basic Knowledge of Corporate Actions

2.5.1 Types of corporate actions

- Making adjustments for securities subject to corporate actions
- Processing customer instructions and special situations related to corporate actions
- Delivery of notices
- Corporate action deadlines

2.5.2 Proxies and proxy voting

- Delivery of annual and interim issuer reports

2.6 Basic Knowledge of Margin and Stock Loan/Securities Lending

- Margin, hypothecation and re-hypothecation
- Marginable versus non-marginable securities
- Different margin requirements for different securities
- Types of accounts that are permitted to trade on margin
- Documentation and disclosure requirements
- Federal and FINRA margin requirements, margin calls
- Stock lending
- Short sale requirements, including locating and borrowing securities
- Day trading and buying power

2.7 Basic Knowledge of Settlement

- Comparison of trades
- Same day versus regular way settlement
- Standard settlement time frames for various products
- Settlement service providers and methods of settlement
    - Repo/resale trades and settlements
- Continuous Net Settlement (CNS)
- Don’t Know (DK) trade
- Requirements to buy-in or closeout a fail
- Confirmation of aged securities fails

2.8 Basic Knowledge of Account Statements and Confirmations

2.8.1 Customer account statements

- Types of information that appear on an account statement
- Time frame for providing statements

2.8.2 Confirmations

- Types of information that appear on a confirmation
- Confirmation delivery requirements, including electronic confirmations
- Non-trade confirmations/third party activity notices
- Prospectus delivery requirements

2.8.3 Tax reporting

- Cost basis
- Types of optional and required tax withholding

2.8.4 Prohibited activities related to pricing securities on account statements and confirmations

- Falsifying or withholding documents
- Holding mail beyond the permissible time frames

2.9 Basic Knowledge of Books and Records

- Reconciliations
- Timeline of posting entries
- Retention requirements for firm documents, including requirements for electronic storage
- Prohibited activities related to maintenance of books and records (e.g., falsifying records and improper maintenance/retention of records)

3. Professional Conduct and Ethical Considerations

3.1. Employee Conduct

3.1.1 Registration, continuing education and termination of associated persons

- FINRA, SRO and state registration requirements
- Reporting of certain events on the Form U4 and Form U5
- Consequences of filing misleading information or omitting information
- Failing to register an associated person
- Continuing education requirement (regulatory element and firm element)

3.1.2 Code of conduct

- Outside business activities and outside securities accounts
- Prohibition against insider trading
- Selling away
- Restrictions for associated persons purchasing IPOs
- Use of manipulative, deceptive or other fraudulent devices
- Improper use of customers' securities or funds and prohibitions against guarantees and sharing in customer accounts
- Prohibition against paying commissions to unregistered persons

3.2 Relationships and Dealings with Customers, Vendors and Associated Persons of the Firm

- Methods of communications
- Non-public personal information (NPI)
- Dollar/value limits for gifts and gratuities and reporting requirements
- Business entertainment in relation to other FINRA member firms
- Reporting of political contributions and consequences for exceeding dollar contribution thresholds

3.3 Customer Privacy

- Confidentiality of customer information
- Exchange and control of information between departments and outside the firm
- Disclosures to customers
- Objecting beneficial owner (OBO) versus non-objecting beneficial owner (NOBO)
- Privacy rules
- FTC Red Flags Rule

3.4 Importance of Escalating Complaints and/or Potential Red Flags

- Recognizing a complaint and/or potential red flag
- Methods of escalation

3.5 Broker-Dealer Supervision and Control

3.5.1 Key controls and the separation/segregation of duties

- Segregation of functions and supervision among departments of the broker-dealer
- Information barriers
- Controlling access to buildings, office spaces, files and systems
    - Entitlement policies
    - Restrictions on access to information

3.5.2 Written Supervisory Procedures (WSPs)

- Compliance with WSPs
- Updating
- Annual Certification of Compliance and Supervisory Processes

3.5.3 Business Continuity Plan (BCP)

- Disclosure to customers

Appendix

Rules and Regulations References

This section of the document provides a list of rules and regulations that are associated with the subject matter described on the content outline. The list is provided to serve as a source for some general concepts that will be tested on the examination, although not every section of the content outline has an associated rule in this document. Each topical rule group is referenced to associated section(s) of the content outline. For example, the rules under "Broker-Dealers (Section 1.3)" are associated with subject matter that is covered on Section 1.3 – Basic Knowledge of the Characteristic of Broker-Dealers.

The listing of rules and regulations are intended to function as a reference tool to aid candidates in studying to take the examination. The test questions will not require candidates to identify specific rule numbers associated with the topics covered on the outline. Instead, the candidate should know the definition, general characteristics and/or concepts associated with a particular rule or regulation. For example, an examination question will **NOT** ask the candidate to identify the specific FINRA rule number associated with AML (FINRA Rule 3310). In addition, the candidate will **NOT** be expected to have an in-depth knowledge of the subcomponents of the rules or regulations.

New rules will be added to this reference list when associated definitions and general concepts are added to the content outline and examination. Similarly, rescinded rules will be removed from this reference list at the time the associated definitions and general concepts are removed from the content outline and examination.

Broker-Dealers (Section 1.3)

- FINRA Rule 4311 – Carrying Agreements
- Securities Exchange Act of 1934 (SEA) Rule 15c3-1 – Net Capital Requirements for Brokers or Dealers

Anti-Money Laundering (Section 2.1.4)

- FINRA Rule 2090 – Know Your Customer
- FINRA Rule 3310 – Anti-Money Laundering Compliance Program
- USA PATRIOT Act, Section 326 – Verification of Identification

Disclosure Requirements (Section 2.1.6)

- FINRA Rule 2260 Series – Disclosures

Cashiering and Account Transfers (Section 2.2.2)

- FINRA Rule 2140 – Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes
- FINRA Rule 11870 – Customer Account Transfer Contracts

Custody and Control of Securities (Section 2.3.1)

- FINRA Rule 4522 – Periodic Security Counts, Verifications and Comparisons
- NASD Rule 2330 – Customers' Securities or Funds
- NYSE Rule 402 – Customer Protection – Reserves and Custody of Securities
- SEA Rule 15c3-3 – Customer Protection – Reserves and Custody of Securities

Securities Transfers and Stock Legends (Sections 2.3.2 and 2.3.3)

- FINRA Rule 11300 Series – Delivery of Securities
- FINRA Rule 11500 Series – Delivery of Securities with Restrictions
- SEA Rule 17f-1(c)(2) – Missing or Lost Securities

Trade Reporting and Trade Corrections (Section 2.4)

- FINRA Rule 2010 – Standards of Commercial Honor and Principles of Trade
- FINRA Rule 2111 – Suitability
- FINRA Rule 2342 – "Breakpoint" Sales
- FINRA Rule 5210 – Publication of Transactions and Quotations
- FINRA Rule 5220 – Offers at Stated Prices
- FINRA Rule 5320 – Prohibition Against Trading Ahead of Customer Orders
- FINRA Rule 5230 – Payments Involving Publications that Influence the Market Price of a Security
- FINRA Rule 5250 – Payments for Market Making
- FINRA Rule 5290 – Order Entry and Execution Practices
- FINRA Rule 5310 – Best Execution and Interpositioning
- FINRA Rule 6438 – Displaying Priced Quotations in Multiple Quotation Mediums
- NASD IM-2110-3 – Front Running Policy

Margin, Stock Loan and Securities Lending (Section 2.6)

- FINRA Rule 4200 Series – Margin

Settlement (Section 2.7)

- FINRA Rule 11200 Series – Comparisons or Confirmations and "Don't Know Notices"
- FINRA Rule 11600 Series – Delivery of Bonds and Other Evidences of Indebtedness
- FINRA Rule 11700 Series – Reclamations and Rejections
- FINRA Rule 11800 Series – Close-out Procedures
- SEC Regulation SHO, Rule 204 – Close-out Requirement
- SEA Rule 15c3-3 – Customer Protection – Reserves and Custody of Securities

Books and Records (Section 2.9)

- FINRA Rule 4510 Series – Books and Records Requirements
- FINRA Rule 4520 – Financial Records and Reporting Requirements
- NASD Rule 3110(i) – Books and Records Requirements
- SEA Rule 17a-3 – Records to be Made by Certain Exchange Members, Brokers and Dealers
- SEA Rule 17a-4 – Records to be Preserved by Certain Exchange Members, Brokers and Dealers

Registration and Continuing Education (Section 3.1.1)

- FINRA By-Laws Article IV Section 6 – Retention of Jurisdiction
- FINRA Rule 1000 Series – Member Application and Associated Person Registration
- FINRA Rule 1122 – Filing of Misleading Information as to Membership or Registration
- FINRA Rule 4530 – Reporting Requirements
- NASD Rule 1000 Series – Membership, Registration and Qualification Requirements

Code of Conduct (Section 3.1.2)

- FINRA Rule 2020 – Use of Manipulative, Deceptive or Other Fraudulent Devices
- FINRA Rule 2150 – Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts
- FINRA Rule 3240 – Borrowing From or Lending To Customers
- FINRA Rule 3270 – Outside Business Activities of Registered Persons
- FINRA Rule 5130 – Restrictions on the Purchase and Sale of Initial Equity Public Offerings
- FINRA Rule 5240 – Anti-Intimidation/Coordination
- FINRA Rule 5280 – Trading Ahead of Research Reports
- NASD Rule 2400 Series – Commissions, Mark-ups and Charges
- NASD Rule 3040 – Private Securities Transactions of an Associated Person
- NASD Rule 3050 – Transactions for or by Associated Persons
- NYSE Rule 407 – Transactions – Employees of Members, Member Organizations and the Exchange
- SEA Rule 10b-5 – Employment of Manipulative and Deceptive Devices
- SEA Rule 10b5-1 – Trading "On the Basis of" Material Nonpublic Information in Insider Trading Cases
- SEA Rule 10b5-2 – Duties of Trust or Confidence in Misappropriation Insider Trading Cases
- SEA Section 15(a) – Registration and Regulation of Brokers and Dealers

Communication (Section 3.2)

- FINRA Rule 2210 – Communications with the Public
- FINRA Rule 3220 – Influencing or Rewarding the Employees of Others
- MSRB Rule G-37 – Political Contributions and Prohibitions on Municipal Securities Business

Customer Privacy (Section 3.3)

- FINRA Rule 2060 – Use of Information Obtained in Fiduciary Capacity
- SEC Regulation S-P – Privacy of Consumer Financial Information and Safeguarding Personal Information

Complaints (Section 3.4)

- FINRA Rule 4513 – Written Customer Complaints
- FINRA Rule 4530 – Reporting Requirements
- NYSE Rule 401A – Customer Complaints

Broker-Dealer Supervision and Control (Section 3.5)

- FINRA Rule 3130 – Annual Certification of Compliance and Supervisory Processes
- FINRA Rule 4370 – Business Continuity Plans and Emergency Contact Information
- NASD Rule 3010 – Supervision
- NASD Rule 3012 – Supervisory Control System
- NYSE Rule 342 – Offices – Approval, Supervision and Control

The rules and regulations listed in this appendix may be found on the following government and self-regulatory organizations' websites:

Financial Industry Regulatory Authority (FINRA): www.finra.org
Municipal Securities Rulemaking Board (MSRB): www.msrb.org
Securities and Exchange Commission (SEC): www.sec.gov

SAMPLE QUESTION TYPES

The following sample questions are reflective of the test question formats a candidate may see on the examination. Note that the correct answer is followed by three asterisks.

Closed-Stem: The stem (the part that poses the question) is a complete sentence, and thus concludes with a question mark. The options (answer choices) may be complete or incomplete sentences.

Example 1: Which of the following is TRUE of a bond?

(A) It represents an ownership interest

(B) It pays dividends to holders

(C) In an insolvency, holders have the lowest priority claim

(D) It is a debt instrument ***

Open-Stem (Sentence Completion): The stem is an incomplete statement, and the options represent conclusions to the sentence.

Example 2: The stated value of an equity, which is set by the issuing company, is known as

(A) market value

(B) trade value

(C) par value***

(D) net asset value

Except or Not: The "EXCEPT" case is used when the task is to select the response option that is an exception to the principle or rule stated in the stem. If it is clearly more straightforward or less awkward to use "not," rather than "except," this is done. In either case, the stem may be open or closed.

Example 3: All of the following are characteristics of rights EXCEPT:

(A) They are issued to existing stockholders in proportion to the number of shares the stockholder already own

(B) They are considered long-term instruments***

(C) They allow the owner to purchase shares of stock at less than market price

(D) They represent a specific number of shares of stock

SAMPLE QUESTIONS

Below are 30 sample questions that are reflective of the variety of content and the difficulty level of the test questions that a candidate may receive on this examination. These questions are provided **solely** for this purpose. **It is important to note that being able to answer these questions correctly is not an indication of how a candidate will perform on the actual examination.** Note that the correct answers are available on page B-9.

1: Which of the following investments is a security?

(A) Gold

(B) Fixed annuity

(C) Real estate

(D) Municipal bond

2: Under federal securities laws, what are the three basic categories of investment companies?

(A) Mutual funds, basket programs and limited partnerships

(B) Mutual funds, closed-end funds and options

(C) Closed-end funds, options and basket programs

(D) Mutual funds, closed-end funds and unit investment trusts

3: All of the following investments describe a closed-end mutual fund EXCEPT:

(A) An investment that pools many investors money for a specific investment purpose

(B) An investment that constantly offers new shares

(C) An investment with a fixed number of outstanding shares

(D) An investment that is traded on an exchange or over-the-counter market

4: A firm is considered fully covered if it holds which of the following positions in the same account as 10 short March 15 put options in XYZ?

(A) Long 1000 shares of XYZ

(B) Long 1500 shares of XYZ

(C) Short 1000 shares of XYZ

(D) Short 1500 shares of XYZ

5: A registered representative (RR) receives an order from a customer to buy 50,000 shares of XYZ stock. The RR buys 500 shares for his own account and then places a market order for 50,000 shares for the customer. What prohibited practice has the RR engaged in?

(A) Churning

(B) Front running

(C) Insider trading

(D) Free-riding

6: A customer owns shares of XYZ stock that are held in an account with the transfer agent. The customer wants to transfer the stock to her account with a broker-dealer. Which of the following methods should the operations professional use to transfer the stock?

(A) Special Payment Order (SPO)

(B) Automated Clearing House (ACH)

(C) Direct Registration System (DRS)

(D) Automated Customer Account Transfer Service (ACATS)

7: Which of the following events would NOT require an adjustment to the total cost basis of a stock?

(A) Spin off

(B) Return of capital

(C) Stock dividend

(D) Stock split

8: An investor owns 200 shares of XYZ Corp. at $50 per share. If XYZ announces a 2-for-1 stock split, the investor's XYZ position after the split will be

(A) 100 shares at $25

(B) 100 shares at $100

(C) 400 shares at $25

(D) 400 shares at $100

9: At what age must a customer begin to take required minimum distributions from a traditional IRA?

(A) 59 ½

(B) 60

(C) 65

(D) 70 ½

10: A customer has written several personal checks payable to the registered representative (RR) handling his account. The RR instructs the operations professional to deposit the checks into the RR's personal account at the firm. Which of the following is the BEST action for the operations professional to take?

(A) Deposit the checks into the RR's personal account

(B) Return the checks to the customer

(C) Follow the firm's escalation procedures

(D) Deposit the checks into the customer's account

11: Which of the following describes the result of combining two or more companies, generally by offering the stockholders of one company securities in the acquiring company, in exchange for the surrender of their stock?

(A) Stock split

(B) Merger

(C) Class action

(D) Bankruptcy

12: A customer purchased 300 shares of XYZ at $40 in his individual account. The customer dies and on the date of the customer's death, the price of the position is $52. The position is willed to the customer's son and subsequently sold at $54. What is the per share cost basis of the position?

(A) $26

(B) $40

(C) $52

(D) $54

13: Which of the following represents a debt issuance?

(A) Right

(B) Stock

(C) Bond

(D) Warrant

14: Assuming no bank holidays, a U.S. Treasury note purchased in the secondary market on Monday, October 3, would settle regular-way on

(A) Monday, October 3

(B) Tuesday, October 4

(C) Wednesday, October 5

(D) Thursday, October 6

15: Which entity governs Regulation T?

(A) Securities and Exchange Commission

(B) Federal Reserve Board

(C) New York Stock Exchange

(D) Financial Industry Regulatory Authority

16: When does a trade settle?

(A) Upon execution

(B) At the time cash is exchanged for securities

(C) Upon confirmation between contra parties

(D) At the time the confirmation is received by the customer

17: Which of the following requests made by a customer concerning his statements is a potential red flag?

(A) Hold the customer's mail because he will be traveling abroad

(B) Change the customer's mailing address to the branch office address

(C) Send duplicate statements to third party

(D) Mail all the customer's account statements in one envelope

18: An operations professional has been asked to be a limited partner for a new private real estate investment trust (REIT). Prior to accepting the offer, which of the following should be the operations professional's FIRST action?

(A) Complete the investment paperwork and provide a copy to his firm

(B) Provide his firm with a written notice and receive approval from his firm

(C) Disclose any potential conflicts of interest to his supervisor

(D) Provide his firm with the projected investment objectives

19: The terms "DK" or "Don't Know" apply to which of the following?

(A) ACATS trades

(B) Stock record breaks

(C) Failing securities

(D) Uncompared CNS trades

20: The purpose of the Office of Foreign Assets Control (OFAC) is to

(A) Impose margin requirements for foreign nationals

(B) Impose economic sanctions against hostile targets

(C) Monitor flows of foreign currencies into the US capital markets

(D) Monitor foreign investors into the US equity markets

21: The ex-dividend date for a cash dividend is:

(A) The second business day preceding the record date

(B) The fifth business day preceding the record date

(C) Two business days after the record date

(D) Five business days after the record date

22: Which department within a clearing firm or a self-clearing broker-dealer oversees the extension of credit to a customer?

(A) Purchase and Sales

(B) Banking

(C) Margin

(D) Settlement

23: A firm receives a written complaint from a customer of misappropriation of funds and securities in the customer's account. The complaint should be reported to the:

(A) Securities and Exchange Commission (SEC)

(B) Financial Industry Regulatory Authority (FINRA)

(C) Securities Industry and Financial Markets Association (SIFMA)

(D) North American Securities Administrators Association (NASAA)

24: Which of the following is required to be maintained on the blotter for indicating the receipt of physical securities from customers?

(A) Date received

(B) Date security was purchased

(C) Dated date of the certificate

(D) Maturity date of the security

25: Which of the following situations should be escalated to the firm's compliance department?

(A) A check is altered with the customer's initials and the customer's change is witnessed by an employee of the firm

(B) A customer complaint is received but the firm does not respond to the complaint within 48 hours of receipt of the complaint

(C) A check from a customer is deposited into another customer's account and the customer depositing the check signed a letter authorizing this action

(D) The firm does not have a process for logging checks received from its customers

26: While performing a daily reconciliation activity an operations professional discovers that several withdrawals were made from the firm's special reserves bank account and deposited into an employee's account. Which of the following is the MOST appropriate action for the operations professional?

(A) Monitor the accounts to ensure the money is deposited back into the firm's account

(B) Escalate the potential red flag to a manager immediately

(C) Report the employee to human resources immediately

(D) Note the reconciliation report for auditing purposes

27: A self-regulatory organization (SRO) is responsible for

(A) the oversight of member firms and enforcing its rules

(B) regulating that a fair number of consumers make a profit

(C) regulating documentation standards across all broker-dealers

(D) the oversight of market indexes

28: Under industry regulations, an initial purchase of $5,000 of common stock in a margin account requires a cash deposit of

(A) $5,000

(B) $2,500

(C) $2,000

(D) $1,250

29: Information barriers are used to prevent which of the following prohibited activities?

(A) Insider trading

(B) Market timing

(C) Excessive mark-ups

(D) Parking securities

30: UTMA accounts are opened under the social security number of the

(A) Minor

(B) Custodian

(C) Donor

(D) Parent

Sample Question	Answer Key
1	D
2	D
3	B
4	C
5	B
6	C
7	D
8	C
9	D
10	C
11	B
12	C
13	C
14	B
15	B
16	B
17	B
18	B
19	D
20	B
21	A
22	C
23	B
24	A
25	D
26	B
27	A
28	B
29	A
30	A