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Section 1: Sec One (1 to 14)

Details:

Receiving, verifying, entering and following up customer orders

QUESTION: 1

A bond trader at SYC Securities sees in a dealer inventory that another municipal bond trading firm, LTP, has quoted \$500,000 city of Burney GO bonds at 102 ½ . He calls LTP and negotiates a price of 102 ¼ for the entire inventory. LTP's trader tells the SYC trader that the quote is firm for one hour with a five-minute recall. During the hour, another firm, TBC, calls LTP and is willing to buy the entire inventory at the original quote of 102 ½. The quoting dealer, LTP, will:

- I. Make the trade since the new offer meets the original quote.
- II. Tell the trader at TBC that the bonds are out firm.
- III. Give TBC five minutes to improve their offer.
- IV. Call SYC and tell the trader there that he/she has five minutes to execute a transaction against the quoted price.

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

Answer: B

Explanation:

This complex question describes how a situation might develop in a municipals trading firm. The quote that was “firm for one hour with a five-minute recall,” means that the price will be held firm for one hour, but if a better offer comes in the firm will get a call saying that they have five minutes to make the trade. To the trading firm that inquired after the firm quote was given, the trader will say that the bonds are “out firm,” meaning that a firm quote to another dealer is pending.

QUESTION: 2

A customer of a NYSE firm has decided to open a margin account. As her first trade she buys 100 shares of LIB stock at \$15 per share. With Regulation “T” at the standard 50%, what will be her minimum required deposit for this transaction?

- A. \$1,500
- B. \$2,000
- C. \$750

D. \$3,500

Answer: A

Explanation:

The initial equity in a new margin account, by NYSE and NASD rules is \$2,000 unless the total transaction is less than \$2,000 as it is in this case. The customer, for the opening transaction will deposit the total amount of the purchase.

QUESTION: 3

A customer purchased restricted stock in a Regulation D private placement offering 18 months ago. She instructs the registered representative to sell as much of the stock as possible immediately. Which of the following are true?

- I. The stock may not be sold for another six months
- II. The RR must file a Form 144 no later than concurrently with the sale
- III. The customer may sell an amount of her stock representing the greater of 1% of the company's outstanding stock, or the average of the past six weeks of trading volume.
- IV. The customer may sell an amount of her stock equal to the greater of 1% of the company's outstanding stock, or the average of the immediately past four weeks of trading volume.

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

Answer: B

Explanation:

The holding period for restricted stock is one year, fully-paid. During the second year, an investor must file a Form 144, which covers 90 days of sales, with the SEC no later than concurrently with the sale. The volume limitation for sales is the greater of 1% of the company's stock or the average of the past four weeks trading volume.

QUESTION: 4

A registered representative is explaining the details of a new municipal offering to a client. She explains that the debt service for the bond will be paid from taxes collected from the sales of tobacco and alcohol. This type of bond is known as which of the following?

- A. Special assessment bond
- B. Full faith and credit bond
- C. Special tax bond
- D. Moral obligation bond

Answer: C

Explanation:

Special tax bonds are a form of municipal revenue bonds, sometimes called “sin tax” bonds because the revenues are from excise taxes on commodities such as alcohol and tobacco—gasoline taxes are also included.

QUESTION: 5

An investor has placed the following order with her broker-dealer: Buy 500 shares XYZ @ 50 IOC. When the order is presented to the trading crowd at the specialist’s post, the floor broker is only able to buy 300 shares at 50. What will be the result?

- A. The order goes on the specialist’s book as GTC
- B. The order will be designated as DNR by the specialist
- C. The order is cancelled
- D. The order is partially filled by a purchase of 300 shares and the remainder is cancelled.

Answer: D

Explanation:

An IOC (Immediate or Cancel) order allows for partial fills. When partially filled, the remainder of the order is automatically canceled.

QUESTION: 6

A customer places an order to buy 1,000 shares of XYZ stock immediately at \$35/share and cancel whatever portion of the order cannot be filled at that price. The registered representative will submit the order as which of the following?

- A. FOK

- B. IOC
- C. GTC
- D. AON

Answer: B

Explanation:

The order requires an Immediate or Cancel notation. The customer will accept a partial fill of the order, so it is not FOK (Fill or Kill). GTC stands for Good Till Cancelled, and AON orders (All or None), which must be filled in one transaction are typically GTC

QUESTION: 7

An investor sells short 1,000 shares of FBN stock at 1.75. Under the rules what is the investor's required deposit for this transaction?

- A. \$1,750
- B. \$3,750
- C. \$2,000
- D. \$2,500

Answer: D

Explanation:

Under the so-called "cheap stock" rule, the investor who sells short stock that is priced \$0 - \$2.50 per share, the requirement is \$2.50 per share. Selling short is a strategy that investors use when they expect the market to drop. There isn't much room for a stock priced at \$1.75 to drop. Also, the lower-priced stocks tend to exhibit great volatility, which translates to even greater risk to the investor

QUESTION: 8

A customer's long margin account appears as follows:

CMV = \$50,000

DR = \$30,000

The customer calls his registered representative and places the following orders; sell \$10,000 XYZ and buy \$4,000 PDQ. Which of the following statements is (are) correct? (Regulation "T" = 50%)

- I. The firm will retain \$6,000
- II. The customer's account will be credited with \$3,000
- III. The firm will retain \$3,000
- IV. The customer's account will be credited with \$6,000

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

Answer: C

Explanation:

This customer's account is restricted, which, of course means that the equity in the account is below 50% of the CMV ($\$50,000 \text{ CMV} - \$30,000 \text{ DR} = \$20,000 \text{ EQ}$) and, ($\$50,000 \times 50\% = \$25,000$) so the account is restricted by \$5,000. In a restricted account, the firm must impose the 50% rule retention on any sales. In this case, the customer has a net sale, (Sell $\$10,000 - \text{buy } \$4,000 = \$6,000$ net sale) the retention rule requires that the firm retain $50\% \times \$6,000 = \$3,000$. The customer may withdraw the remaining \$3,000 or leave it in the account

QUESTION: 9

A broker-dealer's customer has opened a new long margin account by buying \$10,000 of XYZ stock and making the required Reg. "T" (50%) deposit. When the broker-dealer rehypothecates the customer's stock, how much of the securities may be pledged?

- A. \$5,000
- B. \$7,000
- C. \$10,000
- D. \$14,000

Answer: B

Explanation:

Rehypothecation by the broker dealer means that the firm is pledging customer's street-name securities to a bank as collateral for a loan. The Federal Reserve Board Rule stipulates that the broker dealer may rehypothecate (pledge) 140% of the customer's debit balance. The customer bought \$10,000 and made the required 50% deposit, so the broker-dealer loaned the customer \$5,000 to pay for the stock—that is the initial debit balance. The broker-dealer rehypothecates the customer's stock ($\$5,000 \times 140\% = \$7,000$), pledging it as collateral for a loan.

QUESTION: 10

Although organizations differ in their internal practices, which of the following correctly represents the typical flow of a customer's order through a broker-dealer's office?

- I. Margin department
- II. Wire Room
- III. Cashier
- IV. Purchases and Sales

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

Answer: B

Explanation:

The order goes through the Wire Room for transmittal to the appropriate trading desk/market. The Purchases and Sales department creates the follow-up documents, including confirmations. All orders go through the Margin department to account for the funds. Finally the order ticket goes to the Cashier where securities and money are transferred

QUESTION: 11

A floor broker on the exchange has a Not Held day order for a prominent customer of his broker-dealer to buy 5,000 shares of a particular stock. As the trading day draws to a close the broker is hoping for a better price for the customer, but asks the specialist to stop the stock at its current trading price. What will be the effect of the specialist stopping the stock?

- A. The specialist is guaranteeing a transaction price to the floor broker for a short period of time
- B. Tape A will indicate the stoppage by an SLD notation
- C. Once the order is triggered by the stop, it will become a GTC order on the specialist's book
- D. The specialist will charge the customer a differential for the trade if it occurs

Answer: A

QUESTION: 12

Which of the following terms are associated with the purchase/redemption of open- end

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