

FREE SERIES 63 PRACTICE EXAM

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1. Which of the following is NOT considered to be a 'federal covered' security:
 - A. Shares of an open-end mutual fund
 - B. Shares of a corporation whose stock trades on the NYSE
 - C. Shares of a corporation whose stock trades on NASDAQ
 - D. Bonds of a corporation whose stock trades on the AMEX

2. Under the Uniform Securities Act, all of the following would meet the definition of an 'agent' EXCEPT:
 - A. An individual who represents an issuer in the sale of non-exempt securities
 - B. An individual who represents a broker/dealer in the sale of exempt securities
 - C. An individual who represents a broker/dealer in exempt transactions
 - D. A sales assistant handling the sale of futures contracts or commodities

3. Under the Uniform Securities Act, which of the following is NOT an issuer:
 - A. A company whose shares trade on the NYSE
 - B. A new company that is offering their shares to the public
 - C. A municipal government entity whose bonds trade in the OTC market
 - D. A broker/dealer trading securities as an agent for their customers

4. Who has to notify the Administrator when an Investment Advisor Representative terminates employment with their Investment Advisory Firm:
 - A. Either the Investment Advisory Firm or the Investment Advisor Representative
 - B. The Investment Advisory Firm
 - C. The Investment Advisor
 - D. Both the Investment Advisory Firm and the Investment Advisor Representative

5. Broker/dealers must keep all of the following records EXCEPT:
 - A. Blotters and other records of original entry
 - B. Ledgers indicating cash and securities received
 - C. Customer order tickets
 - D. A list of all customers who were sent promotional materials

6. Under the USA, which of the following is NOT true about agents:
- A. They may represent an issuer
 - B. They may represent a broker/dealer
 - C. They may register as corporations
 - D. They must register as individuals
7. Under the USA, all of the following are considered to be exempt securities EXCEPT:
- A. Revenue bonds issued by a Canadian province
 - B. NASDAQ listed securities
 - C. Investment contracts
 - D. Stock issued by a U.S. bank
8. Under the USA, which of the following is NOT considered to be a security:
- A. Variable annuity
 - B. Fixed annuity
 - C. Corporate debt
 - D. Corporate equity
9. Under the USA, which of the following would NOT be excluded from the definition of an Investment Advisor:
- A. Investment Advisor Representatives (IAR)
 - B. Federal covered Investment Advisors
 - C. Lawyers, accountants, teachers and engineers who investment advisory services are solely incidental to their professional practices
 - D. Broker/dealers who receive separate compensation for offering advice
10. Under the USA, all of the following are true about the Administrator's authority to require an Investment Advisory firm to satisfy net capital requirements by posting a surety bond EXCEPT:
- A. An IA with discretionary authority over customer accounts must post a surety bond of at least \$10,000
 - B. An IA with custody of client funds must post a surety bond of at least \$35,000
 - C. An IA who has both discretion and custody must post a bond of at least \$50,000
 - D. In lieu of bond, the Administrator may accept cash or marketable securities
11. Under the USA, all of the following may provide investment advice incidental to their normal business without registering as an investment advisor EXCEPT:
- A. Lawyer
 - B. Analyst
 - C. Teacher
 - D. Engineer

12. Under the USA, the term 'person' would include which of the following:
- A. A child under age 18
 - B. Someone who is legally incompetent
 - C. An estate
 - D. A deceased individual
13. Under the USA, all of the following are considered to be securities EXCEPT:
- A. Investment contracts
 - B. Grain futures contracts
 - C. Voting Trust Certificates
 - D. Limited partnership units
14. Under the USA, the sale of which of the following may be made under a 'transactional' exemption:
- A. Municipal bonds
 - B. U.S. Government securities
 - C. Stock sold privately
 - D. Securities issued by a Canadian province
15. Under the USA, all of the following are exempt securities EXCEPT:
- A. Municipal general obligation bond issued by Orange County, CA
 - B. Municipal revenue bond issued by the city of Calgary, Alberta, Canada
 - C. All securities issued by authorized insurance companies
 - D. Securities issued by common carriers and public utilities
16. Under the USA, which of the following is NOT an exempt transaction:
- A. Transactions with existing security holders without commission
 - B. Transactions by executors, administrators or trustees in bankruptcy
 - C. Institutional investor transactions
 - D. Investment contracts issued by employee benefit plans
17. Under the USA, which of the following CANNOT file a registration statement for a security with the state:
- A. The administrator
 - B. The underwriting broker/dealer
 - C. The issuer
 - D. The selling stockholders

18. Under the USA, which of the following could be required to register as an investment advisor:
- A. Lawyer
 - B. Bank
 - C. Trust company
 - D. Insurance company
19. Under the USA, which of the following is an exempt security:
- A. Stock of a European corporation
 - B. Small cap NASDAQ listed security
 - C. Shares of an open-end mutual fund
 - D. Variable life insurance policy
20. A person selling securities on behalf of a broker/dealer must register as an agent of the:
- A. Issuer
 - B. Broker/dealer
 - C. Issuer and broker/dealer
 - D. Issuer or broker/dealer
21. An individual who represents an investment advisor by making recommendations, managing accounts, soliciting advisory services and/or supervising others engaged in these activities is defined as an:
- A. Investment Advisor Representative
 - B. Agent
 - C. Broker/dealer
 - D. Solicitor
22. Which of the following orders for a customer requires an agent to have advance written discretionary authority:
- A. Buying 1,000 shares of any suitable stock
 - B. Buying Microsoft stock in any suitable amount
 - C. Buying 1,000 shares of Microsoft stock at the best time or price
 - D. Both A & B above
23. Under the USA, which of the following is considered to be an 'offer' or 'offer to sell':
- A. Stock dividends paid in lieu of cash dividends
 - B. Pledge of stock as collateral for a loan
 - C. Sale of a warrant or right
 - D. Exchange of stock incident to a judicially approved reorganization

24. Under the USA, which of the following must notify the Administrator when an agent changes firms:
- A. The agent
 - B. The agent's old firm
 - C. The agent's new firm
 - D. All of the above
25. All of the following are true when a client signs a compliance waiver stating that he knows that an agent is selling him a non-exempt security without registration EXCEPT:
- A. Compliance waivers are void
 - B. Compliance waivers are also known as 'hedge' clauses
 - C. The agent may be found guilty of selling unregistered non-exempt securities
 - D. The agent cannot be found to be in violation since the client agreed to the trade

ANSWERS & RATIONALES

1. **C** The term ‘federal covered’ means that the securities are subject to federal regulation, rather than state. Nationally traded securities, such as those listed on the NYSE and other SEC registered exchanges and those securities equal or senior to them, are considered to be federal covered, as are investment company securities. However, NASDAQ traded securities are not federal covered UNLESS they trade in the NASDAQ National Market System (NMS).
2. **D** Under the USA, individuals who represent a broker/dealer must register as agents when selling either exempt or non-exempt securities, even if the transaction is exempt (such as a private placement). However, registration as an agent is not required when representing the issuer of exempt securities or those sold in an exempt transaction. Since futures contracts and/or commodities are not securities, registration is not necessary.
3. **D** Under the USA, an issuer is any person who issues or proposes to issue any security. However, a broker/dealer is defined as any person who is engaged in the business of effecting securities transactions for the accounts of others (a ‘broker’) or for their own account (a ‘dealer’).
4. **A** If an Investment Advisor Representative terminates employment with an Investment Advisor (IA) it depends upon how the IA Firm is registered. If the firm is a state registered advisor, then only the IA firm has to notify the Administrator. However, if the IA is a federal registered firm, then it is the IAR who must notify the Administrator.
5. **D** Broker/dealers must make and keep such accounts, correspondence, memoranda, papers, books, and other records as the state Administrator requires. Such records must be current, complete and accurate, and are required to be kept for 3 years. However, the Administrator cannot impose recordkeeping requirements that are in excess of those prescribed by the SEC.
6. **C** Although agents may represent either issuers or broker/dealers in the sale of securities, they must register individually rather than as corporations. Only an individual, or a natural person, can be an agent. A corporation, such as a broker/dealer, is not a natural person. Remember, the word ‘person’ is broadly defined under the USA to include both natural persons (individuals) and other legal entities (such as corporations, partnerships, associations, trusts, estates and governments or political subdivisions of governments).
7. **B** Investment contracts issued in connection with employee’s stock purchase, savings, pension or profit-sharing plans are considered to be exempt securities, as are securities issued by U.S. banks and foreign governments (and their political subdivisions) with which the U.S. has diplomatic relations . However, NASDAQ listed securities are non-exempt unless they trade on the NASDAQ National Market System (NMS).

8. **B** Insurance products with fixed, guaranteed rates of return, such as traditional whole life and fixed annuities, are not considered to be securities. However, variable life insurance and variable annuities are considered to be securities since their cash value is invested in a 'separate' account, which is very similar to a mutual fund.
9. **D** Don't confuse an IA firm with an IAR, who works for the firm. They are two separate categories of registration. Lawyers, accountants, teachers and engineers are excluded from the definition as long as their advisory services are solely incidental to their professional practices. However, broker/dealer firms who charge a separate fee for their advisory advice must register as IA firms. Federal covered advisors must register with the SEC, not the state.
10. **C** Surety bonds are a type of casualty insurance, often required by government agencies as a condition to licensing or registration. If an IA firm has discretionary authority over customer accounts or custody of customer securities or monies, the Administrator may require the firm to post a bond, or an equivalent amount of cash or marketable securities in order to protect customers against losses due to check forgery, lost securities or fraudulent trading.
11. **B** The USA does not exempt an analyst from registration as an investment advisor. However, lawyers, accountants, teachers and engineers are exempt from registration as advisors as long as their advice is incidental to their profession.
12. **C** Under the USA, the term 'person' is broadly defined to include those who are subject to the provisions of the act, including individuals, corporations, trusts, associations, estates, joint-stock companies, governments and political subdivisions of governments.
13. **B** Although commodity futures contracts are not considered to be securities, options on commodity futures contracts are. So are Voting Trust Certificates, which are transferable certificates of beneficial interest in a voting trust, a limited-life trust set up to center control of a corporation in the hands of a few individuals, called voting trustees.
14. **C** Municipal bonds, U.S. Governments securities and securities issued by recognized foreign governments are all considered to be exempt securities under the USA. However, a private placement is an exempt 'transaction'. It is not the security that is exempt, it is the way it is being sold.
15. **C** Under the USA, stocks and bonds issued by insurance companies are considered to be exempt securities. However, variable life insurance policies and variable annuities issued by insurance companies are non-exempt, meaning that they must be registered. Further, remember that fixed insurance policies and fixed annuities are not securities.
16. **D** Securities issued in connection with employee benefit plans, such as employee stock purchase plans, saving plans, pension plans or profit sharing plans are considered to be exempt securities under the USA, not exempt transactions.
17. **A** Under the USA, registration statements may be filed by the issuer, the underwriting broker/dealer, or by selling stockholders who own restricted stock that they obtained in a private placement. Restricted stock may not be resold unless it is either registered or sold under another exemption.

18. **D** Under the USA, insurance companies are not specifically excluded from the definition of an investment advisor.
19. **C** Shares of an open-end mutual fund are considered to be 'federal' covered securities. They must be registered with the SEC, but are exempt from state registration.
20. **B** If you represent a broker/dealer in the sale of securities, whether the security is exempt or non-exempt, you must register as an agent of that broker/dealer.
21. **A** This is the definition of an IAR. Think of an Investment Advisor as an IA firm, which is usually a corporation. An IAR is an individual who works for the IA. The relationship is similar to that of an agent who represents a broker/dealer firm, except that the IAR is selling investment advice, not securities.
22. **D** Advance written discretionary authority (limited power of attorney) is required for both the amount and type of stock to be purchased. It is not required for timing or price, meaning that an agent can use his best judgment in those areas.
23. **C** The USA defines the terms 'offer' or 'offer to sell' to include every attempt or offer to dispose of, or solicitation of an offer to buy a security for value. Since a warrant or right includes the right to purchase or subscribe to another security, an offer of the other security is considered to be included in the warrant or right.
24. **D** When an agent changes firms, the agent, his old firm and his new firm must all notify the state Administrator. Technically, registration cannot be transferred to the new firm. The agent must terminate and re-register, which requires a U-5 form to terminate and a new U-4 form to re-register, along with new fingerprints. No exam is required.
25. **D** Hedge clause or compliance waivers are void, meaning that they will not protect an agent who is in violation of the USA. It is unlawful to sell unregistered non-exempt securities even if the client agrees to the trade.