



FINRA-SERIES-6^{Q&As}

FINRA Investment Company and Variable Contracts Products
Representative Examination (IR)





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QUESTION 1

Under the Investment Company Act of 1940, an investment company is:

- A. required to register with the SEC.
- B. any company that holds investment securities that have a value that is greater than 40% of the company's total assets.
- C. any issuer whose primary business involves investing, reinvesting, or trading in securities.
- D. All of the above accurately describe an investment company as defined by the Investment Company Act of 1940.

Correct Answer: D

Explanation: All of the choices accurately describe an investment company as defined by the Investment Company Act of 1940.

QUESTION 2

Ms. Newbie, a newly-minted registered representative with Savvy Investments, just had her first client walk through the door. Before she can do anything, Ms. Newbie must obtain which of the following pieces of information from her client?

- A. age
- B. occupation
- C. taxpayer identification number (TIN)
- D. investment objectives

Correct Answer: A

Explanation: Before she can do anything, FINRA requires that she ensure that her client is of legal age. Ms. Newbie must also make a reasonable effort to determine occupation, TIN, and investment objectives, and if her client refuses, Ms. Newbie must document the fact that she made an effort to obtain this information.

QUESTION 3

Ms. Pye has quit her job to become a full-time mother and wants to roll over the funds from her 401(k) plan into an IRA. As her financial adviser, you should tell her that:

- A. this is unwise since she will have to pay both taxes and a penalty on the funds that are rolled over.
- B. if she has the funds transferred directly from her 401(k) plan to the IRA, she will avoid having 20% withheld.
- C. if she opts to take possession of the funds herself prior to depositing them in the IRA account, she must make the deposit within 30 days to avoid a 10% penalty.
- D. both B and C.

Correct Answer: B



Explanation: If Ms. Pye wants to rollover the funds from her 401(k) plan into an IRA, you should tell her that if she has the funds transferred directly from her 401(k) plan to the IRA, she will avoid having 20% withheld. She will not have to pay either taxes or a penalty on the funds that are rolled over if she follows specified guidelines, and if she opts to take possession of the funds herself prior to depositing them in the IRA account, she has 60 days in which to do so before a 10% penalty is assessed.

QUESTION 4

Ms. Newbie's client, Mr. Nomad, has decided that he wants to go on an extended backpack trip through the Amazon. Since he'll be out of touch, he has given a friend of his limited power attorney to act on his behalf. Based on this, Mr. Nomad's friend can:

I. present Ms. Newbie with an order to purchase securities on Mr. Nomad's behalf.

II. present Ms. Newbie with an order to sell securities on Mr. Nomad's behalf.

III.

request a check be issued to him so that he can send Mr. Nomad some money.

A.

I only

B.

I and II only

C.

I, II, and III

D.

none of the above. Only a relative can hold a power of attorney to engage in financial transactions for the grantor.

Correct Answer: B

Explanation: Mr. Nomad's friend can engage in the activities described in Selections I and II only. A limited power of attorney gives Mr. Nomad's friend the authority to buy and sell securities on Mr. Nomad's behalf, but not to make any cash withdrawals. He would need a full power of attorney to be able to do so.

QUESTION 5

Sarah Bean is a registered representative with NewWave Investments, a family of mutual funds. She has recommended one of NewWave's funds to a client and given him a prospectus. The prospectus provides information about the fund's breakpoints and indicates that an investment of \$25,000 or more will lead to a reduced front-end load. The prospectus also clearly explains the details of a letter of intent. Sarah's client invests \$23,000 in the fund then and there without even opening the prospectus.

Has Sarah violated any of FINRA's rules of conduct?

A. No. Sarah properly provided her client with a prospectus prior to selling him shares of the fund.



- B. Yes. Sarah is required to explain the concepts of breakpoints and letters of intent to her client.
- C. Yes. Sarah needed to tell her client that he would have to read through the prospectus to ensure he understood all aspects of the investment before she could take any money from him.
- D. Yes. Sarah is not permitted to accept funds from a client without the presence of her immediate supervisor.

Correct Answer: B

Explanation: Yes. Sarah is required to explain the concepts of breakpoints and letters of intent to her client and her failure to do so is a violation of FINRA's rules of conduct. A registered representative selling mutual fund shares is required to explain the salient facts contained in a fund's prospectus to a client before selling him the fund shares. Sarah's failure to do so is deemed "inconsistent with just and equitable principles of trade."

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