



FINRA-SERIES-6^{Q&As}

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





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QUESTION 1

Commercial paper is:

- A. long-term debt issued by commercial banks.
- B. short-term, unsecured debt issued by large corporations.
- C. issued with maturities of 1 to 2 years.
- D. short-term debt that is backed by stocks and bonds that the issuing firm owns.

Correct Answer: B

Explanation: Commercial paper is short-term, unsecured debt issued by large corporations. It generally has a maturity of less than 270 days so that it does not need to be registered with the SEC in order to be offered for sale.

QUESTION 2

Which of the following would offer an investor the most protection against purchasing power risk?

- A. a stock mutual fund
- B. a government bond fund
- C. a high-yield bond fund
- D. a money market fund

Correct Answer: A

Explanation: A stock mutual fund would offer an investor the most protection against purchasing power risk. Purchasing power risk is the risk that the money received from the investment won't buy as much because of inflation. Stock funds offer higher returns that have historically exceeded the annual rate of inflation, on average. The majority of the return from bond funds is from the fixed interest payment, which does not change regardless of the inflation rate, so the return earned by the investor may end up being less than the inflation rate in any given year. Likewise, money market funds offer very low returns that, in some years, are less than the rate of inflation.

QUESTION 3

Under FINRA's rules regarding proper supervision, member firms must:

- I. have clear written procedures to supervise the activities of its principals, registered representatives, and other associated persons.
- II. designate as an office of supervisory jurisdiction (OSJ) any office of the member that engages in maintaining custody of the funds and/or securities of the member's customers.
- III. prohibit the use of any electronic communication method, including personal electronic devices, for business-related communications unless the use of the devices can be properly supervised and the communications retained.



IV.

regularly evaluate the effectiveness of its supervisory policies.

A.

I and IV only

B.

I, II, and IV only

C.

I, III, and IV only

D.

I, II, III and IV

Correct Answer: D

Explanation: Under FINRA's rules regarding proper supervision, member firms must engage in the activities described in all four statements, including prohibiting the use of personal electronic devices for business-related communications unless the devices can be properly supervised and the communications retained.

QUESTION 4

Which of the following risks would not be a risk associated with a municipal bond fund?

I. credit risk

II. reinvestment risk

III.

currency exchange risk

A.

I and III only

B.

III only

C.

II and III only

D.

I, II, and III

Correct Answer: B



Explanation: Currency exchange risk is the only risk listed that would not be associated with a municipal bond fund. Municipal bond funds invest only in bonds of state and local governments in the U.S., so there is no exposure to exchange rate fluctuations. Like corporate bonds, municipal bonds have varying degrees of credit risk. Investors are also exposed to reinvestment risk since interest payments received may have to be reinvested at lower interest rates if rates have been falling.

QUESTION 5

Ms. Newbie, a newly-minted registered representative with Savvy Investments, just had her first client walk through the door. The new account form that the client receives a copy of must contain the signatures of:

I. the client.

II. Ms. Newbie.

III.

Ms. Newbie's branch manager/supervisor.

A.

I only

B.

I and II only

C.

II and III only

D.

I, II, and III

Correct Answer: C

Explanation: The new account form that Ms. Newbie's client will receive must contain the signatures of both Ms. Newbie and her branch manager/supervisor. The signature of the client is not a requirement.

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