



# FINRA-SERIES-63<sup>Q&As</sup>

FINRA Uniform Securities Agent State Law Examination





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### QUESTION 1

Which of the following statements best explains the difference between an agent and a broker-dealer?

- A. An agent is an individual who represents a broker-dealer or an issuer and buys and sells securities he does not own in return for a commission on the transactions he executes. A broker-dealer may also buy and sell securities for his own portfolio, in which case the broker-dealer enjoys any price appreciation on those securities.
- B. A broker-dealer must be licensed in the state in which he conducts business, but there are no separate licensing requirements for agents.
- C. Agents are engaged exclusively in the purchase and sale of stocks whereas broker-dealers also buy and sell bonds and option contracts.
- D. Agents conduct their business exclusively in the secondary market, while broker-dealers also operate in the primary market.

Correct Answer: A

The main difference between an agent and a broker-dealer is that an agent represents either a broker-dealer or an issuer and buys and sells securities he doesn't own, receiving a commission for the trades he executes. A broker-dealer, when functioning as a dealer, is buying and selling for his own portfolio, thereby profiting from any price appreciation in the assets in his portfolio. Both agents and broker-dealers must meet state licensing requirements; both engage in the purchase and sale of stocks, bonds, and option contracts; and both operate in both the primary and secondary markets.

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### QUESTION 2

Treadwater Bank and Trust is selling a portfolio of municipal bonds it owns to the SafeRisk Insurance Corporation. Under the Uniform Securities Act (USA), in this transaction Treadwater is defined as a

- A. broker-dealer.
- B. agent.
- C. issuer.
- D. none of the above.

Correct Answer: D

When Treadwater Bank and Trust sells municipal bonds it owns to SafeRisk, it does not meet the USA definition of a broker-dealer, an agent, or an issuer. As a bank, Treadwater is automatically excluded as a broker-dealer. Nor can Treadwater be defined as an agent since an agent can only be an individual. Treadwater is not the issuer of the securities; the state and local governments that originally issued the securities are.

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### QUESTION 3

Mr. Bigwig, CEO of HiGrowth Corporation, meets with the president of BigFee Investment Bankers and arranges for BigFee to underwrite an Initial Public Offering (IPO) for the firm. When the IPO comes to market, GetErDone Broker-Dealers is part of the selling group, which handles the sale of the stock to the public.



In this scenario, which party is the broker?

- A. HiGrowth Corporation
- B. Mr. Bigwig
- C. BigFee Investment Bankers
- D. GetErDone Broker-Dealers

Correct Answer: D

GetErDone Broker-Dealers is the broker in this scenario. GetErDone is simply finding buyers for the securities and receives a commission for doing so. GetErDone is not itself purchasing the securities in the scenario described. It would be considered unethical for the broker-dealer to do so since they are required to make a bona fide public offering of all of the securities allotted to them for distribution under NASAA Model Rules.

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#### QUESTION 4

A broker-dealer of commodity futures contracts has been profiting by trading for its own account either before or after executing a client's trade on the same commodity, depending on which will be most advantageous. Under the Uniform Securities Act, the broker-dealer is guilty of

- A. fraud.
- B. churning.
- C. unauthorized transactions.
- D. nothing. The Uniform Securities Act (USA) deals only with securities, and a commodity futures contract is not a security.

Correct Answer: D

A broker-dealer of commodity futures contracts is guilty of nothing under the Uniform Securities Act since a commodity futures contract is not a security as defined by the USA. The broker-dealer may, however, find himself in trouble with the Commodity Futures Trading Commission, which is the regulatory agency of the futures market.

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#### QUESTION 5

If an issuer registers securities with the state, how long can the documentation supplied in the registration statement for those securities be incorporated by reference only into a registration statement for future securities the issuer wants to offer for sale?

- A. one year
- B. two years
- C. five years
- D. seven years

Correct Answer: C



Once an issuer has registered securities with the state, the documentation supplied in that registration statement can be incorporated into the registration statement for future securities the issuer wants to offer for sale by reference only for a period of five years.

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