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# Series66

*NASD Series 66*



D. Enlist the assistance of the state comptroller

**Answer:** A

**Explanation:**

While the administrator may issue a cease and desist order, because the administrator is not a court officer, he or she can't enforce compliance with that order. The administrator's next step is to bring action in a court that has jurisdiction over Titanic and to request a permanent or temporary injunction or restraining order.

**QUESTION:** 245

BigTop Brokerage wants to register in the state of Ohio. Under the Uniform Securities Act, which of the following requirements must BigTop satisfy?

- A. Verify the marital status of all partners in the business
- B. Maintain at least a minimum amount of net capital
- C. Maintain a minimum liquid net worth of \$500,000
- D. Assure the administrator that it intends to open a minimum of 40 new accounts in the state within the first year

**Answer:** B

**Explanation:**

A state administrator may require a broker-dealer registrant to maintain a minimum amount of net capital; the amount will be specified by the administrator

**QUESTION:** 246

Which of the following securities are considered exempt securities under the Uniform Securities Act?

- I. Microsoft Corporation
- II. The Knights of Columbus
- III. U.S. Treasuries
- IV. Corporate debt securities trading over the counter vs Securities issued by Spokane, Washington
- VI. Securities issued by London, Ontario
- VII. Debt securities issued by Northwestern Mutual Insurance
- VIII. A bond issued by Illinois Light & Power

- A. I, III, V and VIII
- B. I, II, III, V, VI, VII, VIII
- C. II, III and IV
- D. II only

**Answer:** B

**Explanation:**

Microsoft is listed on the NYSE and would receive the blue-chip exemption. The Knights of Columbus is a non-profit fraternal organization and is also exempt. All securities guaranteed by the U.S. government are exempt. Securities issued by a U.S. or Canadian municipality are exempt. Debt securities issued by an insurance company are considered exempt. A bond issued by a public utility is exempt since it is specifically and otherwise regulated. Corporate debt securities trading over the counter would NOT qualify for the blue-chip exemption because they do not trade on a national exchange

**QUESTION:** 247

Under the Uniform Securities Act, which of the following is NOT considered a security?

- A. Treasury stock
- B. Stock options
- C. Variable annuity
- D. Life insurance

**Answer:** D

**Explanation:**

Under the Uniform Securities Act, all options define a security, with the exception of life insurance

**QUESTION:** 248

Under the Uniform Securities Act, a state administrator may allow an investment advisor the authority to trade in a client account, but the advisor may not be allowed to remove client funds and securities from the account. This is known as:

- A. Absolute option
- B. Consent to process
- C. Consent to authority

D. Limited discretion

**Answer:** D

**Explanation:**

Investment advisors often have their clients open accounts at a broker-dealer so that the advisor does not have to go through the process of obtaining state approval in order to take custody of client funds and securities. The advisor will then receive discretionary authority from the client in order to trade in the account on their behalf. The discretionary authority received is typically "limited discretion" whereby the advisor may transact in the account but is not allowed to remove funds or securities from the account

**QUESTION:** 249

The maximum penalty for the criminal violation of a state securities law is:

- A. \$10,000 fine, five years in prison, or both
- B. \$5,000 fine, three years in prison, or both
- C. \$10,000 fine
- D. \$5,000 fine

**Answer:** B

**Explanation:**

Under the Uniform Securities Act, a criminal violation exists if the person willfully violates a provision of the Act. The maximum penalty for each violation is a \$5,000 fine, three years in prison, or both. If the person proves that he or she had no prior knowledge of the provision violated, there will be no prison sentence imposed. The state administrator does not have the authority to impose criminal penalties - the courts in each state take these actions

**QUESTION:** 250

Which of the following is true regarding the Investment Advisor's Act of 1940 as it pertains to anti-fraud provisions:

- A. A company that meets the definition of an investment advisor but does not have to register due to an exemption is subject to the anti-fraud provisions of the Act
- B. The state Administrator is responsible for registering all fraudulent investment advisors who fall under the federal definition

- C. A company that is accused of committing fraud and is exonerated of all charges is then required to register with the SEC
- D. A company that meets the definition of an investment advisor and is registered at the federal level is not subject to the anti-fraud provisions of the Act

**Answer:** B

**Explanation:**

If a company is exempt from federal registration, it still is subject to the anti-fraud provisions - no matter what the exemption - anti-fraud rules apply to all investment advisor at either the state or federal level

**QUESTION:** 251

Heatprod Investment Advisors is opening a new account for Mrs Mathers, but the firm does not want to be responsible for custody of her securities. To keep her as a customer, they try an alternate solution. Mrs Mathers will open an account at a local broker-dealer and then give written discretionary authority to Heatprod. This will allow Heatprod to execute transactions in her broker account. Is this legal?

- A. Possibly, unless Mrs Mathers offers the broker reciprocal advantages
- B. No, it is strictly prohibited for a broker-dealer and investment advisor to cross transact
- C. Mrs Mathers could face charges if caught
- D. Yes, investment advisors often do this

**Answer:** D

**Explanation:**

This is a perfectly legal and common solution to the challenge. Under the Uniform Securities Act, investment advisors may keep custody of client funds and securities. However, in order to do so, the advisory firm must obtain approval from the state administrator first. In order to avoid going through the administrator, the advisor may obtain written discretionary authority to trade in the client's account at the broker-dealer. The client funds or securities are held at the broker-dealer for a fee, and everyone is satisfied



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