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FINRA

SIE

A woman with blonde hair, wearing a white business suit, is leaning over a desk and working on a laptop. She is smiling and looking at the screen. The background is a blurred office setting with large windows.

Securities Industry Essentials Exam (SIE)

Version: Demo

[Total Questions: 10]

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Question #:1

Which of the following statements describes a characteristic of Treasury securities?

- A. They are liquid.
- B. They are callable.
- C. They are FDIC-insured.
- D. They are issued by the U.S. government with a high amount of default risk.

Answer: A

Explanation

Treasury securities are among the most liquid investments, as they are backed by the U.S. government and trade actively in large volumes.

- ➔ **A is correct** because Treasuries are highly liquid, making them easy to buy and sell.
- ➔ **B is incorrect** because most Treasury securities are not callable.
- ➔ **C is incorrect** because FDIC insurance applies to bank deposits, not Treasuries.
- ➔ **D is incorrect** because U.S. government securities have negligible default risk.

Question #:2

Which of the following responses best characterizes a money market mutual fund?

- A. It pays a fixed rate of return.
- B. Its price is fixed at \$1 per share.
- C. Its underlying investments are short term.
- D. Its yield always exceeds a savings account rate.

Answer: C

Explanation

Money market mutual funds invest in highly liquid, short-term debt instruments, such as Treasury bills, commercial paper, and certificates of deposit. While the funds aim to maintain a stable \$1 NAV, this is not guaranteed.

- ➔ **C is correct** because the fund's investments are short term.
- ➔ **A is incorrect** because the rate of return is not fixed; it varies with market interest rates.

- ➔ **B** is incorrect because while the fund tries to maintain a \$1 NAV, it is not guaranteed.
- ➔ **D** is incorrect because yields do not always exceed those of savings accounts.

Question #3

On settlement date, a customer is unable to pay for a purchase in his cash account. His position is liquidated. Which of the following statements is true according to Federal Reserve Regulation T?

- A. Only closing transactions are permitted.
- B. The customer is barred from trading for 30 days.
- C. The customer's account is frozen for 90 days.
- D. All related accounts are frozen for 90 days.

Answer: C

Explanation

Federal Reserve Regulation T mandates that customers must pay for purchases in a cash account within two business days of settlement (T+2). If payment is not made, the brokerage firm must liquidate the securities and place the account on a 90-day restriction.

- ➔ **C is correct** because the customer's account is frozen for 90 days, during which all trades must be paid for in advance.
- ➔ **A** is incorrect as closing transactions are still permitted but require prepayment.
- ➔ **B** is incorrect because the restriction lasts for 90 days, not 30.
- ➔ **D** is incorrect as only the delinquent account, not related accounts, is frozen.

Question #4

A registered representative (RR) opens a new account for a customer whose investment objectives are growth and income. She makes an initial deposit of \$5,500 using a series of money orders drawn from different sources, and she makes no investments for the first 30 days the account is open. At the end of that time, the customer asks to have the funds wired to an account at a different firm as her needs have changed. The RR's first course of action should be to:

- A. Deny the request.
- B. Freeze the account.
- C. Report internally as a suspicious activity.
- D. Accept the instructions and wire the funds.

Answer: C**Explanation**

Step by Step Explanation:

- ➔ Suspicious Activity: The use of multiple money orders, lack of investment activity, and request to wire funds to another firm raise red flags for potential money laundering.
- ➔ FINRA Rules: The RR should escalate the issue by reporting internally and potentially filing a Suspicious Activity Report (SAR).
- ➔ Incorrect Options:
 - ➔ A: Denying the request without investigation may violate customer instructions.
 - ➔ B: Freezing the account requires a valid legal or regulatory basis.
 - ➔ D: Processing the request without investigation could facilitate illegal activity.

References:

- ➔ FINRA Anti-Money Laundering (AML) Guidance: FINRA AML Rules.

Question #:5

Which of the following activities engaged in by a registered person is considered a private securities transaction?

- A. Soliciting donations to a charity
- B. Helping a friend raise money for a startup company they founded
- C. Working for an insurance company selling term life insurance policies
- D. Investing personal money in shares of a listed security in a brokerage account

Answer: B**Explanation**

A private securities transaction involves the sale of securities outside the scope of a registered representative's employment with their member firm. Such transactions must be disclosed to and approved by the firm under FINRA Rule 3280.

- ➔ **B is correct** because raising money for a startup involves the sale of securities and must be reported as a private securities transaction.
- ➔ **A is incorrect** because soliciting charitable donations does not involve securities.

- ➔ Cis incorrect because selling term life insurance policies is not a securities transaction.
- ➔ Dis incorrect because investing personal money does not involve soliciting or selling securities to others.

Question #:6

An individual investor has \$300,000 in cash and \$400,000 in securities held with a financially troubled SIPC member firm for which liquidation has begun. The individual investor's cash is protected for what amount?

- A. \$150,000
- B. \$250,000
- C. \$300,000
- D. \$700,000

Answer: B**Explanation**

Step by Step Explanation:

- ➔ SIPC Coverage Limits: Protects up to \$500,000 per customer, including a maximum of \$250,000 for cash.
 - ➔ In this case, \$300,000 in cash exceeds the SIPC limit, so only \$250,000 is protected.
- ➔ Incorrect Options:
 - ➔ A: \$150,000 understates the SIPC limit for cash.
 - ➔ C: The full \$300,000 in cash is not protected.
 - ➔ D: Total coverage exceeds SIPC limits.

References:

- ➔ SIPC Coverage Details:SIPC Protection.

Question #:7

What is the sales load of an open-end investment company with a net asset value (NAV) of \$14.35 and a public offering price (POP) of \$15.50?

- A. 7.40%
- B. 8.00%
- C. 8.50%

D. 9.25%

Answer: C

Explanation

The sales load is calculated as a percentage of the POP, using the formula: **Sales load = (POP # NAV) ÷ POP × 100**

- ➔ POP = \$15.50, NAV = \$14.35.
- ➔ Sales load = $(\$15.50 \# \$14.35) \div \$15.50 \times 100 = 8.50\%$.
- ➔ **C is correct** because the calculation results in an 8.50% load.
- ➔ **A, B, and D** are incorrect due to incorrect calculations.

Question #:8

Pursuant to the Securities Act of 1933, registration is required for which of the following securities?

- A. Private placements
- B. Municipal securities
- C. U.S. government issues
- D. Open-end investment companies

Answer: D

Explanation

The Securities Act of 1933 requires securities offered to the public to be registered with the SEC unless they qualify for an exemption. Open-end investment companies (mutual funds) are not exempt and must register.

- ➔ **D is correct** because mutual funds are publicly offered and require registration.
- ➔ **A** is incorrect because private placements are exempt under Regulation D.
- ➔ **B** is incorrect because municipal securities are exempt under Section 3(a)(2).
- ➔ **C** is incorrect because U.S. government securities are also exempt under Section 3(a)(2).

Question #:9

Which of the following events requires reporting on a Form U4?

- A. A misdemeanor speeding ticket

- B. A felony conviction for drunk driving
- C. A bench warrant for missing a court date
- D. A gross-misdemeanor domestic assault conviction

Answer: B

Explanation

Form U4 (Uniform Application for Securities Industry Registration or Transfer) requires disclosure of any felony convictions, regardless of whether they are securities-related. A felony conviction for drunk driving falls under this requirement.

- ➔ **B is correct** because a felony conviction must be reported on Form U4.
- ➔ **A is incorrect** as misdemeanor speeding tickets do not require disclosure unless they involve fraud, theft, or dishonesty.
- ➔ **C is incorrect** as bench warrants are not reportable unless they lead to a conviction.
- ➔ **D is incorrect** because gross misdemeanors (except those involving fraud or dishonesty) do not require reporting.

Question #:10

In a rising interest rate environment, which of the following statements is true regarding the price of fixed-rate corporate bonds?

- A. Their price will remain constant.
- B. Their price will revert to par value.
- C. Their price will appreciate in value.
- D. Their price will depreciate in value.

Answer: D

Explanation

When interest rates rise, the price of fixed-rate corporate bonds falls because the bond's coupon payments become less attractive compared to new bonds issued at higher rates.

- ➔ **D is correct** as bond prices move inversely to interest rates.
- ➔ **A is incorrect** because bond prices fluctuate with interest rate changes.
- ➔ **B is incorrect** because bond prices revert to par only at maturity.

➡ Cis incorrect because prices do not appreciate when rates rise.

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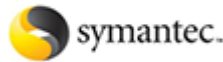
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