

Finance

Series-99

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Question: 1

Which of the following are TRUE of an option seller?

- I. income comes from the premium paid by the buyer of the option
- II. enters into the option contract with the goal of having it exercised by the buyer
- III. obligated to perform based on the terms of the option contract
- IV. loses money upon expiration of the contract

- A. II. and IV.
- B. I., II., and III.
- C. IV. only
- D. and III.

Answer: D

Explanation:

An option seller receives his income from the premium paid to him by the buyer of the option. Further, he is obligated under the terms of the option contract to perform, given the buyer chooses to exercise her rights under the contract. An option seller will NOT want the option to be exercised and instead would prefer it expire unexercised, so as to not be obligated to perform under the contract AND to profit simply from the premium income he received. Accordingly, upon expiration of the contract, the seller does NOT lose money and in fact that is where his income is made.

Question: 2

Which of the following types of dispute resolution does NOT always end in a final binding decision regarding the issue being disputed?

- A. simplified arbitration
- B. minor rule violation (MRV) procedure
- C. mediation
- D. arbitration

Answer: C

Explanation:

Mediation is the type of dispute resolution that does NOT always end in a final binding decision regarding the issue being disputed. The mediation process can produce one of three possible outcomes: an agreement between the parties may result; either the mediator or one of the parties withdraws from the process; or the mediator sees no potential for resolution and declares an impasse. Given that, the potential for no binding decision being reached at the end of the mediation process is entirely possible. Simplified arbitration is for disputes involving \$50,000 or less and concludes with a decision handed

down by an arbitrator. Arbitration for disputes of a larger amount is submitted to a panel of arbitrators who then provide a decision on the matter. In a minor rules violation (MRV) procedure, the outcome can be censure, a fine of \$2,500, or a formal hearing resulting in a variety of potential penalties being imposed.

Question: 3

Which of the following are TRUE of the Securities Investor Protection Corporation (SIPC)?

- I. it will require a firm to conduct limited and very specific business upon having a trustee appointed for the purpose of liquidation
- II. it is a private corporation
- III. it will petition for the appointment of a trustee to liquidate the firm, should it fail to meet its minimum capital requirement
- IV. broker-dealer membership is required if registered with the SEC

- A. III. and IV.
- B. I. and II.
- C. II., III., and IV.
- D. IV. only

Answer: A

Explanation:

The Securities Investor Protection Corporation (SIPC) was established for the protection of customers. SIPC will petition for the appointment of a trustee to liquidate a firm should it fail to meet its minimum capital requirement. Further, broker-dealer membership with SIPC is required if registered with the SEC. Upon having a trustee appointed for the purpose of liquidation, SIPC will require the firm to NOT conduct any business at all, and SIPC is a government-sponsored corporation, NOT a private corporation.

Question: 4

A municipal finance professional (MFP) provides a donation of \$350 to a candidate's election in which she is not eligible to vote. Which of the following is NOT a possible outcome to this situation?

- A. the donation of \$350 results in a violation of MSRB Rule G-38
- B. the MFP's firm will not be able to participate in the business of municipal securities for that issuer for one year
- C. the MFP's firm will not be able to participate in the business of municipal securities for that issuer for two years
- D. the donation to a candidate for an election in which she is ineligible to vote results in a violation of MSRB Rule G-38

Answer: B

Explanation:

MSRB Rule G-38 limits a municipal finance professional (MFP) to making donations of \$250 or less (per candidate, per election) and only to candidates who are participating in elections that they themselves are eligible to vote in. Here a violation occurred due to the donation being for more than \$250, and for an election the MFP is not eligible to vote in. The penalty for such a violation is the MFP's firm being prohibited from participating in the business of municipal securities for that issuer for two years, NOT one.

Question: 5

Of the following statements regarding institutional accounts and communications, which is NOT true?

- A. institutional accounts have no minimum size requirements
- B. due to most being larger in size, more laws are in place for the protection of these investors
- C. member firms must maintain these communications for three years
- D. government agencies are considered to be institutional investors

Answer: B

Explanation:

Due to institutional investors tending to be larger in size and higher in their level of sophistication, FEWER, not more, laws are in place for their protection. Institutional accounts do, however, have no minimum size requirements, institutional investors must maintain their communications for three years, and government agencies are considered to be institutional investors.

Question: 6

Regulation T regulates which of the following groups in their extension of credit for the purchase of securities?

- A. financial institutions outside of banks and broker-dealers
- B. banks
- C. broker-dealers
- D. all of the above

Answer: C

Explanation:

Regulation T regulates broker-dealers in their extension of credit for the purchase of securities. Banks (for the same purpose) are regulated by Regulation U, and similarly, all other financial institutions are regulated by Regulation G.

Question: 7

Which of the following is an example of a possible penalty to be handed down as a result of a finding of violation in a minor rule violation "formal" hearing?

- A. suspension for up to six months
- B. expulsion for up to five years
- C. \$2,500 fine
- D. fine of whatever amount is deemed appropriate

Answer: D

Explanation:

If the offer of a minor rules violation procedure resolution is accepted by the FINRA member under review, the maximum penalty to be imposed if a violation is found is a censure and a \$2,500 fine. If, however, the offer to proceed with a minor rules violation procedure is NOT accepted and a "formal" hearing by the Department of Enforcement becomes necessary, one of the several penalties that can be imposed is a fine in whatever amount the department finds appropriate. Other penalties are a suspension of up to one year and an expulsion for up to 10 years.

Question: 8

All of the following are true of the definition of retail communications EXCEPT:

- A. accessible to 25 retail investors or more over a 60-day period
- B. includes sales literature
- C. maintained by the member firm for three years
- D. distributed electronically OR by hard copy

Answer: A

Explanation:

Retail communications are made to be accessible to 25 retail investors or more, but over a 30-day period of time, NOT 60. Further, retail communications include sales literature, must be maintained by the member firm for three years, and can be distributed electronically or by hard copy.

Question: 9

An investor owns 100 shares of 6 percent cumulative preferred stock in company RTS. The company has not paid dividends this year and for the past two years. How much is this investor owed in accumulated unpaid dividends?

- A. \$1,200
- B. \$6,000
- C. \$1,800
- D. \$180

Answer: C

Explanation:

Given that par value of preferred stock shares is \$100:

$\$100 \text{ par value} \times \text{dividend percent} = \text{per share annual income}$

$$\$100 \times .06 = \$6 \text{ per share}$$

$\text{per share annual income} \times \# \text{ of preferred shares owned} = \text{total annual income}$

$$\$6 \times 100 = \$600$$

The company is in arrears for the current year plus two, so the total years in arrears is three. Therefore:

$$3 \times \$600 = \$1,800$$

The company owes this investor \$1,800 in accumulated unpaid dividends for the current year, plus two.

Question: 10

An investor owns 650 shares of corporation PPG. There is an upcoming election in which this investor will be casting his vote. The election is for two of the corporation's board members and there are five candidates running.

Under the statutory method of voting, what will be this investor's distribution of votes?

- A. candidate #1: 650 votes, candidate #3: 650 votes
- B. candidate #4: 650 shares
- C. candidate #5: 1,300 shares
- D. candidate #2: 325 votes, candidate #4: 325 votes

Answer: A

Explanation:

Given that this investor owns 650 shares of PPG and there are two board members to be elected, the number of votes she is allowed to cast is as follows:

$\text{total votes to cast} = \# \text{ of owned shares} \times \# \text{ of individuals to be elected}$

$$650 \times 2 = 1,300 \text{ votes}$$

The statutory method of voting involves having the voter cast an equal number of votes for each of the candidates she would like to vote for. With two candidates to be elected, this investor would split her 1,300 votes and cast them in an equal amount of 650 for each candidate.

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