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Securities Industry Essentials Exam (SIE)



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Question: 1

Which of the following does the OCC not establish?

- A. The expiration date
- B. The number of shares in the contract.
- C. The exercise price
- D. The premium

Answer: D

Explanation:

The premium is determined by the market place. All of the other choices listed are set by the OCC.

Question: 2

A bond's yield to maturity is all of the following except:

- A. The lowest return if the bond is a premium bond
- B. The most important yield for the investor
- C. The investor's total annualized return
- D. The lowest return if the bond is a discount bond

Answer: D

Explanation:

If the bond is bought at a discounted price, the bond's yield to maturity will be the highest yield. The bondholder will get the full par value at maturity.

Question: 3

Sales Co broker-dealer is acting as the principal underwriter for GTY mutual fund. Sales Co enters into a selling agreement with RKL broker-dealer that will allow RKL broker-dealer to:

- A. Act as an adviser for GTY portfolio
- B. Act as a broker when executing orders for the GTY portfolio
- C. Purchase share of GTY at a discount from POP in order to fill bonafide customer orders that it anticipates receiving
- D. Purchase shares of GTY at a discount from POP and immediately resell them at the POP

Answer: D

Explanation:

A selling agreement allows a broker-dealer who is a selling group member to purchase shares of the mutual fund at a discount from the POP to fill customer orders that it already has by selling the shares immediately to those customers' at the POP.

Question: 4

Which of the following is not a method of retiring bonds?

- A. Redemption
- B. Refunding
- C. Conversion
- D. Term

Answer: D

Explanation:

All of the answers listed are a way of retiring bonds except term. Term is a type of maturity. Bonds are redeemed at maturity, can be refunded by issuing new debt to pay off existing debt, or in the case of a convertible bonds the bonds may be redeemed by the investor by converting the bonds into common shares.

Question: 5

Before opening a new account for any customer, a registered representative must:

- A. Fill out and sign a full financial declaration
- B. Fill out a new account form
- C. Send a declaration of investor intent (DII) to the IRS
- D. Fill out a new account form and present it to the investor for his signature

Answer: B

Explanation:

Before opening a new account for any new customer, a registered representative must fill out a new account form. The new account form does not require the signature of the customer.

Question: 6

ABC subordinated convertible debentures are quoted at 110. They are convertible into XYZ common at \$25 per share. The bonds have been called at 108 and the stock is quoted at \$28. You should advise your client to:

- A. Do nothing at this time

- B. Sell the bonds
- C. Convert the bonds
- D. Tender the bonds

Answer: C

Explanation:

You should advise the customer to convert the bonds. By converting the bonds they will receive stock worth \$1,120 for each bond. \$1,120 is more than the value to be received from selling the bonds or from tendering the bonds into the call.

Question: 7

A quote for a corporate bond from the GSC Company of 96.125 translates into:

- A. \$9,612.50
- B. \$96.13
- C. \$961.25
- D. Cannot be determined

Answer: C

Explanation:

Corporate bonds are quoted as percentage of par. A quote of 96.125 = $96.125\% \times \$1000 = \961.25 .

Question: 8

A 62-year-old woman dies leaving her IRA to her 50-year-old husband as beneficiary with her brother as conditional beneficiary. The 50-year-old husband doesn't need the money and wants to preserve the value of the IRA for his children. To accomplish this he should:

- A. Roll it into a Coverdell IRA for each child
- B. Roll it into a new IRA in his name with his children as beneficiaries
- C. Place the assets in trust for the children
- D. Denounce it

Answer: B

Explanation:

A surviving spouse may elect to be treated as the owner of the IRA instead of the beneficiary so long as they are the sole beneficiary. In this case, the spouse is the sole beneficiary as long as they are alive. So electing to be treated as the owner and rolling it over into a new IRA in his name is the most tax efficient way to preserve the account for the children.

Question: 9

Your existing customer has just been approved by your firm's ROP to trade options. How long do they have to return the signed options agreement?

- A. 30 days
- B. 5 days
- C. 45 days
- D. 15 days

Answer: D

Explanation:

A customer must return the signed options agreement within 15 days of the accounts approval to trade options.

Question: 10

Money market instruments are all of the following except:

- A. A method used to obtain short-term financing
- B. Highly liquid fixed income securities
- C. Issued by corporations with high credit ratings, thus considered safe
- D. Considered risky because of the short-term maturities

Answer: D

Explanation:

The short-term maturity and the fact that the issuers have solid credit ratings make money market instruments very safe.

Question: 11

A customer purchases \$3,000 of XYZ, which settles today in a margin account. The customer has no other positions or balances. According to initial margin requirements, what is the amount of the required deposit?

- A. \$1,500
- B. \$2,000
- C. \$2,500
- D. \$3,000

Answer: B

Explanation:

Under Federal Reserve Regulation T, customers must deposit at least 50% of the purchase price for margin trades. However, the minimum deposit requirement is \$2,000, regardless of the 50% rule, if the account is below this threshold.

50% of \$3,000 = \$1,500.

Since \$1,500 is less than the \$2,000 minimum, the customer must deposit the full \$2,000.

B is correct because \$2,000 is the required minimum deposit.

A is incorrect because the \$1,500 calculation does not meet the minimum.

C and D are incorrect because they exceed the minimum deposit requirement.

Question: 12

The civil penalty for an individual who is convicted of an insider trading violation is permitted to be an amount up to how many times the profit gained or loss avoided?

- A. 1 time
- B. 3 times
- C. 6 times
- D. 10 times

Answer: B

Explanation:

Under the Insider Trading and Securities Fraud Enforcement Act of 1988, the SEC may impose a civil penalty of up to three times the profit gained or loss avoided (referred to as "treble damages") on individuals found guilty of insider trading.

B is correct because treble damages equal three times the profit or avoided loss.

A is incorrect because the penalty is not limited to one time the profit.

C and D are incorrect because the penalty is capped at three times, not six or ten times.

Question: 13

Which of the following entities issues certificates of deposit (CDs)?

- A. FDIC
- B. Banks
- C. Broker-dealers
- D. Federal Reserve

Answer: B

Explanation:

Certificates of Deposit (CDs) are time deposit accounts issued by banks, offering fixed interest rates for a specified term. CDs are insured by the FDIC up to \$250,000 per depositor, but the issuing entity is the bank itself.

B is correct because banks issue CDs.

A is incorrect because the FDIC insures CDs but does not issue them.

C is incorrect because broker-dealers may facilitate the purchase of CDs but do not issue them.

D is incorrect because the Federal Reserve does not issue CDs; it manages monetary policy.

Question: 14

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: 15

For which of the following account types will the partial ownership pass into an estate account upon the death of one of the individuals listed on the account?

A. Partnership

B. Trust corporation

C. Tenants in common

D. Joint tenants with right of survivorship (JTWROS)

Answer: C

Explanation:

In a tenants in common account, each owner has a distinct percentage of ownership. Upon the death of one owner, their share does not transfer to the surviving owner(s); instead, it becomes part of the deceased's estate.

C is correct because ownership is divided, and the deceased's share passes to their estate.

A is incorrect because partnerships have different agreements governing ownership transitions.

B is incorrect because trust corporations are governed by trust agreements, not estate processes.

D is incorrect because JTWRROS accounts pass ownership directly to the surviving account holder(s).

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