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Question: 1176

During a 2026 client appreciation event, HIJ Brokerage distributes brochures to retail attendees promoting a "stable value fund with FDIC-like protection," using selective quotes from rating agencies omitting downgrade warnings. Brochures lack approval. As sales literature, what recordkeeping is mandated?

- A. Notify non-attending clients of the brochure content for fairness
- B. File copies with the state administrator within 5 days of distribution
- C. Destroy excess copies post-event, retaining only digital scans for 3 years
- D. Retain brochures, attendee sign-in sheets, and approval denials for 3 years

Answer: D

Explanation: Sales literature requires 3-year retention of all versions, distribution records like sign-ins, and related compliance docs; filing is not required for non-advertisements, and destruction violates rules.

Question: 1177

Series 63 failed twice; third pass; but state requires:

- A. Series 66 sub
- B. Pass automatic
- C. Waiting period waiver petition
- D. No reg

Answer: C

Explanation: Multiple fails may need waivers per state.

Question: 1178

Pi Wealth Strategies, transitioning to federal-covered status, has a code of ethics mandating initial and annual holdings reports but no quarterly transaction reviews, leading to an access person's undetected trade in a client-recommended IPO. The state, under NSMIA, flags this conflict. What prohibited practice is at issue, and what code amendment is required?

- A. Misrepresentation in IPO advice; add annual ethics training to Form U4 filings
- B. Undisclosed personal benefit conflict; require quarterly transaction certifications and pre-clearance
- C. Custody of IPO shares; surprise audit of all access person accounts
- D. Excessive IPO allocations; proxy policy for voting on IPO holdings

Answer: B

Explanation: The lapse allows conflicts via personal trades, a prohibited unethical practice. The code must be amended to include quarterly transaction reports and pre-clearance for covered securities, with updates in Form ADV Part 2A and notice to the state, ensuring federal-state alignment during transition.

Question: 1179

Pyramid scheme promo: Cease order, denial. Fines aggregate, rescission. 5.5 years old scheme discovery now; criminal barred?

- A. Pyramid civil only
- B. All barred
- C. Yes 5 years criminal, admin ok discovery
- D. Denial no rescission

Answer: C

Explanation: Limitations differentiate criminal occurrence 5 years vs admin discovery 3 (509(j)).

Question: 1180

Howey fail: DAO with token voting on parameters.

- A. Profits
- B. Pool
- C. Investor efforts via votes
- D. Manager

Answer: C

Explanation: Voting negates solely others.

Question: 1181

A state-registered IA with custody obtains client assets worth \$200 million in 2026, using a related-party qualified custodian. To satisfy post-registration custody rules under NASAA Model Rule, the IA engages a PCAOB-registered accountant for surprise exams. What complex trigger requires an additional Form ADV amendment and client notification beyond annual renewals if the custodian's internal controls report reveals material discrepancies in asset reconciliation parameters?

- A. Filing amended ADV within 30 days detailing discrepancies and obtaining client waivers for continued custody
- B. Immediate disclosure of conflicts and switch to independent custodian within 90 days
- C. Mandatory distribution of audited fund statements replacing surprise exam if discrepancies exceed 5% of AUM
- D. Integration of findings into code of ethics with renewed proxy voting authority delegations

Answer: A

Explanation: Material discrepancies in custody controls require prompt ADV amendment (within 30 days for ongoing accuracy) and client notifications to address conflicts and maintain transparency, separate from audit replacements or ethics integrations which apply differently.

Question: 1182

Agent forgery docs: Suspension summary, subpoena witnesses. \$10,000 per forgery, rescission. If 3 forgeries, \$30,000; criminal?

- A. Yes, per act fines, willful imprisonment
- B. Single cap
- C. Witnesses inadmissible
- D. Summary no fine

Answer: A

Explanation: Per violation penalties (Section 412), from investigations (302), admin suspension (204), criminal separate.

Question: 1183

A broker-dealer discovers that one of its representatives has been engaging in unauthorized trading. What is the first action the firm should take?

- A. Terminate the representative immediately
- B. Conduct an investigation into the activities

- C. Notify the SEC without delay
- D. Inform the affected clients

Answer: B

Explanation: The first action the firm should take is to conduct an investigation into the activities to gather facts and determine the appropriate course of action before making any decisions.

Question: 1184

A firm in 2026 implements a trade wheel for equity baskets, rotating fills: Client A (high-fee) first, then B (low-fee), but skips C (new) due to "system glitch." All profiles match. What complex fair dealing issue arises?

- A. Wheel use, if not pro rata.
- B. Glitch excuse, requiring fix only.
- C. Inequitable skipping favoring fees, violating allocation equity.
- D. New client tolerance for onboarding.

Answer: C

Explanation: Allocation must be equitable and systematic, like pro rata; fee-based skipping discriminates, breaching fair dealing by not treating similar clients uniformly.

Question: 1185

An agent is required to complete continuing education annually. Which of the following topics is LEAST likely to be included in the training?

- A. Personal investment strategies of the agent
- B. Ethical considerations in client relationships
- C. Recent changes in state securities laws
- D. Updates on regulatory compliance procedures

Answer: A

Explanation: Personal investment strategies of the agent are least likely to be included in continuing education training, which focuses on regulatory compliance and ethical practices.

Question: 1186

Psi Asset Management, state-registered, renews Form ADV but fails to amend for a 20% increase in advisory fees mid-year without client consent, exceeding the 1.5% tier cap. Clients complain of misrepresentation. What prohibited practice is involved, and what client notification step follows?

- A. Fraudulent fee hikes; deliver updated brochure within 30 days of amendment
- B. Code violation in fee reporting; quarterly access person certifications
- C. Excessive undisclosed fees; obtain consents and amend Part 2A promptly
- D. Custody overage in fee accounts; annual surprise examinations

Answer: C

Explanation: Unconsented fee increases are prohibited excessive practices and misrepresentations. The firm must amend Form ADV Part 2A within 30 days, obtain written consents, deliver updated brochures, and potentially refund excesses, ensuring compliance with state anti-fraud provisions.

Question: 1187

Eta Dealers Inc., registered BD, shifts in 2026 to solely trading unsolicited exempt U.S. agency bonds intrastate via blockchain ledgers per NASAA pilot programs. CRD amendment requires which parameter for exemption retention?

- A. Maintain registration but file exempt securities report, no net capital increase needed for agency bonds
- B. Upload fidelity bond for blockchain risks and audited blockchain transaction logs
- C. Deregister via BD-W, claim intrastate and exempt securities combo exemption
- D. Qualify as issuer if holding bonds in proprietary ledger accounts

Answer: C

Explanation: Combo of intrastate ops and exempt securities (U.S. agency) allows exemption; 2026 blockchain rules permit deregistration if no other activities, via CRD notice.

Question: 1188

In a recent compliance audit conducted on October 1, 2026, a state securities regulator discovers that XYZ Broker-Dealer's marketing department distributed a quarterly newsletter to 5,000 retail investors via email, containing a section titled "Top-Performing Funds for 2026" with hypothetical performance projections based on back-tested data from 2020-2024, without prior approval from the firm's Chief Compliance Officer. The newsletter also includes a brief disclaimer at the bottom in 8-point font stating "Past performance is not indicative of future results." Under the Uniform Securities Act (USA) and NASAA Model Rules, what is the most significant regulatory violation in this scenario?

- A. Failure to obtain pre-use approval for sales literature containing hypothetical performance data

- B. Insufficient recordkeeping of the email distribution list for the required 3-year retention period
- C. Use of unsubstantiated claims about fund performance without customer-specific risk disclosures
- D. Distribution of correspondence to more than 1,000 recipients without filing a copy with the state administrator

Answer: A

Explanation: Under NASAA rules, sales literature—including newsletters with performance projections—must receive pre-use approval from a qualified principal before distribution to ensure it is not misleading. Hypothetical performance data qualifies as sales literature requiring this approval, and the lack thereof constitutes a primary violation, regardless of the small disclaimer size or recordkeeping issues, which are secondary concerns.

Question: 1189

Intrastate Rule 147 for e-commerce platform, 100% sales in-state via geo-tagged transactions, but servers hosted out-of-state on AWS. Violation if resales?

- A. Investor donates shares to out-of-state charity after 9 months, claiming charitable exemption overlay
- B. In-state sales
- C. Local host
- D. 80% revenue

Answer: A

Explanation: Resales must maintain intrastate character; post-9 month to out entities violates if not resident-focused.

Question: 1190

Eta Capital, a state-registered IA, updates its 2026 application via IARD after a merger increasing AUM to \$120 million, shifting to federal covered. What step must it take for state withdrawal, including record transfer protocols?

- A. Continue state filing indefinitely; no withdrawal
- B. Notice state Administrator via email; destroy old records post-merger
- C. File Form ADV-T for transition, transfer records to SEC custody within 60 days, maintain 5-year access
- D. Pay double fees during overlap; brochure update optional

Answer: C

Explanation: Upon SEC registration, state-registered IAs file for withdrawal using Form ADV-W, coordinating via IARD; records must be preserved for 5 years and made available to states upon request, per NASAA Rule 203-1, ensuring continuity in anti-fraud oversight during transitions.

Question: 1191

A state securities administrator may deny an application for registration if the applicant has a history of which of the following?

- A. Previous registration revocation
- B. Minor regulatory infractions
- C. Unrelated civil litigation
- D. Non-securities related criminal convictions

Answer: A

Explanation: A history of previous registration revocation is a significant factor that can lead to the denial of a new application for registration, indicating a pattern of non-compliance.

Question: 1192

U.S. agency mortgage-backed securities like GNMA pass-throughs are pooled from FHA loans, with timely payment guarantees. In a state enforcement action, affirm exemption despite what?

- A. Pass-through structure distributing principal and interest monthly, packaged with swaps hedging rates
- B. Sold in fractional interests via broker platforms charging 1% markup
- C. Underlying loans originated privately but guaranteed federally
- D. If commingled with private label MBS exceeding 20% in portfolios

Answer: A

Explanation: Government agency securities, including GNMA, are exempt under USA Section 102(2) regardless of structure like pass-throughs or added derivatives in packaging, as the full faith guarantee preserves status separate from private components.

Question: 1193

An adviser is found to have misrepresented the performance of a mutual fund to clients. This action falls under which prohibited practice?

- A. Excessive fees
- B. Conflicts of interest
- C. Fraud and misrepresentation
- D. Failure to disclose affiliations

Answer: C

Explanation: Misrepresenting the performance of a mutual fund constitutes fraud and misrepresentation, which are serious violations of securities laws and can lead to disciplinary action against the adviser.

Question: 1194

A state securities administrator is conducting an investigation into a broker-dealer's practices. The broker-dealer refuses to provide requested documents, citing client confidentiality. What is the administrator's best course of action?

- A. Accept the refusal and close the investigation
- B. Initiate a formal hearing against the broker-dealer
- C. Notify the SEC of the broker-dealer's non-compliance
- D. Issue a subpoena to compel the production of documents

Answer: D

Explanation: The administrator can issue a subpoena to compel the broker-dealer to provide the requested documents, as regulatory authorities have the power to obtain necessary information for investigations.

Question: 1195

In a complex merger scenario, Broker-Dealer Alpha, an SEC-registered firm with FINRA membership, acquires Broker-Dealer Beta, which operates solely in Texas under state registration without federal oversight. Post-merger, Alpha plans to integrate Beta's 15 Texas-based agents who hold Series 7 and Series 63 licenses but lack Series 24 principal qualifications. Texas's securities administrator notifies Alpha that all principals supervising the integrated operations must pass the Series 24 exam within 90 days, and Alpha must update its FINRA Form BD to reflect the merger under federal coordination rules. What specific parameter in the merger agreement would most likely violate USA provisions if overlooked, potentially leading to agent debarment?

- A. A clause delaying FINRA membership transfer for Beta's agents until after Texas state re-examination
- B. A provision exempting Alpha from Texas net capital computations based on Beta's pre-merger audited figures
- C. An addendum requiring Beta's agents to complete 12 hours of annual CE focused on AML but not

supervision protocols

D. A condition mandating immediate notice filing with the SEC but omitting Texas Administrator consent for principal designations

Answer: D

Explanation: The USA requires state administrator approval for principal designations, and federal coordination via NSMIA mandates notice to state regulators for mergers affecting local operations. Omitting Texas consent could deem principal supervision invalid, risking agent debarment. FINRA membership transfer timelines are governed separately; net capital must be recalculated post-merger; and CE hours must include supervision under Series 24 prep, but the core issue is state consent.

Question: 1196

During a 2026 virtual seminar, an agent receives a \$95 digital gift code from the host broker-dealer for session completion, plus \$15 in shipping for a mailed follow-up booklet from the same entity. The code is for platform access tied to future trades. How does this impact compliance with gratuities parameters?

- A. Fully compliant, as digital codes are non-tangible and below \$100 total.
- B. Non-compliant only if redeemed personally, but allowable for trade-related access.
- C. Compliant if the code is used for client education, exempting it as a business tool.
- D. Non-compliant; aggregate to \$110 and report for exceeding the cap, as shipping counts toward value.

Answer: D

Explanation: All values, including shipping, aggregate per source under the \$100 annual limit; exceeding without disclosure violates ethical standards, even for educational items linked to business, per FINRA and state guidelines.

Question: 1197

Exempt security: GNMA with swaps. Still exempt despite derivatives.

- A. No
- B. Yes, agency guarantee
- C. If private
- D. Municipal

Answer: B

Explanation: Exemption holds on issuer.

Question: 1198

An investment adviser must ensure that their code of ethics includes provisions for:

- A. Personal trading by employees
- B. Client referrals to other advisers
- C. Marketing strategies for new clients
- D. Performance benchmarks for investment products

Answer: A

Explanation: A code of ethics must include provisions for personal trading by employees to prevent conflicts of interest and ensure that employees do not trade based on non-public information that could harm clients.

Question: 1199

An agent learns that a company they are recommending has been involved in unethical business practices. What is the agent's best course of action?

- A. Continue recommending the company to clients
- B. Recommend the company only to trusted clients
- C. Keep the information confidential
- D. Inform clients of the unethical practices and suggest alternatives

Answer: D

Explanation: The agent's best course of action is to inform clients of the unethical practices and suggest alternatives to uphold ethical standards and protect client interests.

Question: 1200

Omega Dealers applies CRD but excludes as savings assoc for fiduc trades. Proof:

- A. Intra limit
- B. Full anyway
- C. Charter upload, exemption affidavit skipping capital
- D. Non exempt

Answer: C

Explanation: Associations excluded with docs.

Question: 1201

Rule 506 private placement integrates ESOP for employees, offering units at discounted NAV. State challenges if?

- A. Employees are non-accredited but offered under compensatory benefit plans exempt separately
- B. General solicitation to employees via intranet only
- C. Blended with investor tranche without firewall in subscription agreements
- D. Verification via W-2 forms for accreditation

Answer: C

Explanation: Mixing compensatory exemptions with Reg D without separation risks tainting the private placement; integration doctrine combines offers, requiring all comply with 506 limits.

Question: 1202

An investment adviser is considering offering a new service that involves custodial services for clients. What must the adviser ensure regarding this new service?

- A. It does not require any additional licenses
- B. It is marketed only to institutional clients
- C. It complies with all applicable custody rules
- D. It allows for investment in non-publicly traded securities

Answer: C

Explanation: The adviser must ensure that the new service complies with all applicable custody rules to protect client assets and maintain regulatory compliance.

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