

Financial Industry Regulatory Authority (FINRA) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Under Rule 144A, an issuer of restricted stock is permitted to sell to which of the following investors?**
 - A. Financial institutions**
 - B. Accredited investors**
 - C. Qualified institutional buyers (QIBS)**
 - D. Nonaccredited investors who have previously purchased restricted stock**
- 2. In a joint account with a market value of \$1 million and a debit balance of \$600,000, what is the coverage provided for the account?**
 - A. \$600,000**
 - B. \$500,000**
 - C. \$1 million**
 - D. \$400,000**
- 3. What is the time frame for a firm to amend the Central Registration Depository after learning of a disqualifying event for a former registered representative?**
 - A. 10 days**
 - B. 30 days**
 - C. 20 days**
 - D. 45 days**
- 4. In the context of regulatory compliance, when does a registered representative need to renew continuing education?**
 - A. Annually**
 - B. Every two years**
 - C. Every three years**
 - D. Every five years**
- 5. Direct participation programs (DPPs) provide what advantage to investors?**
 - A. Liquidity and transparency**
 - B. Exposure to non-correlated assets with steady returns**
 - C. Market-related correlations with higher average returns**
 - D. Direct purchases of stock from public companies**

6. What describes a follow-on offering?

- A. An initial public offering with new shares**
- B. A new issue of shares by a previously public company**
- C. Common stock issued with a rights offering**
- D. An offering specifically for employees of the company**

7. For subordinated debt, which statement is true?

- A. A subordinated debenture has a claim that is junior to all other debt but senior to preferred stock**
- B. A subordinated debenture has a claim that is senior to all other debt issues and equity issues**
- C. A subordinated debenture has a claim that is senior to all other debt and senior to common stock**
- D. A subordinated debenture has a claim that is junior to all other debt issues**

8. What would happen to a buy limit order placed at 42 when the market price is at 45?

- A. The order would fill immediately**
- B. The order can only fill at 42 or lower**
- C. The order would fill between 42 and 45**
- D. The order would be canceled**

9. Which of the following does not have the authority to issue securities?

- A. Government National Mortgage Association (GNMA)**
- B. Federal Home Loan Mortgage Corporation (FHLMC)**
- C. Federal Deposit Insurance Corporation (FDIC)**
- D. Federal National Mortgage Association (FNMA)**

10. Which of the following is considered a benefit for broker-dealers offering margin accounts to their customers?

- A. The ability to accommodate more conservative clients**
- B. The additional employment of operational personnel to administer the accounts**
- C. The ability to pledge customer securities for loans**
- D. The additional income generated from the payment of margin interest**

Answers

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1. C
2. D
3. A
4. C
5. B
6. B
7. A
8. B
9. C
10. D

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Explanations

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1. Under Rule 144A, an issuer of restricted stock is permitted to sell to which of the following investors?

- A. Financial institutions**
- B. Accredited investors**
- C. Qualified institutional buyers (QIBS)**
- D. Nonaccredited investors who have previously purchased restricted stock**

Under Rule 144A, an issuer of restricted stock can sell to Qualified Institutional Buyers (QIBs). This regulation was established by the SEC to facilitate the resale of restricted securities and enhance liquidity in the private placement market. QIBs are defined as institutional investors that own and invest at least \$100 million in securities. The primary reason that sales under Rule 144A are limited to QIBs is to ensure that the transactions are conducted among sophisticated investors who are assumed to have adequate knowledge and experience to evaluate and manage the risks associated with restricted securities. This mechanism allows issuers to engage in private placements while providing them with a broader base of potential buyers, which can enhance liquidity. In this context, financial institutions and accredited investors may capture a wider group, but they do not fit the specific definition of QIBs necessary for the sales under Rule 144A. Nonaccredited investors, lacking the financial sophistication and resources typical of QIBs, are likewise excluded, as they may not fully understand the complexities involved with restricted securities. Thus, the emphasis is on ensuring that transactions are made with qualified and experienced market participants, reinforcing the rationale behind the restriction to QIBs.

2. In a joint account with a market value of \$1 million and a debit balance of \$600,000, what is the coverage provided for the account?

- A. \$600,000**
- B. \$500,000**
- C. \$1 million**
- D. \$400,000**

To understand the coverage provided for a joint account, it's important to look at both the market value and the debit balance. In this scenario, the joint account has a total market value of \$1 million, but there is a debit balance of \$600,000, which represents the amount borrowed against the assets in the account. The coverage in this case is calculated by subtracting the debit balance from the market value. By doing this calculation, you find that the equity in the account, which is the amount available after satisfying the debt, is \$1 million (market value) minus \$600,000 (debit balance), resulting in \$400,000. This equity amount reflects the portion of the account that is not subject to any borrowing, and thus it represents the effective coverage or available amount that can be taken into consideration. In summary, the coverage provided for the account is \$400,000, which represents the net equity, after accounting for the amount owed.

3. What is the time frame for a firm to amend the Central Registration Depository after learning of a disqualifying event for a former registered representative?

- A. 10 days**
- B. 30 days**
- C. 20 days**
- D. 45 days**

The requirement for a firm to amend the Central Registration Depository (CRD) after learning of a disqualifying event for a former registered representative is indeed a critical timeline in compliance with regulations set forth by FINRA. In this context, a "disqualifying event" may include various actions such as felony convictions or certain regulatory actions that can affect a representative's qualifications. When a firm becomes aware of such an event, it is mandated to update the CRD within a specific period. The requirement for reporting such information is set at 10 days. This ensures that the CRD remains current, allowing for transparency and the proper assessment of individuals in the securities industry. Prompt reporting is essential to maintain the integrity of the industry's licensing and regulatory systems, which serve to protect investors and uphold market confidence. The other time frames mentioned—30 days, 20 days, and 45 days—do not align with FINRA's specific mandates regarding the timing for the disclosure of disqualifying events. Understanding this timeline is crucial for compliance professionals and registered firms to ensure they meet regulatory requirements effectively.

4. In the context of regulatory compliance, when does a registered representative need to renew continuing education?

- A. Annually**
- B. Every two years**
- C. Every three years**
- D. Every five years**

Registered representatives are required to renew their continuing education every three years. This requirement is in place to ensure that professionals in the financial industry remain knowledgeable about current regulations, practices, and developments in the field. The goal of this continuing education is not only to maintain competency but also to protect consumers by ensuring that their representatives are informed and capable. Every three years aligns with the structure that the Financial Industry Regulatory Authority (FINRA) has set forth, promoting a sustained level of professional development through periodic reviews and updates relevant to the industry. This timeline helps ensure that representatives can effectively serve clients and adhere to the ever-evolving regulatory landscape, which can include changes in laws, market conditions, and compliance standards. Other frequencies—such as annually, every two years, or every five years—do not align with the requirements set by FINRA and therefore would not meet the regulatory standards necessary for maintaining a representative's qualifications in the financial industry.

5. Direct participation programs (DPPs) provide what advantage to investors?

- A. Liquidity and transparency**
- B. Exposure to non-correlated assets with steady returns**
- C. Market-related correlations with higher average returns**
- D. Direct purchases of stock from public companies**

The advantage of direct participation programs (DPPs) for investors lies in their ability to offer exposure to non-correlated assets that often provide steady returns. DPPs typically invest in assets such as real estate, oil and gas, and other limited partnerships, which can behave differently from traditional stocks and bonds. This diversification can help to stabilize overall portfolio performance, as these non-correlated assets may not be influenced by the same market factors, allowing for more consistent income generation. Investors looking for steady returns appreciate DPPs because they often involve cash distributions from the underlying investments, which can provide regular income. This characteristic makes DPPs attractive to those seeking alternative investment options that aren't directly tied to stock market fluctuations. The structure of DPPs also means that they can offer significant tax advantages, adding another layer of appeal for investors focused on optimizing their financial outcomes.

6. What describes a follow-on offering?

- A. An initial public offering with new shares**
- B. A new issue of shares by a previously public company**
- C. Common stock issued with a rights offering**
- D. An offering specifically for employees of the company**

A follow-on offering refers to a new issue of shares by a company that has already gone public. This typically occurs when a company seeks additional capital beyond what it has raised during its initial public offering (IPO). By issuing new shares, the company can attract more investment, which can be used for various purposes such as funding expansion, paying down debt, or pursuing new projects. In this context, the follow-on offering enhances the company's ability to raise funds while also allowing existing investors to further invest in their holdings. Unlike the options that suggest concepts such as initial public offerings, rights offerings, or employee-specific offerings, a follow-on offering is focused solely on a company that is already publicly traded and is looking to expand its market capitalization through additional equity financing.

7. For subordinated debt, which statement is true?

- A. A subordinated debenture has a claim that is junior to all other debt but senior to preferred stock**
- B. A subordinated debenture has a claim that is senior to all other debt issues and equity issues**
- C. A subordinated debenture has a claim that is senior to all other debt and senior to common stock**
- D. A subordinated debenture has a claim that is junior to all other debt issues**

A subordinated debenture indeed has a claim that is junior to all other debt but senior to preferred stock. In the hierarchy of capital structure, subordinated debt is designed to offer a higher yield to compensate for the higher risk associated with its lower claim on assets in the event of liquidation. When a company faces insolvency, the claims against the company will be settled in a specific order: first, secured debt must be paid, followed by unsecured debt, and only after all senior creditors are satisfied will subordinated debt holders receive any payment. This means that subordinated debentures rank below other debts but above preferred stockholders when it comes to claims on the company's assets. In this context, the other options mischaracterize the position of subordinated debt. There is no scenario where a subordinated debenture would hold a senior claim over all other debt issues or equity classes, such as common stock or even preferred stock, which is ranked above in terms of claims to company assets after all secured and unsecured debt obligations are fulfilled.

8. What would happen to a buy limit order placed at 42 when the market price is at 45?

- A. The order would fill immediately**
- B. The order can only fill at 42 or lower**
- C. The order would fill between 42 and 45**
- D. The order would be canceled**

A buy limit order is designed to purchase a security at a specified price or lower. When an investor places a buy limit order at 42, it indicates that they only want to buy the asset at that price or less. In this scenario, with the market price at 45, the buy limit order would not execute because the current market price is higher than the specified limit price of 42. Such orders remain unfilled until the market price reaches 42 or below. This mechanism helps investors control the price they are willing to pay, ensuring that they do not buy at a price that exceeds their set limit. Therefore, the accurate description of what happens to that buy limit order is that it can only fill at 42 or lower.

9. Which of the following does not have the authority to issue securities?

- A. Government National Mortgage Association (GNMA)**
- B. Federal Home Loan Mortgage Corporation (FHLMC)**
- C. Federal Deposit Insurance Corporation (FDIC)**
- D. Federal National Mortgage Association (FNMA)**

The Federal Deposit Insurance Corporation (FDIC) does not have the authority to issue securities. The FDIC is primarily focused on providing deposit insurance to protect depositors in case of bank failures. Its main role is to supervise financial institutions for safety and soundness, and it does not engage in activities related to the issuance of securities, which includes stocks and bonds. In contrast, organizations like the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) are involved in the issuance of securities. They engage in activities that include mortgage-backed securities (MBS), which are created by pooling together mortgages and selling shares in that pool to investors. These entities are vital players in the housing finance market and facilitate the flow of capital into home mortgages by issuing securities linked to mortgage loans.

10. Which of the following is considered a benefit for broker-dealers offering margin accounts to their customers?

- A. The ability to accommodate more conservative clients**
- B. The additional employment of operational personnel to administer the accounts**
- C. The ability to pledge customer securities for loans**
- D. The additional income generated from the payment of margin interest**

Offering margin accounts can be highly beneficial for broker-dealers, with one significant advantage being the additional income generated from the payment of margin interest. When customers borrow funds to purchase securities on margin, they incur interest charges on the amount borrowed, which is a source of revenue for the broker-dealer. This interest is typically charged at a specified rate, contributing to the firm's overall income. Margin accounts allow clients to leverage their investments, potentially leading to larger transactions and increased trading activity, which can also result in commission-based revenue. The ability to collect margin interest creates a financial incentive for broker-dealers, enhancing their profitability and resources. Hence, this influx of income from margin interest payments is a critical aspect of the financial model for firms that offer such accounts. The options relating to accommodating conservative clients, employing additional operational personnel, and pledging customer securities for loans do not directly contribute to the broker-dealer's financial benefits in the same clear and measurable manner as the interest income from margin accounts.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://finra.examzify.com>

We wish you the very best on your exam journey. You've got this!

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