FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA) PRACTICE EXAM (SAMPLE)

STUDY GUIDE

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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

1. **Which investment risk is the greatest risk in a variable life insurance policy?**
   - A. Credit risk
   - B. Market risk
   - C. Inflation risk
   - D. Interest rate risk

2. **What are money market instruments guaranteed by a bank used for international trade called?**
   - A. American depository receipts (ADRs)
   - B. Foreign bills
   - C. Banker's acceptances (BAs)
   - D. Eurodollars

3. **An individual who buys securities for personal investment is referred to as what?**
   - A. An accredited investor
   - B. A market maker
   - C. A retail investor
   - D. An institutional investor

4. **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

5. **Which of the following is an exception to the written notice and approval requirement for borrowing from or lending to a client?**
   - A. The customer has a business relationship with the registered representative outside of the firm
   - B. The customer is an immediate family member of the registered representative
   - C. Both are employed by the same broker-dealer
   - D. The customer has a personal relationship with the registered representative outside of the firm

6. What rights do shareholders of common stock enjoy?

A. Unlimited liability and voting rights

B. Limited liability and voting rights

C. Neither liability nor voting rights

D. No liability and no voting rights

7. In the scenario where Craig and Judy wish to separate their assets for their children while maintaining access, what type of account should they set up?

A. Joint tenants in common (JTIC)

B. Individual transfer on death (TOD) accounts with limited power of attorney

C. Joint tenants with rights of survivorship (JTWROS)

D. A partnership account

8. Do banker's acceptances have long-term or short-term maturities?

A. Short-term

B. Long-term

C. Both

D. N/A

9. What typically affects the price of a corporate bond?

A. The company's stock price

B. Interest rate changes

C. The bond's maturity date

D. The number of outstanding shares

10. Who is responsible for completing and filing Form U-4 when a new associated person is hired at a broker-dealer firm?

A. The employing broker-dealer firm

B. The local Financial Industry Regulatory Authority (FINRA) district office

C. The Securities and Exchange Commission (SEC)

D. The new employee

Answers

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

Explanations

1. Which investment risk is the greatest risk in a variable life insurance policy?

A. Credit risk

B. Market risk

C. Inflation risk

D. Interest rate risk

In a variable life insurance policy, market risk is considered the greatest risk due to the nature of the investments underlying the policy. Unlike whole life insurance, which invests in fixed-income securities, variable life insurance allows policyholders to allocate premiums into various investment options, such as stocks and mutual funds. This means that the cash value and death benefits of the policy can fluctuate significantly based on market performance. Market risk refers to the potential for loss due to changes in the overall market. Because the policyholder's returns are directly tied to the performance of these investments, a downturn in the market can significantly reduce the value of the policy, impacting both cash value and insurance benefits. Consequently, the policyholder bears the investment risk, which is not present in more conservative policies where the insurer assumes the investment risk. While other risks, such as credit risk, inflation risk, and interest rate risk, may also apply to life insurance investments, they tend to have a less direct impact on the variable nature of such policies compared to market risk. The ability to invest in a volatile market environment inherently carries the most significant degree of risk for a variable life insurance policyholder.

2. What are money market instruments guaranteed by a bank used for international trade called?

A. American depository receipts (ADRs)

B. Foreign bills

C. Banker's acceptances (BAs)

D. Eurodollars

Money market instruments guaranteed by a bank and used for international trade are known as banker's acceptances (BAs). These financial instruments are a commitment by a bank to pay a specific amount at a future date, and they are often used in international transactions to facilitate trade. When a buyer and seller engage in an international trade transaction, they may not have established trust in each other's creditworthiness. A banker's acceptance allows the seller to mitigate risk. The seller can be assured of payment since the bank guarantees it, giving the seller the ability to receive funds at the maturity date of the acceptance. This instrument is highly liquid and can be sold in the money market, which further enhances its utility as a financing tool in international trade. The other options serve different purposes: American depository receipts represent shares of foreign companies traded in the U.S., foreign bills are general trade finance instruments that may not have banking guarantees, and Eurodollars are deposits made outside the United States in U.S. dollars, which does not specifically relate to the guarantee aspect necessary for international trade transactions. Thus, banker's acceptances are uniquely suited for this role in facilitating secure payments in international trade.

3. An individual who buys securities for personal investment is referred to as what?

A. An accredited investor

B. A market maker

C. A retail investor

D. An institutional investor

An individual who buys securities for personal investment is classified as a retail investor. This term specifically refers to individual investors who purchase stocks, bonds, mutual funds, and other securities for their own personal accounts, rather than for a business or institutional investment purpose. Retail investors typically engage in smaller transactions compared to institutional investors and are considered to be on the opposite end of the spectrum from institutional investors, such as banks, insurance companies, or pension funds, which usually handle much larger amounts of capital. In contrast, accredited investors are defined by certain income or net worth thresholds and can participate in specific investment opportunities that may not be available to the general public. Market makers are firms or individuals that provide liquidity to the markets by buying and selling securities to facilitate trading activities. Institutional investors, as mentioned earlier, are organizations that invest large sums of money on behalf of their clients or stakeholders. Thus, the label "retail investor" accurately describes an individual who engages in buying securities for their own personal use.

4. 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.

5. Which of the following is an exception to the written notice and approval requirement for borrowing from or lending to a client?

A. The customer has a business relationship with the registered representative outside of the firm

B. The customer is an immediate family member of the registered representative

C. Both are employed by the same broker-dealer

D. The customer has a personal relationship with the registered representative outside of the firm

The scenario described pertains to the regulations surrounding borrowing and lending between registered representatives and their clients. The correct answer highlights that a registered representative may not need to provide written notice and obtain approval when the client is an immediate family member. This exception exists because transactions involving immediate family members are generally viewed as personal and are subject to different scrutiny compared to those involving clients who do not have such a relationship. The rationale is that the nature of the relationship often implies a level of trust and understanding that is distinct from a typical client-representative dynamic. This does not eliminate the possibility of oversight but recognizes the familial bond as a factor that influences such transactions. Other options present scenarios where a connection exists, but they do not automatically qualify for the same exceptions as immediate family. For instance, a business relationship or a personal relationship with a client who is not an immediate family member could still pose a conflict of interest or lead to misunderstandings. Similarly, both individuals being employed by the same broker-dealer does not inherently create a familial bond and thus doesn't exempt them from the requirement of written notice and approval. Understanding these distinctions is crucial for compliance and maintaining ethical standards in the financial industry.

6. What rights do shareholders of common stock enjoy?

A. Unlimited liability and voting rights

B. Limited liability and voting rights

C. Neither liability nor voting rights

D. No liability and no voting rights

Shareholders of common stock enjoy limited liability and voting rights. Limited liability means that the personal assets of shareholders are protected; they can only lose the amount they have invested in the company, and they are not personally liable for the corporation's debts. This structure encourages investment, as it mitigates the financial risks associated with ownership. Voting rights allow common shareholders to participate in key decisions of the company, such as the election of the board of directors and major corporate actions like mergers or amendments to the corporate charter. This empowerment ensures that shareholders have a voice in how the company is run and can influence its management. The other options suggest that shareholders have either unlimited liability or no voting rights, which does not align with the nature of common stock ownership where protection from personal liability is a fundamental characteristic, and voting rights are a standard privilege granted to these shareholders.

7. In the scenario where Craig and Judy wish to separate their assets for their children while maintaining access, what type of account should they set up?

A. Joint tenants in common (JTIC)

B. Individual transfer on death (TOD) accounts with limited power of attorney

C. Joint tenants with rights of survivorship (JTWROS)

D. A partnership account

The appropriate response to the scenario involving Craig and Judy separating their assets for their children while maintaining access is to set up individual transfer on death (TOD) accounts with limited power of attorney. Creating individual TOD accounts allows each person to designate their respective beneficiaries, which in this case would be their children. This structure ensures that upon the death of one account holder, the assets in that account will directly transfer to the named beneficiaries without going through probate, thus providing an efficient means to pass on assets. Additionally, having a limited power of attorney adds a layer of access and control, allowing one another to manage the accounts if needed without relinquishing outright ownership. In this context, other options might not effectively meet their goals. For instance, joint tenants in common would not provide for automatic transfer of assets to their children upon death, as each person's share can be differently managed, which could complicate matters for surviving family members. Joint tenants with rights of survivorship would mean that the surviving account holder would automatically receive the deceased's share, not fulfilling the objective of designating their children as direct beneficiaries. A partnership account typically involves a business relationship rather than purely personal asset management and could complicate personal asset distribution upon death. Thus, choosing individual TOD accounts with a

8. Do banker's acceptances have long-term or short-term maturities?

A. Short-term

B. Long-term

C. Both

D. N/A

Banker's acceptances are primarily characterized by their short-term maturities, typically ranging from 30 to 180 days. They are used in international trade to facilitate transactions between buyers and sellers by providing a guaranteed payment. The issuer—often a bank—promises to pay the holder a specific amount on a specified date, which creates a secure and efficient mechanism for financing. This short-term nature is crucial for maintaining liquidity and managing risk in trading, as parties involved usually prefer payments to be settled quickly to minimize exposure to currency fluctuations and credit risks. Long-term maturities are not typical for banker's acceptances, as their design specifically caters to immediate financing needs rather than extended financial commitments.

9. What typically affects the price of a corporate bond?

A. The company's stock price

B. Interest rate changes

C. The bond's maturity date

D. The number of outstanding shares

The price of a corporate bond is primarily affected by changes in interest rates because bonds have an inverse relationship with interest rates. When interest rates rise, the prices of existing bonds typically fall, and when interest rates drop, the prices of existing bonds usually increase. This occurs because the coupon payments fixed in existing bonds become less attractive compared to new bonds that may be issued at higher rates. Investors will demand a lower price for existing bonds that yield a fixed amount, thus reducing their market price. While other factors like the company's stock price, the bond's maturity date, and the number of outstanding shares can influence a bond's perceived value or the attractiveness of investing in a particular bond, they do not have the same direct effect on the bond price itself as interest rate changes do. Stocks and bonds can react differently in various market conditions. The bond's maturity can affect the bond's sensitivity to rate changes but does not directly determine its price; it's more about the yield in relation to market conditions. Lastly, the number of outstanding shares relates to equity and does not impact bond prices directly. Therefore, interest rate changes are the most significant factor affecting corporate bond prices.

10. Who is responsible for completing and filing Form U-4 when a new associated person is hired at a broker-dealer firm?

A. The employing broker-dealer firm

B. The local Financial Industry Regulatory Authority (FINRA) district office

C. The Securities and Exchange Commission (SEC)

D. The new employee

The employing broker-dealer firm is responsible for completing and filing Form U-4 when a new associated person is hired. This form is essential as it serves to register an individual with FINRA and includes information such as the person's employment history, personal details, and disclosure of any legal or regulatory issues. The firm must ensure that the information provided is accurate and complete because mistakes or omissions can lead to delays in the registration process or compliance issues later on. The timely submission of Form U-4 is also crucial for the associated person to begin working in their regulated role without unnecessary interruptions, as it is tied to their ability to conduct securities business. Other entities, like local FINRA district offices or the SEC, do not handle the filing of this form directly related to employment. Their roles are distinct and more about oversight and regulation rather than managing the hiring processes of broker-dealers. The new employee does not fill out this form themselves; instead, it is the responsibility of the employer to manage this important regulatory requirement.

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!