

INVESTMENT COMPANY AND. VARIABLE CONTRACTS PRODUCTS PRINCIPALS (SERIES 26) PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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. What is the maximum period allowed for trade blotters to be posted after the activity occurs?**
 - A. The same day
 - B. The first business day following the activity
 - C. Within 5 business days
 - D. Within 10 business days
- 2. What is the filing requirement with FINRA for first year firms for communications with the public?**
 - A. 10 business days prior to use
 - B. 5 business days prior to use
 - C. 15 business days prior to use
 - D. Immediate filing
- 3. What is the required timeframe for filing an amended Form U-4 after discovering material changes?**
 - A. 15 days
 - B. 30 days
 - C. 45 days
 - D. 60 days
- 4. In terms of inspection frequency, how often should branch offices be inspected?**
 - A. Annually
 - B. Every 2 years
 - C. Every 3 years
 - D. Every 5 years
- 5. When exchanging mutual funds at NAV, how long must the exchange take place after the redemption?**
 - A. 10 days
 - B. 20 days
 - C. 30 days
 - D. 60 days

- 6. In the event of noncompliance with an arbitration award, what type of sanction could FINRA impose?**
- A. Fine
 - B. Suspension
 - C. Bar
 - D. Warning
- 7. If an investor initiates a contract redemption, how soon must the payment be sent out by the mutual fund?**
- A. 3 business days
 - B. 5 business days
 - C. 7 business days
 - D. 10 business days
- 8. Which of the following actions must a firm take if it fails to maintain net capital of at least 125 percent over a period of time?**
- A. Expand its business
 - B. Reduce its business
 - C. Increase its capital
 - D. Merge with another firm
- 9. What action is required if an independent accountant is fired or resigns?**
- A. Notify the bank
 - B. Notify the SEC and FINRA
 - C. File a report with the state
 - D. Change accounting software
- 10. Under SEC rules, what is the maximum period that a firm's debt-to-equity ratio can exceed 70%?**
- A. 30 days
 - B. 60 days
 - C. 90 days
 - D. 120 days

Answers

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

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Explanations

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1. What is the maximum period allowed for trade blotters to be posted after the activity occurs?

- A. The same day
- B. The first business day following the activity**
- C. Within 5 business days
- D. Within 10 business days

The maximum period allowed for trade blotters to be posted after the activity occurs is the first business day following the activity. This requirement is rooted in regulatory standards aimed at ensuring timely and accurate record-keeping for trades executed by brokerage firms. Maintaining up-to-date trade blotters is crucial for compliance with rules established by regulatory authorities, which seek to enhance transparency and accountability within the financial markets. Posting trade activity promptly the next business day allows firms to effectively monitor trading activities, ensure accuracy in reporting, and provide timely information necessary for audits and reviews. This practice also aids in the detection of any discrepancies or issues that may arise, thereby protecting investors and maintaining an orderly market. While other timeframes might seem reasonable, such as the same day or within a set number of days, they do not align with the established regulatory framework that prioritizes quick and efficient documentation of trading activities.

2. What is the filing requirement with FINRA for first year firms for communications with the public?

- A. 10 business days prior to use**
- B. 5 business days prior to use
- C. 15 business days prior to use
- D. Immediate filing

The filing requirement of 10 business days prior to use for communications with the public is established to ensure that new firms have ample time to seek approval from FINRA before disseminating their materials. This provision is particularly relevant for first-year firms, which may need additional oversight as they establish their compliance practices and communications strategies. The 10-day timeframe provides FINRA with enough opportunity to review the materials for compliance with regulatory standards, helping to protect investors and maintain market integrity. This requirement emphasizes the importance of oversight in the early stages of a firm's operations, as they may not yet have fully developed their compliance processes. By allowing a two-week lead time, FINRA aims to mitigate the risks associated with misunderstandings or misrepresentations in marketing and communication efforts that could arise from inexperience. This duration is longer than typical requirements for established firms, underlining the recognition that new firms may require more scrutiny to ensure they are meeting all regulatory obligations from the outset.

3. What is the required timeframe for filing an amended Form U-4 after discovering material changes?

- A. 15 days
- B. 30 days**
- C. 45 days
- D. 60 days

The correct answer is based on the regulations set forth by the Financial Industry Regulatory Authority (FINRA) regarding the timely updating of a Form U-4. When an individual registered with a firm discovers a material change in their information—such as a change in employment, legal matters, or disciplinary actions—they are required to amend their Form U-4 within a specific timeframe. This requirement is established to ensure that all disclosures remain accurate and current, which is crucial for maintaining transparency in the securities industry and protecting both investors and the integrity of the market. Filing within 30 days allows for a balance between prompt reporting and the practical timeframe necessary to gather and report the required information. This promptness is vital, as it helps prevent gaps in the information that could lead to misinformed decisions by regulators, firms, and ultimately, investors. Therefore, the 30-day requirement is a key regulatory standard that facilitates the continuous accuracy of an individual's registration file.

4. In terms of inspection frequency, how often should branch offices be inspected?

- A. Annually
- B. Every 2 years
- C. Every 3 years**
- D. Every 5 years

Branch offices should be inspected every three years to ensure compliance with regulatory requirements and internal policies. This frequency is designed to strike a balance between effective oversight and the resource allocation needed for inspections. Regulators expect that a three-year interval allows enough time for any potential issues to develop, ensuring that firms remain vigilant in maintaining their operational standards and adherence to regulations. Moreover, this timeframe allows businesses sufficient opportunity to implement corrective actions from previous inspections while still being subjected to regular oversight to protect investors and the integrity of the financial markets.

5. When exchanging mutual funds at NAV, how long must the exchange take place after the redemption?

- A. 10 days
- B. 20 days
- C. 30 days**
- D. 60 days

When exchanging mutual funds at net asset value (NAV), it is essential to adhere to the specific timing guidelines established by mutual fund companies. In this context, the exchange must occur within 30 days after the redemption of the initial mutual fund. This ensures that the investor can capture any potential market movements or perform strategic portfolio adjustments without incurring excessive delays. The 30-day window is a common industry practice that allows for flexibility in reinvestment of proceeds from a redemption while still optimizing tax implications and maintaining liquidity. Understanding the rationale behind this timeframe is vital for anyone involved in managing or advising on mutual funds, as it impacts investment strategy and operational efficiency.

6. In the event of noncompliance with an arbitration award, what type of sanction could FINRA impose?

- A. Fine
- B. Suspension**
- C. Bar
- D. Warning

In the context of noncompliance with an arbitration award, the correct sanction that FINRA could impose is a suspension. When a party fails to comply with an arbitration award, FINRA aims to ensure that its arbitration process remains effective and respected. A suspension serves as a significant measure to hold members accountable and encourage compliance with the decision made by arbitrators. Suspensions can temporarily remove a member from the ability to engage in activities regulated by FINRA, thereby emphasizing the seriousness of adhering to arbitration awards. This action highlights the importance of resolution in disputes and reinforces the integrity of the arbitration process within the financial industry. While fines, bars, and warnings are potential actions that may be associated with various violations, a suspension specifically directly addresses the noncompliance issue in a way that can effectively compel adherence to arbitration results, making it the most fitting sanction in this scenario.

7. If an investor initiates a contract redemption, how soon must the payment be sent out by the mutual fund?

- A. 3 business days
- B. 5 business days
- C. 7 business days**
- D. 10 business days

When an investor redeems shares in a mutual fund, the mutual fund is required to process the redemption and send out the payment within a specific time frame established by regulations. The correct answer states that the payment must be sent out within 7 business days from the receipt of the redemption request. This requirement is designed to protect investors by ensuring they receive their funds in a timely manner, allowing for liquidity in their investment. Mutual funds must adhere to this standard, providing efficiency and transparency in the redemption process. While it's important for investors to receive payments promptly, the 7-business-day timeframe reflects a balance between operational logistics for the fund and the needs of the investors. The alternatives of 3, 5, or 10 business days do not align with current regulatory requirements governing mutual fund operations.

8. Which of the following actions must a firm take if it fails to maintain net capital of at least 125 percent over a period of time?

- A. Expand its business
- B. Reduce its business**
- C. Increase its capital
- D. Merge with another firm

If a firm does not maintain a net capital of at least 125 percent, it is required to reduce its business. This requirement is in place to ensure that firms remain financially stable and can meet their obligations to customers and counterparties. By reducing their business, the firm effectively lowers its operational exposure and financial commitments, which can help stabilize their financial position. Reducing business might involve scaling back on certain operations, cutting expenses, or divesting from certain assets to ensure compliance with regulatory standards. This action is a measure to safeguard the firm's solvency and avoid potential risks associated with operating at a capital level that is deemed insufficient. While other options such as expanding, increasing capital, or merging might seem viable, they do not directly address the immediate need for compliance with capital requirements. Increasing capital is a more proactive step that can also be taken, but it is not a mandated action like the reduction of business, which is a necessary step to rectify the financial situation and align with regulatory standards.

9. What action is required if an independent accountant is fired or resigns?

- A. Notify the bank
- B. Notify the SEC and FINRA**
- C. File a report with the state
- D. Change accounting software

When an independent accountant is fired or resigns, it is necessary to notify the SEC and FINRA. This requirement is in place to maintain transparency and ensure that any significant changes in financial reporting and auditing processes are communicated to the relevant regulatory authorities. The rationale for informing the SEC (Securities and Exchange Commission) and FINRA (Financial Industry Regulatory Authority) stems from the importance of accountability and regulatory oversight in the financial industry. These organizations oversee public companies and securities firms to protect investors and the integrity of the markets. When an independent accountant is no longer involved, the potential implications on the company's financial reporting and governance must be monitored closely to prevent any misrepresentation or irregularities. The other options do not align with regulatory requirements. Although notifying a bank may be relevant in certain contexts, it is not mandated when an independent accountant is terminated or resigns. Filing a report with the state may be necessary in specific circumstances, but it is not a universal requirement for all companies. Changing accounting software is an operational decision that does not specifically relate to the accountant's departure and isn't mandated by any regulations. Therefore, the obligation to inform the SEC and FINRA is the most appropriate and essential action following the change in an accountant's status.

10. Under SEC rules, what is the maximum period that a firm's debt-to-equity ratio can exceed 70%?

- A. 30 days
- B. 60 days
- C. 90 days**
- D. 120 days

The maximum period that a firm's debt-to-equity ratio can exceed 70% as outlined by SEC rules is indeed 90 days. This regulation is designed to ensure that firms maintain a healthy financial structure and do not operate in a state of excessive leverage for prolonged periods. When a firm's debt-to-equity ratio exceeds 70%, it indicates a higher level of debt compared to equity, which can increase financial risk. The 90-day timeframe allows firms some flexibility to address any issues related to their capital structure. During this period, firms are expected to take corrective actions, such as reducing debt or increasing equity, to bring the ratio back into compliance. This guideline reflects an understanding that while firms may experience temporary fluctuations in their debt levels, sustained high leverage could pose a risk to investors and the overall market. Therefore, the regulation is structured to encourage firms to operate within a more balanced financial framework in a relatively brief timeframe.

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:

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

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