

SECURITIES TRAINING SERIES 7 PRACTICE TEST (SAMPLE)

STUDY GUIDE



**SAMPLE STUDY GUIDE
WITH LIMITED QUESTIONS**

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THE FULL VERSION 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

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- 1. What is a key characteristic of commercial paper?**
 - A. It requires SEC registration
 - B. It is secured by collateral
 - C. It is exempt from SEC registration under the Act of 1933
 - D. It can be converted to long-term debt
- 2. What does a trust indenture for a revenue bond issue include?**
 - A. Covenants for the benefit of bondholders
 - B. Detailed investment strategies
 - C. Security for asset allocation
 - D. Performance reviews of the issuer
- 3. What type of bonds are T-bills classified as?**
 - A. Equity bonds
 - B. Zeros
 - C. Convertible bonds
 - D. Preference shares
- 4. To find the breakeven point on a put spread established at a credit of 2.75, what calculation should be performed?**
 - A. Add the credit to the lower strike price
 - B. Subtract the net premium from the higher strike price
 - C. Multiply the higher strike price by the credit
 - D. Add the premium to the higher strike price
- 5. Which financial authority oversees the regulations in retirement accounts?**
 - A. Securities and Exchange Commission (SEC)
 - B. Financial Industry Regulatory Authority (FINRA)
 - C. Municipal Securities Rulemaking Board (MSRB)
 - D. Federal Reserve

- 6. What tax treatment do distributions from a non-qualified variable annuity face?**
- A. No taxes are applied on the original contributions
 - B. Tax liability on the entire withdrawal amount
 - C. Tax liability on the amount above the original contribution
 - D. All withdrawals are tax-free
- 7. Which group is not included on a tombstone ad?**
- A. Syndicate members
 - B. Syndicate manager(s)
 - C. Selling group members
 - D. Lead underwriter
- 8. What happens when a company declares a cash dividend?**
- A. It increases retained earnings
 - B. It decreases current liabilities
 - C. It increases total liabilities
 - D. It has no impact on assets
- 9. How is net overall debt of a municipality calculated?**
- A. Net direct debt only
 - B. Overlapping debt only
 - C. Net direct debt plus overlapping debt
 - D. Net direct debt minus total assets
- 10. What is a preferential dividend tax rate?**
- A. Tax on dividends paid by corporations only
 - B. Cash dividends from common stock that may receive a preferential rate
 - C. Taxes that apply only to government bonds
 - D. A flat tax on all forms of income

Answers

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

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Explanations

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1. What is a key characteristic of commercial paper?

- A. It requires SEC registration
- B. It is secured by collateral
- C. It is exempt from SEC registration under the Act of 1933**
- D. It can be converted to long-term debt

A key characteristic of commercial paper is that it is exempt from SEC registration under the Securities Act of 1933. This exemption is important as it allows companies to raise short-term funds without the lengthy and potentially costly process of SEC registration. Commercial paper is typically issued by large corporations and is used to finance short-term liabilities, such as inventory purchases or operational expenses. This characteristic makes it a flexible and efficient financing option for companies needing immediate capital. Additionally, the exemption strengthens the appeal of commercial paper as it allows for quicker access to funds and lower issuance costs. Investors in commercial paper typically require a higher credit quality since it is unsecured and not backed by collateral. These aspects highlight the nature of commercial paper as a short-term financial instrument designed for ease of use in corporate financing.

2. What does a trust indenture for a revenue bond issue include?

- A. Covenants for the benefit of bondholders**
- B. Detailed investment strategies
- C. Security for asset allocation
- D. Performance reviews of the issuer

A trust indenture for a revenue bond issue is a legal document that outlines the rights and responsibilities of the bondholders and the issuer. The correct choice highlights the presence of covenants included in the trust indenture that are specifically designed to protect the interests of bondholders. These covenants can include agreements on how the revenue generated from the financed project will be used, restrictions on additional indebtedness, and requirements for maintaining certain financial ratios. These measures ensure that bondholders are prioritized in the allocation of funds and that the issuer adheres to specific financial practices that safeguard the bondholders' investments. This component of the trust indenture is critical as it establishes a framework for compliance and accountability, ultimately providing reassurance to bond investors regarding the management of the bond proceeds and the revenue stream associated with the bonded project. Such protection is a key feature that distinguishes revenue bonds from other types of debt instruments.

3. What type of bonds are T-bills classified as?

- A. Equity bonds
- B. Zeros**
- C. Convertible bonds
- D. Preference shares

Treasury bills, commonly referred to as T-bills, are classified as zero-coupon bonds, or "zeros." This classification arises from the way T-bills are issued and structured. Unlike traditional bonds that pay periodic interest, T-bills are sold at a discount to their face value and do not make any interest payments during their term. Instead, the investor receives the face value upon maturity, which means the return on investment is the difference between the purchase price and the face value. The absence of periodic interest payments embodies the characteristics of zero-coupon bonds. They are typically used by investors looking for a safe, short-term investment option, as T-bills are backed by the U.S. government, making them one of the safest forms of investment available. Understanding this classification helps in recognizing the different types of debt securities available in the market and their unique features. Other types of bonds listed, such as equity bonds, convertible bonds, and preference shares, have distinct characteristics and do not align with the structure of T-bills.

4. To find the breakeven point on a put spread established at a credit of 2.75, what calculation should be performed?

- A. Add the credit to the lower strike price
- B. Subtract the net premium from the higher strike price**
- C. Multiply the higher strike price by the credit
- D. Add the premium to the higher strike price

To determine the breakeven point on a put spread established at a credit of 2.75, the correct calculation involves subtracting the net premium received (in this case, 2.75) from the higher strike price of the puts. In a put spread, you sell a put option at a higher strike price and buy another put option at a lower strike price. The credit received represents the profit you can realize if the options expire worthless or if the stock price stays above the higher strike price. The breakeven point is where the profit from the premium received equals the intrinsic value of the spread. By subtracting the credit from the higher strike price, you accurately identify the stock price at which there is neither profit nor loss. If the stock price drops below this breakeven point, the loss on the spread starts to exceed the initial credit received. This is a key concept in options trading, where understanding how to calculate breakeven points helps traders assess risk and make informed decisions about their positions.

5. Which financial authority oversees the regulations in retirement accounts?

- A. Securities and Exchange Commission (SEC)
- B. Financial Industry Regulatory Authority (FINRA)**
- C. Municipal Securities Rulemaking Board (MSRB)
- D. Federal Reserve

The Financial Industry Regulatory Authority (FINRA) oversees the regulations in retirement accounts, particularly focusing on the conduct of broker-dealers and their interactions with investors. FINRA sets the standards for the sale and advice of securities, including those held within retirement accounts like IRAs and 401(k)s. The organization implements rules designed to protect investors by ensuring that financial professionals act in their clients' best interests, especially when it comes to long-term investment vehicles such as retirement accounts. This authority is vital for ensuring that the recommendations made to individuals about their retirement savings are suitable based on their investment objectives, financial situation, and risk tolerance. As there are specific rules regarding the handling of retirement accounts, FINRA plays a crucial role in enforcing these regulations and guiding the industry on compliance matters. While other financial authorities, such as the SEC, have broader oversight of securities markets and general securities regulations, they do not specifically regulate the conduct of broker-dealers in the same way that FINRA does. The MSRB focuses on municipal securities, and the Federal Reserve manages monetary policy and regulates banks, neither of which specifically pertains to the oversight of retirement accounts.

6. What tax treatment do distributions from a non-qualified variable annuity face?

- A. No taxes are applied on the original contributions
- B. Tax liability on the entire withdrawal amount
- C. Tax liability on the amount above the original contribution**
- D. All withdrawals are tax-free

The tax treatment of distributions from a non-qualified variable annuity involves considering the original contributions made to the annuity and the earnings generated over time. In this case, the correct answer highlights that there is tax liability only on the amount above the original contributions. When distributions are taken from a non-qualified variable annuity, the original contributions made to the annuity are considered the principal or basis, which has already been taxed. Therefore, when a withdrawal occurs, the Internal Revenue Service (IRS) allows the account holder to take out their original contributions tax-free. However, any amount withdrawn that exceeds the total contributions represents earnings or growth that has not yet been taxed, and this is where the tax liability arises. This taxation approach is often referred to as the "last in, first out" (LIFO) method, wherein the gains are treated as being withdrawn first, thus subject to income tax. Consequently, the correct answer correctly identifies that only the earnings portion (the amount above the original contribution) is taxable upon withdrawal. This distinction is essential for understanding how tax implications can affect the planning and timing of withdrawals from a non-qualified variable annuity.

7. Which group is not included on a tombstone ad?

- A. Syndicate members
- B. Syndicate manager(s)
- C. Selling group members**
- D. Lead underwriter

A tombstone ad, commonly used in the context of underwriting securities, is a type of advertisement that provides basic details about a new issue of securities. This ad will typically include the names of the syndicate members, the syndicate manager(s), and the lead underwriter, as these parties are integral to the underwriting process. They ensure the securities are sold to the public and that investors are aware of who is facilitating the sale. The selling group members, however, are generally not included in the tombstone advertisement. The selling group consists of broker-dealers that help distribute the offering but do not take on the liability of underwriting the issue like the syndicate members and lead underwriter do. Including just the main underwriters in the tombstone ad allows for a clearer representation of the primary players involved in bringing the security to market, while the selling group is usually mentioned in the offering documents rather than in the advertisement itself. This distinction highlights the primary responsibility borne by the underwriting team versus the ancillary role of the selling group.

8. What happens when a company declares a cash dividend?

- A. It increases retained earnings
- B. It decreases current liabilities
- C. It increases total liabilities**
- D. It has no impact on assets

When a company declares a cash dividend, it creates a liability for the amount of the dividend to be paid to shareholders. This is reflected as a current liability on the company's balance sheet because the company is obligated to pay the shareholders within the next accounting period. The declaration of a cash dividend does not immediately affect the cash account, as the actual cash payment occurs at a later date. As the company recognizes this liability, it also simultaneously decreases its retained earnings, reflecting the distribution of profits to shareholders. Thus, retained earnings are reduced because dividends are typically paid out of those earnings. The impact on total liabilities is significant, as declaring the dividend results in an increase in current liabilities until the dividend is actually paid. It's important to note that while this action does not impact the company's assets at the time of declaration, the eventual payment of the dividend will decrease the company's cash, thereby affecting total assets.

9. How is net overall debt of a municipality calculated?

- A. Net direct debt only
- B. Overlapping debt only
- C. Net direct debt plus overlapping debt**
- D. Net direct debt minus total assets

The net overall debt of a municipality is calculated by combining both net direct debt and overlapping debt. Net direct debt refers to the debt that is directly incurred by the municipality itself and consists of obligations like bonds and notes for which it is directly liable. Overlapping debt includes the debts of other government entities, such as school districts and local governments, that also impose taxing authority on the same property within the municipality. By adding net direct debt to overlapping debt, you obtain a comprehensive view of the total debt burden that affects the residents and taxpayers of the municipality. This is important for assessing creditworthiness, as it provides insight into the total obligations that may influence the municipality's financial health and ability to manage those debts effectively. Other methods of calculating debt, such as those involving subtracting assets (as mentioned in another option), do not provide a complete or applicable picture of the municipal debt landscape, as it is critical to consider all liabilities and not just the assets.

10. What is a preferential dividend tax rate?

- A. Tax on dividends paid by corporations only
- B. Cash dividends from common stock that may receive a preferential rate**
- C. Taxes that apply only to government bonds
- D. A flat tax on all forms of income

A preferential dividend tax rate refers specifically to the tax treatment of certain types of dividends, particularly those paid on qualified stocks. Cash dividends from common stock, if they meet certain criteria, may indeed qualify for a lower tax rate than ordinary income. This is designed to encourage investment in these types of stocks, making them more attractive to investors. Generally, qualified dividends are taxed at capital gains rates, which can be significantly lower than the regular income tax rates applicable to other forms of income. While there are aspects of taxation that pertain to government bonds and income types, those do not pertain directly to the preferential treatment afforded to dividends. The focus here is on the specific benefits derived from the lower tax rates on dividends from qualified stocks, which highlights the incentive for investors to hold these assets.

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://sectrainingseries7.examzify.com>

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

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