

SIE (Securities Industry Essentials) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. The risk that the issuer will require the bond owner to sell the bond back to the issuer at a specific date and price is referred to as:**
 - A. Call risk**
 - B. Interest rate risk**
 - C. Credit risk**
 - D. Market risk**
- 2. Which of the following is NOT a benefit of common stock?**
 - A. Voting rights**
 - B. Capital appreciation**
 - C. Dividend Preference**
 - D. Limited liability**
- 3. In the business of underwriting, when a firm adopts a firm commitment, it acts as a:**
 - A. Broker**
 - B. Dealer**
 - C. Custodian**
 - D. Advisor**
- 4. What is a follow-on offering in the context of common stock issuance?**
 - A. An offering of shares only to institutional investors after the IPO**
 - B. A reissuance of treasury shares to the public**
 - C. An offering of new shares other than the initial public offering (IPO)**
 - D. A private sale of existing shares directly from the current shareholders**
- 5. Which of the following is NOT required information that must be included in the U4?**
 - A. All current investment assets**
 - B. Educational history**
 - C. Employment history**
 - D. Criminal record**

- 6. A registered representative must obtain written approval from which individual for a mutual fund advertisement?**
- A. The SEC**
 - B. A registered principal of the RR's firm**
 - C. The mutual fund's manager**
 - D. The advertising department**
- 7. Which risk is exclusive to foreign debt instruments and not domestic ones?**
- A. Credit**
 - B. Liquidity**
 - C. Exchange**
 - D. Reinvestment**
- 8. A customer complaint is formally defined as a:**
- A. Any written statement of dissatisfaction**
 - B. Any negative feedback received via email**
 - C. Any written communication from a customer or legal rep of a customer regarding an allegation of a violation of one or more securities rules or federal regulations**
 - D. Any informal complaint made over the phone**
- 9. Nationwide just wrote an unsecured promise to pay the principal of its loan without any pledge of property. Which best describes the corporate debt security that they have?**
- A. Bond**
 - B. Debenture**
 - C. Note**
 - D. Certificate of Deposit**
- 10. What is a market maker obligated to do?**
- A. Provide financial advice to investors**
 - B. Buy securities at the lowest market price**
 - C. Sell securities at the highest market price**
 - D. Maintain and honor firm quotes during trading hours**

Answers

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

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Explanations

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1. The risk that the issuer will require the bond owner to sell the bond back to the issuer at a specific date and price is referred to as:

A. Call risk

B. Interest rate risk

C. Credit risk

D. Market risk

This is known as call risk because the issuer, or the entity that issued the bond, has the option to "call" or redeem the bond before its maturity date. This can happen if interest rates fall, allowing the issuer to reissue the bond at a lower rate, resulting in lower borrowing costs. This can potentially be disadvantageous for the bond owner, as they may have to sell the bond back to the issuer at a specific date and price, instead of holding it until maturity and potentially earning higher returns. Option B, interest rate risk, refers to the risk that the value of the bond will decrease if interest rates rise. Option C, credit risk, is the risk that the bond issuer may default on their payments. Option D, market risk, is the risk associated with overall market fluctuations and how they may affect the value of the bond. While these risks are also important to consider when investing in bonds, they do not specifically refer to the issuer having the option to call back the bond. This is why option A, call risk, is the correct answer for this question.

2. Which of the following is NOT a benefit of common stock?

A. Voting rights

B. Capital appreciation

C. Dividend Preference

D. Limited liability

Common stock differs from preferred stock in that it does not have dividend preference, which allows preferred stockholders to receive dividends before common stockholders. This means that common stockholders may not receive dividends if the company does not have enough earnings to pay dividends to all shareholders. However, common stock does offer other benefits such as voting rights, potential for capital appreciation, and limited liability for shareholders. It is important to note that while common stock may not have dividend preference, it still has the potential to pay dividends if the company chooses to do so.

3. In the business of underwriting, when a firm adopts a firm commitment, it acts as a:

- A. Broker**
- B. Dealer**
- C. Custodian**
- D. Advisor**

In the business of underwriting, when a firm adopts a firm commitment, it acts as a dealer. This means that the firm purchases securities from the issuing company and then resells them to investors at a higher price, making a profit from the difference. Therefore, options A, C, and D are all incorrect as they do not accurately describe the role of a dealer in underwriting. A broker simply facilitates the buying and selling of securities between investors, while a custodian holds and safeguards assets on behalf of clients. An advisor may provide guidance and recommendations for investments, but does not have the direct role of a dealer in the underwriting process.

4. What is a follow-on offering in the context of common stock issuance?

- A. An offering of shares only to institutional investors after the IPO**
- B. A reissuance of treasury shares to the public**
- C. An offering of new shares other than the initial public offering (IPO)**
- D. A private sale of existing shares directly from the current shareholders**

A This answer is incorrect because a follow-on offering can be made to both institutional investors and the general public. B: This answer is incorrect because a follow-on offering involves the issuance of new shares, not the reissuance of existing shares. D: This answer is incorrect because a follow-on offering is made directly by the company, not by existing shareholders. Overall, a follow-on offering is a way for a company to raise additional funds by issuing new shares to the public after the initial public offering (IPO). It is different from an IPO, which is the first time a company offers its shares to the public. It is also different from a secondary offering, which involves the sale of existing shares from current shareholders.

5. Which of the following is NOT required information that must be included in the U4?

A. All current investment assets

B. Educational history

C. Employment history

D. Criminal record

The U4 form is used by the Financial Industry Regulatory Authority (FINRA) to register securities industry professionals. It is important to include educational history, employment history, and criminal record information in this form as it helps to provide a comprehensive background on the individual. However, current investment assets are not required to be included in the U4 form. This information may be helpful in assessing an individual's financial background, but it is not a requirement according to FINRA regulations. Therefore, option A is the incorrect choice as it is not a necessary piece of information for the U4 form.

6. A registered representative must obtain written approval from which individual for a mutual fund advertisement?

A. The SEC

B. A registered principal of the RR's firm

C. The mutual fund's manager

D. The advertising department

A is incorrect because the SEC oversees and regulates the securities industry, but they are not directly involved in approving individual advertisements for mutual funds. C is incorrect because while the mutual fund's manager may have knowledge and input on the advertisement, they are not the individual responsible for giving written approval. D is incorrect because the advertising department may create and initiate the advertisement, but they are not the individual who must obtain written approval. The option B, a registered principal of the RR's firm, is the correct answer because they are responsible for overseeing the activities of all registered representatives at the firm, including the approval of mutual fund advertisements to ensure they comply with relevant regulations and guidelines. They also hold a position of authority within the firm, making their written approval necessary for compliance purposes.

7. Which risk is exclusive to foreign debt instruments and not domestic ones?

A. Credit

B. Liquidity

C. Exchange

D. Reinvestment

Exchange risk is the risk associated with changes in currency exchange rates between the country where the debt instrument is issued and the country where it is held. This risk is exclusive to foreign debt instruments because they involve multiple currencies, whereas domestic debt instruments are issued and held in the same currency within one country. The other options, credit, liquidity, and reinvestment risks, can apply to both foreign and domestic debt instruments.

8. A customer complaint is formally defined as a:

- A. Any written statement of dissatisfaction**
- B. Any negative feedback received via email**
- C. Any written communication from a customer or legal rep of a customer regarding an allegation of a violation of one or more securities rules or federal regulations**
- D. Any informal complaint made over the phone**

A complaint can take many forms, such as written statements, negative feedback, or informal complaints over the phone. However, a customer complaint is specifically defined as a written communication involving a legal representation or allegation of a violation of securities rules or federal regulations, making option C the correct answer. Options A, B, and D may also be categorized as customer complaints, but they do not fit the formal definition.

9. Nationwide just wrote an unsecured promise to pay the principal of its loan without any pledge of property. Which best describes the corporate debt security that they have?

- A. Bond**
- B. Debenture**
- C. Note**
- D. Certificate of Deposit**

The corporate debt security described in the scenario, where Nationwide wrote an unsecured promise to pay the principal of its loan without any pledge of property, is best characterized as a debenture. A debenture is a type of debt instrument that is not backed by physical assets or collateral, meaning that it relies primarily on the creditworthiness and reputation of the issuer for payment. Debentures typically have a longer maturity than other types of corporate debt and often come with a fixed interest rate. Given that there is no collateral backing this promise, it highlights the essence of a debenture as a riskier investment compared to secured bonds, which are tied to specific assets. In contrast, bonds generally involve secured debt backed by specific assets of the issuer, while notes typically refer to short-term debt instruments. Certificates of deposit, on the other hand, are time deposits offered by banks and are not related to corporate debt securities. This context reinforces why the designation of debenture is the most appropriate in this scenario.

10. What is a market maker obligated to do?

- A. Provide financial advice to investors**
- B. Buy securities at the lowest market price**
- C. Sell securities at the highest market price**
- D. Maintain and honor firm quotes during trading hours**

Market makers have the role of maintaining liquidity in the market and facilitating trading. They are obligated to fulfill firm quotes, which are the prices at which they are willing to buy or sell securities. This is important for ensuring a fair and orderly market. A market maker is not responsible for providing financial advice to investors, and their main goal is not to buy securities at the lowest market price or sell at the highest market price. While they may buy or sell securities in the market, their main duty is to provide liquidity and maintain firm quotes.