

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. Which product is adversely impacted if the issuer's credit rating is downgraded?**
 - A. Municipal bonds**
 - B. Common stocks**
 - C. Exchange-traded notes (ETNs)**
 - D. Mutual funds**
- 2. What document is given to an investor who purchases a municipal bond?**
 - A. Bond indenture**
 - B. Prospectus**
 - C. Official statement**
 - D. Trustee report**
- 3. Which of the following is NOT a function performed by the custodian bank?**
 - A. Custody of assets**
 - B. Fund accounting**
 - C. Selecting the investment manager**
 - D. Settlement of trades**
- 4. Who has the highest priority claim in a Chapter 11 bankruptcy proceeding?**
 - A. Unsecured creditors**
 - B. Stockholders**
 - C. Secured debt holders**
 - D. Government tax claims**
- 5. Boards of Directors in the publicly-traded sphere are elected by which method?**
 - A. Any of the above possible voting procedures**
 - B. By a committee**
 - C. Direct appointment by the CEO**
 - D. Random selection**

- 6. Which of the following is a banking product rather than a security?**
- A. Stock**
 - B. Bond**
 - C. Certificate of deposit**
 - D. Mutual fund**
- 7. In a period of low inflation and economic recession, the Federal Reserve is expected to take which of the following actions?**
- A. Increase interest rates**
 - B. Sell bonds in the open market**
 - C. Buy bonds in the open market**
 - D. Increase reserve requirements**
- 8. When one of the individuals in an account opened as Tenants in Common dies, their share of the account:**
- A. Is equally divided among the surviving tenants**
 - B. Goes to their designated beneficiary**
 - C. Is liquidated and the funds are donated to charity**
 - D. Goes to their estate**
- 9. When the US dollar weakens, what tends to happen?**
- A. The stock market immediately crashes**
 - B. Exports to foreign countries tend to increase**
 - C. Interest rates are reduced by the Federal Reserve**
 - D. Inflation rapidly decreases**
- 10. In the event of a stock split, which of the following parties is required to maintain a record of the shareholders eligible to receive the additional shares?**
- A. Stock exchange**
 - B. SEC**
 - C. Transfer agent**
 - D. Brokerage firm**

Answers

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

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Explanations

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1. Which product is adversely impacted if the issuer's credit rating is downgraded?

- A. Municipal bonds**
- B. Common stocks**
- C. Exchange-traded notes (ETNs)**
- D. Mutual funds**

Exchange-traded notes (ETNs) are unsecured debt instruments issued by financial institutions that are backed solely by the issuers' credit rating. This means that if the issuer's credit rating is downgraded, the value of ETNs will also decrease. This is because investors view ETNs as riskier investments and demand a higher return for the added risk, causing the price of ETNs to decrease. Municipal bonds, common stocks, and mutual funds are not directly impacted by the issuer's credit rating as their value is determined by factors such as market conditions, company performance, and interest rates. However, a credit rating downgrade may indirectly affect these investments if it leads to a broader economic impact or if the issuer's financial health is closely tied to the performance of these investments.

2. What document is given to an investor who purchases a municipal bond?

- A. Bond indenture**
- B. Prospectus**
- C. Official statement**
- D. Trustee report**

An official statement is the correct document that is given to an investor who purchases a municipal bond. This document provides important information about the bond, such as the issuer's financial statements, the bond's interest rate, maturity date, and any potential risks associated with the bond. A bond indenture (choice A) is a legal document outlining the terms and conditions of the bond, not one that is given to the investor. A prospectus (choice B) is a document used for registration statements for stocks, not bonds. A trustee report (choice D) is a report provided by the trustee who oversees the bond to ensure that the issuer is meeting its obligations, but it is not the document given to the investor. Overall, the official statement contains the most relevant and important information for an investor looking to understand and assess the risks associated with the municipal bond they are interested in purchasing.

3. Which of the following is NOT a function performed by the custodian bank?

- A. Custody of assets**
- B. Fund accounting**
- C. Selecting the investment manager**
- D. Settlement of trades**

The custodian bank performs various functions such as custody of assets, fund accounting, and settlement of trades. However, the selection of an investment manager is not a function of the custodian bank. This task is typically done by the asset owner or investor. The custodian bank mainly provides support services to other financial institutions or larger investment firms, but is not involved in the decision-making process of selecting an investment manager. Therefore, option C is incorrect.

4. Who has the highest priority claim in a Chapter 11 bankruptcy proceeding?

- A. Unsecured creditors**
- B. Stockholders**
- C. Secured debt holders**
- D. Government tax claims**

Secured debt holders have the highest priority claim in a Chapter 11 bankruptcy proceeding because they have a lien on the debtor's property that serves as collateral for their loan. This means that if the debtor cannot pay back the loan, the secured debt holders have the right to take possession of the collateral and sell it to recover their loan amount. In comparison, unsecured creditors, stockholders, and government tax claims do not have a specific asset to claim in the event of bankruptcy, making their claims less secure and therefore lower in priority.

5. Boards of Directors in the publicly-traded sphere are elected by which method?

- A. Any of the above possible voting procedures**
- B. By a committee**
- C. Direct appointment by the CEO**
- D. Random selection**

Boards of Directors in the publicly-traded sphere are typically elected by various voting procedures, such as cumulative voting, proxy voting, or majority voting. These processes allow shareholders to have a say in the election of board members and ensure a level of accountability within the company. Therefore, any of the above voting procedures is the most accurate and comprehensive answer. The other options are incorrect because they do not reflect the common practice of electing board members through democratic voting methods. B By a committee may refer to an internal committee within the board, but it does not necessarily involve shareholder input. C: Direct appointment by the CEO may lead to conflicts of interest and lack of diversity on the board. D: Random selection would not provide the necessary qualifications and expertise needed for effective board decision-making.

6. Which of the following is a banking product rather than a security?

- A. Stock**
- B. Bond**
- C. Certificate of deposit**
- D. Mutual fund**

A certificate of deposit (CD) is a banking product because it is a type of deposit account where customers deposit a set amount of money for a fixed period of time and earn a fixed interest rate. It is considered a low-risk and safe investment for customers. Stocks, bonds, and mutual funds are all securities, which are investments that represent ownership of a company or debt from a government or corporation. These are riskier investments that can fluctuate in value and are not guaranteed by the bank. While CDs can be purchased at a bank, they are not issued by the bank and are not considered securities. Therefore, C is the correct answer as it is the only one that is a banking product rather than a security.

7. In a period of low inflation and economic recession, the Federal Reserve is expected to take which of the following actions?

- A. Increase interest rates**
- B. Sell bonds in the open market**
- C. Buy bonds in the open market**
- D. Increase reserve requirements**

During a period of low inflation and economic recession, the Federal Reserve is expected to take measures to stimulate the economy and encourage borrowing. This typically includes buying bonds in the open market in order to increase the money supply and keep interest rates low. Selling bonds or increasing interest rates could have the opposite effect and further slow down economic growth. Increasing reserve requirements, or the amount of money banks are required to hold in reserve, could also restrict lending and hinder economic recovery. Therefore, buying bonds in the open market is the most likely action for the Federal Reserve to take in this situation.

8. When one of the individuals in an account opened as Tenants in Common dies, their share of the account:

- A. Is equally divided among the surviving tenants**
- B. Goes to their designated beneficiary**
- C. Is liquidated and the funds are donated to charity**
- D. Goes to their estate**

When one of the individuals in an account opened as Tenants in Common dies, their share of the account goes to their estate. This means that the deceased person's portion of the account will be distributed according to their will or state laws. Option A is incorrect because in Tenants in Common, each person owns a specific percentage of the account and it does not automatically go to the other surviving tenants. Option B is also incorrect because it only applies to accounts opened as Joint Tenants with Rights of Survivorship (JTWRORS). Option C is incorrect because the funds in the account do not automatically get donated to charity unless stated in the deceased person's will.

9. When the US dollar weakens, what tends to happen?

- A. The stock market immediately crashes**
- B. Exports to foreign countries tend to increase**
- C. Interest rates are reduced by the Federal Reserve**
- D. Inflation rapidly decreases**

When the US dollar weakens, it means that its value decreases compared to other currencies. This makes US goods and services more competitive in the global market, resulting in an increase in exports. This is why option B is the correct answer. Options A, C, and D are incorrect because they do not reflect the impact of a weakening US dollar. Decrease in stock market, interest rates, and inflation are not necessarily correlated with a weaker currency.

10. In the event of a stock split, which of the following parties is required to maintain a record of the shareholders eligible to receive the additional shares?

A. Stock exchange

B. SEC

C. Transfer agent

D. Brokerage firm

In the event of a stock split, the transfer agent is responsible for maintaining a record of the shareholders eligible to receive the additional shares. A stock exchange is responsible for facilitating the buying and selling of stocks, while the SEC oversees securities laws and regulations. A brokerage firm acts as an intermediary between investors and the stock market, executing trades and providing investment advice. None of these parties have the specific responsibility of maintaining a record of shareholders eligible for additional shares in a stock split.