SIE (Securities Industry Essentials) Practice Exam (Sample)

Study Guide

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Questions

1. Regular way settlement on corporate bonds is:
   A. same day
   B. next business day
   C. second business day (skip day)
   D. third business day

2. What is the maximum maturity of commercial paper?
   A. 90 days
   B. 180 days
   C. 270 days
   D. 360 days

3. Exercise of an equity put option involves the writer:
   A. Selling the underlying instrument at the market price
   B. Buying the underlying instrument at the strike price
   C. Assigning the option to another party
   D. None of the above

4. What is the bid-ask spread for ABC equity security based on the current NBBO of $50.09 - $50.12?
   A. $.03
   B. $.02
   C. $.04
   D. $.01

5. At withdrawal, pre-tax contributions and earnings in a traditional IRA are:
   A. Not taxed
   B. Taxed at a reduced rate
   C. Taxed at the capital gains rate
   D. Taxed at the investor's ordinary income rate

6. If the last transaction in ABC 6s 2030 was at 98, this bond is selling at:

A. par

B. a premium

C. a discount

D. its face value

7. Jane Investor has decided to sell short ABC stock and later buys it back at a lower price. What does she have?

A. Realized gain

B. Unrealized loss

C. Unrealized gain

D. Realized loss

8. 'Shelf registration' refers to which of the following practices?

A. Storing unregistered securities for future sale

B. Registering securities for immediate and future sale

C. A method of deregistering securities

D. Reserving securities for employee compensation

9. Which type of Direct Participation Program has depreciation deductibles?

A. Oil and Gas Programs

B. Real Estate Programs

C. Equipment Leasing Programs

D. New Market Explorations

10. How long are shelf registrations with the SEC good for?

A. Two years

B. Three years

C. Five years

D. Indefinitely

Answers

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

Explanations

1. Regular way settlement on corporate bonds is:

A. same day

B. next business day

C. second business day (skip day)

D. third business day

Choices A, B, and D are all incorrect because the regular way settlement for corporate bonds is generally two business days after the trade date, otherwise known as "T+2." This is the standard timeframe for most securities and is important to note because it affects the timing for receiving or delivering the bonds and any associated interest payments. Option A, same day settlement, is incorrect because it is too soon to allow for processing of the trade. Option B, next business day settlement, is incorrect because it is also too soon and would not allow for proper settlement. Option D, third business day settlement, is incorrect because it is too late and could cause delays or disruptions in the settlement process. Overall, it is important to be aware of the different settlement timelines for different types of securities to ensure accurate and timely transactions.

2. What is the maximum maturity of commercial paper?

A. 90 days

B. 180 days

C. 270 days

D. 360 days

Commercial paper is a short-term debt instrument typically issued by large corporations. It is unsecured and typically has a maturity of 270 days or less. This means that commercial paper is due in less than 270 days from the date it is issued. It is a popular funding source for corporations as it offers a low-cost alternative to bank loans. Options A, B, and D are incorrect as they exceed the maximum maturity of commercial paper. Option C is correct as it is the longest maturity allowed for commercial paper issuance.

3. Exercise of an equity put option involves the writer:

A. Selling the underlying instrument at the market price

B. Buying the underlying instrument at the strike price

C. Assigning the option to another party

D. None of the above

When buying a put option, the writer (also known as the option seller) issues a contract giving the holder the right to sell the underlying asset at a specified price (strike price) within a specific time frame. The key word here is "option seller." The seller does not have to own the underlying asset, they are simply giving the buyer the option to sell at a certain price. This option can be assigned to another party, but the writer is not the one assigning it. Option A is incorrect because the writer is not selling the underlying asset, they are selling the option. Option C is also incorrect because the option can be assigned, but it is not the writer who assigns it. Option D is incorrect because the writer is actively involved in the exercise of the equity put option by issuing the contract.

4. What is the bid-ask spread for ABC equity security based on the current NBBO of $50.09 - $50.12?

A. $.03

B. $.02

C. $.04

D. $.01

The bid-ask spread is the difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask) for a security. In this scenario, the bid-ask spread is calculated by subtracting the bid price ($50.09) from the ask price ($50.12), resulting in a spread of $.03. The other options may seem close, but they do not accurately reflect the given NBBO. Option B is incorrect as it only considers the difference between the bid and ask price, not the actual spread. Option C is too high as it adds the spread to the higher bid price. Option D is too low as it subtracts the spread from the lower ask price.

5. At withdrawal, pre-tax contributions and earnings in a traditional IRA are:

A. Not taxed

B. Taxed at a reduced rate

C. Taxed at the capital gains rate

D. Taxed at the investor's ordinary income rate

Withdrawals from a traditional IRA are taxed at the investor's ordinary income rate. This is because contributions to a traditional IRA are made with pre-tax dollars, and therefore are not taxed when they are initially contributed. However, when the funds are withdrawn during retirement, they are treated as taxable income at the investor's ordinary income tax rate. This is different from Roth IRAs, which are funded with after-tax dollars and thus have tax-free withdrawals in retirement. Options A, B, and C are incorrect because they do not take into account the fact that traditional IRA withdrawals are taxed as ordinary income.

6. If the last transaction in ABC 6s 2030 was at 98, this bond is selling at:

A. par

B. a premium

C. a discount

D. its face value

The last transaction in ABC 6s 2030 was at a price of 98, which is below the bond's face value of 100. This means that the bond is selling at a discount, since it is being sold for less than its face value. Option A is incorrect because par refers to a bond's face value, which is not equal to its selling price. Option B is incorrect because a premium is when a bond is sold for more than its face value. Option D is incorrect because its face value is the same as its par value, which is not equal to the selling price. Therefore, the correct answer is C, as the bond is being sold at a discount.

7. Jane Investor has decided to sell short ABC stock and later buys it back at a lower price. What does she have?

   A. Realized gain

   B. Unrealized loss

   C. Unrealized gain

   D. Realized loss

When Jane Investor sells short ABC stock and later buys it back at a lower price, she has achieved a realized gain. This occurs because she initiated the short sale by borrowing shares, selling them at the market price, and when she repurchases those shares at a lower price to return to the lender, she profits from the difference between the selling price and the repurchase price. By successfully selling short, Jane effectively locked in her profit when she completed the transaction, which is characterized as a realized gain since she has actually executed both parts of the short sale process: selling high and buying back low. This completion of the transaction moves her ability to profit from a potential short sale from an expectation or possibility to an actual financial result.

8. 'Shelf registration' refers to which of the following practices?

   A. Storing unregistered securities for future sale

   B. Registering securities for immediate and future sale

   C. A method of deregistering securities

   D. Reserving securities for employee compensation

Explanation Shelf registration refers to the process of registering securities with the Securities and Exchange Commission (SEC) for future sale to the public. This allows a company to register securities once, and then sell them in smaller amounts over a period of time. Option A is incorrect because "shelf registration" does not refer to storing unregistered securities; rather, it is the act of registering them. Option C is incorrect because it mentions deregistering securities, which is the opposite of registering them. Option D is incorrect because it mentions employee compensation, which is not related to the act of registering securities.

9. Which type of Direct Participation Program has depreciation deductibles?

   A. Oil and Gas Programs

   B. Real Estate Programs

   C. Equipment Leasing Programs

   D. New Market Explorations

This is because Oil and Gas Programs involve investments in oil and gas resources, which can be written off as depreciation expenses on tax returns. Real Estate Programs may also offer some depreciation deductions, but they are not as significant as those offered by Oil and Gas Programs. Equipment Leasing Programs and New Market Explorations do not typically involve any potential for depreciation deductions.

10. How long are shelf registrations with the SEC good for?

A. Two years

B. Three years

C. Five years

D. Indefinitely

Shelf registrations with the SEC are good for three years. Option A, Two years, is incorrect because this is not the standard duration for shelf registrations. Option C, Five years, is also incorrect because the shelf registration period is typically shorter than this. Option D, Indefinitely, is incorrect because shelf registrations do expire after a certain period of time, in this case, three years.