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QUESTION 1

Which of the following would not constitute a “public appearance,” as defined by FINRA?

- A. A registered representative gives a free seminar on the topic of asset allocation to members of her church.
- B. A registered representative starts a blog that discusses the pros and cons of various types of investments.
- C. The investment adviser of a tech fund that has had phenomenal returns in the past 12 months responds to some questions from a business newscaster via a remote monitor.
- D. All of the above constitute public appearances as defined by FINRA.

Correct Answer: D

Explanation: All of the choices constitute public appearances as defined by FINRA. A public appearance is defined by FINRA as “participation in a seminar, forum (including an interactive electronic forum), radio or television interview, or other public appearance or public speaking activity.”

QUESTION 2

A preemptive right: A. is a call option that is usually attached to a bond as a sweetener.

- B. gives a bond owner the option to sell the bond back to the issuer at a pre-specified price.
- C. entitles its owner to buy shares of stock at a specified price within a specified time period in order to maintain his proportionate ownership in the firm.
- D. is a feature on some preferred stock issues that allows the preferred shareholders to exchange their preferred shares for shares of the common stock of the firm.

Correct Answer: C

Explanation: A right entitles its owner to buy shares of stock at a specified price within a specified time period in order to retain his proportionate ownership in a firm. As such, it is a call option, but it is not usually attached to a bond as a sweetener; that would be a warrant.

QUESTION 3

Which of the following is a characteristic of a mutual fund?

- A. shares may sell below net asset value
- B. shares are bought and sold through the fund
- C. shares are sold on exchange floors
- D. the fund has a fixed number of shares that can be sold

Correct Answer: B

Explanation: Mutual fund shares are bought and sold through the fund itself. The shares will sell for at least net asset value, unlike shares of a closed-end investment company wherein prices are set by supply and demand forces. Mutual funds are open-end investment companies and have no fixed number of shares.

QUESTION 4

Which of the following statements regarding the separate account of an insurance company is true?

- A. The monies in the separate account are used to make payments to all the policyholders of the company when a payment is triggered.
- B. The separate account contains the monies from which the company pays its operating expenses, e.g., salaries, etc.
- C. Funds from the separate account are used to make payments to fixed annuity investors.
- D. The separate account must register as an investment company under the Investment Company Act of 1940.

Correct Answer: D

Explanation: The true statement is that the separate account must register as an investment company under the Investment Company Act of 1940. The premiums paid by investors for variable life insurance (less numerous charges) are invested in subaccounts within the separate account, and the earnings of the subaccounts are used, in turn, to make payments to the owners of variable life insurance policies, but not to any of the other policyholders of the company, such as the fixed annuity investors. The insurance company pays its operating expenses out of its general account.

QUESTION 5

A fund's transfer agent is responsible for:

- I. calculating and distributing the capital gain and dividend income of the fund.
- II. mailing shareholder account statements.
- III. paying fund expenses.

- A. I only
- B. II only
- C. I and II only
- D. I, II, and III

Correct Answer: C

Explanation: A fund's transfer agent is responsible for calculating and distributing the capital gain and dividend income of the fund and mailing shareholder account statements. The fund's custodian is responsible for paying fund expenses.

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