

Test Alert!

to accompany the 1st Edition LEM

1/25/07

series **24**

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationale.

Be sure to visit Kaplan Financial's website at www.kaplanfinancial.com for the latest updates to this *Test Alert!*

As always, we strive to provide you with the most current test preparation information. If you have any questions about this or any other Kaplan Financial study material, please call AnswerPhone at 1-800-621-9621, ext. 3598 between the hours of 8 AM and 6 PM CT, Monday through Friday.

KAPLAN FINANCIAL

Series 24 *TestAlert!* to Accompany the 1st Edition LEM

The information found in this Series 24 *TestAlert!* is written to update your first edition Kaplan Financial Series 24 License Exam Manual to match information found in the second edition. This *TestAlert!* provides you with two Quick Quizzes, which will help ensure that you understand and retain the material covered in this *TestAlert!*

1. **Definition of a Branch Office**

NASD Rule 3010 describes the exclusions from the definition of a branch office. Exclusions include the following: the primary residence of an associated person; any location, other than a primary residence that is used for less than 30 business days annually for securities business (these locations would generally include vacation or second homes); any location of convenience used occasionally and by appointment; any location used primarily for nonsecurities business (insurance sales) and from which fewer than 25 securities transactions are effected annually; the floor of an exchange; and any temporary location used as part of a business continuity plan. Note that for a primary residence to be exempt, the associated person may not meet with customers at this location nor may the person handle customer funds or securities there.

2. **Instant Messaging**

Depending on its use, this form of public communication can be considered individual correspondence or group correspondence, neither of which requires prior principal approval. It can also be considered sales literature, which does require prior approval. To use instant messaging, firms must use a platform that enables them to monitor, archive, and retrieve message traffic. Copies of message traffic must be retained for three years.

3. **Investment Analysis Tools**

NASD Rule 2210 describes the rules surrounding the use of investment analysis tools. NASD Rule 2210 prohibits members from making predictions regarding investments. However, with the availability of technological tools that use a formula to calculate the probability of different outcomes given a particular investment or strategy, NASD now permits the use of investment analysis tools under certain circumstances. To offer such tools, a member must provide the following to customers: a description of the criteria and methodology used; a statement that results may vary with each use and over time; and a statement that the outcomes projected by the tool are hypothetical and are not guarantees of future results. Members that intend to offer an investment analysis tool must provide NASD with access to the tool within 10 days of first use.

Quick Quiz 1

1. Under NASD Rule 3010, all of the following are excluded from the definition of a branch office EXCEPT
 - A. a hotel conference center where a registered representative meets with clients occasionally as a matter of convenience
 - B. a temporary office set up to handle all of the functions of a branch office under the firm's business continuity plan
 - C. a registered representative's primary residence where meetings with clients take place on a regular basis
 - D. a registered representative's vacation home where clients and friends are occasionally entertained

2. Under NASD rules, copies of message traffic resulting from the use of instant messaging (IM) must be retained for
 - A. 1 year
 - B. 2 years
 - C. 3 years
 - D. 6 years

3. Which of the following statements regarding a member's use of investment analysis tools are TRUE?
 - I. The tool must be filed with NASD at least 10 days before first use.
 - II. The tool must be filed with NASD within 10 days of first use.
 - III. A member must provide users with a description of the criteria and methodology used.
 - IV. A member is not required to provide users with a description of the criteria and methodology used.
 - A. I and III
 - B. I and IV
 - C. II and III
 - D. II and IV

5. Online Offerings of Private Placements

The SEC has developed certain rules, which investors may use to view private placement memoranda on the Internet. A member must prequalify investors by having them complete an online questionnaire to determine whether they are accredited or sophisticated. Once qualified, investors can view offering documents on a password-protected page. Furthermore, investors can purchase securities only in transactions posted after they have been qualified.

6. Regulation NMS (National Market System)

Regulation NMS was designed to bring trading and reporting uniformity to the various securities markets. NMS Rule 611 provides intermarket price priority for displayed quotations and is intended to prevent trade-throughs. A trade-through occurs when a firm executes a customer order at a price when a better price is available.

For example, if a stock is being offered on the NYSE floor at 28.18 and a firm buys the stock in the Nasdaq intermarket at 28.20, the firm traded through the best price available and disadvantaged its customer by \$.02 a share.

NMS Rule 612 deals with minimum increments with regard to pricing.

For stocks trading at \$1.00 per share or greater, the minimum increment is \$.01. For stocks trading under \$1 per share, subpenny pricing is permitted. Furthermore, SEC Rule 11Ac1-6, which deals with order routing methods, has been renamed NMS Rule 606. SEC Rule 11Ac1-5, which deals with execution quality reports, has been renamed NMS Rule 605.

7. Exception to the Annual Independent Review of a Firm's AML Program

If a firm does not execute transactions for customers or otherwise carry customer accounts and does not act as an introducing broker, it may test once every two years. This exemption applies to firms that engage solely in merger and acquisition work or private placements.

8. TRACE

Once NASD is in receipt of trade information reported through TRACE, it disseminates this information to the public immediately.

9. Group Correspondence

Group correspondence is now defined simply as correspondence sent to fewer than 25 existing or prospective retail customers in any 30-calendar-day period.

10. Immediate Family

The conventional definition has been expanded to include fiancées, as well as live-in partners.

Quick Quiz 2

4. If a member wishes to send confirmations to customers via email, it must do all of the following EXCEPT
 - A. have the informed consent of each customer to whom an electronic confirmation is sent
 - B. have procedures in place to show that the information sent has been delivered as intended
 - C. follow up each electronic confirmation with a confirmation in paper form
 - D. provide a paper confirmation only if requested by a customer
5. To be able to view private placement offerings on the Internet, which of the following statements are TRUE?
 - I. Investors must be prequalified before being permitted to view private placement memoranda.
 - II. Investors may view private placement memoranda without prequalification, as long as the investors are deemed qualified before purchase.
 - III. Investors, once qualified, may purchase securities in any of the offerings posted on the Website.
 - IV. Investors may only purchase securities in offerings posted after the investors have been qualified.
 - A. I and III
 - B. I and IV
 - C. II and III
 - D. II and IV
6. The AML compliance program of a carrying firm
 - I. must be reviewed quarterly
 - II. must be reviewed annually
 - III. must be reviewed by the AML compliance officer
 - IV. must be reviewed by an independent person or entity
 - A. I and III
 - B. I and IV
 - C. II and III
 - D. II and IV

Answers to Quick Quizzes

Quick Quiz 1

1. **C.** For a primary residence to be exempt, the representative may not meet with customers at this location.
2. **C.** Like other forms of communication with the public, copies of IM traffic must be retained for 3 years. Members are permitted to use IM as long as they have software in place to monitor, capture, and retrieve message traffic.
3. **C.** To offer such tools, members must provide the following to customers: a description of the criteria and methodology used; a statement that results may vary with each use and over time; a description, if applicable, of the universe of investments used in the analysis; and a statement that outcomes projected by the tool are not guarantees of future results. Furthermore, members must provide NASD with access to the tool within 10 days of first use (after filing).

Quick Quiz 2

4. **C.** Members are not required to follow up an email confirmation with one in paper form. If, however, a customer requests a copy in paper form, firms must provide one.
5. **B.** Under SEC rules, firms must prequalify investors to determine whether they are accredited or sophisticated. Once qualified, investors can view offering documents on a password-protected page. Furthermore, investors can purchase securities only in offerings posted after the investors have been qualified.
6. **D.** Unless an exception is available, firms must test and review their AML compliance programs annually. Furthermore, this testing must be done independently from those involved in AML compliance.

To submit comments or suggestions, please send an email to errata@kaplan.com.

KAPLAN FINANCIAL

www.kaplanfinancial.com
30 S. Wacker Drive, Ste. 2500, Chicago, IL 60606
800-824-8742