

Chapter 1

Securities Underwriting: The Process and the Team Players

A good place to start is at the beginning. Prior to corporations “going public,” they must register and have a way of distributing their securities. The Series 7 exam tests your ability to understand the registration process, the entities involved in bringing new issues to market, and the types of offerings. In addition, you’re expected to know which securities are exempt from Securities and Exchange Commission (SEC) registration.

The Problems You’ll Work On

As you work through this chapter, be sure you can recognize, understand, and, in some cases, calculate the following:

- » The process involved with bringing new issues to market
- » The different types of offerings
- » Exempt securities and transactions

What to Watch Out For

Read the questions and answer choices carefully and make sure that you

- » Watch out for words that can change the answer you’re looking for, such as EXCEPT, NOT, ALWAYS, and so on.
- » Recognize that there’s a difference between *exempt securities* and *exempt transactions*.
- » If you’re not certain of the correct answer, try to eliminate any answers that you can. Doing so may make the difference between passing and failing.

1-35 Bringing New Issues to Market

1. Which of the following securities acts covers the registration and disclosure requirements of new issues?
 - (A) The Securities Act of 1933
 - (B) The Securities Exchange Act of 1934
 - (C) The Trust Indenture Act of 1939
 - (D) All of the above
2. The Securities Act of 1933 was enacted to
 - (A) require full and fair disclosure regarding sales of new securities to the public
 - (B) regulate the exchanges and the over-the-counter market in trades of outstanding securities
 - (C) require broker-dealers and registered reps to be licensed
 - (D) all of the above
3. The federal security law that provides rules for securities traded in the secondary market is
 - (A) the Trust Indenture Act of 1939
 - (B) the Securities Exchange Act of 1934
 - (C) the Securities Act of 1933
 - (D) FDIC
4. The Securities Exchange Act of 1934 created rules regarding all of the following EXCEPT
 - (A) the extension of credit in margin accounts
 - (B) transactions by insiders
 - (C) the registration of securities
 - (D) the handling of customer accounts
5. Which of the following securities is exempt from the Trust Indenture Act of 1939?
 - I. T-bonds
 - II. GO bonds
 - III. Equipment trust bonds
 - IV. Revenue bonds
 - (A) I only
 - (B) II and III
 - (C) I, II, and IV
 - (D) I, III, and IV
6. The Trust Indenture Act of 1939 regulates all of the following EXCEPT
 - (A) debentures
 - (B) collateral trusts
 - (C) mortgage bonds
 - (D) Treasury bonds
7. Which of the following information must be included in the registration statement to the SEC when registering new securities?
 - I. the issuer's name and description of its business
 - II. what the proceeds of sale will be used for
 - III. financial statements
 - IV. the company's capitalization
 - (A) I and III
 - (B) I, II, and III
 - (C) I, III, and IV
 - (D) I, II, III, and IV
8. What is the underwriting arrangement that allows an issuer whose stock is already trading publicly to time the sales of an additional issue?
 - (A) shelf registration
 - (B) a standby underwriting
 - (C) a negotiated offering
 - (D) an Eastern account underwriting

9. SEC Rule 415 outlines rules for
- (A) primary offerings
 - (B) shelf offerings
 - (C) secondary offerings
 - (D) IPOs
10. KO Corp., a new company, has held back some of its shares for later use. According to shelf distribution rules, KO can sell the shares over the course of the next _____ without having to reregister the shares.
- (A) 180 days
 - (B) 270 days
 - (C) 1 year
 - (D) 3 years
11. The cooling-off period for a new issue lasts approximately how many days?
- (A) 20
 - (B) 30
 - (C) 40
 - (D) 60
12. Under the Securities Act of 1933, the SEC has the authority to
- I. approve new issues of common stock
 - II. issue stop orders
 - III. review registration statements
- (A) I and II
 - (B) II and III
 - (C) I and III
 - (D) all of the above
13. Zamzow, Inc., has filed a registration statement and is currently in the cooling-off period. Zowie Broker-Dealer is the lead underwriter for Zamzow and is in the process of taking indications of interest. Which TWO of the following are TRUE regarding indications of interest?
- I. They are binding on Zowie.
 - II. They are binding on customers.
 - III. They are not binding on Zowie.
 - IV. They are not binding on customers.
- (A) I and II
 - (B) III and IV
 - (C) I and IV
 - (D) II and III
14. A corporation in the process of issuing stock has not filed a registration statement with the SEC. An account executive may do which of the following relating to the new issue?
- (A) Accept money from customers.
 - (B) Obtain indications of interest.
 - (C) Guarantee to customers that they will be able to purchase 1,000 shares of the new issue.
 - (D) Nothing.
15. A tombstone ad would include all of the following names EXCEPT
- (A) selling group members
 - (B) syndicate members
 - (C) the syndicate manager
 - (D) the issuer

- 16.** Which of the following are types of state securities registration?
- I. filing
 - II. communication
 - III. qualification
 - IV. coordination
- (A) I, III, and IV
 - (B) II, III, and IV
 - (C) I, II, and III
 - (D) I, II, III, and IV
- 17.** This type of state registration is used for securities that are exempt from SEC registration but require state registration.
- (A) Filing
 - (B) Coordination
 - (C) Qualification
 - (D) Notification
- 18.** This type of state registration is used for established companies that have previously sold securities within the state.
- (A) Notification
 - (B) Coordination
 - (C) Qualification
 - (D) (A) or (B)
- 19.** This type of state registration is used for corporations who wish to register their securities with the SEC and states at the same time.
- (A) Filing
 - (B) Coordination
 - (C) Qualification
 - (D) Notification
- 20.** The main function of an investment banker is to
- (A) advise an issuer on how to raise capital
 - (B) raise capital for issuers by selling securities
 - (C) help issuers comply with the laws of the Securities Act of 1933
 - (D) all of the above
- 21.** A group organized to underwrite municipal or corporate securities is called
- (A) a market maker
 - (B) a dealer's group
 - (C) a syndicate
 - (D) a posse
- 22.** All of the following would be found in a final prospectus EXCEPT
- (A) the issuer's business plan and what they intend to do with the proceeds of sale
 - (B) the underwriter's agreement
 - (C) the effective date
 - (D) the offering price
- 23.** Which of the following types of underwriting agreements specify that any unsold securities are retained by the underwriters?
- (A) mini-max
 - (B) firm commitment
 - (C) all-or-none (AON)
 - (D) best efforts
- 24.** Which of the following documents details the liabilities and responsibilities of each firm involved in the distribution of new securities?
- (A) the registration statement
 - (B) the letter of intent
 - (C) the agreement among underwriters
 - (D) the code of procedure
- 25.** Which of the following is NOT a type of bond underwriting?
- (A) Mini-max
 - (B) Best efforts
 - (C) Standby
 - (D) AON

- 26.** Silversmith Securities is the lead underwriter for 2 million shares of HIJ common stock. Silversmith has entered into an agreement with HIJ to sell as many shares of their common stock as possible, but HIJ will cancel the offering if the entire 2 million shares are not sold. What type of offering is this?
- (A) Firm commitment
 - (B) All-or-none
 - (C) Mini-max
 - (D) Best efforts
- 27.** In this type of securities underwriting a certain minimum dollar amount of securities must be sold for the offering not to be cancelled.
- (A) Firm commitment
 - (B) Mini-max
 - (C) All or none
 - (D) None of the above
- 28.** A registered rep may use a preliminary prospectus to
- (A) solicit orders from clients to purchase a new issue
 - (B) show prospective investors that the issue has been approved by the SEC
 - (C) obtain indications of interest from investors
 - (D) accept orders and payments from investors for a new issue
- 29.** Who is responsible to make sure the information placed in a prospectus is accurate?
- (A) The managing underwriter
 - (B) The selling group
 - (C) The SEC
 - (D) FINRA
- 30.** All of the following are included in the preliminary prospectus EXCEPT
- I. the public offering price
 - II. the financial history of the issuer
 - III. the effective date
- (A) I only
 - (B) I and II
 - (C) II and III
 - (D) I and III
- 31.** A red herring is also known as a
- (A) tombstone advertisement
 - (B) final prospectus
 - (C) preliminary prospectus
 - (D) stop order
- 32.** A preliminary prospectus
- (A) may be used to help obtain indications of interest
 - (B) may not be sent to potential investors during the cooling-off period
 - (C) is also known as the pink sheets
 - (D) includes the final offering price
- 33.** Which of the following is included in a preliminary prospectus?
- I. The purpose of the funds being raised by the offering
 - II. Financial statements
 - III. A written statement in red citing that the prospectus may be amended and a final prospectus issued
 - IV. The final offering price
- (A) I and II
 - (B) I, II, and III
 - (C) II and IV
 - (D) I, II, III, and IV

- 34.** Which of the following is TRUE?
- I. The registrar is responsible for making sure that a corporation's outstanding shares do not exceed the quantity of authorized shares.
 - II. The transfer agent is responsible for making sure that a corporation's outstanding shares do not exceed the quantity of authorized shares.
 - III. The registrar maintains records of a corporation's stock and bond owners plus mails and cancels old certificates as necessary.
 - IV. The transfer agent maintains records of a corporation's stock and bond owners plus mails and cancels old certificates as necessary.
- (A) I and III
(B) I and IV
(C) II and III
(D) II and IV
- 35.** Which of the following is a function of a transfer agent?
- (A) Underwriting shares in new corporate stock offerings
(B) Preparing corporate balance sheets
(C) Advising municipalities regarding the debt structure of new issues
(D) Sending out proxies

36–43 Types of Securities Offerings

- 36.** The first time a corporation ever issues securities to the public is called a(n)
- (A) IPO
(B) first-market trade
(C) rights offering
(D) none of the above
- 37.** HIJ Corporation is issuing common stock through an IPO that will trade on the OTCBB when it is first issued. Broker-dealers who execute orders for clients in HIJ common stock must have a copy of a final prospectus available for how long?
- (A) 25 days after the effective date
(B) 30 days after the effective date
(C) 40 days after the effective date
(D) 90 days after the effective date
- 38.** Pluto Broker-Dealer is offering an IPO that will not be listed on the NYSE, NASDAQ, or any other exchange. How long after the effective date must Pluto provide a final prospectus to all purchasers?
- (A) 20 days
(B) 30 days
(C) 40 days
(D) 90 days
- 39.** A corporation is offering 1 million shares of its common stock to the public. Of those shares, 600,000 are authorized but previously unissued, while insiders of the company are selling the other 400,000 shares. What type of offering is this?
- (A) IPO
(B) Primary
(C) Secondary
(D) Combined
- 40.** WXY Corporation is offering a large block of treasury stock. What type of offering is this?
- (A) IPO
(B) Primary
(C) Secondary
(D) Split
- 41.** The first time a corporation issues stock is called a(n)
- (A) primary offering
(B) secondary offering
(C) split offering
(D) initial public offering

42. Another name for a combined offering is a _____ offering.

- (A) split
- (B) dual
- (C) secondary
- (D) coupled

43. A primary offering would do which of the following?

- I. Increase the number of shares outstanding.
 - II. Decrease the number of shares outstanding.
 - III. Raise additional capital for the issuer.
 - IV. Include selling treasury stock.
- (A) I, III, and IV
 - (B) II, III, and IV
 - (C) I and IV
 - (D) I and III

44–61 Exempt Securities and Transactions

44. All of the following are exempt securities under the Securities Act of 1933 EXCEPT

- (A) Treasury bonds
- (B) municipal general obligation bonds
- (C) REITs
- (D) public utility stocks

45. Which of the following securities is exempt from SEC registration?

- (A) Corporate term bonds
- (B) Warrants
- (C) General obligation bonds
- (D) None of the above

46. Which TWO of the following are nonexempt securities under the Securities Act of 1933?

- I. Variable annuities
 - II. Fixed annuities
 - III. Non-negotiable CDs
 - IV. Oil and gas limited partnerships
- (A) I and III
 - (B) I and IV
 - (C) II and III
 - (D) II and IV

47. Which of the following securities are exempt from SEC registration?

- I. Revenue bonds
 - II. Treasury bonds
 - III. Variable annuities
 - IV. Securities issued by not-for-profit organizations
- (A) I, II, and IV
 - (B) II, III, and IV
 - (C) II and IV
 - (D) I, II, III, and IV

48. Under the Securities Act of 1933, all of the following securities must be offered by a prospectus EXCEPT

- (A) variable annuities
- (B) mutual funds
- (C) UITs
- (D) TIPS

49. Which of the following securities are exempt from the full registration requirements of the Securities Act of 1933?

- (A) Corporate convertible bonds
- (B) Closed-end funds
- (C) Real estate limited partnerships
- (D) Commercial paper

- 50.** Which of the following are exempt transactions?
- I. Private placements
 - II. Securities issued by the U.S. government
 - III. Municipal bonds
 - IV. Intrastate offerings
- (A) II and III
 - (B) II, III, and IV
 - (C) I and IV
 - (D) I, II, III, and IV
- 51.** A Rule 147 offering is
- (A) an offering of securities only within the issuer's home state
 - (B) an offering of securities worth no more than \$75 million within a one-year period
 - (C) an offering of securities to no more than 35 unaccredited investors within a one-year period
 - (D) also known as an interstate offering
- 52.** A Regulation D offering is
- (A) an offering of securities only within the issuer's home state
 - (B) an offering of securities worth no more than \$75 million within a one-year period
 - (C) an offering of securities to no more than 35 unaccredited investors within a one-year period
 - (D) also known as an interstate offering
- 53.** Which of the following is not an offering that is exempt from the full registration requirements of the Securities Act of 1933?
- (A) Regulation D
 - (B) Regulation A+
 - (C) Regulation T
 - (D) Rule 147
- 54.** All of the following would be considered accredited investors EXCEPT
- (A) financial institutions
 - (B) joint investors with a combined income of at least \$200,000 for the current year and previous two years
 - (C) corporations with a net worth of at least \$5 million
 - (D) investors with a net worth of at least \$1 million excluding primary residence
- 55.** Which of the following is TRUE of Regulation A+ Tier 2 offerings?
- (A) They are limited to 35 unaccredited investors each year.
 - (B) They are issued without using a prospectus.
 - (C) They are limited to raising up to \$20 million per year.
 - (D) They are also known as private placements.
- 56.** Which of the following is true?
- (A) Public securities offerings are typically exempt from SEC registration.
 - (B) All securities offerings are exempt from SEC registration.
 - (C) No securities offerings are exempt from SEC registration.
 - (D) Private securities offerings are typically exempt from SEC registration.
- 57.** Which of the following are considered accredited investors?
- (A) Financial institutions
 - (B) Investors with a net worth of \$1 million or more excluding primary residence
 - (C) Rural business investment companies
 - (D) All of the above

- 58.** Under Rule 144, what percentage of outstanding shares may a control person sell every 90 days?
- (A) 1%
 - (B) The average weekly trading volume for the previous 4 weeks
 - (C) Either (A) or (B)
 - (D) Neither (A) nor (B)
- 59.** SEC Rule 144 regulates
- (A) the sale of control stock
 - (B) the sale of new securities
 - (C) the sale of equity securities worth \$75 million or less in a one-year period
 - (D) the conversion of convertible preferred stock into common stock
- 60.** Sig Hillstrand has held shares of Greenhorn restricted stock for more than one year. Greenhorn has 4 million shares outstanding. The most recently reported weekly trading volumes for Greenhorn are as follows:

Week Ending	Trading Volume
May 27	35,000
May 20	50,000
May 13	40,000
May 6	45,000
Apr 29	50,000

What is the maximum number of shares that Sig can sell under Rule 144?

- (A) 35,000
- (B) 46,250
- (C) 44,000
- (D) 42,500

- 61.** Which of the following securities is subject to the anti-fraud provision of the Securities Act of 1933?
- (A) U.S. government securities
 - (B) Common stock issued by any corporation
 - (C) Private placements under Regulation D
 - (D) All of the above

