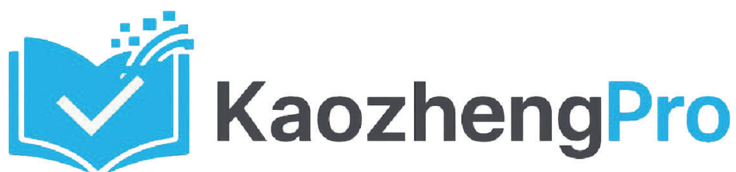

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Exam : **SIE**

Title : Securities Industry Essentials Exam (SIE)

Version : DEMO

1.An investor wants to make a $1,000 distribution from their mutual fund portfolio. They own two different mutual funds in this portfolio. Fund A has a high cost basis, and Fund B has a low cost basis.
Which of the following strategies should they use if their only objective is to pay the least amount of taxes?
A. Redeem $1,000 of Fund A
B. Redeem $1,000 of Fund B
C. Redeem $500 of Fund A and $500 of Fund B
D. Redeem the fund that has the higher profit
Answer: A
Explanation:
If the investor’s only goal is to minimize taxes from a sale, they generally want to realize the smallest taxable capital gain (or potentially realize a loss). Cost basis is central: capital gain = sale proceeds − cost basis. A higher cost basis means less gain (or a greater chance of a loss) for the same sale amount, leading to lower taxable impact. Therefore, redeeming $1,000 from Fund A (high cost basis) is the best strategy, making A correct.
Redeeming $1,000 of Fund B (low cost basis) would typically produce a larger capital gain because the investor paid less (basis is lower) relative to current value. That larger gain increases taxable income (assuming the shares are held in a taxable account and not offset by losses). Splitting the redemption between A and B (choice C) would likely create more gain than redeeming solely from the higher-basis fund, so it is not optimal for tax minimization if a single-fund redemption is possible.
Choice D is imprecise and potentially misleading. “Higher profit” informally means larger unrealized gain, which would generally produce more taxable gain, not less. The tax-minimizing approach focuses on tax lot selection and selling shares with the highest basis (or lowest gain) when the
objective is to minimize taxes, subject to the investor’s holding period (long-term vs short-term rates) and specific cost basis method used.
This is a core SIE taxable-account concept: when choosing which holdings to sell, investors can manage taxes by selecting higher-basis positions (or specific lots) to reduce realized gains.

2.Company ABC announces a 1-for-3 reverse stock split. The customer owns 300 shares priced at $9.00 each.
After the split, how many shares will the investor have and at what price?
A. 100 shares at $27.00
B. 150 shares at $18.00
C. 200 shares at $13.50
D. 900 shares at $3.00
Answer: A
Explanation:
A 1-for-3 reverse stock split means that shareholders will receive one new share for every three shares currently owned. Reverse splits reduce the number of shares outstanding while proportionally increasing the market price per share, leaving the investor’s overall market value (ignoring market reactions and rounding) essentially unchanged at the moment of the split. In this question, the investor owns 300 shares at $9.00 each. Dividing the share count by 3 results in 100 shares after the reverse split (300 ÷ 3 = 100). Because the split is reverse, the price is multiplied by 3 to keep the position value constant: $9.00 × 3 = $27.00 per share. Therefore, the investor will have 100 shares at $27.00, which is answer

choice A.
You can also verify by checking the total value before and after the split. Before: 300 × $9.00 = $2,700. After: 100 × $27.00 = $2,700. This illustrates the central split principle tested on the SIE: stock splits and reverse splits change share count and per-share price, but do not inherently create gains or losses; instead, they adjust the number of shares and the price per share proportionally. Cost basis per share is adjusted accordingly (the total cost basis remains the same, but it is allocated across fewer shares at a higher per-share basis).
Reverse splits are often used by issuers seeking to raise the trading price per share (for example, to meet listing requirements), and the SIE commonly tests the mechanical impact on share quantity, market price, and cost basis.

3.Under which of the following circumstances, if any, is a registered representative (RR) permitted to share in the profits and losses of security interests that the RR has purchased jointly with a customer?
A. Only when the customer is an accredited investor
B. Only if the RR’s firm is also a participant in the sharing arrangement
C. When the profits and losses are proportionate to the amount contributed by the RR
D. Under no circumstances
Answer: C
Explanation:
Under FINRA Rule 2150, registered representatives may share in profits and losses in a customer’s account if:
The customer provides written consent.
The arrangement is approved by the RR’s firm.
The sharing is proportional to the RR's financial contribution.
C is correct because it aligns with FINRA requirements.
A, B, and D are incorrect because they do not meet the necessary conditions for sharing.
Reference: FINRA Rule 2150 (Sharing in Accounts; Prohibitions)

4.A broker-dealer (BD) creates a marketing postcard that includes a statement regarding FINRA's endorsement of the BD.
Which of the following responses is true?
A. The statement regarding FINRA's endorsement is not permissible.
B. The statement is permissible if a principal of the BD approves it in writing prior to use.
C. The statement is permissible if the statement is approved in writing by FINRA prior to use.
D. The statement is permissible if the postcard does not discuss specific investment opportunities.
Answer: A
Explanation:
Step by Step
FINRA Rule 2210: Firms are prohibited from suggesting or implying FINRA's endorsement or approval in any advertising materials.
Approvals: Even if a principal or FINRA approves the content, such a statement remains impermissible.
Key Point: FINRA's role is to regulate, not to endorse firms or their marketing.
FINRA Rule 2210 (Communications with the Public): FINRA Rule 2210.

5.Under the Securities Act of 1933, the SEC is empowered to take which of the following actions?
A. Approve registration statements
B. Approve a security based on its investment merits
C. Require that all pertinent information is disclosed
D. Pass on the accuracy of statements made in a prospectus
Answer: C
Explanation:
The Securities Act of 1933 is built on the principle of full and fair disclosure in the primary (new issue) market. Under this framework, the SEC's core authority is to require that material (pertinent) information be disclosed to investors so they can make informed decisions. That makes C correct. The SEC enforces registration and disclosure requirements by reviewing filings for completeness and compliance, and it can delay effectiveness or take action when disclosure is deficient. The key idea tested on the SIE is that U.S. securities regulation is disclosure-based, not merit-based.
Choice A is incorrect because the SEC does not "approve" registration statements in the sense of endorsing them; a registration statement becomes effective, but effectiveness is not an SEC "approval" of the offering.
Choice B is incorrect because the SEC does not approve a security based on its investment merits—meaning the SEC does not judge whether a security is a good investment or safe for investors.
Choice D is incorrect because the SEC does not "pass on" (vouch for) the accuracy of statements in a prospectus as an investment endorsement; instead, issuers and underwriters are responsible for the truthfulness and completeness of disclosures, and they may face liability for material misstatements or omissions.
For SIE purposes, remember the clean distinction: the SEC's role is to ensure that investors receive required disclosures, not to guarantee outcomes. This is why prospectuses carry language indicating that the SEC has not approved or disapproved the securities or passed upon the merits—reinforcing that the investor must evaluate the disclosed risks and information.