FIRMA FORUM Quiz

This print version of the quiz is provided for your reference. Please submit the quiz online at [www.thefirma.org](http://www.thefirma.org) – from the “For Members” tab, choose FORUM Continuing Education Quizzes and sign in. You may choose to prepay $100 for the four 2012 quizzes, or pay $30 per quiz with each quarterly issue.

You may refer to the Regulatory Update and industry articles in the 2012 FIRMA FORUM Issue #1 as you take the quiz. Choose the one best answer from the alternatives provided. Questions are worth ten points each. A score of 80% or higher is required to earn five (5) FIRMA-specific continuing education credits. All pass/fail notifications will be emailed after the submission deadline has passed and payment has been received.

**Quiz #1 must be submitted and paid by June 8, 2012**

1. The SEC approved FINRA’s proposed rule change to adopt FINRA Rules 5310 and 6438 in the Consolidated FINRA Rulebook. FINRA Rule 5310 is the new consolidated rule governing members’ best execution requirements and is based largely on NASD Rule 2320. The rule identifies factors that are among those to be considered in determining whether the firm has used reasonable diligence. These factors include which of the following:
   I. Number of markets checked
   II. Accessibility of the quotation
   III. Size and type of transaction
   IV. Character of the market for the security
   A. I and II
   B. II, III, and IV
   C. I, II, and III
   D. I, II, III and IV

2. For the year 2012, the SEC’s Office of Compliance Inspections and Examinations (OCIE) has issued a Risk Alert discussing and outlining the observations related to the use of social media by registered investment advisers. While many RIAs are eager to leverage social media to market and communicate with existing clients, and to promote general visibility, RIAs should ensure that they are in compliance with all of the regulatory requirements and be aware of the risks associated with using various forms of social media. Factors that an investment adviser may want to consider when evaluating the effectiveness of its compliance program with respect to firm, IAR or solicitor use of social media include the following:
   I. Content Standards
   II. Monitoring
   III. Training
   IV. Board Reporting
   A. I and III
   B. I, II and II
   C. I, III, and IV
   D. I, II, III, and IV

3. The Financial Services Institute (FSI) is not in support of a uniform fiduciary standard.
   A. True
   B. False

4. The Federal Reserve’s proposed prudential rules would limit the credit exposure of a covered financial institution to multiple parties.
   A. True
   B. False
5. The Securities and Exchange Commission ("Commission" or "SEC") is adopting amendments to the rule under the Investment Advisers Act of 1940 that permits investment advisers to charge performance based compensation to "qualified clients." The amendments revise the dollar amount thresholds of the rule's tests that are used to determine whether an individual or company is a qualified client. The Commission is amending rule 205-3 and revising the dollar amount thresholds that currently apply to investment advisers. The assets-under-management threshold is $ ________ and the net worth threshold is $ ______________.
   A. $500,000 and $1,000,000.
   B. $1,000,000 and $1,000,000.
   C. $1,000,000 and $2,000,000.
   D. $2,000,000 and $1,000,000.

6. FINRA has received an increasing number of reports of incidents in which firms have wired customer funds to third-party accounts based on instructions received from customers' email accounts that had been compromised by third parties. Given the rise in incidents reported to FINRA involving fraud perpetrated through compromised customer email accounts, FINRA recommends that firms reassess their specific policies and procedures for accepting and verifying instructions to withdraw or transfer customer funds that are transmitted via email or other electronic means, as well as firms' overall policies and procedures in this area. Among other things, FINRA recommends that such policies and procedures should include a method for verifying that the email was in fact sent by the customer; and be designed to identify and respond to "red flags," including transfer requests that are out of the ordinary, requests that funds be transferred to an unfamiliar third party account, or requests that indicate urgency or otherwise appear designed to deter verification of the transfer instructions.
   A. True
   B. False

7. For the year 2012, the SEC’s Office of Compliance Inspections and Examinations (OCIE) has issued a Risk Alert discussing the ways to strengthen the practices for preventing and detecting unauthorized trading and similar activities. The risks posed by unauthorized trading are a permanent concern to financial institutions and regulators. This Risk Alert encourages firms to review their controls designed to prevent unauthorized trading and other unauthorized activities. Control items to consider in this area include:
   I. Front Office Supervision
   II. Transfer of Personnel into Trading Positions
   III. Extended Settlements
   IV. Mandatory Vacations
   A. I and II
   B. I, II, and IV
   C. I and III
   D. I, II, III, and IV

8. The Fiduciary Standard of Care means that an investment adviser or any other financial professional must consider what is best for the client before considering sales goals, profits, or the company agenda.
   A. True
   B. False

9. The Federal Reserve’s proposed prudential rules require the board of directors of institutions with more than $10 billion in assets to establish a Risk Committee of the Board to oversee enterprise-wide risk management plans.
   A. True
   B. False

10. Suitability, as defined for Broker Dealers, means that securities recommended for clients must be appropriate for the client’s situation, but they do not need to be the best option.
    A. True
    B. False