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PRACTICE QUESTIONS

FINRA Exams

09

Series 09 - General Securities Sales Supervisor/Options (S9)

EDITION	QUESTIONS	FORMAT
Demo	9	Limited Edition PDF

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Before you begin

What this is

9 practice questions for FINRA Exams `09`, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, `09`
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QUESTION 1 SINGLE CHOICE

A registered options principal must establish written supervisory procedures covering, among other things, which of the following for registered representatives who solicit options transactions?

A The minimum net worth that a representative must maintain personally before soliciting options accounts

B The transmission or execution of options customer orders by a registered options principal or by a representative who has been qualified in options

C The requirement that all customer options trades be pre-approved by a Series 9 principal within five minutes of order entry

D A prohibition against accepting any unsolicited options orders from customers who do not meet FINRA suitability standards

ANSWER **B**

WHY FINRA Rule 3110 requires a member firm to establish and maintain written supervisory procedures that include the transmission or execution of customer orders by a registered options principal or a representative who has been qualified in options. The other choices are not FINRA-prescribed procedure items: personal net worth is not a supervisory rule, pre-approval within five minutes is not specified, and unsolicited options orders from non-suitable customers are not categorically prohibited (suitability applies but does not flatly bar such orders).

QUESTION 2 SINGLE CHOICE

An investor who buys a listed equity call option and holds it to expiration will receive stock if the option is in the money. Under standard OCC exercise procedures, how is the assignment of shares made to the holder of a short equity call at expiration?

- **A** **Randomly among all in-the-money short positions in that option class**
- B Pro-rata among all in-the-money short positions in that option class
- C First-in, first-out by trade execution time among short positions
- D Only to the firm holding the largest net short position in that class

ANSWER **A**

WHY When an option is exercised, OCC assigns the exercise to a clearing member with an open short position on a random (essentially pro-rata at the firm level but randomized at the customer level) basis, so the customer-level allocation to a short account holder is done on a random basis by the firm. Among the choices given, the accepted FINRA/Candidate-level answer is that exercise is assigned randomly among in-the-money short positions.

QUESTION 3 SINGLE CHOICE

An options customer places a 'not held' order with a market maker. Which statement is correct regarding the handling of that order?

A The market maker must execute the order at the national best bid or offer within 60 seconds

B The order is held by the market maker with discretion over price and time of execution, and time priority is not preserved in the marketplace

C The order must be routed to the primary listing exchange's automated system

D The market maker must guarantee execution at the quoted price displayed at the time the order is received

ANSWER **B**

WHY A 'not held' order gives the market maker discretion with respect to both the price and time at which the order is executed, and because it is 'not held' to the marketplace quote, the order does not retain time priority. The other choices describe obligations that apply to 'held' orders or to marketable customer orders, not to a discretionary 'not held' order.

QUESTION 4 SINGLE CHOICE

Under FINRA Rule 2090 (Know Your Customer) and Rule 2111 (Suitability), a registered options principal reviewing a new options account must, at a minimum, obtain which of the following before the representative recommends an options transaction?

A Only the customer's social security number and date of birth

B **Information necessary to determine the suitability of the recommendation, including investment objectives, financial situation, and investment experience, and reasonable basis to believe the recommendation is suitable**

C A written statement from the customer waiving the right to receive the Options Disclosure Document

D Approval from FINRA's Department of Member Regulation

ANSWER B

WHY Rule 2111 requires a reasonable basis that a recommendation is suitable based on the customer's investment profile (investment objectives, financial situation, investment experience, risk tolerance, time horizon, liquidity needs) obtained pursuant to Rule 2090. Option A is incomplete, option C misstates the ODD delivery rule, and option D is not a customer-account-level requirement.

QUESTION 5 SINGLE CHOICE

All other factors being equal, how does a decrease in the price of the underlying stock affect the theoretical value of an existing at-the-money put option on that stock?

A The put premium decreases

B **The put premium increases**

C The put premium remains unchanged because the option is at the money

D The effect on put premium depends solely on implied volatility

ANSWER B

WHY Put prices move inversely to the underlying stock price: as the stock falls, an existing put becomes more valuable because the right to sell at the same strike price becomes more valuable. At-the-money status does not insulate a put from this directional effect, and volatility is not the sole driver.

QUESTION 6 SINGLE CHOICE

An investor holds 100 shares of XYZ common stock at $50 per share and sells one XYZ 60 call expiring in 60 days. Which statement best describes the position?

- **A** **A covered call, with maximum profit limited to the premium received and a covered upside above the strike**
- B A naked call, with unlimited loss potential because the call is uncovered
- C A bull put spread, with defined risk on both sides
- D A long straddle, with profit potential if XYZ moves significantly in either direction

ANSWER **A**

WHY Selling a call against long stock of the same underlying is a covered call. The maximum profit is the strike price minus the purchase price of the stock plus the premium received, and upside above the strike is capped. It is not a naked call (stock is owned), not a spread (only one option), and not a straddle (no put was purchased).

QUESTION 7 SINGLE CHOICE

Under FINRA Rule 2520 margin requirements, an uncovered (naked) short equity put option is, for margin purposes, treated the same as which of the following?

- A A long equity put option
- B A covered call written against long stock
- **C** **A short equity position in the underlying stock**
- D A long equity position in the underlying stock

ANSWER **C**

WHY Rule 2520 treats an uncovered short put as equivalent to a short position in the underlying stock. The required margin is generally the greater of a percentage of the put's market value (often 25%) or a percentage of the underlying's market value minus the put premium (often 30%). This is the classic 'short put equals short stock' equivalence for margin purposes.

QUESTION 8 SINGLE CHOICE

Under the rules governing the delivery of the Characteristics and Risks of Standardized Options (CRSO), also known as the Options Disclosure Document (ODD), which of the following statements is correct?

A A customer must affirmatively sign a subscription agreement before any options order may be accepted

B **Firms are required to deliver the ODD to customers at or before the time the customer account is approved for options trading**

C Delivery of the ODD is only required for customers who trade uncovered options

D Delivery of the ODD is not required for institutional accounts as defined under Rule 4512

ANSWER **B**

WHY Rule 2360 (Options Disclosure Document delivery) requires that a current ODD be delivered to each customer prior to or at the time the customer's account is approved for options trading, with confirmations of receipt retained. While firms may use a subscription agreement (acknowledgement) it is not a uniform FINRA-mandated requirement as stated in option A, ODD delivery applies broadly and not just to uncovered options, and Rule 2360 sets the delivery standard independent of the Rule 4512 institutional categories.

QUESTION 9 MULTIPLE CHOICE

A registered options principal is reviewing written supervisory procedures (WSPs) for the options business. Under FINRA rules, the WSPs for options must include specific elements. Which of the following are required to be included? (Choose two.)

- **A** **Procedures for the transmission or execution of customer options orders by a qualified options principal or qualified representative**
- B A requirement that no registered representative may discuss options pricing with any customer without a Series 9 principal on the line
- **C** **Procedures designed to prevent the misuse of material non-public information in connection with options transactions**
- D A mandatory 30-day waiting period between the opening of a new options account and the customer's first options transaction

ANSWER **A · C**

WHY Rule 3110 requires WSPs covering options-related activities, and Rule 3110's options provisions specifically call out (among other things) procedures for the transmission or execution of customer orders by a registered options principal or qualified representative, and procedures relating to insider trading and the misuse of material non-public information. The other two statements are not FINRA-prescribed WSP requirements (no mandatory 'three-way call' rule and no mandatory 30-day waiting period).