SIE Practice Exam 2026

40 exam-style questions — print it, take it on paper, then check the key.

Every question is original, written to the official exam blueprint — practice questions, not leaked ones. Answer letters are in the key on the last page; every full explanation is free on the practice page in the footer.

1. A registered representative at a brokerage firm receives a complaint from a customer regarding unsuitable investment recommendations. Which regulatory principle MOST directly applies to this situation?

A. Know Your Customer (KYC) and suitability standards that require brokers to have reasonable basis for recommendations
B. The Federal Reserve's monetary policy decisions
C. Anti-dilution provisions in corporate bylaws
D. The self-regulatory status of the firm, which exempts it from all federal rules

2. An investor buys a call option on stock XYZ with a strike price of $60 for a premium of $5. The option has one month to expiration. On the expiration date, XYZ is trading at $70. What is the investor's net profit or loss?

A. Loss of $5 per share
B. Profit of $10 per share
C. Profit of $5 per share
D. Loss of $10 per share

3. A registered representative discovers that a colleague has been churning customer accounts (executing excessive trades primarily to generate commissions) without the customers' knowledge. What is the registered representative's MOST appropriate next action under regulatory principles?

A. Ignore it, as it is the firm's compliance department's sole responsibility to detect and address such conduct
B. Report the conduct to the firm's compliance department or management, as all industry participants share responsibility for detecting violations
C. Directly contact FINRA before informing anyone at the firm, to ensure the firm cannot suppress the report
D. Advise the colleague to stop the practice but take no further action if the colleague promises to comply

4. A broker-dealer receives a subpoena from a regulatory agency requesting customer account records. The firm believes the request may be overly broad and potentially violates customer privacy. What is the firm's BEST course of action?

A. Ignore the subpoena and refuse to comply because customer privacy is paramount
B. Comply immediately without question to avoid any appearance of obstruction
C. Consult with legal counsel to understand obligations and determine whether to seek modification of the subpoena while ultimately complying with lawful requests
D. Notify customers that their information has been requested so they can prevent disclosure

5. A registered broker-dealer conducts business through both a retail division (serving individual customers) and an institutional division (serving other firms). What regulatory approach BEST describes how this dual structure is addressed?

A. The institutional division is completely exempt from all SEC and FINRA rules
B. Both divisions are subject to the same regulatory rules with no distinction
C. Both divisions are regulated, but certain protections and disclosure rules are tailored based on the sophistication of the customer
D. The regulatory framework does not address dual-division structures at all

6. A customer account is registered in the name of the customer's spouse, but the customer directs all trading decisions and provides funds for purchases. The customer does not disclose this arrangement to the broker-dealer. What issue does this create?

A. The account cannot legally be opened in a spouse's name under any circumstances

B. The broker-dealer should have collected beneficial ownership information; the account holder and the decision-maker may not be the same person, creating a discrepancy

C. The customer has engaged in insider trading by using an account in another name

D. The spouse is automatically liable for all trading losses in the account

7. A customer purchases an inverse exchange-traded fund (inverse ETF) that is designed to move opposite to a stock market index. If the underlying index gains 20%, what should the investor expect?

A. The inverse ETF should decline by approximately 20%

B. The inverse ETF will maintain a constant value due to its hedging structure

C. The inverse ETF will gain 20% to offset the customer's portfolio loss

D. The inverse ETF's performance is unpredictable because it uses derivatives

8. A broker-dealer executes a trade for a customer's account without first obtaining the customer's consent or authorization to trade in that account. Under securities regulations, this action is most directly prohibited by which of the following?

A. Rules requiring written authorization for discretionary authority over customer accounts

B. Rules prohibiting unauthorized transactions, which require that customers authorize trading in their accounts

C. Rules requiring that all trades settle within one business day

D. Rules mandating that customers maintain a minimum account balance before any trades can occur

9. A firm conducts a customer survey and discovers that many customers do not understand the risks of a complex investment product the firm is heavily promoting. Under the regulatory framework, what should the firm PRIMARILY consider doing?

A. Continue promotion unchanged because survey results do not constitute regulatory violations

B. Implement additional disclosure, education, and suitability controls to ensure customers understand risks before purchasing

C. Recommend the product only to customers who have already demonstrated expertise in that product type

D. File a notice with FINRA stating that customer surveys are not binding on the firm's marketing strategy

10. A broker-dealer advertises a new investment product with claims that it is guaranteed to outperform the S&P 500. Under the regulatory framework, what is the PRIMARY concern with this advertisement?

A. It violates anti-fraud rules by making unsupported performance claims

B. It fails to use the required color scheme in the advertisement

C. It is only concerning if the product is not registered with the state

D. There is no regulatory concern because investment firms can advertise as they wish

11. A call option gives the holder the right to do what?

A. Sell the underlying security at a specified price on or before a set date

B. Buy the underlying security at a specified price on or before a set date

C. Short the underlying security at a specified price indefinitely

D. Lend the underlying security to a broker

12. Which of the following best describes the difference between a market maker and a broker-dealer?

A. A market maker executes customer orders, while a broker-dealer only holds inventory of securities.

B. A market maker is a firm that commits to buying and selling securities at quoted prices for its own account, while all broker-dealers perform this function.

C. A broker-dealer is any firm that buys and sells securities; a market maker is a specific type of broker-dealer that continuously quotes bid and ask prices and is willing to trade at those prices.

D. A market maker handles only institutional orders, while a broker-dealer handles only retail customer orders.

13. An investment advisor keeps clients' securities in a general account with other client assets, without segregation, and comingles the funds with firm operating capital. What regulatory principle does this MOST clearly violate?

A. Client asset protection through segregation and safeguarding requirements

B. The requirement to maintain a physical office in every state

C. The prohibition on offering tax-advantaged retirement accounts

D. The mandate to offer all securities equally to all customers

14. A broker-dealer representative continuously buys and sells stocks in a customer's discretionary account, generating high commissions while the account's value does not grow. The customer expresses concern, but the representative argues that active trading builds long-term wealth. What prohibited practice is most likely occurring here?

A. Insider trading, because the representative has access to the customer's account information

B. Churning, where excessive trading is conducted primarily to generate commissions rather than benefit the customer

C. Short selling without proper disclosure to the customer

D. Market manipulation, because frequent trades influence stock prices

15. A company issues preferred stock that pays an annual dividend of $8 per share and has a par value of $100. If a new investor purchases this preferred stock when the market price is $80, what is the current yield?

A. 8%

B. 10%

C. 6.4%

D. 12.5%

16. Which of the following statements is true regarding bonds and interest rate risk?

A. When interest rates rise, existing bond prices fall, and vice versa

B. Bond prices and interest rates move in the same direction

C. Bonds are immune to interest rate changes if held to maturity

D. Short-term bonds have greater interest rate sensitivity than long-term bonds

17. A customer calls a broker-dealer to place a trade but does not have a pre-existing account. The customer provides minimal information, and the firm executes the trade without opening a formal account or collecting required information such as identity, address, and financial situation. What compliance failure has occurred?

A. The firm failed to comply with know-your-customer (KYC) obligations by not collecting required customer information before executing trades

B. The firm violated the suitability rule by executing a trade without assessing the customer's investment objectives

C. The firm committed unauthorized trading by executing the trade without the customer's explicit consent

D. The firm failed to establish a best execution policy for the trade

18. A preferred stock typically offers which of the following characteristics?

A. Fixed dividend payments and a claim senior to common stock in liquidation

B. Unlimited upside potential and voting rights equal to common shares

C. Lower risk than bonds and guaranteed capital appreciation

D. The right to convert to common stock at a price set by the issuer at any time

19. A broker-dealer's compliance department discovers that a representative has been recommending unsuitable investments to customers—specifically, buying complex derivatives for retirees whose stated investment goal is capital preservation. What is the primary issue with these recommendations?

A. The representative failed to disclose that derivatives are riskier than stocks

B. The suitability rule requires that recommendations match the customer's financial situation, objectives, and risk tolerance

C. The representative should have asked the customers' permission before implementing a trading strategy

D. The firm failed to establish a best execution policy for derivative trades

20. A company announces it will split its stock 2-for-1. An investor currently holds 100 shares trading at $120 per share. Immediately after the split, assuming no change in total market capitalization, what will the investor own and at what price per share?

A. 100 shares at $120 per share (no change)

B. 50 shares at $240 per share

C. 200 shares at $60 per share

D. 200 shares at $120 per share

21. Which of the following statements about mutual funds is accurate?

A. Investors own shares of the mutual fund, which owns a portfolio of underlying securities

B. Mutual fund shares are traded on stock exchanges at real-time market prices

C. The value of a mutual fund share never fluctuates during the trading day

D. Mutual fund investors have direct ownership of all securities held by the fund

22. Which of the following best describes the primary purpose of the regulatory structure governing securities markets in the United States?

A. To eliminate all risk from investment activities

B. To protect investors and maintain fair and efficient markets through disclosure and fraud prevention

C. To guarantee returns on all securities transactions

D. To prevent all publicly traded companies from raising capital

23. An investor holds a bond with a 5% coupon rate issued at par. Market interest rates rise from 5% to 7%. Which of the following will occur?

A. The bond's price will increase, and the yield to maturity will decrease.

B. The bond's price will decrease, and the yield to maturity will increase above 5%.

C. The bond's coupon rate will adjust to match the new market rate of 7%.

D. The bond's price will remain at par because the coupon is fixed.

24. A representative recommends that a customer with a long-term investment horizon invest heavily in penny stocks with high volatility. When the customer asks why, the representative states: 'Penny stocks are low-priced, so you can buy more shares and diversify your holdings.' What issue is present in this recommendation?

A. Penny stocks cannot be recommended to any customer under any circumstances

B. The recommendation may be unsuitable because the reasoning is based on a flawed understanding of diversification; penny stocks carry elevated risk and may not match the customer's profile

C. Penny stocks are illegal to trade in customer accounts

D. The representative failed to obtain written approval from the customer before recommending the stocks

25. A broker-dealer firm decides to engage in proprietary trading (trading for its own account) at the same time it is executing customer orders in the same securities. Which regulatory concern is most directly implicated?

A. Market manipulation, because the firm's trades will always move prices upward

B. Conflict of interest—the firm may prioritize its own trades over customer orders, violating the duty to treat customers fairly

C. Insider trading, because proprietary trading is always based on nonpublic information

D. Suitability violation, because proprietary trades may not match the firm's investment objectives

26. When a broker-dealer accepts a customer order to buy securities, which of the following statements best describes the firm's obligation regarding the execution of that order?

A. The firm must execute the order at the exact price quoted at the moment the customer places it

B. The firm must use reasonable efforts to execute the order promptly at a fair price under current market conditions

C. The firm may hold the order indefinitely while seeking the absolute lowest purchase price available

D. The firm is only required to execute the order if it does not conflict with the firm's own trading interests

27. A broker-dealer's compliance team identifies that the firm has been unknowingly processing trades through a settlement service that has not been registered with the SEC. Upon discovery, the firm faces a complex remediation scenario: some trades have already settled, new trades are incoming, and the firm's customers are unaware of the technical breach. Which of the following BEST represents how the regulatory framework would address this situation?

A. The firm should immediately halt all new trades, conduct a full audit of affected accounts, notify regulators and affected customers, and implement corrective measures

B. The firm may continue using the unregistered service since trades are already settled and customers have not complained

C. The firm should discreetly switch to a registered service without notifying customers or regulators to minimize reputational harm

D. The firm may continue processing trades but should eventually cease using the unregistered service at year-end

28. A corporation is planning to raise capital by issuing new common stock. Which of the following statements is accurate regarding the rights of common stockholders?

A. Common stockholders have a fixed claim on corporate earnings and must be paid before preferred stockholders in a liquidation.

B. Common stockholders have voting rights and a residual claim on assets after all debts and preferred claims are satisfied.

C. Common stockholders receive guaranteed annual dividends set by the board of directors at issuance.

D. Common stockholders have priority over bondholders to receive interest payments from the corporation.

29. A customer grants a broker-dealer written authority to make investment decisions and execute trades on the customer's behalf without seeking approval for each individual transaction. What type of account authority arrangement does this represent?

A. Non-discretionary authority, where the representative may only recommend trades

B. Discretionary authority, which requires written authorization and carries enhanced supervision requirements

C. Power of attorney, which grants the same rights as ownership of the account

D. Limited trading rights, which apply only to fixed-income securities

30. A broker-dealer receives customer orders to sell stock on behalf of multiple customers in the afternoon. Before executing these customer orders, the firm executes a large proprietary sell order in the same stock. This proprietary trade depresses the stock price, so the customer orders execute at lower prices than they would have otherwise. What rules have been violated?

A. Only the best execution rule, because the customer orders did not receive the best available prices

B. Both the duty to prioritize customer orders and the prohibition on putting the firm's trading interests ahead of customer interests

C. The market manipulation rule, because the proprietary trade was designed to move prices

D. The insider trading rules, because the firm had access to information about customer orders

31. A broker-dealer discovers that one of its representatives has been recommending the same portfolio allocation to all customers without regard to their individual circumstances. The representative states: 'I use a one-size-fits-all approach because it's efficient and simplifies my workload.' Why is this practice problematic?

A. Suitability requires individualized analysis of each customer's financial situation, objectives, and risk tolerance; a uniform approach fails to assess fit for each customer

B. Using the same portfolio for multiple customers constitutes unauthorized trading for some of them

C. The Securities Act of 1933 prohibits firms from recommending the same investments to more than one customer

D. The representative has violated the rule against tied selling by bundling multiple recommendations together

32. A customer wishes to purchase 200 shares of stock using a margin account. The customer deposits $5,000 cash. Under Regulation T, what is the minimum loan value (maximum credit) the broker-dealer can extend for this transaction?

A. $5,000

B. $5,500

C. $7,500

D. $10,000

33. A customer opens a margin account and has a current market value of securities of $40,000 with a debit balance of $20,000. What is the customer's equity, and is the account in compliance with a 30% maintenance margin requirement?

A. Equity is $20,000; the account has 50% equity, which exceeds the 30% minimum and is in compliance.

B. Equity is $60,000; the account has 60% equity, which exceeds the 30% minimum and is in compliance.

C. Equity is $20,000; the account has 33% equity, which equals the maintenance margin but may trigger a margin call.

D. Equity is $20,000; the account has only 20% equity, which falls below 30% and triggers a margin call.

34. A customer buys 100 shares of a stock on a regular-way trade. Under current settlement rules, when must the seller deliver the securities and the buyer pay the purchase price?

A. Same day (T+0)

B. One business day after the trade date (T+1)

C. Two business days after the trade date (T+2)

D. Five business days after the trade date (T+5)

35. An investor is concerned about purchasing power risk. Which of the following investments would most likely help protect against inflation?

A. A 30-year Treasury bond with a fixed 2% coupon

B. Common stock in companies with pricing power

C. A money market fund with stable NAV

D. A certificate of deposit with a fixed rate locked in for 5 years

36. A corporate bond is trading at 95 (meaning $950 per $1,000 par value) with a 4% coupon and 10 years to maturity. Which of the following best describes the bond's current yield?

A. Less than 4% because the bond is trading at a discount

B. Equal to 4% regardless of price

C. More than 4% because the bond is trading below par

D. Unable to be calculated without knowing the issuer's credit rating

37. An investor purchases a put option on XYZ stock with a strike price of $45, paying a premium of $3, when XYZ is trading at $48. At expiration, XYZ is trading at $40. What is the investor's profit or loss on this put option?

A. Profit of $2 ($5 intrinsic value minus $3 premium)

B. Loss of $3 (the premium paid)

C. Profit of $5 (the intrinsic value)

D. Loss of $8 ($45 strike minus $40 current price plus $3 premium)

38. Under the regulatory framework, what is the relationship between the SEC and FINRA?

A. The SEC and FINRA are completely independent with no oversight relationship

B. FINRA operates as a Self-Regulatory Organization under SEC oversight

C. FINRA has authority over the SEC and must approve all SEC regulations

D. The SEC replaced FINRA in 2020 and now handles all broker oversight

39. A representative shares material nonpublic information about an upcoming corporate acquisition with a friend, who then trades on that information. Which of the following best describes the representative's violation?

A. Misappropriation of proprietary trading strategies

B. Tipping—providing material nonpublic information to someone who uses it to trade, breaching a duty of confidentiality

C. Unauthorized account activity, because the friend did not have written permission to trade

D. Suitability violation, because the friend may not have investment experience to trade on this information

40. During the registration period for a new issue, the managing underwriter publishes a tombstone advertisement in a financial newspaper. What is a tombstone permitted to do?

A. Present the underwriter's projected first-year return on the offering so that investors who read the advertisement are able to evaluate the attractiveness of the issue before the final prospectus reaches them.

B. Serve as the offering document, replacing prospectus delivery for any investor who has read it.

C. Announce the offering with limited information, such as the issuer, the type and amount of securities, the underwriters, and where a prospectus can be obtained; it is an announcement rather than an offer to sell.

D. Solicit binding purchase commitments from investors in advance of the effective date.

Answer key

1. A 2. C 3. B 4. C 5. C

6. B 7. A 8. B 9. B 10. A

11. B 12. C 13. A 14. B 15. B

16. A 17. A 18. A 19. B 20. C

21. A 22. B 23. B 24. B 25. B

26. B 27. A 28. B 29. B 30. B

31. A 32. A 33. A 34. B 35. B

36. C 37. A 38. B 39. B 40. C

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