

# MSRB

MUNICIPAL SECURITIES RULEMAKING BOARD

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## S T U D Y O U T L I N E

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MUNICIPAL SECURITIES  
REPRESENTATIVE QUALIFICATION EXAMINATION  
AUGUST 1999 EDITION

**Municipal Securities Rulemaking Board  
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# INTRODUCTION

## STUDY OUTLINE

This study outline lists the topics covered by the Municipal Securities Representative Qualification Examination (Test Series 52), and as such serves as a guide to the subject matter tested by the examination. Reference materials, discussing in a substantive way the topics set out in sections of this outline, are listed at the end of the outline.

The sample questions on pages 23-25 of the outline are similar to the types of multiple-choice questions which will appear in the examination.

## THE EXAMINATION

The Municipal Securities Representative Qualification Examination is designed to measure a candidate's qualification and competency to engage in the municipal securities business. The examination includes questions not only on municipal securities and the municipal markets but also on U.S. government, federal agency and other financial instruments, economic activity, government policy, factors affecting interest rates, and applicable federal securities laws and regulations. The percentages assigned to each of these topics on the examination are as follows:

Municipal Securities	55%
U.S. Government, Federal Agencies and Other Financial Instruments	7%
Economic Activity, Government Policy and the Factors Affecting Interest Rates	13%
Federal Legal Considerations	25%

The examination consists of 100 multiple-choice questions which test the topics specified in this outline. Each multiple-choice question is worth one point, and the passing grade set by the Board is 70%. It is in a candidate's best interest to answer all questions because an unanswered question is considered an incorrect answer. Candidates are allowed three hours to complete the examination.<sup>1</sup>

The questions used in the examination are reviewed and updated on a regular basis and reflect current market practices and securities. Questions which test new Board rules or amendments will be included in the examination after the effective date of the rule or rule change. Existing questions on rules or portions of rules, which have been amended or deleted, will be removed from the examination prior to the effective date of the amendment.

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<sup>1</sup> The examination is administered by the NASD on the PROCTOR system. For further information on application and administration procedures for MSRB examinations, please refer to the Board's Professional Qualification Handbook or contact the NASD at (301) 590-6500.

Because the examination is a closed-book test, candidates are not permitted any reference materials during the test administration. Electronic calculators may be used during the examination provided that they are simple, hand-held devices having an independent power source and no tape print mechanisms. Calculator/computers capable of capturing alpha-numeric data may not be used during the examination.

## **CONFIDENTIALITY**

In order to ensure that its examinations constitute valid tests of the qualifications of persons who take them, the Board has instituted various procedures, in the question-writing and administrative phases, which are designed to preserve the confidentiality of the examinations. On several occasions, the Board has found it necessary to take legal action, alleging copyright violations, against securities training schools which had used in their training material questions and answers that appeared to have been taken from questions contained in Board qualification examinations. In addition, candidates are advised that the practice of “debriefing” persons who have taken a qualification examination may not only give rise to an infringement of the Board’s copyright but would be a violation of Board rules for the candidate. Rule G-3(e) on “Confidentiality of Qualification Examinations” states that

No associated person of a broker, dealer or municipal securities dealer shall:

- (i) in the course of taking a qualification examination required by this rule receive or give assistance of any nature;
- (ii) disclose to any person questions, or answers to any questions, on any qualification examination required by this rule;
- (iii) engage in any activity inconsistent with the confidential nature of any qualification examination required by this rule, or with its purpose as a test of the qualification of persons taking such examinations; or
- (iv) knowingly sign a false certification concerning any such qualification examination.

**Part One**  
**MUNICIPAL SECURITIES (55%)**

**I. Types of Municipal Securities**

**A. General obligation bonds**

1. Source of payment: generally payable from taxes
  - a. Limited tax
  - b. Unlimited tax
2. Limitations on issuance
  - a. Voter approval
  - b. Statutory or constitutional

**B. Revenue bonds**

1. Source of payment: generally payable from project revenues
2. Limitations on issuance
  - a. Usually not subject to statutory debt limitations
  - b. May be issued by any authorized political entity
3. Purposes
  - a. Utility revenue (*e.g.*, water, sewer, electric)
  - b. Housing revenue (*e.g.*, single-family, multi-family)
  - c. Transportation (*e.g.*, airport revenue, toll road)
  - d. Education (*e.g.*, dormitory, student loan, general revenue)
  - e. Health (*e.g.*, hospital, life care)
  - f. Industrial (*e.g.*, industrial development, pollution control)

**C. Special type bonds**

1. Special tax
2. Special assessment
3. Moral obligation
4. Double-barreled
5. Lease rental
6. Certificates of participation (COPs)
7. Variable rate securities
8. Taxable municipals

## Part One

### D. Short-term obligations

1. Notes
  - a. Tax anticipation notes (TAN)
  - b. Bond anticipation notes (BAN)
  - c. Revenue anticipation notes (RAN)
  - d. Construction loan notes (CLN)
  - e. Variable rate demand notes (multi-modal)
  - f. Grant anticipation notes (GAN)
  - g. Tax and revenue anticipation notes (TRAN)
2. Tax-exempt commercial paper

## II. Characteristics

### A. Basic characteristics

1. Method of quotations
  - a. Yield/basis price
  - b. Dollar price
2. Forms of ownership
  - a. Bearer
  - b. Registered as to principal only
  - c. Fully registered
    - (1) Interchangeable with bearer
    - (2) Non-interchangeable
  - d. Book-entry only
3. Depository eligibility
4. Delivery procedures
  - a. Cash (same day)
  - b. Regular way
  - c. Delayed delivery
  - d. When as and if issued (WI)
  - e. As mutually agreed upon
  - f. Forwards (forward delivery)
5. Legal opinion
6. Interest
  - a. Rates
    - (1) Fixed
    - (2) Variable/floating
    - (3) Capital appreciation bonds (zeros)
    - (4) Convertible
  - b. Payment periods

## Part One

7. Maturity
  - a. Term
  - b. Serial
8. Denominations
9. Early redemption
  - a. Types
    - (1) Optional
    - (2) Sinking fund
    - (3) Extraordinary
    - (4) Mandatory
  - b. Bond refunding methods
    - (1) Direct exchange versus sale of new issue
    - (2) Refundings (current)
    - (3) Advance refunding (pre-refunding)
    - (4) Escrowed to maturity (ETM)
    - (5) Crossover refundings
  - c. Procedures
    - (1) Tender
    - (2) Call
    - (3) Puts
    - (4) Open-market purchase
  - d. Advantages and disadvantages
    - (1) To issuer
    - (2) To investor

### **B. Tax considerations**

1. Interest
  - a. Federal income tax status
    - (1) Tax-exempt
    - (2) Taxable
    - (3) Alternative minimum tax (AMT)
    - (4) Bank qualified bonds
  - b. State and local income tax status
  - c. Value of tax exemption
    - (1) To investor
    - (2) To issuer

## Part One

2. Principal
  - a. Premiums and discounts
    - (1) Amortization of premiums
    - (2) Accretion of discounts
    - (3) Tax consequences for different types of investors
    - (4) *de minimis* exemption on original issue discount (OID) bonds
  - b. Capital gains/losses
    - (1) Cost basis
    - (2) Rates
    - (3) Wash sales
    - (4) Offsets
    - (5) Tax swaps
3. Original issue discount
4. Compound accreted value

### C. Factors affecting marketability and liquidity

1. Quality
2. Ratings
3. Maturity
4. Call feature
5. Coupon
6. Block size
7. Issue size
8. Dollar price
9. Issuer name, local or national
10. Sinking fund
11. Registered, bearer or book-entry only form
12. Blue-sky laws

## III. The Market for Municipal Securities

### A. Primary Market

1. Methods of primary financing
  - a. Competitive sale (includes internet bids)
  - b. Negotiated sale
    - (1) Public offering
    - (2) Private placement

## Part One

2. Information sources
  - a. Notice of Sale (see ATTACHMENT A)
  - b. Official Statement
    - (1) Preliminary
    - (2) Final (see ATTACHMENT B)
  - c. Direct mail from issuers or financial advisors
  - d. *The Bond Buyer*
  - e. Munifacts
  - f. Dalnet
  - g. Newspapers and publications
  - h. *Bond Buyer* New Issue Worksheets
  - i. Moody's Bond Survey
  - j. Bloomberg
  - k. Other sources (e.g., *BOND EXPRESS* and *BONDTRAC*)
3. Underwriting procedures
  - a. Account formation procedures
    - (1) Determining members and participation
    - (2) Underwriting account agreement
      - (a) Documents
        - (i) Syndicate letter (competitive)
        - (ii) Agreement among underwriters (negotiated)
      - (b) Types of accounts
        - (i) Undivided (eastern account)
        - (ii) Divided (western account)
      - (c) Roles of underwriters
        - (i) Responsibilities of manager
        - (ii) Responsibilities of members
    - (3) Formation of selling groups
  - b. Determination of syndicate bid
    - (1) Components
      - (a) Scale
      - (b) Spread
      - (c) Interest rates
    - (2) Computation of bid
      - (a) Production
      - (b) Swing coupon
      - (c) Bid price
      - (d) Bid form
      - (e) Basis for award
        - (i) Net interest cost
        - (ii) True interest cost (Canadian method)
    - (3) Factors relevant to the member's participation in the bid

## Part One

- (a) Pre-sale orders
    - (b) Determination of liability
    - (c) Scale and spread
    - (d) Ability to sell this issue
  - c. Syndicate operational procedures
    - (1) Establish offering terms
      - (a) Order period
      - (b) Concessions and takedowns
      - (c) Retention bonds
      - (d) Priority provisions
        - (i) Group orders
        - (ii) Designated orders
        - (iii) Member orders
    - (2) Settlement terms
      - (a) When-as-and-if-issued
      - (b) Establishment of delivery dates
      - (c) Final accounting and settlement
- 4. Functions of a bond attorney
  - a. Determine authority for bond issuance
  - b. Render a legal opinion concerning tax status
  - c. Issue a legal opinion
- 5. Role of financial advisor

### **B. Secondary Market**

- 1. Characteristics
  - a. Negotiated versus auction
  - b. Over-the-counter (OTC)
- 2. Information sources
  - a. *The Blue List*
  - b. *The Bond Buyer*
  - c. Munifacts
  - d. Dealers' offering sheets
  - e. Brokers' brokers communications
  - f. Inter-dealer communications
  - g. Bloomberg
- 3. Market participants
  - a. Institutional
  - b. Retail
  - c. Inter-dealer
  - d. Brokers' brokers
- 4. Secondary market procedures
  - a. Kinds of transactions

## Part One

- (1) Principal
- (2) Agency
- b. Trading terms
  - (1) Quote
  - (2) Firm bid
  - (3) Firm offering
  - (4) List
  - (5) Down bid
  - (6) Workable indications
  - (7) Evaluation
  - (8) All or none (AON)
  - (9) "Multiples of"
  - (10) "Out firm"
  - (11) "Fill-or-kill"
  - (12) Locked market
- 5. Functions of a municipal bond trader
  - a. Make markets
  - b. Position trading
  - c. Joint accounts
  - d. Appraisals and evaluations
  - e. Hedging

### C. Market indicators

- 1. *The Blue List* Total
- 2. *The Bond Buyer*
  - a. Placement ratio
  - b. Indices
    - (1) Twenty G.O. Bonds index
    - (2) Eleven G.O. Bonds index
    - (3) Twenty-five Revenue Bonds index
    - (4) Municipal Bond index (40 Bond)
  - c. Visible supply
- 3. Other market-level indicators
  - a. New-issue scales
  - b. Secondary market activity
  - c. Dollar bond market activity
  - d. Market activity in other securities
  - e. Current economic factors
  - f. Financial futures
    - (1) Municipal bond contract
    - (2) Municipal over bond (MOB) spread

## Part One

### **D. Customer suitability considerations**

1. Financial profile
2. Tax status
3. Investment objectives
  - a. Safety of principal
  - b. Income
  - c. Liquidity
  - d. Growth
  - e. Speculation
4. Diversification
  - a. Geographical
  - b. Maturity
  - c. Purpose of issue
  - d. Security
  - e. Quality
5. Kinds of investment risks
  - a. Financial (credit risk)
  - b. Market (interest rate risk)
  - c. Put and call features
  - d. Tax law changes
  - e. Inflationary
  - f. Reinvestment

## **IV. Analyzing Municipal Credit**

### **A. General obligation securities**

1. Demographic considerations
  - a. Tax base
  - b. Diversification of economic activity
  - c. Population trends
  - d. Geography
2. Nature of the issuer's debt
  - a. Present and past attitudes toward debt
  - b. Debt trend
  - c. Schedule of debt service requirements
  - d. Contemplated financing
  - e. Relation of debt to the life of improvement

## Part One

3. Factors affecting ability to pay
  - a. Budgetary practices and legislative climate
  - b. Current financial condition
  - c. Unfunded liabilities (pension funds, etc.)
  - d. Tax limitations
  - e. Tax rates, trends and comparisons
  - f. Tax collection record
  - g. Trends in assessed valuation
  - h. Non-tax revenues
  - i. Overlapping debt
  - j. Litigation
4. Municipal debt ratios
  - a. Net overall (direct and overlapping) debt to assessed valuation
  - b. Net overall (direct and overlapping) debt to estimated real valuation
  - c. Per capita net debt
  - d. Debt service to annual revenues

### **B. Revenue bonds**

1. Feasibility study
  - a. Need for project
  - b. Existing or potential competitive facilities
  - c. Engineering reports
  - d. Economic viability
2. Sources of revenue
  - a. User charges
  - b. Concessions and fees
  - c. Special taxes
  - d. Rental or lease payments
    - (1) Public agencies
    - (2) Private agencies
  - e. Legislative appropriation
3. Security
  - a. Bond indenture
    - (1) Rate covenant
    - (2) Insurance covenant
    - (3) Operation and maintenance covenant
    - (4) Non-discrimination covenant
    - (5) Requirement for financial reports and outside audits

## Part One

- (6) Restrictions on issuance of additional bonds
  - (a) Open-end indenture
  - (b) Closed-end indenture
  - (c) Project completion
- b. Flow of funds
  - (1) Types of funds
    - (a) Revenue fund
    - (b) Operation and maintenance fund
    - (c) Sinking fund or debt service fund
    - (d) Debt service reserve fund
    - (e) Reserve maintenance fund
    - (f) Renewal and replacement (depreciation) fund
    - (g) Surplus fund
    - (h) Construction fund
  - (2) Application of revenue
    - (a) Net revenue pledge
    - (b) Gross revenue pledge
- c. Debt service coverage

### **C. Sources of credit information**

- 1. The issuer
- 2. Advisory councils and services of certain states
- 3. Commercial research services
- 4. Industry and general publications

### **D. Rating Services**

### **E. Credit enhancements**

- 1. Enhanced securities
- 2. Letters of credit (LOC)
- 3. Guaranteed investment contract (GIC)
- 4. Advanced refunded
- 5. Insured

## **V. Mathematical Calculations and Methods**

### **A. Yields**

- 1. Yield to maturity

## Part One

2. Yield to early redemption
  - a. Put
  - b. Call
  - c. Par option
  - d. Average life (sinking fund)
3. Current yield
4. After-tax yield
5. Taxable equivalent yield

### **B. Relationship of bond prices to change in:**

1. Maturity
2. Coupon
3. Yield

### **C. Duration**

### **D. Basis points**

1. Dollar value of a basis point
2. Convexity

### **E. Dollar value of points and fractions**

### **F. Accrued Interest**

1. Regular coupon
2. Odd first coupon (long or short)

### **G. Level debt service**

### **H. Underwriting computations**

1. Bond years
2. Production
3. Spread
4. Net interest cost
5. True interest cost

### **I. Capital gains**

### **J. Amortization of premium**

### **K. Accretion of discount**

## **Part One**

- L. Day-count basis of computations of dollar price and accrued interest**
  - 1. Notes (variable)
  - 2. Bonds (30/360)
  
- M. Flat**

**Part Two**  
**U.S. GOVERNMENT, FEDERAL AGENCY AND**  
**OTHER FINANCIAL INSTRUMENTS (7%)**

**I. Types**

**A. Obligations of the U.S. Treasury**

1. Bills
2. Notes
3. Bonds
4. STRIPS
5. SLGS

**B. Obligations of federal agencies**

1. Federal Farm Credit Banks
2. Federal Home Loan Bank (FHLB)
3. Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
4. Federal National Mortgage Association (FNMA or Fannie Mae)
5. Government National Mortgage Association (GNMA or Ginnie Mae)
6. Student Loan Marketing Association (SLMA or Sallie Mae)

**C. Money market instruments**

1. Bankers acceptances
2. Certificates of deposit
3. Commercial paper
4. Federal funds
5. Repurchase and reverse repurchase agreements
6. Money market mutual funds

**D. Other financial instruments**

1. Asset-backed securities
2. Collateralized mortgage obligations (CMOs)
3. Derivatives

## Part Two

### II. Characteristics of Various U.S. Government, Federal Agency and Other Financial Instruments

- A. **Marketability**
  - 1. Liquidity
  - 2. Price volatility
  
- B. **Federal and state tax treatment**
  - 1. Interest income
  - 2. Amortization of premium
  - 3. Accretion of discount
  - 4. Capital gains/loss
  
- C. **Trading**
  - 1. Discount basis
  - 2. Bond equivalent yield
  - 3. Yield quotation
  - 4. Dollar price quotation and fractions (1/32)
    - a. Value of a plus (1/64)
  
- D. **Settlement**
  - 1. Cash
  - 2. Regular way
  
- E. **Delivery**
  - 1. Book-entry only
  - 2. Bearer
  - 3. Registered

### III. The Market for U.S. Government, Federal Agency and Other Financial Instruments

- A. **New-issue marketing methods**
  - 1. Auction
    - a. Competitive tenders
    - b. Non-competitive tenders
  - 2. Agency selling group
  - 3. Dealer market
  
- B. **Secondary market**
  - 1. Broker

## **Part Two**

2. Dealer

**C. Federal Reserve's open-market participation in the market for each security, where applicable**

### **IV. Credit Features**

**A. Definition of each investment and comparative strength for all U.S. government, federal agency and money market instruments**

**B. Treasury guaranties (direct, secondary, or implied where applicable)**

**Part Three**  
**ECONOMIC ACTIVITY, GOVERNMENT POLICY AND**  
**FACTORS AFFECTING INTEREST RATES (13%)**

**I. Monetary Policy**

**A. Objectives of Federal Reserve monetary policy**

1. Price stability
2. Long-term economic growth
3. Stabilize foreign exchange markets

**B. Operating tools of the Federal Reserve**

1. Open market operations
2. Discount rate
3. Reserve requirements
4. Margin requirements

**C. Operations of the Federal Reserve**

1. Policy role of the Federal Open Market Committee
2. Market role of the Open Market Trading Desk

**D. Major factors influencing Federal Reserve policy**

1. Monetary aggregates
2. Economic indices
  - a. Consumer price index
  - b. Unemployment rate (non-farm payroll)
  - c. Housing starts (existing home sales)
  - d. Foreign trade deficits
  - e. Purchasing manager's report
  - f. Leading/lagging/co-existent indicators
  - g. Producer price index
  - h. Gross domestic product
3. Commodity prices
4. Foreign exchange rates
5. International economic activity

**II. Fiscal Policy**

**A. U.S. Treasury debt management practices – impact of short-term and long-term financings**

## **Part Three**

### **B. Federal budgetary practices and their impact on the money and capital markets**

1. Deficits and surpluses
2. Taxation and spending

### **III. Factors Affecting Interest Rates**

#### **A. Supply and demand for credit relative to the economic cycle**

#### **B. The effect of inflation and investor expectations on interest rate levels**

#### **C. Yield curve analysis**

1. Financial and economic characteristics of a positive or negative (inverted) sloped yield curve
2. Uses and implications

#### **D. Yield spread differentials between credit quality groups**

1. Impact of economic and financial conditions
2. During periods of high/low interest rate levels
3. Compression

#### **E. Changes in commodity and currency prices**

**Part Four**  
**FEDERAL LEGAL CONSIDERATIONS (25%)**

**I. Regulation of Municipal Market Professionals**

**A. Securities Act of 1933**

1. Municipal securities exempt from registration requirements
2. Antifraud provisions applicable to municipal issuers as well as brokers and dealers

**B. Securities Exchange Act of 1934**

1. Municipal securities exempt from registration requirements
2. Antifraud provisions applicable to municipal issuers as well as brokers and dealers
3. Amendments of 1975
  - a. Registration of municipal brokers, dealers and bank dealers with the SEC
  - b. Regulators
    - (1) Rulemaking
      - (a) Municipal Securities Rulemaking Board (MSRB)
      - (b) Securities and Exchange Commission (SEC)
    - (2) Enforcement
      - (a) Securities and Exchange Commission (SEC)
      - (b) National Association of Securities Dealers Regulation, Inc. (NASDR)
      - (c) Federal Reserve Board
      - (d) Comptroller of the Currency
      - (e) Federal Deposit Insurance Corporation
4. Applicable SEC rules
  - a. Securities financial responsibility rules (inapplicable to banks)
  - b. SEC rules 15c2-12 on municipal securities disclosure
  - c. SEC antifraud rules

**II. Securities Investor Protection Act of 1970**

**A. Purpose of Securities Investor Protection Corporation (SIPC)**

## Part Four

### B. Inapplicable to bank dealers

### C. Coverage limitations

## III. MSRB rules

1. Professional Qualifications (G-2 through G-7)
2. Recordkeeping (G-8)
3. Investor Brochure (G-10)
4. Sales During the Underwriting Period (G-11)
5. Uniform Practice (G-12)
6. Quotations and Sales Reports (G-13 and G-14)
7. Confirmation, Clearance and Settlement of Transactions with Customers (G-15)
8. Conduct of Municipal Securities Business (G-17)
9. Execution of Transactions (G-18)
10. Suitability of Recommendations and Transactions (G-19)
11. Gifts and Gratuities (G- 20)
12. Advertising (G-21)
  - a. relating to professional services
  - b. relating to municipal securities products
  - c. relating to new-issue municipal securities
13. Disclosure of Control Relationships (G-22)
14. Activities of Financial Advisors (G-23)
15. Use of Ownership Information Obtained in a Fiduciary Capacity (G-24)
16. Improper Use of Assets (G-25)
17. Customer Account Transfers (G-26)
18. Supervision (G-27)
19. Transactions with Employees of Other Municipal Securities Professionals (G-28)
20. Availability of Board Rules (G-29)
21. Prices and Commissions (G-30)
22. Reciprocal Dealings with Municipal Securities Investment Companies (G-31)
23. Disclosures in Connection with New Issues (G-32)
24. CUSIP Numbers and New Issue Requirements (G-34)
25. Delivery of Official Statements, Advance Refunding Documents and Forms G-36 (OS) and G-36 (ARD) to the Board or its Designee (G-36)
26. Political Contributions and Prohibitions on Municipal Securities Business (G-37)
27. Consultants (G-38)
28. Telemarketing (G-39)
29. Recently Enacted Rules Relating to the Conduct of Municipal Securities Activities

**Contents of a Typical Notice of Bond Sale**

- (1) Date, time and place of sale
- (2) Name and description of issuer
- (3) Type of bond
- (4) Bidding restrictions
- (5) Interest payment dates
- (6) Dated date, interest accrual date, first coupon payment date
- (7) Maturity structure
- (8) Call provisions
- (9) Denominations and registration provisions
- (10) Expenses to be borne by purchaser or issuer
- (11) Amount of good faith deposit
- (12) Paying Agent and/or Trustee
- (13) Name of attorney providing legal opinion
- (14) Details of delivery
- (15) Right of rejection
- (16) Criteria for award

**Outline of a Typical Official Statement**

- (1) Offering terms
- (2) Summary statement
- (3) Purpose of issue
- (4) Authorization of bonds
- (5) Security of bonds
- (6) Description of bonds
- (7) Description of issuer
  - (a) Organization
  - (b) Area economy
  - (c) Financial summary
- (8) Construction program
- (9) Project feasibility
- (10) Regulatory matters
- (11) Specific provisions of Indenture and/or Resolution
  - (a) Funds and accounts
  - (b) Investment of funds
  - (c) Additional bonds
  - (d) Insurance
  - (e) Events of default
- (12) Legal proceedings
- (13) Tax Status
- (14) Appendix
  - (a) Various consultant reports
  - (b) Legal opinion
  - (c) Financial statements and audits

## REFERENCE MATERIAL

The following list of reference materials is presented here for convenience but is not intended to be all-inclusive.

\* \* \* \* \*

Primary reference material on the functioning of the municipal, government and money markets:

Federal Reserve Bank of Richmond. *Instruments of the Money Market*. Published on web site at [www.rich.frb.org](http://www.rich.frb.org).

Lamb, Robert and Stephen P. Rappaport. *Municipal Bonds*. Second edition. New York, NY: McGraw-Hill (1987).

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## SAMPLE QUESTIONS

The following questions are similar in format and content to questions on the examination. The sample questions, however, are not intended to parallel either the level of difficulty or the subject coverage of the examination. The sample questions are intended to assist candidates in preparing for the types of multiple-choice questions which will appear on the examination.

1. A municipal securities trade occurs on July 14. Assuming there are no intervening holidays, regular way settlement would occur on
  - (A) July 15
  - (B) July 16
  - (C) July 17
  - (D) July 21
  
2. An investor in the 28% tax bracket purchases a 5.60% municipal bond at par. To realize the same net return from a taxable investment purchased at par, the investor would have to purchase a taxable bond with which of the following yields?
  - (A) 5.60%
  - (B) 7.78%
  - (C) 11.20%
  - (D) 20.00%
  
3. A municipal bond that is offered at a yield-to-maturity higher than its coupon rate is recognized as trading
  - (A) at a discount
  - (B) at a premium
  - (C) flat
  - (D) at par
  
4. The MSRB has been authorized by Congress to regulate the municipal securities activities of all the following EXCEPT
  - (A) securities firm that sell to retail accounts
  - (B) bank dealers that underwrite general obligation bonds
  - (C) broker/dealers that sell to institutional accounts
  - (D) state political entities selling new-issue municipal securities

Questions 5-7 are based on the following exhibit:

*In the opinion of Co-Bond Counsel, under existing laws, interest on the Bonds is exempt from federal income tax and interest on the Bonds and the gain on the sale thereof are exempt from taxation in the State of New Jersey under the New Jersey Gross Income Tax Act as enacted and construed on the date hereof.*

**[The exhibit will be included in the  
printed version of the study outline]**

8. Which two of the following are of significance when evaluating the credit risk of a new issue of general obligation bonds?

- I. Debt service coverage
- II. Per capita debt service requirements
- III. Present prices of the issuer's outstanding securities
- IV. Tax rates, trends and comparisons

- (A) I and III
- (B) I and IV
- (C) II and III
- (D) II and IV

9. A municipal bond is offered as "priced to the call". This offering MOST LIKELY is referring to which type of call?

- (A) Sinking fund
- (B) Extraordinary
- (C) Optional
- (D) Catastrophic

10. Under MSRB rules, what is required of an advertisement published by a dealer concerning its trading facilities, services or skills?

- (A) It must be approved by the MSRB.
- (B) It must be filed with the SEC.
- (C) It must be approved in writing by a principal.
- (D) It must be approved by a principal and filed with the MSRB.

\* \* \* \* \*

**Answers**

- |    |   |     |   |
|----|---|-----|---|
| 1. | C | 6.  | C |
| 2. | B | 7.  | D |
| 3. | A | 8.  | C |
| 4. | D | 9.  | C |
| 5. | A | 10. | C |