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United States • US Securities (SIE)

SIE

Study Guide

KNOWLEDGE POINTS	CHAPTERS	EDITION
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Contents

01 Knowledge of Capital Markets 1

02 Understanding Products and Their Risks 4

03 Understanding Trading, Customer Accounts and Prohibited Activities 7

04 Overview of the Regulatory Framework 11

CHAPTER 1

Knowledge of Capital Markets

1.1 The Securities and Exchange Commission (SEC)

Covers the high-level purpose and mission of securities regulation and the SEC's role in the industry.

- ✓ The high-level purpose and mission of securities regulation
- ✓ Definition, jurisdiction and authority of the SEC

1.2 Self-regulatory Organizations (SROs)

Covers the purpose, mission, jurisdiction and authority of self-regulatory organizations.

- ✓ Purpose and mission of an SRO
- ✓ Jurisdiction and authority of SROs (e.g., CBOE, FINRA, MSRB)

1.3 Other Regulators and Agencies

Covers additional regulatory bodies and agencies that oversee or affect the securities industry.

- ✓ Department of the Treasury/IRS
- ✓ State regulators (e.g., NASAA)
- ✓ The Federal Reserve
- ✓ Securities Investor Protection Corporation (SIPC)
- ✓ Federal Deposit Insurance Corporation (FDIC)

1.4 Market Participants and their Roles

Covers the various participants in the securities markets and their respective roles.

- ✓ Investors (e.g., accredited, institutional, retail)
- ✓ Broker-Dealers (e.g., introducing, clearing, prime brokers)
- ✓ Investment advisers
- ✓ Municipal advisors
- ✓ Issuers and underwriters
- ✓ Traders and market makers
- ✓ Custodians and trustees
- ✓ Transfer agents
- ✓ Depositories and clearing corporations (e.g., DTCC, OCC)

1.5 Types of Markets

Covers the different market structures used to issue and trade securities.

- ✓ The primary market
- ✓ The secondary market (e.g., electronic, OTC, physical)
- ✓ The third market
- ✓ The fourth market

1.6 Federal Reserve Board's Impact on Business Activity

Covers how the Federal Reserve influences business activity and market stability through policy tools.

- ✓ Monetary vs. fiscal policy
- ✓ Open market activities and impact on economy
- ✓ Different rates (e.g., interest rate, discount rate, federal funds rate)

1.7 Business Economic Factors

Covers economic concepts including financial statements, the business cycle, indicators and market effects.

- ✓ Purpose of financial statements (e.g., balance sheet, income statement)
- ✓ Business cycle (e.g., contraction, trough, expansion, peak)
- ✓ Indicators (e.g., leading, lagging, coincident, inflation)
- ✓ Basic effects on bond and equity markets (e.g., cyclical, defensive, growth)
- ✓ Principal economic theories (e.g., Keynesian, Monetarist)

1.8 International Economic Factors

Covers international economic measures affecting markets.

- ✓ U.S. balance of payments
- ✓ Gross domestic product (GDP), gross national product (GNP)
- ✓ Exchange rates

1.9 Offerings

Covers the roles, types, methods, documents and regulatory requirements associated with securities offerings.

- ✓ Roles of participants (e.g., investment bankers, underwriting syndicate, municipal advisors)
- ✓ Types of offerings (public vs. private; IPO, secondary, follow-on; methods of distribution)
- ✓ Shelf registrations and distributions
- ✓ Types and purpose of offering documents and delivery requirements
- ✓ Regulatory filing requirements and exemptions (e.g., SEC, blue-sky laws)

CHAPTER 2

Understanding Products and Their Risks

2.1 Equity Securities

Covers types of equity securities and their key ownership and rights characteristics.

- ✓ Types of equities: common stock, preferred stock, rights, warrants, ADRs
- ✓ Ownership (e.g., order of liquidation, limited liability)
- ✓ Voting rights
- ✓ Convertible
- ✓ Control and restrictions (e.g., SEC Rule 144)

2.2 Debt Instruments

Covers the range of debt instruments and their defining features such as maturity, yield and pricing.

- ✓ Treasury securities (bills, notes, receipts, bonds)
- ✓ Agency (asset-backed and mortgage-backed securities)
- ✓ Corporate bonds
- ✓ Municipal securities (GO bonds, revenue bonds, others)
- ✓ Money market instruments, CD, bankers' acceptance, commercial paper
- ✓ Varying maturities; income/interest; coupon value; par value; yield
- ✓ Ratings and rating agencies
- ✓ Callable and convertible features
- ✓ Short-term vs. long-term characteristics
- ✓ Relationship between price and interest rate
- ✓ Negotiated vs. competitive offerings; auction

2.3 Options

Covers option types and knowledge of strategies, pricing, exercise and disclosure requirements.

- ✓ Types of options: puts and calls; equity vs. index
- ✓ Hedging or speculation
- ✓ Expiration date; strike price; premium
- ✓ Underlying or cash settlement
- ✓ In-the-money, out-of-the-money
- ✓ Covered vs. uncovered
- ✓ American vs. European
- ✓ Exercise and assignment
- ✓ Varying strategies (e.g., long, short)
- ✓ Special disclosures (e.g., ODD)
- ✓ Options Clearing Corporation (OCC) for listed options

2.4 Packaged Products

Covers investment companies and their pricing, fees, share classes and sales charge features.

- ✓ Types of investment companies: closed-end funds, open-end funds, UITs, variable contracts/annuities
- ✓ Loads; share classes; NAV
- ✓ Disclosures; costs and fees
- ✓ Breakpoints; right of accumulation (ROA); letter of intent (LOI)
- ✓ Net transactions; surrender charges; sales charges

2.5 Municipal Fund Securities

Covers municipal fund securities such as 529 plans, LGIPs and ABLE accounts and their features.

- ✓ 529 Plans (prepaid tuition, savings plans)
- ✓ Local government investment pools (LGIPs)
- ✓ ABLE accounts
- ✓ Municipal fund securities; owner vs. beneficiary
- ✓ Restricted use of plan assets; tax advantages
- ✓ Direct or adviser sold

2.6 Direct Participation Programs (DPPs)

Covers types of DPPs and their tax treatment and liquidity characteristics.

- ✓ Types of DPPs: limited partnerships, tenants in common (TIC)
- ✓ Pass-through tax treatment
- ✓ Unlisted
- ✓ Generally illiquid

2.7 Real Estate Investment Trusts (REITs)

Covers REIT types and their equity/debt nature and tax characteristics.

- ✓ Types of REITs: private, registered non-listed, listed
- ✓ Real estate equity or debt
- ✓ Tax-advantaged income without double taxation

2.8 Hedge Funds

Covers the structure and characteristics of hedge funds.

- ✓ Minimum investment
- ✓ Partnership structure
- ✓ Private equity
- ✓ Generally illiquid

2.9 Exchange-traded Products (ETPs)

Covers types of exchange-traded products and their characteristics compared to mutual funds.

- ✓ Types of ETPs: ETFs, ETNs
- ✓ Alternative investments to mutual funds
- ✓ Fee considerations
- ✓ Active vs. passive

2.10 Investment Risks

Covers identification of investment risk types and strategies for mitigating risk.

- ✓ Risk types: capital, credit, currency, inflationary/purchasing power, interest rate/reinvestment, liquidity, market/systematic, non-systematic, political, prepayment
- ✓ Strategies for mitigation: diversification, portfolio rebalancing, hedging

CHAPTER 3

Understanding Trading, Customer Accounts and Prohibited Activities

3.1 Orders and Strategies

Covers order types, trade capacity and directional trading concepts.

- ✓ Types of orders (market, stop, limit, GTC, discretionary vs. non-discretionary, solicited vs. unsolicited)
- ✓ Buy and sell, bid-ask
- ✓ Trade capacity (principal, agency)
- ✓ Long and short, naked and covered
- ✓ Bearish and bullish

3.2 Investment Returns

Covers the components and measurement of investment returns and dividend concepts.

- ✓ Components of return (interest, dividends, realized/unrealized gains, return on capital)
- ✓ Different types of dividends (cash, stock)
- ✓ Dividend payment dates (record date, ex-dividend date, payable date)
- ✓ Concepts of measurement (yield, YTM, YTC, total return, basis points)
- ✓ Cost basis requirements
- ✓ Benchmarks and indices

3.3 Trade Settlement

Covers settlement time frames and delivery methods for securities transactions.

- ✓ Settlement time frames for various products (e.g., T, T+1)
- ✓ Physical vs. book entry (delivery and settlement)

3.4 Corporate Actions

Covers types of corporate actions and their impact on securities and shareholders.

- ✓ Types of corporate actions (splits, reverse splits, buybacks, tender offers, exchange offers, rights offerings, M&A)
- ✓ Impact of stock splits and reverse splits on market price and cost basis
- ✓ Adjustments to securities subject to corporate actions
- ✓ Delivery of notices and corporate action deadlines
- ✓ Proxies and proxy voting

3.5 Account Types and Characteristics

Covers the different customer account types and their features.

- ✓ Cash
- ✓ Margin
- ✓ Options
- ✓ Discretionary vs. non-discretionary
- ✓ Fee-based vs. commission
- ✓ Educational accounts

3.6 Customer Account Registrations

Covers registration types for customer accounts including retirement accounts.

- ✓ Individual
- ✓ Joint
- ✓ Corporate/institutional
- ✓ Trust (revocable, irrevocable)
- ✓ Custodial (e.g., UTMA)
- ✓ Partnerships
- ✓ Retirement (IRA, qualified plans): types, RMDs, contributions

3.7 Anti-money Laundering (AML)

Covers money laundering concepts, compliance programs and required reporting.

- ✓ Definition of money laundering
- ✓ Stages of money laundering (structuring, layering, placement)
- ✓ AML compliance program
- ✓ Suspicious Activity Report (SAR)
- ✓ Currency Transaction Report (CTR)
- ✓ FinCEN
- ✓ OFAC and the SDNs List

3.8 Books and Records and Privacy Requirements

Covers recordkeeping, customer communications, custody of assets and privacy protections.

- ✓ Books and records retention requirements
- ✓ Confirmations and account statements
- ✓ Holding of customer mail
- ✓ Business continuity plans (BCP)
- ✓ Customer protection and custody of assets
- ✓ Privacy requirements (Regulation S-P): nonpublic personal information, confidentiality, privacy notifications, safeguard requirements

3.9 Communications with the Public and Suitability

Covers rules for public communications, telemarketing and best interest/suitability obligations.

- ✓ Communications with the public and telemarketing (classifications, general requirements, do-not-call list)
- ✓ Best interest obligations and suitability requirements
- ✓ Know-your-customer (KYC)
- ✓ General requirements (e.g., what constitutes a recommendation)

3.10 Market Manipulation

Covers the definition and types of prohibited market manipulation.

- ✓ Definition of market manipulation
- ✓ Types of market manipulation (market rumors, pump and dump, front running, excessive trading, marking the close, marking the open, backing away, freeriding)

3.11 Insider Trading

Covers insider trading concepts, involved parties and penalties.

- ✓ Definition of insider trading
- ✓ Definition of material nonpublic information
- ✓ Identifying involved parties
- ✓ Penalties (fines, expulsion, incarceration)

3.12 Other Prohibited Activities

Covers additional prohibited practices including improper use of customer assets and activities of unregistered persons.

- ✓ Restrictions preventing associated persons from purchasing IPOs
- ✓ Use of manipulative, deceptive or other fraudulent devices
- ✓ Improper use of customers' securities or funds (borrowing from customers, sharing in customer accounts)
- ✓ Financial exploitation of seniors
- ✓ Activities of unregistered persons (commissions, solicitation and taking orders)
- ✓ Falsifying or withholding documents (signatures of convenience, responding to regulatory requests)
- ✓ Prohibited activities related to maintenance of books and records

CHAPTER 4

Overview of the Regulatory Framework

4.1 Registration and Continuing Education

Covers SRO qualification/registration requirements, state registration and continuing education obligations.

- ✓ Definition of registered vs. non-registered person
- ✓ Permitted activities of registered and non-registered persons
- ✓ Ineligibility for membership or association
- ✓ Background checks; fingerprinting
- ✓ Statutory disqualification
- ✓ Failing to register an associated person
- ✓ State registration requirements (blue-sky laws)
- ✓ Continuing Education (Firm Element, Regulatory Element)

4.2 Employee Conduct

Covers employee conduct requirements including registration forms and customer complaints.

- ✓ Form U4 and Form U5 (purpose, when to update forms)
- ✓ Consequences of filing misleading or omitting information
- ✓ Customer complaints
- ✓ Potential red flags

4.3 Reportable Events

Covers events that must be reported by associated persons and related limitations.

- ✓ Outside business activities
- ✓ Private securities transactions
- ✓ Reporting of political contributions and thresholds
- ✓ Dollar and value limits for gifts, gratuities and non-cash compensation
- ✓ Business entertainment
- ✓ Felony, financial-related misdemeanors, liens, bankruptcy