FreeFellow

FORMULA & LIMITS SHEET

Series 6

FINRA · Investment Co. & Variable Products Rep.

76

ITEMS

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TOPICS

freefellow.org/series-6/formulas

OPENS ACCOUNTS AFTER OBTAINING AND EVALUATING CUSTOMERS' FINANCIAL PROFILE AND INVESTMENT OBJECTIVES

7 items

Annualized cost-to-equity ratio

$CE_{ann} = \frac{Comm}{E} \times \frac{12}{m}$, Comm = total commissions, E = account equity, m = number of months over which costs accrued

Concentration ratio of a single position

$C = \frac{P}{NW}$, C = concentration as a fraction of net worth, P = dollar value of the position, NW = customer net worth

Cost-to-equity ratio for churning analysis

$CE = \frac{Comm}{E}$, CE = commissions as a fraction of account equity, Comm = total commissions charged, E = account equity

Net proceeds after an early IRA withdrawal

$N = D - (D \times t) - (D \times 0.10)$, N = net proceeds, D = distribution, t = marginal tax rate (10% early penalty)

Early-withdrawal penalty on an IRA distribution

$P = D \times 0.10$, P = penalty, D = amount distributed before age 59½ (10% penalty rate)

Ordinary income tax on a Traditional IRA distribution

$T = D \times t$, T = tax owed, D = amount distributed, t = marginal income tax rate

Deposit required for a full indirect rollover

$R = C + W$, R = full rollover deposit, C = check received, W = amount withheld by the plan

PROVIDES CUSTOMERS WITH INFORMATION ABOUT INVESTMENTS, MAKES RECOMMENDATIONS, TRANSFERS ASSETS AND MAINTAINS APPROPRIATE RECORDS

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Net asset value per share of a fund

$NAV = \frac{A - L}{N}$, A = total assets, L = total liabilities, N = shares outstanding

Dollar sales charge per share

$SC_{\$} = POP - NAV$, POP = public offering price, NAV = net asset value per share

Public offering price of an open-end fund

$POP = \frac{NAV}{1 - SC}$, NAV = net asset value per share, SC = sales charge percent (decimal)

Sales charge percentage on a mutual fund purchase

$SC\% = \frac{POP - NAV}{POP}$, POP = public offering price, NAV = net asset value per share

Realized profit or loss on a sale

$RPL = \text{Proceeds} - \text{Cost Basis}$, RPL = realized profit/loss, Proceeds = shares sold × sale price, Cost Basis = shares sold × purchase price

Account value on a customer statement

$AV = \sum_i (S_i \times P_i) + C$, AV = account value, S = shares of position i, P = price of position i, C = cash

Total cost of an agency buy on the confirmation

$T = (S \times P) + Comm$, T = total dollar amount, S = shares, P = price per share, Comm = agency commission

Unrealized profit or loss on a held position

$UPL = (S \times P_m) - (S \times P_c)$, UPL = unrealized profit/loss, S = shares held, P_m = current market price, P_c = purchase price

Adjusted cost basis after a return-of-capital distribution

$B_{adj} = B_0 - ROC$, B_0 = original cost basis per share, ROC = return-of-capital distribution per share, B_adj = adjusted basis

Taxable gift after the annual gift exclusion

$G_{taxable} = V_{gift} - E_{annual}$, V_gift = fair market value of gift per recipient, E_annual = annual gift exclusion (\$19,000 in 2026), G_taxable = taxable gift

Capital gain on gifted securities

$G = P_{sale} - B_{donor}$, P_sale = sale proceeds, B_donor = donor's carryover cost basis, G = capital gain

Capital gain on inherited securities

$G = P_{sale} - FMV_{death}$, P_sale = sale proceeds, FMV_death = stepped-up fair market value at date of death, G = capital gain

OBTAINS AND VERIFIES CUSTOMERS' PURCHASE AND SALES INSTRUCTIONS; PROCESSES, COMPLETES AND CONFIRMS TRANSACTIONS 6 items

Bid-ask spread on a quote

$Spread = Ask - Bid$, Ask = lowest price a seller will accept (buyer pays), Bid = highest price a buyer will pay (seller receives)

Gross cost of a purchase at the ask

$Cost = Q \times Ask$, Q = number of shares bought, Ask = ask/offer price (the side a buying customer pays), before commission

Gross proceeds on a sale at the bid

$Proceeds = Q \times Bid$, Q = number of shares sold, Bid = bid price (the side a selling customer receives), before commission

Regular-way settlement date under SEC Rule 15c6-1

$S = T + 1$, S = settlement date, T = trade date, +1 = one business day after trade date

Ex-date adjustment of an open order under FINRA Rule 5330

$P_{adj} = P_{order} - D$, P_adj = adjusted price, P_order = original buy limit or sell stop price, D = cash dividend per share (skip if marked DNR)

Regulation T customer payment deadline

$P = S + 2$, P = payment due date, S = settlement date, +2 = two business days after settlement

LIMITS & THRESHOLDS

SEEKS BUSINESS FOR THE BROKER-DEALER FROM CUSTOMERS AND POTENTIAL CUSTOMERS 8 items

Rule `504` exempts offerings up to `$10 million` in a 12-month period.

Rule `506(b)` allows unlimited accredited investors plus up to `35` non-accredited but sophisticated investors with no general solicitation.

An accredited investor has income over `$200,000` (`$300,000` joint) in the two most recent years, or net worth over `$1 million` excluding the primary residence.

Filing the registration statement begins the cooling-off period, a minimum of `20 days` during which no sales may occur.

Correspondence reaches `25 or fewer` retail investors in 30 days (no pre-approval), while retail communication reaches `more than 25` and needs principal approval before first use.

A SEC Rule `482` performance ad must show standardized average annual total return for `1, 5, and 10` years, net of the maximum sales load, plus the expense ratio and a prospectus legend.

New member firms file retail communications at least `10 business days before` first use, while established firms file within `10 business days after` first use.

Under FINRA Rule `2330`, a principal must review and approve or reject a deferred VA application within `7 business days` of the office receiving a complete application.

FINRA Rule `3110` requires a written supervisory system, Rule `3120` tests it at least annually, and MSRB Rule `G-27` covers municipal-securities supervision.

A customer's financial profile and investment objectives must be reverified at least every `36 months`, or sooner on material life changes.

A registered principal must approve a new account in writing before or `promptly after` the first transaction, generally by `the next business day`.

$12,000 commissions on a $100,000 discretionary account is `12%` of equity over `eight months`, near `18%` annualized, flagging churning.

Reg BI is `SEC Rule 15l-1` setting the best-interest standard for retail customers while Form CRS is `SEC Rule 17a-14`, a short relationship summary.

FINRA Rule `2111.05` splits suitability into three obligations: reasonable-basis, customer-specific, and quantitative.

A $210,000 position in a $300,000 account is `70%` of net worth, failing customer-specific suitability for a low-risk income objective.

The CIP requires four identifiers before opening: `name`, `date of birth`, a physical address, and a `taxpayer ID (SSN or ITIN)`.

A corporate insider is an officer, director, or `10%-plus` shareholder, and a customer employed at another member firm triggers written notice under `Rule 3210`.

A non-US person may satisfy CIP with a `passport number and country of issuance`, an alien ID card, or another government document.

A firm files a `SAR` for suspicious transactions at or above `$5,000` and a `CTR` for cash over `$10,000`.

The 2026 Traditional IRA contribution limit is `$7,000`, plus a `$1,000` catch-up at age `50` and older.

A non-spouse IRA beneficiary generally must empty the inherited IRA within `10 years`, and re-titling an account requires `Rule 4515` principal approval.

Traditional IRA RMDs begin at age `73`, and withdrawals before age `59½` trigger a `10%` penalty plus tax.

An indirect rollover must be redeposited within `60 days`, and only `one` indirect IRA-to-IRA rollover is allowed per `12 months`.

PROVIDES CUSTOMERS WITH INFORMATION ABOUT INVESTMENTS, MAKES RECOMMENDATIONS, TRANSFERS ASSETS AND MAINTAINS APPROPRIATE RECORDS

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The market has a beta of `1.0` , so a beta of `1.5` moves 50% more than the market and a beta of `0.5` moves half as much.

The balance sheet identity is Assets equal `Liabilities` plus `Shareholders' Equity` , also called capital.

Straight-line depreciation on a $50,000 machine with $5,000 salvage over 5 years is `$9,000` per year, computed as ($50,000 − $5,000) ÷ `5` .

CAPM expected return equals the `risk-free rate` plus `beta` times the market risk premium, where the premium is market return minus the risk-free rate.

A fund cannot advertise as no-load if its 12b-1 fee exceeds `0.25%` of assets annually.

Under FINRA Rule 2341 the maximum mutual fund sales charge is `8.5%` of the offering price, allowed only if the fund offers breakpoints, rights of accumulation, and reinvestment at NAV.

Under conduit theory a fund avoids tax at the fund level only if it distributes at least `90%` of net investment income under Subchapter M.

Variable annuity withdrawals come out `LIFO` as `ordinary income` and a `10%` penalty applies on the taxable portion before age `59½` .

Under SEC Rule 17a-4, order tickets and confirmations are kept `3 years` while customer account records and the general ledger are kept `6 years` .

A confirmation must reach the customer at or before `completion of the transaction (settlement)` , while a FINRA Rule 2231 statement goes at least `quarterly` .

A customer's new account record must be retained at least `6 years` after the account closes under SEC Rule 17a-4 and FINRA Rule 4510.

Under FINRA Rule 11870 ACATS, the carrying firm validates within `1 business day` of the request and the transfer completes within `3 business days` of validation.

A gift carries over the `donor's basis` and holding period, while inherited securities get a `stepped-up basis` at date-of-death value and automatic `long-term` treatment.

Under FINRA Rule 2165 a temporary hold runs up to `15 business days` , extendable `10` more for `25` total, on a specified adult age `65` + or 18+ and impaired.

For 2026 the annual gift exclusion is `$19,000` per recipient while the unified lifetime gift-and-estate exclusion is `$15 million` with a top rate of `40%` .

A 12b-1 fee caps at `0.75%` for distribution plus `0.25%` for service, a `1.00%` ceiling, and no-load status requires 12b-1 of `0.25%` or less.

OBTAINS AND VERIFIES CUSTOMERS' PURCHASE AND SALES INSTRUCTIONS; PROCESSES, COMPLETES AND CONFIRMS TRANSACTIONS

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Under `FINRA Rule 5310` best execution requires reasonable diligence plus a regular and rigorous review of execution quality at least `quarterly` .

A fund with a next NAV of `$20.40` and a `5%` front-end load has a public offering price of `$21.47` per share under forward pricing.

Customers sell at the `bid` and buy at the `ask` (offer), always landing on the worse side of the spread.

`SEC Exchange Act Rule 15g-4` requires written disclosure of broker-dealer compensation on transactions in `penny stocks` .

FINRA arbitration is `binding` and final with very limited appeal, while mediation is `voluntary` and `non-binding` .

Customer arbitration uses the `12000` Series, industry-to-industry disputes use the `13000` Series, and mediation uses the `14000` Series.

FINRA Rule `4513` requires firms to keep records of written customer complaints for at least `4 years` at the office of supervisory jurisdiction.

FINRA Rule `4530` requires firms to report specified events and certain complaints to FINRA generally within `30 calendar days` of knowing or should have known.

FINRA Rule `5330` reduces open `buy limit and sell stop` orders by the dividend on the ex-date unless marked `DNR (Do Not Reduce)` .

`MSRB Rule G-12` is the uniform practice code for municipal securities while the FINRA `11000 Series` governs corporate trades.

SEC Rule 15c6-1 sets regular-way settlement at `T+1` , one business day after the trade date, replacing the old `T+2` cycle.

Under Regulation T the customer must pay promptly and no later than `two business days` after settlement date (`S+2`).