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LICENSING EXAMINATION STUDY OUTLINE

For January to June 2019 Examinations
(Issued in November 2018)

Module 16 Rules and Regulations of Derivatives *(Formerly known as the Rules and Regulations of Futures and Options)*

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(This document consists of 15 pages including the cover page)

STUDY OUTLINE

MODULE 16: RULES AND REGULATIONS OF DERIVATIVES

This examination is designed to test candidate's knowledge and understanding of the rules and regulations governing the Malaysian derivatives market and the overall structure of the derivatives market. It is one of the examinations to be passed by individuals who:

(1) intend to apply for a Capital Markets Services Representative's License (CMSRL) to carry on the regulated activity of dealing in derivatives or dealing in derivatives restricted to Contract for Difference (CFD);

or

(2) is a licensed director or who intend to hold the position of Compliance Officer in a firm which is a holder of a Capital Markets Services License (CMSL), for carrying on the business of dealing in derivatives or dealing in derivatives restricted to CFD.

Candidates are advised to refer to the Licensing Handbook for the detailed combination of examinations required for each regulated activity.

Candidates are expected to possess good knowledge and understanding of the subject matter provided in this study outline and specified references. In addition, candidates are expected to be able to analyse and apply the information at a basic level. It is estimated that this module will require a minimum of 80 hours of study time. Candidates may need less or more depending on the education background and work experience.

Candidates are expected to update themselves with the latest changes relevant to this examination as all questions will be continuously updated to reflect these changes. Candidates are permitted to refer to their own prescribed reference materials during the examination. Note that no prescribed reference materials will be provided by the Securities Industry Development Corporation (SIDC). The prescribed reference materials brought into the examinations by candidates are subject to the terms and conditions of SIDC, details of which are set out in the terms and conditions of the SC licensing examinations.

The prescribed reference materials for this module are as follows:

- **Capital Markets and Services Act 2007**
- **Securities Commission Malaysia Act 1993**
- **Rules of Bursa Malaysia Derivatives Berhad**
- **Bursa Malaysia Derivatives Berhad Trading Manual**
- **Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries**
- **Guidelines on Contracts for Difference**
- **Licensing Handbook**

Candidates are required to comply with the terms and conditions of the SC licensing examination. Severe penalties will be taken against candidates for any misconduct during the examination.

At the end of this study outline are 5 sample questions of various formats used in the Module 16 examination. The samples provided do not in any way reflect the level of difficulty or the subject-matter distribution of the actual examination. They are merely intended to familiarise candidates with the styles of multiple-choice questions used in the examination.

EXAMINATION STRUCTURE

Details of this examination are as follows:

Type of Questions	Multiple Choice
Number of Questions	60 questions
Passing Mark	70%
Time Allocated	90 minutes
References /Text	<ul style="list-style-type: none"> <input type="checkbox"/> Examination Study Guide for Module 1: Regulations (Malaysian Futures and Options) (<i>Fifth Print, 2011 Revised</i>) <input type="checkbox"/> Updates for Topic 1 & 2 in relation to Contracts For Difference (May 2018) <input type="checkbox"/> Additional Reading Material - Topic 3 in relation to Contracts For Difference (May 2018) <input type="checkbox"/> Capital Markets and Services Act 2007 <input type="checkbox"/> Securities Commission Malaysia Act 1993 <input type="checkbox"/> Rules of Bursa Malaysia Derivatives Berhad <input type="checkbox"/> Bursa Malaysia Derivatives Berhad Trading Manual <input type="checkbox"/> Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries <input type="checkbox"/> Guidelines on Contracts for Difference <input type="checkbox"/> Licensing Handbook

REFERENCES

The relevant references (acts, guidelines, study guides etc) for this examination can be obtained from the Securities Commission Malaysia's website at www.sc.com.my. The relevant acts and study guides for this examination may also be purchased from:

SIDC Shop, Ground Floor

3, Persiaran Bukit Kiara

Bukit Kiara

50490 Kuala Lumpur

Tel: (603) 6204 8665 / 8667

The Rules of Bursa Malaysia Derivatives Berhad and Bursa Malaysia Derivatives Berhad Trading Manual can be obtained from Bursa Malaysia website at www.bursamalaysia.com.

For more information, please visit the SIDC website at www.sidc.com.my.

LEARNING OBJECTIVES

Candidates are expected to have good knowledge, understanding and ability to apply in the following areas:

- Nature of derivatives and terms used in the derivatives market
- The derivatives industry and its significant to the development of Malaysia's capital market
- The regulatory structure of the derivatives industry in Malaysia
- Derivatives industry participants
- The main laws and regulations governing the operation of the derivatives industry in Malaysia
- The activities and current trends connected to money laundering and terrorism financing and the Malaysian regulatory approach towards them
- Intermediaries in the futures, options and OTC-CFD market and users of these markets
- Role of the derivatives exchange, clearing house in clearing and processing futures and options trades and managing risk
- The licensing requirement of person(s) who carries (carry) on the business of dealing in derivatives
- Offences under the Rules of Bursa Malaysia Derivatives Berhad and Capital Markets and Services Act 2007
- General conduct and responsibilities of Participants when dealing with clients
- The operation of the derivatives market in Malaysia

- Contract specifications of stock options, stock index futures, option on stock index futures, single stock futures, three-month KLIBOR futures, all the crude palm oil futures, crude palm kernel oil futures, option on crude palm oil futures, all the MGS futures contracts, gold futures contract, USD denominated refined, bleached and deodorized palm olein futures contract and tin futures contract.

EXAMINATION SYLLABUS

The syllabus for this examination is divided into 3 sections and the maximum composition of questions from each section is as follows:

Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1	70%	42
Section 2	40%	24
Section 3	20%	12

Details of the syllabus are as below:

SECTION 1

REGULATIONS (MALAYSIAN DERIVATIVES)

Topic 1: Overview of Derivatives Market

1. What are Derivatives?
2. The Derivatives Exchange
3. The Clearing House
4. Intermediaries in the Derivatives Market
5. Users of Derivatives - the Clients
6. Regulation of the Derivatives Market

Topic 2: Regulation of Derivatives

1. Overview of Derivatives Industry Regulation
2. Establishment of Derivatives Markets
3. Derivatives Industry Participants
4. Trading Offences under the CMSA
5. Capital Market Compensation Fund
6. The Licensing Handbook
 - Chapter 1: Introduction
 - Chapter 2: Licences under the CMSA
 - Chapter 4: Licensing Criteria
 - Chapter 7: Conditions and Restrictions of Licence
7. Guidelines On Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries

Part I : Introduction and Applicability

- 1 Introduction
- 2 Applicability
- 3 Definitions
- 4 General Description of Money Laundering
- 5 General Description of Terrorism Financing
- 6 General Principles and Policies to Combat Money Laundering and Terrorist Financing

Part II: Risk-Based Approach Application
7. Risk- Based Approach Application

Part III: Customer Due Diligence (CDD)
8. Customer Due Diligence
9. Group Wide ML/TF Programmes

Part IV : Retention of Records
10. Record Keeping

Part V : Suspicious Transactions
11. Reporting on Suspicious Transactions
12. Confidentiality of Reporting

Part VI : Compliance and Training Programmes
13. Internal Programmes, Policies, Procedures and Controls

Part VII : Combating Terrorism Financing
14. Identification and Designation

Appendices

Topic 3: Regulation of Over The Counter (OTC) Derivatives: Contract for Differences (CFD) in Malaysia

1. Overview of the CFD Regulatory Framework
2. CFDs in Malaysia
3. Industry Participants for CFD

SECTION 2

RULES OF BURSA MALAYSIA DERIVATIVES BERHAD

1. Rule 200: Definitions and Interpretation

1. Rule 201 - Definitions

2. Rule 300: Participantship

1. Rule 301 - General
2. Rule 302 - Trading Participant - Purpose
3. Rule 303 - Trading Participant - Eligibility
4. Rule 304 - Trading Participant - Rights
5. Rule 305 - Trading Participant - Registration of Participantship
6. Rule 308 - Trading Participant - Transfer of Participantship
7. Rule 309 - Trading Participant - Surrender of Participantship/Resignation
8. Rule 310 - Trading Participant - Voluntary Suspension of Participantship
9. Rule 311 - Trading Participant - Voluntary Liquidation
10. Rule 311A - Trading Participant - Suspension of Participantship
11. Rule 311B - Trading Participant - Termination of Participantship
12. Rule 312 - Local Participant - Eligibility
13. Rule 313 - Local Participant - Rights
14. Rule 314 - Local Participant - Admission as Participant
15. Rule 316 - Local Participant - Transfer of Participantship
16. Rule 317 - Local Participant - Surrender of Participantship/Resignation
17. Rule 318A - Local Participant - Suspension or Termination of Participantship
18. Rule 318B - Local Participantship - Voluntary Suspension
19. Rule 321 - Market Makers
20. Rule 322 - Registered Representatives

3. Rule 500: Disciplinary Actions

1. Rule 501 - General
2. Rule 502 - Disciplinary Powers
3. Rule 503 - Procedures
4. Rule 504 - Agreed Settlement
5. Rule 505 - Request For Oral Representations
6. Rule 506 - Standard Of Proof
7. Rule 507 - Other Rights
8. Rule 508 - Violation by Participants or Registered Persons
9. Rule 509 - Disciplinary Proceeding - Requisite Notice
10. Rule 510 - Response to Requisite Notice
11. Rule 511 - Notification of Decision
12. Rule 512 - Expedited Proceedings - Scope
13. Rule 513 - Procedure
14. Rule 514 - No Limitation
15. Rule 515 - Right of Appeal
16. Rule 516 - Notice of Appeal
17. Rule 517 - Deliberation of Appeal
18. Rule 518 - Notification of Decision on Appeal
19. Rule 519 - Effect of Disciplinary Action - General
20. Rule 520 - Period of Payment and Effect of Non-Payment of Fine
21. Rule 521 - Effect Of Suspension
22. Rule 522 - Transitional provisions

4. Rule 600: Participants' Conduct

1. Rule 601 - Trading Participant - Conduct
2. Rule 601C - Branch Office and Trading Kiosk
3. Rule 602 - Minimum Financial Resources Requirements
4. Rule 603 - Dealings With Clients
5. Rule 604 - Failure To Comply
6. Rule 605 - Local Participant - Conduct
7. Rule 606 - Client Agreement
8. Rule 607 - Segregation of Proprietary Account and Client Account

9. Rule 608 - Clients' Segregated Account
 10. Rule 609 - Discretionary Account
 11. Rule 610 - Supervision Within Trading Participant
 12. Rule 612 - Commission and Fees
 13. Rule 613 - Position and Exercise Limits
 14. Rule 614 - Clients' Margins and Margin Payment
 15. Rule 614A - Premium
 16. Rule 615 - Complaints by Clients
 17. Rule 616 - Indemnity by Exchange
 18. Rule 617 - Direct Market Access
 19. Rule 619 - Trading or Accepting Margins during Insolvency or after Revocation of Licence
 20. Rule 618A - Statement, Information and Reports to the Exchange
 - 21.
 22. Rule 620 - Arbitration
- 5. Rule 700: Trading Rules**
1. Rule 701 - Trading on the Market
 2. Rule 702 - Trading Days, Trading Sessions and Trading Hours
 3. Rule 702B - Market States
 4. Rule 703 - Orders
 5. Rule 704 - Order Matching
 6. Rule 705 - Inviolability of Contracts
 7. Rule 706 - Trade Confirmation
 8. Rule 707 - Trading Safeguards
 9. Rule 708 - Performance Rendered Impossible
 10. Rule 709 - Duty to Report Unusual Activities
 11. Rule 710 - Non-Liability of the Exchange
 12. Rule 711 - Trading on other Exchanges
- 6. Rule 700B: Exchange for Related Positions**
- 7. Rule 700C: Negotiated Large Trades**

8. Rule 700D: Off-Market Transactions

9. Rule 2000: Contracts

Rules Relating to All Classes of Contracts

1. Rule 2001 - Contract Specifications
2. Rule 2002 - Final Trading Day and Expiration Date
3. Rule 2003 - Contract Settlement
4. Rule 2004 - Final Settlement Value and Final Closing Price
5. Rule 2005 - Contracts No Longer Offered for Trading

Rules Applicable to Physically Delivered Contracts

6. Rule 2006 - Application
7. Rule 2007 - Obligations of The Buyer and Seller
8. Rule 2008 - Undertaking By Port Tank Installations

Rules Applicable to Specific Contracts

9. Rule 2009 - Single Stock Futures Contract
10. Rule 2010 - Stock Option Contract

Rule Applicable to Options

11. Rule 2012 - Premiums and Margins
12. Rule 2013 - Exercise Price
13. Rule 2014 - Option Exercise

Schedules

GUIDELINES

DIRECTIVES

SECTION 3

GUIDELINES ON CONTRACT FOR DIFFERENCE

PART A: GENERAL

Chapter 1: Introduction

Chapter 2: Definitions

PART B: PRODUCT REQUIREMENTS

Chapter 3: Product Parameters

PART C: PROVIDER REQUIREMENTS

Chapter 4: Requirement on Provider

Chapter 5: Marketing and Education Requirements

PART D: DISCLOSURE REQUIREMENTS

Chapter 6: Disclosure Document and Product Highlights Sheet

PART E: SUBMISSION

Chapter 7: Submission For Registration of A Disclosure Document and Lodgement of Product Highlights Sheet

Chapter 8: Submission of Periodic Reports

PART F: SCHEDULES

Schedule 1

Minimum Content of a Disclosure Document

Schedule 2

Minimum Content of a Product Highlights Sheet

PART G: APPENDIX

Appendix 1: Guide On Product Highlights Sheet

Appendix 2: Client's Acknowledgement

Appendix 3: Declaration By The Contracts For Difference Provider

Appendix 4: Reporting Template

SAMPLE QUESTIONS AND ANSWERS

Sample Question 1

Snooty Futures Sdn Bhd has fulfilled all the requirements to apply for a Trading Participantship. Its current paid-up capital is RM3.5 million. What is the minimum additional paid-up capital that the company must raise in order to comply with the eligibility requirements of Rules of Bursa Malaysia Derivatives Berhad?

- (A) RM500,000
- (B) RM1.5 million
- (C) RM2.5 million
- (D) RM3.5 million

Sample Question 2

'X' is a type of derivatives contract with the following features:

<ul style="list-style-type: none"> • Gives the holder the right to buy or sell a specified asset at a specified price on or before a specific date
<ul style="list-style-type: none"> • Places a contingent liability on the seller where buyer exercises his rights

- (A) futures
- (B) forwards
- (C) options
- (D) swaps

Sample Question 3

Pursuant to the Rules of Bursa Malaysia Derivatives Berhad, which of the following is the MINIMUM information that shall be recorded in the complaints log/register for complaints received from clients?

- (i) Identity of complainant
 - (ii) Date complaint was received
 - (iii) Identity of the registered representative servicing the account
 - (iv) General description of the matter complained of
- (A) (i) and (ii) only
 - (B) (i), (iii) and (iv) only
 - (C) (ii), (iii) and (iv) only
 - (D) All of the above

Sample Question 4

Pursuant to the Rules of Bursa Malaysia Derivatives Berhad, which of the following information shall be included on the contract notes, which are sent to the clients in respect of daily trades?

- (i) Name of the Trading Participant
 - (ii) Name of the counter-party Trading Participant
 - (iii) Name of the exchange on which the contracts were effected
 - (iv) Cash and equities held for the credit of the client
- (A) (i) and (iii) only
 - (B) (i), (ii) and (iv) only
 - (C) (ii), (iii) and (iv) only
 - (D) All of the above

Sample Question 5

Client A wishes to deliver crude palm oil into a Port Tank Installations (PTI) and the Appraisal by PTI shows that the free fatty acid (as Palmitic-molecular weight 256) is at 5%. Which of the following would MOST LIKELY be the implication of such Appraisal?

- (A) Delivery accepted as the free fatty acid contents conforms to the Rules of Bursa Malaysia Derivatives Berhad
- (B) Delivery rejected as the free fatty acid contents is below 6%
- (C) Delivery accepted as the free fatty acid shall be 5% or below
- (D) Delivery rejected as the free fatty acid shall not exceed 4%

Answer

Sample Question 1 - B

Sample Question 2 - C

Sample Question 3 - D

Sample Question 4 - A

Sample Question 5 - D