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LICENSING EXAMINATION STUDY OUTLINE

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

Module 18 Securities and Derivatives Trading [Products and Analysis]

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

STUDY OUTLINE
MODULE 18: SECURITIES AND DERIVATIVES TRADING
[PRODUCTS AND ANALYSIS]

This examination is designed to test a candidate's knowledge and understanding of the Malaysian capital market. This is one of the dual-activity examination modules intended to facilitate individuals who wish to apply for a Capital Markets Services Representative's Licence (CMSRL) to undertake both of the following regulated activities:

- Dealing in securities
- Dealing in derivatives

It is also an alternate examination module to Module 7 - Financial Statement Analysis & Asset Valuation (one of the examination modules to be passed by (i) individuals who intend to apply for a CMSRL for the regulated activity of dealing in securities; (ii) who intend to hold the position of Head of Operations, Head of Compliance or Compliance Officer in a firm which is a holder of a Capital Markets Services Licence (CMSL) for carrying on the business of dealing in securities; or (iii) who intend to be employees of registered persons who carry out the capital markets activities as stipulated in Item 1, Part 1 of Schedule 4 of the Capital Markets and Services Act 2007) and to Module 14 - Derivatives (one of the examination modules for the regulated activity of dealing in derivatives). Candidates are advised to refer to the Licensing Handbook for 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 reference. In addition, candidates will be tested on the ability to analyse and apply the information at a basic level. It is estimated that this module will require a minimum of 160 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. Module 18 examination is a closed-book test and candidates are not allowed to use any reference material during the examination.

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 10 sample questions used in the Module 18 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:

Types of Questions	Multiple-Choice
Number of Questions	100 questions
Passing Mark	70%
Time Allocated	150 minutes
Reference/Text	<ul style="list-style-type: none"> <input type="checkbox"/> Examination Study Guide for Module 7: Financial Statement Analysis and Asset Valuation (<i>Seventh Print (Reprint), 2017</i>) <input type="checkbox"/> Additional Reading Material on Structured Products <input type="checkbox"/> Additional Reading Material on Technical Analysis <input type="checkbox"/> Examination Study Guide for Module 14: Futures (<i>First Print, 2013</i>) <input type="checkbox"/> Updates on Examination Study Guide Module 14: Futures and Options (<i>July 2014</i>) <input type="checkbox"/> Additional Reading Material on Gold Futures Contract <input type="checkbox"/> Additional Reading Material on USD RBD Palm Olein Futures Contract <input type="checkbox"/> Additional Reading Material on Over-the-Counter Derivatives

REFERENCE MATERIAL

The reference material for this examination can be obtained from:

SIDC Shop, Ground Floor

3, Persiaran Bukit Kiara

Bukit Kiara

50490 Kuala Lumpur

Tel: (603) 6204 8665 / 8667

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:

Part A : Financial Statement Analysis and Asset Valuation

- Users and uses of financial statements in financial and investment analysis
- Important accounting policies or choices and treatment of accounting information for financial reporting purposes including explaining the reasons for usage and demonstrating the ability to deal with adjustments necessary for purposes of comparability
- Company financial and company information or other crucial factors such as industry position and economic outlook, necessary for relevant and reliable assessment of the company's performance
- Limitations of the use of financial statements and related important accounting issues when interpreting financial statements for informed investment decision making
- Elements and characteristics of fixed income and equity securities which is linked to the purposes of financial and investment planning
- Concepts of time value of money in pricing and the valuation of fixed income and equity securities
- Methods and indicators, including their required adjustments, to assess the company financial performance or gain greater insight into company operating results
- Fixed income and equity securities, including derivatives based on various methods of valuation and examining the factors affecting pricing

Part B : Derivatives

- Concepts and structure of the derivatives markets
- Product knowledge on contracts traded on the derivatives exchange and over-the-counter
- Hedging, arbitraging and speculative trading strategies using derivatives contracts
- Derivatives trading strategies including pay-off diagrams
- Valuation of derivatives instruments
- Derivatives pricing models and their uses in derivatives trading
- Technical and fundamental analysis

EXAMINATION SYLLABUS

The syllabus for this examination is divided into 2 parts and the maximum composition of questions from each part/section is as follows:

Part	Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Part A	Section 1	30%	30
	Section 2	20%	20
	Section 3	20%	20
Part B	Section 1	50%	30
	Section 2	50%	30
	Section 3	20%	12

Details of the syllabus are as below:

PART A - SECTION 1

1. Importance of Financial Statement Analysis

1. Importance of Financial Statement Analysis
2. Financial Statement Analysis within a Wider Context
3. Relationship between Share Price and Company Profits
4. Introduction to Financial Statements
5. Pre-requisites for Drawing up Financial Statements
6. Financial Reporting Framework
7. Auditor's Report
8. Other Information in the Annual Report

2. Elements of Financial Statements

1. Introduction to the Balance Sheet/*Statement of Financial Position*
2. Items in the Balance Sheet/*Statement of Financial Position*
3. Introduction to Income Statement/*Statement of Comprehensive Income*

4. Introduction to Statement of Changes in Equity or Comprehensive Income/*Statement of Changes in Equity*
5. Introduction to Cash Flow Statements/*Statement of Cash Flows*
6. A Brief on Consolidated Financial Statements

3. Financial Statement Analysis

1. Using Financial Statement Analysis to Assess Performance
2. Techniques of Analysis
3. A Working Example of Ratio Analysis
4. Limitations of Ratio Analysis
5. Advantages of Ratio Analysis
6. Accounting Issues in Financial Statement Analysis

PART A - SECTION 2

4. Fixed Income and Money Markets

Section A

1. Malaysian Fixed Income Securities
2. Understanding Bonds
3. Credit Rating
4. Term Structure of Interest Rates and Yield Curves
5. Theories of Interest Rate Determination
6. Economic Factors Affecting Interest Rates

Section B

1. Time Value of Money
2. Compounding and Discounting Techniques
3. Pricing Fixed Income Securities
4. Determining the Yield (Internal Rate of Return)
5. Valuing Money Market Securities
6. Pricing a Bond
7. Calculating Bond Yield

5. Structured Products

1. Introduction
2. What is a Structured Product?
3. Issuers of Structured Products in Malaysia
4. Uses and Benefits of Using Structured Products
5. Components of a Structured Product
6. Features and Payout Structures of Structured Products
7. Risks of Investing in Structured Products
8. Conclusion

PART A - SECTION 3

6. Equity Markets

1. Malaysian Equity Markets
2. Shares
3. Changes in Number of Shares Issued
4. Equity Hybrids
5. Classification of Shares for Investment Purposes
6. The Role of Valuation
7. The Valuation of Equities

7. Exchange-traded Funds

1. Introduction
2. The Structure of an Exchange-traded Fund
3. Investing in Exchange-traded Funds
4. Comparative Analysis
5. Case for Malaysia

PART B - SECTION 1

- 1. Development of the Futures Market**
 1. Dawn of the Forward Market
 2. Disadvantages of Forward Contracts

- 2. The Workings of the Futures Market**
 1. Futures Contract Specifications
 2. Types of Futures Contracts
 3. Advantages of Futures Market
 4. Disadvantages of Futures Contract
 5. Convergence of Futures to Spot Prices
 6. Futures Prices and Cost of Carry
 7. Market Participants: Hedgers, Speculators and Arbitrageurs

- 3. Trading the Futures Contract**
 1. Uses of Futures: Hedging, Speculating and Arbitraging
 2. Types of Orders
 3. Margining and Daily Settlement
 4. Open Interest and Volume
 5. Closing Out Positions
 6. Negotiated Large Trade (NLT) and Exchange for Related Positions (EFRP)
 7. Technical Analysis
 8. Fundamental Analysis

4. **Trading Futures in Malaysia**
 1. Overview of Regulation of Futures Trading
 2. Trading Commodity Futures
 3. Trading Equity Futures
 4. Trading Financial Futures

PART B - SECTION 2

5. **The Options Market**
 1. Basic Concepts
 2. Underlying Instruments
 3. Option Contract Specifications
 4. Uses of Options
 5. Advantages and Disadvantages of Using Options
 6. Listed Stock Warrants and Structured Warrants

6. **Options Valuation**
 1. Intrinsic and Time Value
 2. Factors Affecting Options Value
 3. Options Pricing Models
 4. Option Greeks
 5. Put-Call Parity
 6. Payoff Diagrams

7. **Trading Strategies with Options**
 1. Directional Strategies Using Single Options
 2. Spread Trades
 3. Volatility Strategies
 4. Synthetic Strategies

5. Dynamic Hedging Using Option Delta
6. Managing an Options Portfolio

- 8. Trading Options in Malaysia**
 1. Warrants
 2. Trading Equity Options
 3. Trading Commodity Options
 4. Use of Options in Portfolio Management

SECTION 3: Over-the-Counter (OTC) Derivatives

- 9. OTC Derivatives**
 1. Introduction to OTC Derivatives
 2. Types of the Underlying Instruments and Their Characteristics
 3. Uses of OTC Derivatives
 4. Hedge Accounting
 5. Risks Associated with OTC Derivatives

- 10. Forward**
 1. Basic Concepts and Features of Forward Contract
 2. Uses of Forward Contracts
 3. Risks of Forward Contracts
 4. Mechanics and Applications of Forward Contracts

- 11. Swap**
 1. Basic Concept and Features of Swap Contracts
 2. Uses of Swap Contracts
 3. Risks of Swap Contracts

4. Mechanics and Applications of Swap Contracts
 5. Foreign Currency Swaps
 6. Equity Swaps
 7. Commodity Swaps
 8. Credit Derivatives
 9. Credit Default Swap
 10. Total Return Swap
-
- 12. Contracts for Difference (CFD)**
 1. What is a CFD
 2. Features of CFDs
 3. Types of the Underlying Assets and its Characteristics
 4. Uses of CFD
 5. Risks Associated with CFD
 6. Margin Requirements and Implications for Different Underlying Assets
 7. Mechanics and Applications of the CFD
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- 13. Effect of Corporate Actions on the OTC Underlying Assets**
 1. Effect of Corporate Actions on Equity Derivatives
 2. Effect of Corporate Actions Other Derivatives

SAMPLE QUESTIONS AND ANSWERS

PART A

Sample Question 1

All of the following expenses represent cash payments, EXCEPT:

- (A) advertising expense
- (B) interest expense
- (C) depreciation expense
- (D) income tax expense

Sample Question 2

In fundamental analysis, an analyst takes into account the following factors, EXCEPT:

- (A) economy
- (B) industry outlook
- (C) investors' sentiment
- (D) financial structure of the company

Sample Question 3

Which of the following BEST describes capital gains?

- (A) Taxable profit that occurs when a company decides to capitalise some of its accumulated reserves
- (B) When a company decides on an upward revaluation its fixed assets
- (C) Total dividends shareholder receive in the duration of his share holding
- (D) Profit resulting between the purchase and sale of securities

Sample Question 4

You have just sold RM 10 million MGS bonds, maturing in 2 years. The bonds have an 8% coupon semi-annual and the purchase yield was 10%. How much will you receive for these bonds?

- (A) RM8,098,080
- (B) RM9,645,400
- (C) RM9,814,050
- (D) RM10,570,400

Sample Question 5

OTC Corporation issued an AA-rated bond with nominal value of RM150 million in 5 years' time. It bears a 5% semi-annual coupon rate and a yield of 8%. What is the coupon cash flow per period for the bond issue?

- (A) RM3.75 million
- (B) RM6.00 million
- (C) RM7.50 million
- (D) RM12.00 million

PART B

Sample Question 6

Select the CORRECT statement about options sellers. They have:

- (A) limited risk
- (B) unlimited risk
- (C) the right to exercise their options
- (D) unlimited profit potential

Sample Question 7

When investors use a derivative instrument to reduce his exposure to the price volatility of certain underlying assets, he is said to be:

- (A) speculating
- (B) investing
- (C) arbitraging
- (D) hedging

Sample Question 8

A synthetic long put position is constructed by:

- (A) selling the underlying instrument and buying a call option
- (B) buying the underlying instrument and buying a call option
- (C) selling the underlying instrument and selling a put option
- (D) buying the underlying instrument and selling a put option

Sample Question 9

A trader buys 4 crude palm oil futures contracts at RM3,100 and the price rises to RM3,130. The market then falls and the trader liquidates them at RM3,115. What is the profit from the above transaction?

- (A) RM15
- (B) RM30
- (C) RM375
- (D) RM1,500

Sample Question 10

In April, company A plans to invest RM5 million in the interbank money market in three months' time. The company's treasurer, Mr Lee, has a strong feeling that interest rates will be falling.

To protect the company from an interest rate downturn, Mr Lee should:

- (A) buy 5 July KLIBOR futures contracts
- (B) sell 5 July KLIBOR futures contracts
- (C) buy 5 April KLIBOR futures contracts
- (D) sell 5 April KLIBOR futures contracts

Answers

Part A

Sample Question 1 - C

Sample Question 2 - C

Sample Question 3 - D

Sample Question 4 - B

Sample Question 5 - A

PART B

Sample Question 6 - B

Sample Question 7 - D

Sample Question 8 - A

Sample Question 9 - D

Sample Question 10 - A