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# **LICENSING EXAMINATION STUDY OUTLINE**

**(Effective October 2006)**

## **Module 16 Rules and Regulations of Futures and Options**

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(This document consists of 14 pages including the cover page)

## STUDY OUTLINE

### MODULE 16: RULES AND REGULATIONS OF FUTURES AND OPTIONS

This examination is one of the examinations to be passed by individuals seeking to be licensed as Futures Broker's Representative (FBR), registered as Compliance Officers for Futures Brokers, Local Participants, or Trading Permit Holders of Bursa Malaysia Derivatives Berhad in the Malaysian derivatives market. It is designed to test candidate's knowledge and understanding of the rules and regulations governing the Malaysian futures and options market, the overall view of the futures and options market and the Rules of Bursa Malaysia Derivatives Berhad.

This examination falls under Level 1 of the SC licensing examinations where candidates are expected to possess good knowledge and understanding of the subject matter provided in this study outline and specified references. 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 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 will be provided with the following materials during the testing session:

- **Futures Industry Act 1993**
- **Securities Commission Act 1993**
- **Rules of Bursa Malaysia Derivatives Berhad**
- **Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries**

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	80 questions
Passing Mark	70%
Time Allocated	120 minutes
Level of Examination	Level 1
Reference /Text	<ul style="list-style-type: none"> <li><input type="checkbox"/> Examination Study Guide for Module 1: Regulations (Malaysian Futures and Options)</li> <li><input type="checkbox"/> Futures Industry Act 1993</li> <li><input type="checkbox"/> Securities Commission Act 1993</li> <li><input type="checkbox"/> Rules of Bursa Malaysia Derivatives Berhad</li> <li><input type="checkbox"/> Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries</li> </ul>

## REFERENCE MATERIAL

The reference materials for this examination can be obtained from:

**SIDC Corporate Services**

**Securities Industry Development Corporation**

**3, Persiaran Bukit Kiara, Bukit Kiara**

**50490 Kuala Lumpur**

**Tel: (603) 6204 8667**

For more information, please visit the SIDC website at [www.sidc.com.my](http://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
- Structure and operation of the Malaysian futures and options markets and describe the products traded in these markets
- Significance of the futures and options markets to the development of Malaysia's capital market
- Role of the exchange
- Role of clearing house in clearing and processing futures and options trades and managing risk
- Intermediaries in the futures and options market and users of these markets
- Regulations and structural framework of the Malaysian futures and options market and the regulatory and legal obligations of the various market participants
- Terms used in the derivatives market
- Bursa Malaysia Derivatives Berhad's participantship structure and the rights and obligations attaching to each participantship
- Offences under the Rules of Bursa Malaysia Derivatives Berhad and Futures Industry Act 1993
- Enforcement, arbitration and appeal procedures for breaches of the Rules of Bursa Malaysia Derivatives Berhad
- General conduct of Participants
- Principles of Adjusted Net Capital
- Responsibilities of Participants when dealing with clients
- Need and operation of clients' segregated accounts
- Discretionary account
- Supervision within a Trading Participant
- Clients' margin and margin payment
- Role of Participants in dealing with clients' complaints
- Trading in the market and the rules on trading
- Bursa Malaysia Derivatives Berhad's trading days
- Types of orders and order matching mechanisms
- Role of Participants and clients in confirmation of trade
- Ways for Participants to trade on other Exchanges

- Suspension of Trading Participants and suspension of trading
- Emergency rules
- Contract specifications of stock option, stock index futures, stock index option, single stock futures, three-month KLIBOR futures, crude palm oil futures, crude palm kernel oil futures and all the MGS futures contracts.

### EXAMINATION SYLLABUS

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

Section		Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1		40%	32
Section 2	Subsection A	25%	20
	Subsection B	60%	48
	Subsection C	25%	20

Details of the syllabus are as below:

### SECTION 1

#### REGULATIONS (MALAYSIAN FUTURES AND OPTIONS)

##### Topic 1: Overview of the Derivatives Market

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

##### Topic 2: Regulation of Futures and Options

1. Overview of Futures Industry Regulation
2. Establishment of Futures Markets

3. Futures Industry Participants
4. Trading Offences under the FIA
5. Fidelity Fund

**Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries**

- 2.0 Definitions
  - 3.0 General Description of Money Laundering
  - 4.0 General Principles and Policies to Combat Money Laundering
  - 5.0 Customer Identification
  - 6.0 Record Keeping
  - 7.0 Suspicious Transactions
  - 9.0 Confidentiality of Reporting
- Appendix 1

**SECTION 2**

**RULES OF BURSA MALAYSIA DERIVATIVES BERHAD**

**SUBSECTION 2A**

**Rule 200: Definitions and Interpretation**

1. Rule 201 - Definitions

**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 318 - Local Participant - Lease of Participantship
18. Rule 318A - Local Participant - Suspension or Termination of Participantship
19. Rule 318B - Local Participantship - Voluntary Suspension
20. Rule 319 - Trading Permits
21. Rule 321 - Market Makers
22. Rule 322 - Registered Representatives

## **SUBSECTION 2B**

### **Rule 500: Enforcement of Rules, Appeals, Arbitration and Audit**

1. Rule 505
2. Rule 506 - Investigation
3. Rule 507 - Hearing
4. Rule 508 - Action against Participants
5. Rule 509 - Action when Client violates these Rules
6. Rule 510 - Offences
7. Rule 511 - Disciplinary Action
8. Rule 512 - Appeals
9. Rule 513 - Settlement of Disputes
10. Rule 514 - Limitation on Legal Action

### **Rule 600: Participants' Conduct**

1. Rule 601 - Trading Participant - Conduct
2. Rule 602 - Minimum Financial Resources Requirements
3. Rule 603 - Dealings with Clients
4. Rule 604 - Failure to Comply
5. Rule 605 - Local Participant - Conduct
6. Rule 606 - Client Agreement

7. Rule 607 - Segregation of Proprietary Account and Client Account
8. Rule 608 - Clients' Segregated Account
9. Rule 609 - Discretionary Account
10. Rule 610 - Supervision Within Trading Participant
11. Rule 612 - Commission and Fees
12. Rule 613 - Position and Exercise Limits
13. Rule 614 - Clients' Margins and Margin Payment
14. Rule 615 - Complaints by Clients
15. Rule 616 - Indemnity by Exchange

**Rule 700: Trading Rules**

1. Rule 701 - Trading in the Market
2. Rule 702 - Trading Days
3. Rule 703 - Orders
4. Rule 704 - Order Matching
5. Rule 705 - Trade Confirmation
6. Rule 707 - Trading on other Exchanges
7. Rule 708 - Trading Participant Suspension etc.
8. Rule 709 - Performance Rendered Impossible
9. Rule 710 - Duty to Report Unusual Activities
10. Rule 711 - Emergency Rules
11. Rule 712 - Suspension of Trading
12. Rule 713 - Non Liability of the Exchange
13. Rule 714 - Strip Trading
14. Rule 715 - Exchange of Futures for Physical (EFP)

**SUBSECTION 2C**

**Rule 800: Stock Option Contract**

1. Rule 801 - Contract Unit and Minimum Fluctuation
2. Rule 802 - Contract Months
3. Rule 803 - Final Trading Day and Expiration Date
4. Rule 804 - Premiums
5. Rule 805 - Margins

6. Rule 807 - Exercise
7. Rule 808 - Final Closing Price
8. Rule 809 - Approval of Underlying Share to be Used for Stock Option Contract
9. Rule 810 - Adjustments

**Rule 900: Stock Index Futures Contract**

1. Rule 901 - Contract Unit and Contract Value
2. Rule 902 - Contract Months
3. Rule 903 - Final Trading Day and Maturity Date
4. Rule 904 - Margins
5. Rule 906 - Final Settlement Day
6. Rule 907 - Final Settlement Value
7. Rule 908 - Price Limits
8. Rule 909 - Approval of Underlying Stock Index to be Used for Stock Index Futures Contract

**Rule 1000: Stock Index Option Contract**

1. Rule 1001 - Contract Unit and Minimum Fluctuation
2. Rule 1002 - Contract Months
3. Rule 1003 - Final Trading Day and Expiration Date
4. Rule 1004 - Premiums
5. Rule 1005 - Margin
6. Rule 1007 - Exercise
7. Rule 1008 - Settlement
8. Rule 1009 - Approval of Underlying Stock Index to be used for Stock Index Option Contracts

**Rule 1100: Single Stock Futures Contract**

1. Rule 1101 - Contract Unit and Price
2. Rule 1102 - Contract Months
3. Rule 1103 - Final Trading Day and Maturity Date
4. Rule 1104 - Margins
5. Rule 1105 - Final Settlement

6. Rule 1106 - Final Settlement Value
7. Rule 1107 - Price Limits
8. Rule 1108 - Approval of Underlying Stocks to be Used for Single Stock Futures Contract
9. Rule 1109 - Adjustments
10. Rule 1110 - De-List, Suspend or Cease Trading of Single Stock Futures Contracts
11. Rule 1111 - Definitions

**Rule 1200: Three Month KLIBOR Futures Contract**

1. Rule 1201 - Contract Unit and Contract Value
2. Rule 1202 - Contract Months
3. Rule 1203 - Final Trading Day and Maturity Date
4. Rule 1204 - Margins
5. Rule 1205 - Final Settlement Day
6. Rule 1206 - Final Settlement Value
7. Rule 1207 - Settlement Value
8. Rule 1208 - Price Limits
9. Rule 1209 - Limit on Quantity

**Rule 1300: Crude Palm Oil Futures Contract**

1. Rule 1301 - Contract Unit and Contract Value
2. Rule 1302 - Contract Months
3. Rule 1303 - Final Trading Day and Maturity Date
4. Rule 1304 - Tendering Unit and Delivery Points
5. Rule 1305 - Appraisal
6. Rule 1306 - Negotiable Storage Receipt
7. Rule 1307 - Validity of Certification of Quality
8. Rule 1308 - Publication of Delivered Crude Palm Oil
9. Rule 1309 - Cost of Appraisal
10. Rule 1310 - Obligations of The Buyer and Seller
11. Rule 1311 - Co-mingled Storage Allowed
12. Rule 1312 - Appraisal and Dispute On Quality
13. Rule 1313 - Storage and Insurance Charges Prepaid

14. Rule 1314 - Force Majeure
15. Rule 1315 - Undertaking By Port Tank Installations
16. Rule 1316 - Undertaking By Analysts and Surveyors
17. Rule 1317 - Final Settlement Day
18. Rule 1318 - Price Limits
19. Rule 1319 - Contract Grade

**Rule 1400: 5-Year MGS Futures Contract**

1. Rule 1401 - Contract Unit and Contract Value
2. Rule 1402 - Contract Months
3. Rule 1403 - Final Trading Day and Maturity Date
4. Rule 1404 - Final Settlement Value
5. Rule 1405 - Cash Settlement Method
6. Rule 1406 - Eligible MGS
7. Rule 1407 - Price Limits

**Rule 1500: 3-Years MGS Futures Contract**

1. Rule 1501 - Contract Unit and Contract Value
2. Rule 1502 - Contract Months
3. Rule 1503 - Final Trading Day and Maturity Date
4. Rule 1504 - Final Settlement Value
5. Rule 1505 - Cash Settlement Method
6. Rule 1506 - Eligible MGS
7. Rule 1507 - Price Limits

**Rule 1600: 10-Years MGS Futures Contract**

1. Rule 1601 - Contract Unit and Contract Value
2. Rule 1602 - Contract Months
3. Rule 1603 - Final Trading Day and Maturity Date
4. Rule 1604 - Final Settlement Value
5. Rule 1605 - Cash Settlement Method
6. Rule 1606 - Eligible MGS
7. Rule 1607 - Price Limits

**Rule 1700: Crude Palm Kernel Oil Futures Contract**

1. Rule 1701 - Contract Unit and Contract Value
2. Rule 1702 - Contract Months
3. Rule 1703 - Final Trading Day and Maturity Date
4. Rule 1704 - Tendering Unit and Delivery Points
5. Rule 1705 - Appraisal
6. Rule 1706 - Negotiable Storage Receipt
7. Rule 1707 - Validity of Certification of Quality
8. Rule 1708 - Publication of Delivered Crude Palm Oil
9. Rule 1709 - Cost of Appraisal
10. Rule 1710 - Obligations of the Buyer and Seller
11. Rule 1711 - Co-mingled Storage Allowed
12. Rule 1712 - Appraisal and Dispute on Quality
13. Rule 1713 - Storage and Insurance Charges Prepaid
14. Rule 1714 - Force Majeure
15. Rule 1715 - Undertaking by Port Tank Installations
16. Rule 1716 - Undertaking by Analysts and Surveyors
17. Rule 1717 - Final Settlement Day
18. Rule 1718 - Price Limits
19. Rule 1719 - Contract Grade

## SAMPLE QUESTIONS AND ANSWERS

### Sample Question 1

Which of the following licences require the approval of the Minister of Finance?

- (A) Futures Fund Manager
- (B) Futures Trading Adviser
- (C) Futures Trading Adviser's Representative
- (D) Futures Brokers

### Sample Question 2

Mr Joginda Singh, an employee of Glory Futures and Options Sdn Bhd accepts an order from Ms Celia Lee to purchase a stock index options contract. Under the Futures Industry Act 1993, Mr Joginda Singh must be licensed as a:

- (A) Futures Broker
- (B) Futures Broker's Representative
- (C) Futures Trading Adviser
- (D) Futures Trading Adviser's Representative

### Sample Question 3

Which of the following statements is FALSE with regard to the rights and obligations of Local Participants?

- (A) Local Participants trade only for themselves in the market
- (B) Local participation is transferable provided the transferee has met all criteria set out by the Bursa Derivatives
- (C) Local participation may be leased to a qualified individual subject to approval of the Bursa Derivatives
- (D) Local Participants must have a net worth of RM1 million

**Sample Question 4**

If the current month for a KLCI Options Contract is August, the other contract months to be traded are:

- (A) September, October and December
- (B) September, December and March
- (C) October, November and December
- (D) October, December and March

**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**

Question 1 - D

Question 2 - B

Question 3 - D

Question 4 - B

Question 5 - D