Examiner's Report

SC Licensing Examinations
Module 11: Fundamentals of Compliance
December 2012

Examination Structure

The Module 11 examination consists of **40 multiple choice questions** and the passing mark is **70%**. Candidates are given **60 minutes** to complete the examination, where on average 1.5 minutes should be allocated to answer each question.

Each question is followed by 4 options (i.e. A, B, C and D) and candidates need to choose **1 option as the answer**. The marks allocated for each **correct answer is 1**. The examination set consists of **3 sections** and the maximum number of questions in each section is as follows:

Section 1

The maximum number of questions from this section is 20 (50%). This section is introductory in nature with topics on fundamentals of compliance and roles and responsibilities of directors, managers, compliance officer, audit committee and internal audit in a firm.

Section 2

The maximum number of questions from this section is 24 (60%). This section deals with the establishment of compliance programme and monitoring of compliance within a firm. This section also examines the concept of risk management and the cost and benefits of compliance.

Section 3

The maximum number of questions from this section is 8 (20%). This section deals with the structural framework and principles of capital market regulations. This section also examines the Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives, Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries, as well as the compliance function as stipulated in both the Guidelines on Compliance Function for Fund Management Companies and Guidelines on Unit Trust Funds.

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In addition, this section also examines Bursa Malaysia's Guidelines for Compliance Officers and Compliance Guidelines for Futures Brokers, Best Business Practice as stipulated in the Rules of Bursa Malaysia Securities Berhad and Participants' Conduct as stipulated in the Rules of Bursa Malaysia Derivatives Berhad.

Candidates are advised to refer to the Module 11 Study Outline on the SIDC website at www.sidc.com.my for a more detailed description of the topics covered in the relevant sections. Candidates must note that the examination seeks to examine and assess candidates on **all the areas** listed in the syllabus. It is, therefore, imperative that **all topics** are **studied in sufficient detail**. For this module, candidates are permitted to refer to their own Prescribed Reference Materials listed in the Module 11 Study Outline during the examination.

As for the levels of cognitive skills assessed, the Module 11 examination is classified as a Level 2 examination which means that the examination set has been developed to **assess the candidates' knowledge and comprehension skills** with **emphasis** on **candidates' application and analysis skills**. In short, in terms of cognitive levels assessed, this examination set comprises **knowledge, comprehension up to application and analysis** type questions.

Therefore, to pass this examination, it is essential that candidates not only **demonstrate their knowledge but also their comprehension of the subject matter as well as their ability to apply and analyse** in a given context.

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General Performance

This Examiner's Report is based on one examination set for a specific duration. Generally and as can be seen from the table below, candidates performed better in Section 1 (26%) and Section 3 (23%) as compared to Section 2 (13%). However, candidates must improve their preparation efforts in all three sections as the range of the percentage of candidates who answered 70% or more questions correctly is relatively low.

Section	% of candidates who answered 70% or more of questions correctly
1	26%
2	13%
3	23%

In respect of their cognitive skills, we found it interesting that candidates performed better in answering application and analysis questions (23%) as compared to comprehension (19%) and knowledge questions (13%). This may be attributed to the fact that candidates were better able to analyse and apply the information and concept learnt in a given context but lack the ability to grasp or interpret the information/concepts.

Cognitive Skill	% of candidates who answered 70% or more of questions correctly
Knowledge	13%
Comprehension	19%
Application & Analysis	23%

We will now proceed with the detailed report on the performance of the candidates according to the sections of the Module 11 syllabus.

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Detailed Performance of Candidates According to Sections

For this Examiner's Report, strictly for the purpose of analysing the detailed performance of candidates in accordance with the sections, we have divided the candidates into the following three groups based on their Module 11 examination score:

- High Group – candidates who scored 70% and above (i.e. those who passed this module)
- Medium Group – candidates who scored 50% to 69%
- Low Group – candidates who scored below 50%

Section 1:

Knowledge questions

Candidates did not perform well in answering knowledge questions in this section. Candidates in the High and Low Groups need to further improve their knowledge on the principles of compliance while both the Medium and Low Groups need to improve their knowledge on the audit committee.

Additionally, candidates in the Low Group also need to improve their knowledge on levels of compliance.

Comprehension questions

Candidates performed better in answering comprehension questions in this section as compared to knowledge questions. However, those in the Medium and Low Groups need to improve their understanding on the functions of the compliance officer. In addition, those in the Low Group also need to improve their understanding on compliance culture and duties of the board of directors.

Application and Analysis questions

Overall, candidates performed better in application and analysis questions as compared to knowledge and comprehension questions. Candidates in the High and Medium Groups generally did well. Nevertheless, there is still room for improvement where those in the Low Group need to improve their application of knowledge on the concept of compliance and functions of the compliance officer.

Section 2:

Knowledge questions

Overall, candidates performed slightly better in knowledge questions as compared to comprehension questions. However, those in the Medium Group need to improve their knowledge on the different types of risks while candidates in the Low Group need to improve their knowledge on risk management infrastructure and the costs of compliance.

Comprehension questions

Candidates did not perform well in answering comprehension questions in this section. Those in the High and Low Groups need to improve their understanding on the methods of reviewing the compliance programme. Those in the Medium and Low Groups need to further improve their understanding on the costs and benefits of compliance and case studies.

In addition to the above, those in the Low Group also need to improve their understanding on the concept of segregation through firewalls, the different types of risks faced by firms and tools for risk management.

Application and Analysis questions

Candidates' performed better in answering application and analysis questions as compared to knowledge and comprehension questions.

However, there is still room for improvement where candidates in all three groups need to further improve their application of knowledge on segregation through firewalls. Those in the Medium and Low

Groups also need to improve their application of knowledge on effective compliance infrastructure. In addition, those in the Medium Group need to improve their application of knowledge on the types of risks.

Section 3

Knowledge questions

Different from the trends in Sections 2 and 3, candidates' performance in knowledge questions in this section was better compared to comprehension and application and analysis questions. Nevertheless there is still room for improvement where all three groups need to improve their knowledge on the principles of regulations.

Comprehension questions

Candidates performed better in answering comprehension questions as compared to application and analysis questions in this section. Nevertheless, candidates in all three groups need to further improve their understanding on the duties and responsibilities of compliance officers as stipulated in Bursa Malaysia's Guidelines for Compliance Officers. Candidates in the Low Group also need to improve their understanding on disclosure-based regulation.

Application and Analysis questions

Candidates did not perform well in answering application and analysis questions in Section 3. Candidates in the Medium and Low Groups need to improve their application of knowledge on the principles of regulations. In addition, those in the Medium Group also need to improve their application of knowledge and understanding on disclosure based regulation.

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Conclusion

It is imperative that candidates master all sections and topics in the syllabus to pass this examination.

Candidates must also avoid being complacent just because Prescribed Reference Materials are allowed for the examination. They should read and gain a good knowledge and understanding of all the relevant materials that are within the syllabus to be able to answer questions in the examination.

Candidates in the Medium and Low Groups must increase their preparation for the examinations as the analysis has shown their poor performance in the sections and topics in answering knowledge, comprehension and application and analysis questions.

Among the topics and subtopics that they must improve on regardless of cognitive level are topics related to concept and principles of compliance, levels of compliance, roles and responsibilities of compliance officers, board of directors and audit committee, methods to review compliance programme, concept of segregation through firewalls, types of risks and risk management infrastructure including tools for risk management. In addition, topics relating to the disclosure-based regime, costs and benefits of compliance and principles of regulations should also be given emphasis.

On the overall, candidates should approach studying for the Module 11 examination in a systematic fashion and allocate the relevant hours not only to gain knowledge of the syllabus but also to have a deep understanding of the material.