

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
November 2012



Examination Structure

The Module 14 examination consists of **60 multiple choice questions** and the passing mark is **70%**. Candidates are given **90 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 questions from **2 sections** and the maximum number of questions from each section is as follows:

- Section 1 - 36 (60%)
- Section 2 - 36 (60%)

Section 1 focuses on a wide aspect of futures trading. Its coverage includes introduction to futures, trading practicality for commodity, equity, bonds and interest rate futures as well as market analysis in trading futures contract. Hedging, speculating and arbitraging will also be covered in detail together with the working example on each futures contract.

Section 2 focuses on options trading and this includes introduction to options, options strategies and pricing. The coverage will comprise sub-topics on uses of an option, valuing options, pay-off diagrams pricing model and the use of options in portfolio management.

Candidates are advised to refer to the Module 14 Study Outline on the SIDC website at www.sidc.com.my for a more detailed description of the topics covered in the three 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**.

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
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As for the levels of cognitive skills assessed, the Module 14 examination is classified as a Level 1 examination which means that the examination set has been developed to place **greater emphasis on the candidates' knowledge and comprehension skills**. However, it also comprises several questions that assess the 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.

General Performance

This Examiner's Report is based on one examination set for a specific duration. As seen from the table below, candidates performed better in Section 2 (54%) followed by Section 1 (39%). On the whole, candidates should improve their preparation effort for both sections.

Section	% of candidates who answered 60% or more of questions correctly
1	39%
2	54%

Candidates also performed better in answering application and analysis questions (56%) as compared to comprehension questions (46%) and knowledge questions (39%). It may be attributed to the fact that the candidates lack the understanding or could not recall basic concepts.

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
November 2012



Cognitive Skills	% of candidates who answered 60% or more of questions correctly
Knowledge	39%
Comprehension	46%
Application and analysis	56%

We will now proceed to the detailed report on the performance of the candidates according to the two sections of the Module 14 syllabus.

Detailed Performance of Candidates According to their Groups

For this Examiner's Report and strictly for the purpose of analysing the detailed performance of candidates in accordance with the two main sections, we have divided the candidates into the following three groups based on their Module 14 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

Surprisingly, candidates' overall performance for knowledge questions was the poorest compared to comprehension or application and analysis. Candidates in the Medium Group performed better compared to those in the High Group in answering knowledge questions in this section.

In addition, candidates in all three groups need to improve their knowledge on areas such as contract specifications of the futures contracts traded on Bursa Derivatives, trading practicality and fair value and market analysis in a futures trading. Furthermore, candidates in the Low Group need to further

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
November 2012



improve their knowledge in defining basic terminologies such as open interest, basis and other common terms for futures trading.

Comprehension questions

The candidates' overall performance for comprehension questions was better compared to knowledge questions, though not as good as application and analysis. Candidates in the Medium and High Groups displayed a similar level of performance in this section. Nevertheless, there are still areas for improvement and these include enhancing their knowledge and understanding on the types of users of futures contracts, contract specifications, market analysis and the mechanics of hedging, speculating and arbitraging.

Application and Analysis questions

Generally, candidates' performance for application and analysis questions was the best compared to knowledge and comprehension. Candidates in the High Group did quite well in most of the application and analysis questions in this section. However, emphasis should also be given to improve grasp on pay-off of futures trading especially for interest rates and bonds futures.

On the other hand, the majority of candidates in the Low and Medium Groups need to improve on the application of their knowledge on subtopics relating to fair value of futures contract and effect of beta on equity futures.

Section 2:

Knowledge questions

Candidates' performance in Section 2 is similar to that of Section 1 where overall, candidates performed poorer in knowledge questions compared to comprehension and application and analysis questions. Candidates in the High Group did quite well on topics relating to introduction to options. However, they should also focus on options pricing covering areas such as the intrinsic and extrinsic value of an options contract. In addition, candidates in the Low and Medium Groups need to further improve their knowledge to understand the factors effecting options value.

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
November 2012



Comprehension questions

As mentioned earlier, candidates performed slightly better in comprehension questions compared to knowledge questions. Interestingly, their performance is poorer compared to application and analysis questions.

Overall, candidates need to improve their understanding on options pricing, pricing model as well as delta. In addition to that, candidates in the Low to Medium Groups need to enhance their understanding on the mechanics and constructions of synthetic options strategies, and further improve their abilities to comprehend pay-off for options positions as well as factors effecting options value.

Application and Analysis questions

In this section, candidates in the High Group performed better in application and analysis questions compared to comprehension and knowledge questions. However, candidates in all groups need to improve on their knowledge on options strategies such as pay-off computation and the impact of delta in options trading and constructing appropriate options strategies for any given scenarios.

Conclusion

It is imperative that all topics in the syllabus must be covered and mastered in order to pass this examination.

Candidates in the Low and Medium Groups need to increase their preparations for the examinations as the analysis showed their poor performance, especially in Section 1 across all three cognitive skills. Among the sub-topics that all candidates must improve on regardless of cognitive levels are topics related to contract specifications for all products on Bursa Derivatives, futures trading practicalities, and pay-off arising from futures trading and market analysis.

Examiner's Report

SC Licensing Examinations
Module 14: Futures and Options
November 2012



For Section 2, candidates in these groups need to improve their understanding on topics pertaining to options pricing and options strategies. In addition, candidates the in Low Group need to have a better understanding on the basic terminologies used in futures trading. Depending on the candidates' background, they should allocate sufficient time to prepare for this examination.