Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
November 2012

Examination Structure

The Module 16 examination consists of **80 multiple choice questions** and the passing mark is **70%**. Candidates are given **120 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** as follows:

Section 1

The maximum number of questions from Section 1 is 32 (40%). This section is introductory in nature with topics on overview, development and structure of the Malaysian derivatives market, importance of futures and options to Malaysia's capital market development, types of derivatives, the various users and participants of the derivatives market, the regulatory framework of the Malaysian derivatives market and offences under the Capital Markets & Services Act 2007. This section also examines the licensing framework for intermediaries who intend to carry out the prescribed regulated activities and the guidelines governing money laundering and terrorism financing for capital market intermediaries.

Section 2

Section 2 is further divided to 3 subsections (i.e. Subsections 2A, 2B and 2C). These subsections deal with different parts of the Rules of Bursa Malaysia Derivatives Berhad ("Rules"). Detailed explanation on the subsections is as follows:

Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
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Subsection 2A

The maximum number of questions from Subsection 2A is 16 (20%). This section deals with the definitions and interpretations of terms used in the Rules. This section also examines the rules governing the purpose, eligibility, rights, registration, transfer, surrender, suspension, voluntary suspension, voluntary liquidation and termination of participantship of the trading participants, the eligibility, rights, admission as participant, surrender, resignation, suspension, termination or voluntary termination of participantship of local participants and rules governing market makers and registered representatives.

Subsection 2B

The maximum number of questions from Subsection 2B is 56 (70%). This section examines the enforcement, appeal procedures for breaches of the Rules, arbitration, audit, conduct of participants and rules on trading.

Subsection 2C

The maximum number of questions from Subsection 2C is 16 (20%). This section examines the contract specifications of the various products traded on Bursa Malaysia Derivatives Berhad such as stock options, stock index futures, option on stock index futures, single stock futures, three-month KLIBOR futures, crude palm oil futures, MGS futures and crude palm kernel oil futures.

Candidates are advised to refer to the Module 16 Study Outline on the SIDC website at www.sidc.com.my for a more detailed description of the topics covered in the relevant sections/ subsections. 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 16 Study Outline during the examination.

Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
November 2012

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As for the levels of cognitive skills assessed, the Module 16 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. Generally and as can be seen from the table below, candidates performed better in Section 1 and Subsection 2A (55%), followed by Subsection 2C (50%) and Subsection 2B (38%). While candidates generally showed better performance in Section 1 and Subsection 2A, they must increase their examination preparation efforts to improve their performance in the remaining sections, especially Subsection 2B.

Section/Subsection	% of candidates who answered 70% or more of questions correctly
1	55%
2A	55%
2B	38%
2C	50%

In respect of their cognitive skills, candidates' performance in answering knowledge and comprehension questions is the same at 58% while for application and analysis questions, only 33% of them answered 70% or more of the questions correctly. This indicates that candidates were able to recall memorised information and understand the concepts learned but lack the ability to analyse and apply the information and concept learnt in a given context.

Section	% of candidates who answered 70% or more of questions correctly
Knowledge	58%
Comprehension	58%
Application & Analysis	33%

We will now proceed with the detailed report on the performance of the candidates according to the sections and subsections of the Module 16 syllabus.

Detailed Performance of Candidates According to Sections and Subsections

For this Examiner's Report, strictly for the purpose of analysing the detailed performance of candidates in accordance with the sections and subsections, we have divided the candidates into the following three groups based on their Module 16 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%

Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
November 2012

Section 1:

Knowledge questions

The candidates' overall performance in knowledge questions was better than application and analysis questions and slightly poorer compared to comprehension questions.

In this section, candidates need to improve on subtopics pertaining to derivatives and the clearing house. Candidates in the Medium Group also need to improve their knowledge on subtopics pertaining to users of derivatives.

Comprehension questions

The candidates' overall performance in comprehension questions was better compared to their performance in knowledge and application and analysis questions. Candidates in the High Group did well but those in the Medium and Low Groups need to improve their understanding on the regulatory framework of derivatives market. In addition, candidates in the Low Group also need to improve their understanding on the subtopics pertaining to the clearing house and responsibilities of Capital Markets Services Licence holders.

Application and Analysis questions

Overall, candidates did not perform well in application and analysis questions. Candidates in both the High and Medium Groups need to improve their application of knowledge on licensing requirements.

Candidates in the Low Group need to improve their application of knowledge on the different types of offences under the Capital Markets & Services Act 2007.

Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
November 2012

Subsection 2A:

Knowledge questions

Candidates' overall performance in knowledge questions was better compared to comprehension questions but surprisingly lower than application and analysis questions. Candidates in the High and Medium Groups generally did well. However, those in the Low Group need to improve their knowledge on the Rules governing registered representatives, termination and resignation of participantship.

Comprehension questions

In contrast to the trend in Section 1, candidates performed poorly in comprehension questions as compared to knowledge and application and analysis questions. Candidates in all three Groups need to improve their understanding on the definitions and interpretations of the Rules.

In addition, candidates in the Low Group need to improve their understanding on the Rules relating to participantship of Bursa Malaysia Derivative Berhad.

Application and Analysis questions

Overall, candidates performed better in application and analysis questions as compared to knowledge and comprehension questions in Subsection 2A. Nevertheless, candidates in the Low Group need to improve their application of knowledge on the Rules relating to participantship of Bursa Malaysia Derivatives Berhad.

Examiner's Report

SC Licensing Examinations
Module 16: Rules and Regulations of Futures and Options
November 2012

Subsection 2B

Knowledge questions

Candidates did not do well in answering knowledge questions in this subsection. Candidates in all three groups need to further improve their knowledge on trading rules.

Candidates in the Medium and Low Groups also need to improve their knowledge on the arbitration process and participants' conduct in the Rules.

Comprehension questions

Candidates performed better in answering comprehension questions as compared to knowledge questions. Overall, candidates need to further improve their understanding on trading rules, enforcement of rules and the appeal procedures mentioned in the Rules.

Additionally, candidates in the Low Group need to further improve their understanding on the Rules governing participants' conduct.

Application and Analysis questions

Surprisingly, candidates performed well in answering application and analysis questions in Subsection 2B. However, there is still room for improvement for candidates in the Medium and Low Groups on the application of knowledge and understanding of the Rules relating to participants' conduct.

Candidates in the Low Group also need to improve their application of knowledge and understanding on arbitration stipulated in the Rules.

Subsection 2C

Knowledge questions

Overall, candidates did well in answering knowledge questions in Subsection 2C.

Comprehension questions

Candidates performed better in answering comprehension questions as compared to application and analysis questions. Nevertheless, candidates in all three groups still need to improve their understanding on the Rules governing the different products traded on Bursa Malaysia Derivatives Berhad.

Application and Analysis questions

Candidates in all three groups did not perform well in answering application and analysis questions. This goes to show that candidates were not able to apply their knowledge and understanding of the Rules governing the different products traded on Bursa Malaysia Derivatives Berhad to the questions in Subsection 2C. Candidates therefore need to improve their application of knowledge and understanding of the relevant Rules to a given context.

Conclusion

It is imperative that candidates master all sections, subsections 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 subsections in answering knowledge, comprehension and application and analysis questions. Among the subtopics that they must improve on regardless of cognitive level are topics related to definitions and interpretations of terms used in the Rules, rules governing the purpose, eligibility, rights, registration, transfer, surrender, suspension, voluntary suspension, voluntary liquidation and termination of participantship of the trading participants, the eligibility, rights, admission as participant, surrender, resignation, suspension, termination or voluntary termination of participantship of local participants as well as rules governing market makers and registered representatives.

They should approach studying for the Module 16 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.