

Examiner's Report

SC Licensing Examinations
Module 9: Funds Management Regulation
December 2012



Examination Structure

The Module 9 examination consists of **30 multiple choice questions** and the passing mark is **60%**. Candidates are given **60 minutes** to complete the examination, where on average 2 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 **5 sections** and the maximum number of questions in each section is as follows:

Section 1

The maximum number of questions from Section 1 is 6 (20%). This section is introductory in nature with topics on fund management industry in Malaysia and the laws and organisations regulating the fund management industry.

Section 2

The maximum number of questions from Section 2 is 12 (40%). This section deals with the law of contract and negligent misstatement, examines the relationship between a fund management company and its clients as well as the conduct of a fund management company's business.

Section 3

The maximum number of questions from Section 3 is 9 (30%). This section examines the licensing framework for intermediaries who intend to carry out the prescribed regulated activities and offences under the Capital Markets & Services Act 2007.

Section 4

The maximum number of questions from Section 4 is 6 (20%). This section examines the concept of compliance in a fund management company and topical issues in funds management regulations, specifically on corporate governance and performance presentation standards.

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Section 5

The maximum number of questions from Section 5 is 9 (30%). This section addresses various sections in the relevant guidelines for the fund management industry, namely Guidelines on Compliance Function for Fund Management Companies, Guidelines for Public Offerings of Securities of Closed-end Funds, Guidelines for the Establishment of Foreign Fund Management Companies, Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries, Guidelines on Wholesale Funds, Guidelines on Unit Trust Funds, Guidelines on Exchange-Traded Funds, Guidelines on Islamic Fund Management and Guidelines on Outsourcing for Capital Market Intermediaries.

Candidates are advised to refer to the Module 9 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 9 Study Outline during the examination.

As for the levels of cognitive skills assessed, the Module 9 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 although not all three cognitive skills will be tested in each section.

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 (68%) followed by Section 3 (58%), while they performed poorest in Section 4 (34%). While candidates generally showed better performance in Sections 1 and 3, they must increase their examination preparation efforts to improve their performance in the remaining sections, especially Sections 4 and 5.

Section	% of candidates who answered 60% or more of questions correctly
1	68
2	48
3	58
4	34
5	40

In respect of their cognitive skills, expectedly, candidates performed better in answering knowledge questions (76%) as compared to comprehension questions (36%) or application and analysis questions (47%). Also, we found it interesting that candidates performed better in answering application and analysis questions as compared to comprehension questions. This may be attributed to the fact that candidates were able to apply their knowledge to solve direct problems but may lack understanding of a concept.

Cognitive Skill	% of candidates who answered 60% or more of questions correctly
Knowledge	76
Comprehension	36
Application & Analysis	47

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We will now proceed with the detailed report on the performance of the candidates according to the sections of the Module 9 syllabus.

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 9 examination scores:

- High Group - candidates who scored 60% and above (i.e. those who passed this module)
- Medium Group - candidates who scored 40% to 59%
- Low Group - candidates who scored below 40%

Section 1:

Knowledge, comprehension and application and analysis questions

Generally, candidates in all three Groups did well in answering the knowledge type questions in this section and they also performed better in answering comprehension questions as compared to application and analysis questions. For application and analysis questions, candidates from all three Groups need to improve their application of knowledge on the relevant laws and regulations affecting the fund management industry.

Section 2

Knowledge questions

Candidates did well in answering the knowledge questions in Section 2. Nevertheless, there is still room for improvement for those in the Low Group where they need to improve their knowledge on the responsibilities of fund management companies to avoid conflict of interest when dealing through a related party stockbroker.

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Comprehension questions

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 elements of law of contract pertaining to invitation to treat, offer and acceptance, negligent misstatement and conduct of a Capital Markets Services Representative's Licence holder when making recommendation to clients.

In addition, candidates in the High and Medium Groups further need to improve their understanding on the duty and standard of care owed to clients under the tort of negligent misstatement. Further, candidates in the Medium and Low Groups also need to improve their understanding on the requirements relating to the keeping of records and segregation of assets.

Application and Analysis questions

Overall, candidates performed slightly poorer in application and analysis questions as compared to knowledge questions, but better than comprehension questions. However, there is still room for improvements for candidates in all three Groups on their application of knowledge and understanding of the law of contract. Candidates in the Low Group also need to improve their application of knowledge and understanding on the laws governing the fund management company and client relationship.

Section 3

Knowledge questions

Candidates in all three groups did not do well in answering the knowledge questions in this section where they need to further improve their knowledge on the Securities Commission Malaysia's licensing handbook.

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Application and Analysis questions

Surprisingly, candidates performed well in answering application and analysis questions in Section 3. However, there is still room for improvement for candidates in the Medium Group on the application of knowledge and understanding of the Securities Commission Malaysia's licensing handbook.

In addition, candidates in both the Medium and Low Groups also need to improve their application of knowledge and understanding on securities offences.

Section 4

Knowledge and comprehension questions

In this section, candidates performed better in answering knowledge questions as compared to comprehension questions. Candidates in the Medium and Low Group need to improve their understanding on the compliance system. Additionally, candidates in the Low Group also need to improve their knowledge on the topical issues in fund management regulation.

Section 5

Knowledge questions

Similar to the trend in Sections 1 and 2, candidates performed well in answering knowledge questions as compared to comprehension and application and analysis questions. However, candidates in the Low Group need to improve their knowledge on the investment limits as stipulated in the Guidelines for Public Offerings of Securities of Closed-end Funds and the role and duties of a fund manager as mentioned in the Guidelines on Wholesale Funds.

Comprehension questions

Candidates performed better in answering comprehension questions as compared to application and analysis questions. However, candidates in the High and Low Groups need to further improve their understanding on the investment restrictions and limits of unit trust funds.

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Application and Analysis questions

Overall, candidates did not perform well in answering application and analysis questions in this section. Candidates in all three Groups need to further improve their application of knowledge and understanding on investment restrictions and limits of unit trust funds. In addition, candidates in the Medium Group also need to improve their application of knowledge and understanding on training requirements as stipulated in the Guidelines on Unit Trust Funds.

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 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 the relevant laws and regulations affecting the fund management industry, law of contract, negligent misstatement, laws governing the fund management company and client relationship, securities offences, role and duties of a fund manager as mentioned in the Guidelines on Wholesale Funds, investment restrictions and limits of unit trust funds and the training requirements as stipulated in the Securities Commission Malaysia's Guidelines on Unit Trust Funds.

They should approach studying for the Module 9 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.