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LICENSING EXAMINATION STUDY OUTLINE

For January to June 2024 Examinations
(Issued in November 2023)

Module 16 Rules and Regulations of Derivatives *(Formerly known as the Rules and Regulations of Futures and Options)*

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(This document consists of 12 pages including the cover page)

STUDY OUTLINE

MODULE 16: RULES AND REGULATIONS OF DERIVATIVES

This examination is designed to test a candidate's knowledge and understanding of the rules and regulations governing the Malaysian derivatives market and the overall structure of the derivatives market. It is one of the examinations to be passed by individuals who:

(1) intend to apply for a Capital Markets Services Representative's License (CMSRL) to carry on the regulated activity of dealing in derivatives or dealing in derivatives restricted to Contract for Difference (CFD);

or

(2) is a licensed director or who intend to hold the position of Compliance Officer in a firm which is a holder of a Capital Markets Services License (CMSL), for carrying on the business of dealing in derivatives or dealing in derivatives restricted to CFD.

Candidates are advised to refer to the Licensing Handbook for the detailed combination of examinations required for each regulated activity.

Candidates are expected to possess good knowledge and understanding of the subject matter provided in this study outline and specified references. In addition, candidates are expected to be able 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 study time depending on the candidate's educational 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 are permitted to refer to their own prescribed reference materials during the examination. Note that no prescribed reference materials will be provided by the Securities Industry Development Corporation (SIDC). The prescribed reference materials brought into the examination by candidates are subject to the terms and conditions of SIDC, details of which are set out in the terms and conditions of the SC's licensing examinations.

Candidates are required to comply with the terms and conditions of the SC’s 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	60 questions
Passing Mark	70%
Time Allocated	90 minutes
References /Text	<p><u>Study Guide</u> eGuide Module 16: Rules and Regulations of Derivatives (<i>First Edition 2022</i>)</p> <p>Prescribed Reference Materials</p> <ol style="list-style-type: none"> 1. Capital Markets and Services Act 2007 2. Securities Commission Malaysia Act 1993 3. Rules of Bursa Malaysia Derivatives Berhad 4. Bursa Malaysia Derivatives Berhad Trading Manual 5. Guidelines on Prevention of Money Laundering and Terrorism Financing for Reporting Institutions in the Capital Market 6. Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries 7. Guidance Note on Provision of Investment Advice 8. Guidelines on Conduct for Capital Market Intermediaries 9. Guidelines on Contracts for Difference 10. Licensing Handbook

REFERENCES

The relevant references (acts and guidelines,) for this examination can be obtained from the Securities Commission Malaysia website at www.sc.com.my and eGuides can be purchased from www.sidc.com.my.

The Rules of Bursa Malaysia Derivatives Berhad and Bursa Malaysia Derivatives Berhad Trading Manual can be obtained from the Bursa Malaysia website at www.bursamalaysia.com.

For more information, please visit the SIDC website at 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 and terms used in the derivatives market
- The derivatives industry and its significant to the development of Malaysia's capital market
- The regulatory structure of the derivatives industry in Malaysia
- Derivatives industry participants
- The main laws and regulations governing the operation of the derivatives industry in Malaysia
- The activities and current trends connected to money laundering and terrorism financing and the Malaysian regulatory approach towards them
- Intermediaries in the futures, options and OTC-CFD market and users of these markets
- Role of the derivatives exchange, clearing house in clearing and processing futures and options trades and managing risk
- The licensing requirements of person(s) who carries (carry) on the business of dealing in derivatives
- Offences under the Rules of Bursa Malaysia Derivatives Berhad and Capital Markets and Services Act 2007
- General conduct and responsibilities of Participants when dealing with clients
- The operation of the derivatives market in Malaysia
- Contract specifications of stock options, stock index futures, option on stock index futures, single stock futures, three-month KLIBOR futures, all the crude palm oil futures, crude palm kernel oil futures, option on crude palm oil futures, all the MGS futures contracts, gold futures contract, USD denominated refined, bleached and deodorized palm olein futures contract and tin futures contract.

EXAMINATION SYLLABUS

The syllabus for this examination is divided into 3 sections and the maximum composition of questions from each section is as follows:

Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1	70%	42
Section 2	40%	24
Section 3	20%	12

Details of the syllabus are as below:

SECTION 1

REGULATIONS (MALAYSIAN DERIVATIVES)

Topic 1: Overview of Derivatives Market

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

Topic 2: Regulation of Derivatives

1. Overview of Derivatives Industry Regulation
2. Establishment of Derivatives Markets
3. Derivatives Industry Participants
4. Trading Offences under the CMSA
5. Capital Market Compensation Fund

The Licensing Handbook

Chapter 1: Introduction

Chapter 2: Licences Under The CMSA

Chapter 4: Licensing Criteria

Chapter 7: Conditions and Restrictions of Licence

Guidance Note on Provision of Investment Advice

Part I : Introduction

Part II : Guidance Note on Provision of Investment Advice

General

Illustrations

Guidelines On Prevention of Money Laundering and Terrorism Financing for Reporting Institutions in the Capital Market

Part I : Introduction and Applicability

1 Introduction

2 Applicability

3 Definitions

4 General Description of Money Laundering

5 General Description of Terrorism Financing

6 General Principles and Policies to Combat Money Laundering and Terrorist Financing

Part IA: AML/CFT Compliance Programmes and Obligations of Board of Directors, Senior Management and Compliance Officer

6A. Internal Programmes, Policies, Procedures and Controls

6B. Board of Directors

6C. Senior Management

6D. Compliance Officer

6E. Group-wide ML/TF Programmes

Part II: Risk-Based Approach Application

7. Risk- Based Approach Application

Part III: Customer Due Diligence

8. Customer Due Diligence (CDD)

Part IIIA: Wire Transfer

9. Wire Transfer of Digital Assets

Part IV: Retention of Records

10. Record Keeping

Part V : Suspicious Transactions

11. Reporting on Suspicious Transactions

12. Confidentiality of Reporting

Part VI : Enforcement Orders

13. Compliance with Enforcement Orders

Part VII: Combating Terrorism Financing

14. Identification and Designation

Appendices

Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries

1. Introduction

2. Applicability

3. Definitions

4. Combating Proliferation Financing

5. Reporting Requirements

7. Appendix I

Guidelines on Conduct for Capital Market Intermediaries

Chapter 1 - Introduction

Chapter 2 - Applicability

Chapter 3 - Related Provisions

Chapter 4 - Definitions

Chapter 5 - Honesty and Fairness

Chapter 6 - Care, Skill and Diligence

Chapter 7 - Conflict of Interest

Chapter 8 - Client's Assets and Information

Chapter 9 - Communication With Clients and Regulators

Chapter 10 - Compliance

Chapter 11- The SC's Assessment on Compliance with These Guidelines

Topic 3: Regulation of Over The Counter (OTC) Derivatives: Contracts for Difference (CFD) in Malaysia

1. Overview of the CFD Regulatory Framework
2. CFDs in Malaysia
3. Industry Participants for CFD

SECTION 2

RULES OF BURSA MALAYSIA DERIVATIVES BERHAD

1. Chapter 1 : Part A - Definition and Interpretation
2. Chapter 3 : Participants, Registered Persons and Market Makers
3. Chapter 4 : Conduct of Business
4. Chapter 5 : Organisation and Structure of Trading Participants
5. Chapter 6 : Trading Rules
6. Chapter 7 : Accounting, Audit and Financial Reporting Requirements

- 7. Chapter 8 : Financial Requirements
- 8. Chapter 9 : Contracts
- 9. Chapter 10 : Inspections and Investigations
- 10. Chapter 11 : Disciplinary Actions
- 11. Schedules
- 12. Appendices

TRADING PARTICIPANTS' DIRECTIVES AND GUIDANCE

SECTION 3

GUIDELINES ON CONTRACT FOR DIFFERENCE

PART A: GENERAL

Chapter 1: Introduction

Chapter 2: Definitions

PART B: PRODUCT REQUIREMENTS

Chapter 3: Product Parameters

PART C: PROVIDER REQUIREMENTS

Chapter 4: Requirements on Provider

Chapter 5: Marketing and Education Requirements

PART D: DISCLOSURE REQUIREMENTS

Chapter 6: Disclosure Document and Product Highlights Sheet

PART E: SCHEDULES

Schedule 1

Minimum Content of a Disclosure Document

Schedule 2

Minimum Content of a Product Highlights Sheet

PART F: APPENDIX

Appendix 1: Responsibility Statement, Statement of Disclaimer and Statement of Risk

Appendix 2: Guide On Product Highlights Sheet

Appendix 3: Client's Acknowledgement

Appendix 4: Declaration By The Contracts For Difference Provider

Appendix 5: Reporting Template

SAMPLE QUESTIONS AND ANSWERS

Question 1

Snooty Futures Sdn Bhd has fulfilled all the requirements to apply for a Trading Participantship. Its current paid-up capital is RM3.5 million. What is the minimum additional paid-up capital that the company must raise in order to comply with the eligibility requirements of Rules of Bursa Malaysia Derivatives Berhad?

- (A) RM500,000
- (B) RM1.5 million
- (C) RM2.5 million
- (D) RM3.5 million

Question 2

'X' is a type of derivatives contract with the following features:

- | |
|---|
| <ul style="list-style-type: none">• Gives the holder the right to buy or sell a specified asset at a specified price on or before a specific date |
| <ul style="list-style-type: none">• Places a contingent liability on the seller where buyer exercises his rights |

Which of the following contracts is described in the above statements?

- (A) futures
- (B) forwards
- (C) options
- (D) swaps

Question 3

Pursuant to the Rules of Bursa Malaysia Derivatives Berhad, which of the following is the MINIMUM information that shall be recorded in the complaints log/register for complaints received from clients?

- (i) Identity of complainant
- (ii) Date complaint was received
- (iii) Identity of the registered representative servicing the account
- (iv) General description of the matter complained of

- (A) (i) and (ii) only
- (B) (i), (iii) and (iv) only
- (C) (ii), (iii) and (iv) only
- (D) All of the above

Question 4

Which of the following statements are CORRECT in relation to Contract For Difference (CFD) in Malaysia?

- (i) CFD does not have an expiry date
- (ii) CFD can be offered to all types of investors
- (iii) The minimum margin requirement for index CFD is 5%
- (iv) CFDs that are offered in Malaysia are only allowed to be based on shares and indices

- (A) (i) and (ii) only
- (B) (i), (iii) and (iv) only
- (C) (iii) and (iv) only
- (D) All of the above

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

Sample Question 1 - B

Sample Question 2 - C

Sample Question 3 - D

Sample Question 4 - B

Sample Question 5 - D