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LICENSING EXAMINATION
STUDY OUTLINE

For July to December 2024 Examinations

(Issued in May 2024)

Module 14
Derivatives

(Formerly known as Futures and Options)

(This document consists of 10 pages including the cover page)

STUDY OUTLINE
MODULE 14: Derivatives

This examination is designed to test a candidate's knowledge and understanding of derivatives in Malaysia. 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, key management 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 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 will be tested on the ability 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 depending on the education 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. Module 14 examination is a closed-book test and candidates are not allowed to use any reference material during the examination.

Candidates are required to comply with the terms and conditions of the SC 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 14 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
Reference /Text	**Study Guide** eGuide Module 14: Derivatives *(First Edition, 2022)* **Prescribed Reference Materials** 1. Additional Reading Material on Gold Futures Contract 2. Additional Reading Material on USD RBD Palm Olein Futures Contract

REFERENCE MATERIAL

The relevant the relevant study guides for this examination eGuide can be purchased from www.sidc.com.my. Other reference materials such as Additional Reference Materials can also be obtained from SIDC website.

The latest contract specifications for all derivatives contracts traded on Bursa Malaysia Derivatives Berhad are available in 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 understanding and ability to apply derivatives knowledge in the following areas:

- Concepts and structure of the derivatives markets
- Product knowledge on contracts traded on the derivatives exchange and over-the-counter
- Hedging, arbitraging and speculative trading strategies using derivatives contracts
- Derivatives trading strategies including pay-off diagrams
- Valuation of derivatives instruments
- Derivatives pricing models and their uses in derivatives trading
- Technical and fundamental analysis

EXAMINATION SYLLABUS

The syllabus for the examination is divided into 2 sections and the maximum composition of questions from each section is as follows:

Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1: Futures	50%	30
Section 2: Options	50%	30
Section 3: Over-the-Counter Derivatives	20%	12

Details of the syllabus are as below:

SECTION 1: Futures

1. Development of the Futures Market

1. Dawn of the Forward Market
2. Forward Contracts
3. Types of Forward Contracts
4. Forward Price and Cost of Carry
5. Disadvantages of Forward Contracts

2. The Workings of the Futures Market

1. Futures Contract Specifications
2. Types of Futures Contracts
3. Advantages of Futures Market
4. Disadvantages of Futures Contract
5. Convergence of Futures to Spot Prices
6. Futures Prices and Cost of Carry
7. Market Participants: Hedgers, Speculators and Arbitrageurs

3. Trading the Futures Contract

1. Uses of Futures: Hedging, Speculating and Arbitraging
2. Types of Orders
3. Margining and Daily Settlement
4. Open Interest and Volume
5. Closing Out Positions
6. Negotiated Large Trade (NLT)
7. Exchange for Related Positions (EFRP)

7. Trading Strategies with Options

1. Directional Strategies Using Single Options
2. Spread Trades
3. Volatility Strategies
4. Synthetic Strategies
5. Dynamic Hedging Using Option Delta
6. Managing an Options Portfolio

8. Trading Options in Malaysia

1. Warrants
2. Options on FBM KLCI Futures Contract (OKLI)
3. Options on Crude Palm Oil Futures Contract (OCPO)
4. Use of Options in Portfolio Management

SECTION 3: Over-the-Counter (OTC) Derivatives

9. OTC Derivatives

1. Introduction to OTC Derivatives
2. Types of the Underlying Instruments and Their Characteristics
3. Uses of OTC Derivatives
4. Hedge Accounting
5. Risks Associated with OTC Derivatives

10. Forward Contracts

1. Basic Concepts and Features of Forward Contracts
2. Uses of Forward Contracts
3. Risks of Forward Contracts
4. Mechanics and Applications of Forward Contracts

11. Swap Contract

1. Basic Concept and Features of Swap Contracts
2. Uses of Swap Contracts
3. Risks of Swap Contracts
4. Mechanics and Applications of Swap Contracts
5. Foreign Currency Swaps
6. Equity Swaps
7. Commodity Swaps
8. Credit Derivatives
9. Credit Default Swap
10. Total Return Swap

12. Contract for Difference (CFD)

1. What is a CFD
2. Features of CFDs
3. Types of the Underlying Assets and its Characteristics
4. Uses of CFD
5. Risks Associated with CFD
6. Margin Requirements and Implications for Different Underlying Assets
7. Mechanics and Applications of the CFD

13. Effects of Corporate Actions on the OTC Underlying Assets

1. Effects of Corporate Actions on Equity Derivatives
2. Effects of Corporate Activities on Other Derivatives

SAMPLE QUESTIONS AND ANSWERS

Sample Question 1
Select the CORRECT statement about options sellers. They have:

(A) limited risk
(B) unlimited risk
(C) the right to exercise their options
(D) unlimited profit potential

Sample Question 2
When investors use a derivative instrument to reduce his exposure to the price volatility of certain underlying assets, he is said to be:

(A) speculating
(B) investing
(C) arbitraging
(D) hedging

Sample Question 3
A synthetic long put position is constructed by:

(A) selling the underlying instrument and buying a call option
(B) buying the underlying instrument and buying a call option
(C) selling the underlying instrument and selling a put option
(D) buying the underlying instrument and selling a put option

Sample Question 4

A trader buys 4 crude palm oil futures contracts at RM3,100 and the price rises to RM3,130. The market then falls and the trader liquidates them at RM3,115. What is the profit from the above transaction?

(A) RM15

(B) RM30

(C) RM375

(D) RM1,500

Sample Question 5

In April, company A plans to invest RM5 million in the interbank money market in three months' time. The company's treasurer, Mr Lee, has a strong feeling that interest rates will be falling.

To protect the company from an interest rate downturn, Mr Lee should:

(A) buy 5 July KLIBOR futures contracts

(B) sell 5 July KLIBOR futures contracts

(C) buy 5 April KLIBOR futures contracts

(D) sell 5 April KLIBOR futures contracts

Answers

Sample Question 1 – B

Sample Question 2 – D

Sample Question 3 – A

Sample Question 4 – D

Sample Question 5 – A