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LICENSING EXAMINATION STUDY OUTLINE

**For October to December 2024 Examinations
(Issued in September 2024)**

Module 9 Funds Management Regulation

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(This document consists of 15 pages including the cover page)

STUDY OUTLINE

MODULE 9: FUNDS MANAGEMENT REGULATION

This examination is designed to test candidate's knowledge and understanding of the rules and regulations governing the Malaysian fund management industry. It is one of the examinations to be passed by individuals who:

- (1) intend to apply for a Capital Markets Services Representative's Licence (CMSRL) to carry on the regulated activity of fund management in relation to portfolio management (including digital investment management and boutique portfolio management company);
or
- (2) intend to hold the position of compliance officer in a firm which is a holder of a Capital Markets Services Licence (CMSL) for carrying on the business of fund management in relation to portfolio management;
or
- (3) intend to be employees of registered persons who carry out the capital markets activities as stipulated in Item 4, Part 1 of Schedule 4 of the Capital Markets and Services Act 2007.

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 reference. In addition, candidates are expected to have relatively strong capabilities in the application and analysis of information in this study outline and its references. It is estimated that this module will require a minimum of 120 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. 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 examinations 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 licensing examinations.

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 examinations.

At the end of this study outline are 5 sample questions of various formats used in the Module 9 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	30 questions
Passing Mark	60%
Time Allocated	60 minutes
References	<p><u>Study Guide</u> eGuide Module 9: Funds Management Regulation (<i>First Edition 2022</i>)</p> <p><u>Prescribed Reference Material</u></p> <ol style="list-style-type: none"> 1. Capital Markets and Services Act 2007 2. Securities Commission Malaysia Act 1993 3. Licensing Handbook 4. Guidelines on Categories of Sophisticated Investors 5. Guidelines on Compliance Function for Fund Management Companies 6. Guidelines for Public Offerings of Securities of Closed-end Funds 7. Guidelines on Conduct for Capital Market Intermediaries 8. Guidelines on Prevention of Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Reporting Institutions in the Capital Market 9. Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework 10. Lodgement Kit: Unlisted Capital Market Products under the Lodge and Launch Framework 11. Guidelines on Unit Trust Funds 12. Guidelines on Sales Practices of Unlisted Capital Market Products 13. Guidelines on Exchange-Traded Funds 14. Guidelines on Islamic Capital Market Products and Services 15. Guidance Note on Managing Environmental, Social and Governance Risks for Fund Management Companies

REFERENCES

The relevant acts and guidelines for this examination can be obtained from the Securities Commission Malaysia’s website at www.sc.com.my while the eGuide can be purchased from www.sidc.com.my

For more information, please visit the SIDC website at www.sidc.com.my.

LEARNING OBJECTIVES

Candidates are expected to apply the requisite knowledge, understanding and ability in the following areas:

- The fund management industry and describe its significance to the Malaysian economy
- Regulatory structure of the funds management industry in Malaysia
- Laws, regulations and guidelines governing the operation of the funds management industry in Malaysia
- Relationship between a fund management company and its client
- Duty and standard of care applicable to a fund management company
- Licensing requirements of fund management companies and their representatives
- Various securities offences and how they are regulated
- Purpose of an Investment Management Agreement and Investment Mandate
- Compliance and explain its significance to a fund management company
- Corporate governance and other issues affecting a fund management company

EXAMINATION SYLLABUS

The syllabus for this examination is divided into 5 sections and the maximum composition of questions from each section is as follows:

Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1	20%	6
Section 2	40%	11
Section 3	30%	9
Section 4	20%	6
Section 5	30%	10

Details of the syllabus are as below:

SECTION 1

Topic 1: The Fund Management Industry in Malaysia

1. What is the Fund Management Industry?
2. Significance of the Fund Management Industry
3. Providers of Fund Management Services
4. Fund Structures in Malaysia
5. Support Services Providers
6. Why Does the Fund Management Industry Need to be Regulated?
7. Industry Bodies

Topic 2: Laws and Organisations Regulating the Fund Management Industry

1. Overview of Law
2. The Securities Industry Laws
3. Other Relevant Laws and Regulations
4. Organisations Regulating the Fund Management Industry
5. Industry Regulation

SECTION 2

Topic 3: The Law of Contract

1. What is the Law of Contract?
2. Essential Elements of a Contract

Topic 4: Negligent Misstatement

1. What is Negligence?
2. Elements of the Tort of Negligence
3. Negligent Conduct - the Duty and Standard of Care
4. Negligent Misstatement
5. Statutory Liability

Topic 5: Relationship between Fund Management Company and Client

1. Analysing the Relationship between a Fund Management Company and its Client
2. Laws Governing the Fund Management Company/Client Relationship
3. Ethical Considerations

Topic 6: Conduct of a Fund Management Company's Business

1. Responsibilities of the Organisation
2. The Investment Management Agreement
3. Duties to Clients
4. Records and Segregation of Assets
5. Substantial Shareholders Notices
6. Insurance Cover

SECTION 3

The Licensing Handbook

Chapter 1: Introduction

Chapter 2: Licences under the CMSA

Chapter 4: Licensing Criteria

Chapter 7: Conditions and Restrictions of Licence

Chapter 10: Outsourcing Arrangement by CMSL Holders

Topic 7: Securities Offences

1. Short Selling
2. Market Manipulation by Market Rigging
3. Market Manipulation by Information
4. Other Offences Relating to Dealing
5. Other Offences Relating to False and Misleading Statements
6. Insider Trading
7. Other Offences

SECTION 4

Topic 8: Compliance

1. Compliance
2. The Compliance System
3. Implementing the Compliance Plan
4. Authority of the Compliance Officer

Topic 9: Topical Issues in Funds Management Regulation

1. Corporate Governance
2. Performance Presentation Standards
3. Key Elements of Performance Presentation Standards

SECTION 5

Guidelines on Compliance Function for Fund Management Companies

- 3 Core Principles
- 4 Key Responsibilities
- 5 Organisation and Management
- 6 Disclosure
- 7 Dealing with Clients
- 9 Portfolio Management
- 10 Safeguarding Clients' Assets
- 11 Managing Conflicts of Interest
- 12 Record Keeping
- 13 Additional Requirements Relating to a Digital Investment Management Company

Guidelines for Public Offerings of Securities of Closed-end Funds

6. Investment Limits
8. Managers

Guidelines on Conduct for Capital Market Intermediaries

- Chapter 1 - Introduction
- Chapter 2 - Applicability
- Chapter 3 - Related Provisions
- Chapter 4 - Definitions
- Chapter 5 - Role of Board and Senior Management
- Chapter 6 - Treatment of Clients
- Chapter 7 - Treatment of Vulnerable Clients
- Chapter 8 - Care, Skill and Diligence
- Chapter 9 - Personal Advice
- Chapter 10 - Conflict of Interest
- Chapter 11- Client's Asset and Information
- Chapter 12 - Communication with Clients and Regulators
- Chapter 13 - Online Platforms

Guidelines on Prevention of Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions 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
- 5A. General Description of Proliferation Financing
- 6. General Principles and Policies to Combat Money Laundering, Terrorism Financing and Proliferation Financing

PART IA: AML/CFT/CPF 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 AML/CFT/CPF Programmes

PART II: RISK-BASED APPROACH APPLICATION

7. Risk-Based Approach Application

7.1 ML/TF Risk Assessment

7.2 ML/TF Risk Management and Mitigation

7.3 PF Risk Assessment

7.4 PF Risk Management and Mitigation

7.5 Risk Profiling of Customers

7.6 Risk Management and Mitigation in Third-Party Deposits and Payments

PART III: CUSTOMER DUE DILIGENCE

8. Customer Due Diligence

8.1 CDD at the Point of Establishing Business Relationship

8.2 Conducting CDD

8.3 Enhanced CDD Measures

8.4 Politically Exposed Persons (PEPs)

8.5 Higher-Risk Countries

8.6 Reliance on Third-Party Institutions to Conduct CDD

8.7 Failure to Satisfactorily Complete CDD

8.8 Ongoing Due Diligence

PART IIIA: WIRE TRANSFER

9. Wire Transfer of Digital Assets

9.1 General

9.2 Ordering Institutions

9.3 Beneficiary Institutions

9.4 Sanctions Screening

9.5 Identification and Due Diligence on Counterparty Virtual Asset Service Providers

PART IV: RETENTION OF RECORDS

10. Record Keeping

PART V: SUSPICIOUS TRANSACTIONS

- 11. Reporting of Suspicious Transactions
- 12. Confidentiality of Reporting

PART VI: ENFORCEMENT ORDERS

- 13. Compliance with Enforcement Orders

PART VII: COMBATING TERRORISM FINANCING

- 14. Identification and Designation

PART VIII: COMBATING PROLIFERATION FINANCING

- 15. Definition and Interpretation
- 16. Maintenance of Sanctions List
- 17. Conduct Sanctions Screening on Customers
- 18. Requirement to Freeze, Block and Reject
- 19. Reporting Requirements

Appendices

Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework

Section A General Requirements

- Chapter 1 Introduction
- Chapter 2 Definitions
- Chapter 3 Responsible Party

Section B Specific Requirements

Part I Wholesale Fund

- Chapter 1 General
- Chapter 2 Structure: Establishing a Wholesale Fund
- Chapter 3 Lodgement
- Chapter 4 Continuous Obligations
- Chapter 5 Revision

Section D **Transitional Provisions**

Chapter 1 General

Chapter 2 Wholesale Fund

Lodgement Kit: Unlisted Capital Market Products under the Lodge and Launch Framework

Introduction

Part 1 : Wholesale Funds

Section 1 : Information to be provided to the SC at the initial lodgement

Guidelines on Unit Trust Funds

2 Definitions

4 Appointment of Third Party to Undertake Functions

6 Investments of the Fund

9 Operational Matters

Schedules

Guidelines on Sales Practices of Unlisted Capital Market Products

Part 1 Introduction

Part 2 Treating Investors Fairly

Part 3 Product Highlights Sheet

Part 4 Suitability Assessment

Appendices

Guidelines on Exchange-Traded Funds

2 Definitions

4 Delegation of Fund Management Function

6 Investments of the Exchange-Traded Fund

11 Operational Matters

Schedules

Guidelines on Islamic Capital Market Products and Services

3 Definition

Section I: Shariah Advisor

6 Roles and Responsibilities of Shariah Adviser

Section II: Islamic Fund Management

11 Introduction

12 Constitution of an Islamic Fund Management Company

13 Shariah Adviser

14 Employees Competency and Assistance to Shariah Advisors

15 Portfolio Management

16 Responsibilities of the Compliance Officer

17 Written Declaration

18 Internal Audit

Appendix 5

Appendix 7

Guidance Note on Managing Environmental, Social and Governance Risks for Fund Management Companies

Part II Managing Environmental, Social and Governance Risks for Fund Management Companies

- 2 Governance and Strategy
- 3 Investment Process
- 4 Investment Risk Management
- 5 Stewardship
- 6 Disclosure

SAMPLE QUESTIONS AND ANSWERS

Sample Question 1

Zodiac Sdn Bhd (Zodiac) is a company that claims to trade products in a foreign futures exchange. However it has no substantial evidence of such trades being transmitted to foreign futures exchange and it normally executes customer's orders as its own account instead of on the market. Zodiac has committed the offence of _____.

- (A) false trading
- (B) insider trading
- (C) cornering
- (D) bucketing

Sample Question 2

Identify the standard criteria to which the Shariah Advisory Council apply in determining securities of a company that are Shariah compliant.

- (i) Its operations are not based on riba
 - (ii) Its activities do not involve the manufacture of *haram* products
 - (iii) Its operations do not contain elements of uncertainty under Shariah principles
 - (iv) Its core activities are not against Shariah principles
-
- (A) (i) and (iv) only
 - (B) (ii) and (iii) only
 - (C) (i), (ii) and (iv) only
 - (D) All of the above

Sample Question 3

Which of the following statement on 'custodians' is TRUE?

- (A) Custodians maintain trust accounts for clients of fund management companies
- (B) Custodians provide independent assessment of fund management companies' returns
- (C) Custodians provide investment and asset allocation advice to fund management companies
- (D) Custodians conduct analysis to ascertain the risk preference of fund management companies

Sample Question 4

A person below the age of _____ does not have the capacity to enter into contracts with the exception of contracting for 'necessaries'.

- (A) 18
- (B) 19
- (C) 20
- (D) 21

Sample Question 5

The physical disposal of benefits of unlawful activities by introducing illegal funds into the financial system

Pursuant to Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries, the above process of money laundering is BEST referred to as:

- (A) integration
- (B) placement
- (C) leveraging
- (D) layering

Answers

Sample Question 1 - D

Sample Question 2 - D

Sample Question 3 - A

Sample Question 4 - A

Sample Question 5 - B