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EXAMINATION STUDY GUIDE: REGULATIONS (MALAYSIAN FUTURES AND OPTIONS) (MODULE 1)

**[Applicable to Examination Study Guide
Module 1 - Fifth Print, 2011 (Revised)]**

UPDATES

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1. Notice to readers/candidates:

- Purpose of these updates is to reflect the amendments to the Capital Markets & Services Act 2007
- All corrections are highlighted in bold. Please ensure that the relevant topics are updated accordingly

2. All topics:

All of the terms as stipulated in Column 1, where used, unless otherwise stipulated, to be replaced with the new terms as stipulated in Column 2 as follows:

Column 1	Column 2
Holders of a Capital Markets Services Licence who carry on the business of trading in futures contracts	 Holders of a Capital Markets Services Licence (CMSL*) who carry on the business of dealing in derivatives
Holders of a Capital Markets Services Representative’s Licence who carry on the business of trading in futures contracts	 Holders of a Capital Markets Services Representative’s Licence (CMSRL**) who carry on the business of dealing in derivatives
futures and options market(s)	derivatives market
futures and options industry	derivatives industry
futures market	derivatives market
futures exchange	derivatives exchange
exempt futures market	exempt derivatives market

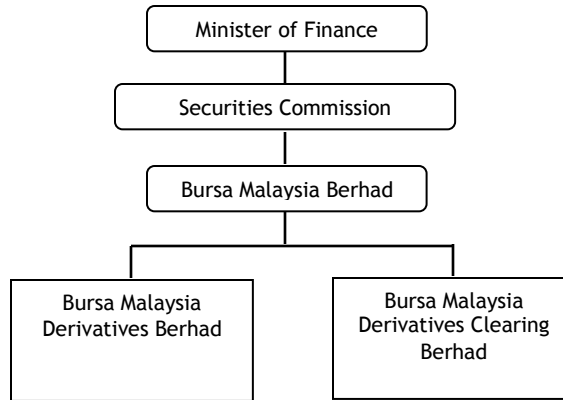
* CMSL may be used throughout the Study Guide in place of Capital Markets and Services Licence

** CMSRL may be used throughout the Study Guide in place of Capital Markets and Services Representative’s Licence

3. Topic 1: Overview of the Derivatives Market

(a) 1.5 Derivatives Markets in Malaysia, Page 1-7

To delete the Figure 1 and replace with the following:



(b) Subtopic 2, The Futures Exchange, Page 1-11

Heading

2 The Futures Exchange to be deleted and replaced with **2 The Derivatives Exchange**

(c) Subtopic 4, Intermediaries in the Futures and Options Market, Page 1-19

Heading

4 Intermediaries in the Futures and Options Market to be deleted and replaced with **4 Intermediaries in the Derivatives Market**

Paragraph 3

To delete, *“Note that under the CMSA, the definition of the terms futures contract refers to both futures and option. Hence, all references below to futures, also include options.”*

(d) Subtopic 6, Regulation of the Futures and Options Market, Page 1-25

Heading

6 Regulation of the Futures and Options Market to be deleted and replace with **6 Regulation of the Derivatives Market**

6.1 Securities Commission, Page 1-25 to 1-26

Paragraph 3

To be deleted and to be replaced with the following paragraph:

- advise the Minister on all matters relating to the derivatives industry
- regulate all matters relating to derivatives
- supervise and monitor the activities of any exchange holding company, exchange and clearing house

- take all reasonable measures to maintain the confidence of investors in the derivatives market by ensuring adequate protection for such investors
- promote and encourage proper conduct amongst participants, depository participants and all licensed or registered persons of an exchange and clearing house
- suppress illegal, dishonourable and improper practices in dealing in derivatives
- encourage and promote self-regulation by professional associations or market bodies in the derivatives industry
- licence, register, authorise and supervise all persons engaging in regulated activities or providing capital market services as may be provided for under any securities law
- promote and maintain the integrity of all licensed persons in the derivatives industries

4. Topic 2: Regulation of Futures and Options

- (a) Contents
Subtopic 5

To be deleted and to be replaced with the following:

5 Capital Market Compensation Fund

5.1 Introduction

5.2 Administration and Uses

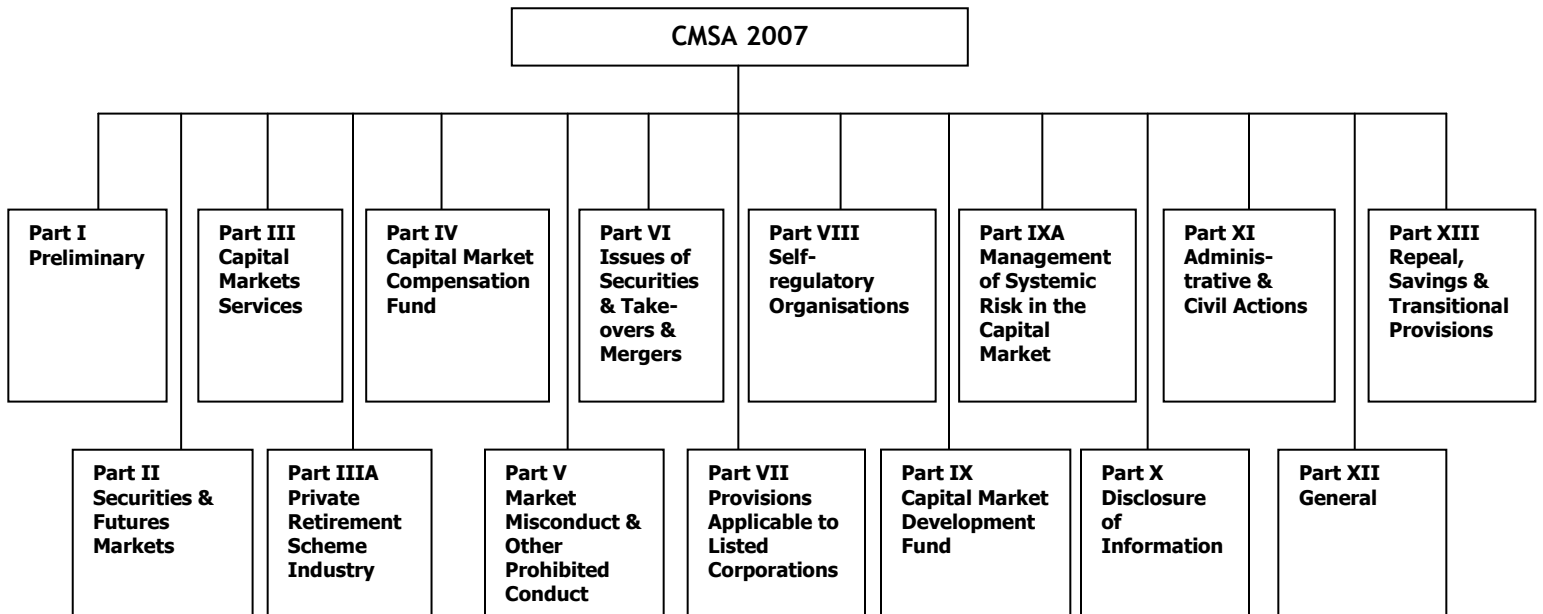
- (b) Overview, Page 2-1

Topic objectives, second bullet

To be deleted and to be replaced with “**explain the purpose of the Capital Market Compensation Fund**”

(c) 1.3 The Capital Markets and Services Act 2007, Page 2-7

To delete the Figure 2 and replace with the following:



(d) Subtopic 2, Establishment of Futures Markets, Page 2-8

Heading 2 Establishment of Futures Markets to be deleted and replaced with **2 Establishment of Derivatives Market**

2.1 Definition of a Futures Contract, Page 2-8 to 2-9

To delete the entire sub-heading 2.1

Sub-heading Functions of the Futures Exchange, Page 2-10

To be deleted and replaced with **Functions of the Derivatives Exchange**

Paragraph 4 of the sub-heading, Page 2-10 to 2-11

To delete the last bullet point

(e) Subtopic 3, Futures Industry Participants, Page 2-14

Heading 3 Futures Industry Participants to be deleted and replaced with **3 Derivatives Industry Participants**

3.2 Holders of a CMSL Who Carry on the Business of Trading in the Futures Contract, Page 2-15, to be deleted and replaced with **3.2 Holders of a CMSL Who Carry on the Business of Dealing in Derivatives**

Sub-heading Conduct of Futures Business, Page 2-18, to be deleted and replaced with **Conduct of Derivatives Business**

Paragraph 3 of the sub-heading, Page 2-18

To delete the entire paragraph and replace with the following:

Section 99 stipulates that a holder of a Capital Markets Services Licence who carries on the business of dealing in derivatives shall not, as principal, trade in any standardised derivatives with a person who is not such a holder unless he first informs the person in writing that he is acting in the transaction as principal and not as agent. Failure to do so is an offence that will result in a fine not exceeding RM1 million or to imprisonment for a term not exceeding 10 years or to both.

Sub-heading Risk Disclosure, Page 2-19

To be deleted and to be replaced with the following paragraph:

The holders of the CMSL who carry on the business of dealing in derivatives must give the client a copy of the proposed *client agreement* which contains the minimum terms that are prescribed in the business rules of the derivatives exchange. These provisions ensure that a client, and in particular, a speculative client, is fully aware of its obligations in relation to derivatives trading.

Sub-heading Fidelity Fund, Page 2-19

To delete the entire paragraph

Activity 2b, Page 2-23

To delete the table and replace with the following:

Obligation	Dealing in Derivatives	Fund Management	Investment Advice
Must give information to prospective clients			
Must segregate clients' funds			
Must conduct their business in a professional manner			
Must be a participant of a derivatives exchange			

- (f) Subtopic 5, Fidelity Fund, Page 2-27 to 2-28
All paragraphs to be deleted and to be replaced with the following:

Part IV of the CMSA deals with the establishment of the Capital Market Compensation Fund (CMC).

5.1 Introduction

The CMC provides an avenue for individual investors to make a claim in the event a CMSL holder fails to pay amount owing to its investors. When a CMSL holder is unable or is likely to be unable to pay its debts due to fraud, defalcation or mis-selling which leads to insolvency, the CMC has the power to step in to work towards compensating individual investors' investments.

The following CMSL holders and their activities will be subject to the requirements and safeguards provided to the individual investor by the CMC:

- Participating organisations in relation to its investments on Bursa Malaysia Securities and recognised stock exchange pursuant to the rules of Bursa Malaysia Securities Berhad;
- Trading participants in relation to its investment on Bursa Malaysia Derivatives and on a specified exchange as provided for in Section 105 of the CMSA;
- Fund management companies, including PRS providers; and
- Unit trust management companies which are licensed for dealing in securities restricted to unit trust.

5.2 Administration and Uses

A client of a Participating organisation or a Trading participant who invested in an exchange-traded product can make a claim from the CMC. Clients of fund management companies, unit trust management companies and Private Retirement Scheme provider can also make a claim from the CMC.

Activity 4, Page 2-28 to 2-29
To delete activity (b) and (c)

- (g) Subtopic 6, In Summary, Page 2-30

Paragraph 2, bullet 2, to delete *"If money is misappropriated (stolen from the account), then the derivative exchange's fidelity fund is available to specified limits."*

6.1 Key Terms, Page 2-31

To delete the entire paragraph and replace with the following:

Now that you have completed this topic, review the following key terms and make sure you understand their meaning.

systemic risk cornering
segregated funds bucketing
risk disclosure document

6.2 Review Questions, Page 2-31

To delete Question 3

- (h) Suggested Answers to Activities, Page 2-34 to 2-35
To delete Activity 2b and replace with the following:

Complete the following table to show the obligations of the holders of a CMSL who carry on the following regulated activities.

Obligation	Dealing in Derivatives	Fund Management	Investment Advice
Must give information to prospective clients			
Must segregate clients' funds			
Must conduct their business in a professional manner			
Must be a participant of a derivatives exchange			

Answer:

Obligation	Dealing in Derivatives	Fund Management	Investment Advice
Must give information to prospective clients	√	√	√
Must segregate clients' funds	√	√	x
Must conduct their business in a professional manner	√	√	√
Must be a participant of a derivatives exchange	√	x	x

Activity 4, Page 2-36 to 2-37
To delete activity (b) and (c) and answer (b) and (c)

- (i) Suggested Answers to Review Questions, Page 2-37
To delete Question 3 and the entire answer