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# **LICENSING EXAMINATION STUDY OUTLINE**

**For January to June 2018 Examinations  
(Issued in November 2017)**

## **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.

The prescribed reference materials for this module are as follows:

- **Capital Markets and Services Act 2007**
- **Securities Commission Malaysia Act 1993**
- **Licensing Handbook**
- **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 Unlisted Capital Market Products under the Lodge and Launch Framework**
- **Lodgement Kit: Unlisted Capital Market Products under the Lodge and Launch Framework**
- **Guidelines on Unit Trust Funds**
- **Guidelines on Exchange-Traded Funds**
- **Guidelines on Islamic Fund Management**

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:

<b>Type of Questions</b>	Multiple-Choice
<b>Number of Questions</b>	30 questions
<b>Passing Mark</b>	60%
<b>Time Allocated</b>	60 minutes
<b>References</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Examination Study Guide for Module 9: Funds Management Regulation (<i>Fifth Print, 2016 revised</i>)</li> <li><input type="checkbox"/> Capital Markets and Services Act 2007</li> <li><input type="checkbox"/> Securities Commission Malaysia Act 1993</li> <li><input type="checkbox"/> Licensing Handbook</li> <li><input type="checkbox"/> Guidelines on Compliance Function for Fund Management Companies</li> <li><input type="checkbox"/> Guidelines for Public Offerings of Securities of Closed-end Funds</li> <li><input type="checkbox"/> Guidelines for the Establishment of Foreign Fund Management Companies</li> <li><input type="checkbox"/> Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries</li> <li><input type="checkbox"/> Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework</li> <li><input type="checkbox"/> Lodgement Kit: Unlisted Capital Market Products under the Lodge and Launch Framework</li> <li><input type="checkbox"/> Guidelines on Unit Trust Funds</li> <li><input type="checkbox"/> Guidelines on Exchange-Traded Funds</li> <li><input type="checkbox"/> Guidelines on Islamic Fund Management</li> </ul>

**REFERENCES**

The relevant references (acts, guidelines, study guides etc) for this examination can be obtained from the Securities Commission Malaysia's website at [www.sc.com.my](http://www.sc.com.my). The relevant acts and study guides for this examination may also be purchased from:

**SIDC Shop, Ground Floor**  
**3, Persiaran Bukit Kiara**  
**Bukit Kiara**  
**50490 Kuala Lumpur**  
**Tel: (603) 6204 8625/8665**

For more information, please visit the SIDC website at [www.sidc.com.my](http://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%	12
Section 3	30%	9
Section 4	20%	6
Section 5	30%	9

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?

**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 7: Conduct of a Fund Management Company's Business**

1. The Investment Management Agreement
2. Duties to Clients
3. Records and Segregation of Assets
4. Substantial Shareholders Notices
5. 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 6: 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. Requirement to Adopt Compliance Procedures
5. 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 and Conduct
- 7 Dealing with Clients
- 8 Marketing, Advertising and Promotional Materials
- 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 for the Establishment of Foreign Fund Management Companies**

- 1.0 Conditions for Establishment
- 2.0 Management of Funds
- 3.0 Conditions for Persons Performing Fund Management Functions

**Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries**

**PART I: INTRODUCTION AND 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 Terrorism Financing

**PART II: RISK-BASED APPROACH APPLICATION**

- 7 Risk Based Approach Application

**PART III: CUSTOMER DUE DILIGENCE**

- 8 Customer Due Diligence
- 9 Group-Wide ML/TF Programmes

**PART IV: RETENTION OF RECORDS**

- 10 Record Keeping

**PART V: SUSPICIOUS TRANSACTIONS**

- 11 Reporting of Suspicious Transactions
- 12 Confidentiality of Reporting

**PART VI: COMPLIANCE AND TRAINING PROGRAMMES**

- 13 Internal Programmes, Policies, Procedures and Controls

**PART VII: COMBATING TERRORISM FINANCING**

- 14 Identification and Designation

**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 C      Additional Requirements For Shariah-Compliant Unlisted Capital Market Products Under The Lodge And Launch Framework**

Chapter 1      Approved Shariah Principles and Concepts for Shariah-Compliant Unlisted Capital Market Products Under the Lodge and Launch Framework

Chapter 2      Roles and Responsibilities of Shariah Adviser

**Section D      Transitional Provisions**

Chapter 1      General

Chapter 2      Wholesale Fund

Appendix 4B   Information and Documents to be submitted to the SC for Revision of Principal Terms and Conditions

## **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
- Section 2 : Information to be reported to the SC periodically
- Section 3 : Information to be provided to the SC when a revision to lodgement is required
- Section 4 : Other information to be provided to the SC

### **Guidelines on Unit Trust Funds**

- 2 Definitions
- 5 Appointment of Third Party to Undertake Functions
- 8 Investments of the Fund
- 11 Operational Matters

### Schedules

### **Guidelines on Exchange-Traded Funds**

- 2 Definitions
- 5 Delegation and Outsourcing
- 8 Investments of the Exchange-Traded Fund
- 13 Operational Matters

### Schedules

**Guidelines on Islamic Fund Management**

2.0 Definitions

3.0 Memorandum and Articles of Association

4.0 Appointment of Shariah Adviser

5.0 Role of Shariah Adviser

6.0 Employees Competency

7.0 Portfolio Management

8.0 Responsibilities of the Compliance Officer

9.0 Written Disclosure and Declaration

10.0 Internal Audit

11.0 Islamic Fund Management Business via Islamic “Window”

Appendix 1

Appendix 2

## 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**