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LICENSING EXAMINATION STUDY OUTLINE

For July to December 2017 Examinations

(Issued in May 2017)

Module 11 Fundamentals of Compliance

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

STUDY OUTLINE

MODULE 11: FUNDAMENTALS OF COMPLIANCE

This examination is designed to test a candidate's knowledge and understanding on the concepts and rules and regulations pertaining to the compliance function. It is one of the examinations to be passed by individuals who intend to hold the position of Head of Compliance or Compliance Officer in a firm which is a holder of a Capital Markets Services License (CMSL) who carries on the following regulated activities:

- dealing in securities;
- dealing in derivatives; or
- fund management in relation to portfolio management.

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 have relatively strong capabilities in the application and analysis of information in the module 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:

- **Guidelines for Compliance Officers**
- **Compliance Guidelines for Futures Brokers**
- **Guidelines on Compliance Function for Fund Management Companies**
- **Guidelines on Unit Trust Funds**

- Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives
- Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries
- Rules of Bursa Malaysia Securities Berhad
- Bursa Malaysia Securities Berhad Participating Organisations’ Directives and Guidance
- Rules of Bursa Malaysia Derivatives Berhad

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 11 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 | 40 questions |
| Passing Mark | 70% |
| Time Allocated | 60 minutes |
| References/Text | <ul style="list-style-type: none"> <input type="checkbox"/> Examination Study Guide for Module 11: Fundamentals of Compliance (Second Edition, 2013) <input type="checkbox"/> Guidelines for Compliance Officers <input type="checkbox"/> Compliance Guidelines for Futures Brokers <input type="checkbox"/> Guidelines on Compliance Function for Fund Management Companies <input type="checkbox"/> Guidelines on Unit Trust Funds <input type="checkbox"/> Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives <input type="checkbox"/> Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries <input type="checkbox"/> Rules of Bursa Malaysia Securities Berhad <input type="checkbox"/> Bursa Malaysia Securities Berhad Participating Organisations’ Directives and Guidance <input type="checkbox"/> Rules of Bursa Malaysia Derivatives Berhad |

REFERENCES

The relevant references (acts, guidelines, study guides etc) for this examination can be obtained from the Securities Commission Malaysia website at 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 8665/8667

The Guidelines for Compliance Officers, Compliance Guidelines for Futures Brokers, Rules of Bursa Malaysia Securities Berhad and Rules of Bursa Malaysia Derivatives Berhad can be obtained from 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:

- The fundamentals of compliance
- The principles of compliance
- The role, function, responsibilities and duties of Compliance Officers
- Compliance programme
- The interaction of roles and responsibilities which create a compliance culture
- The costs and benefits of compliance
- The concept of risk management
- Risk to workplace activities in terms of assessment and management
- The structural framework of capital market regulation and compliance
- The various guidelines for compliance and best business practice

EXAMINATION SYLLABUS

The syllabus for the 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 | 50% | 20 |
| Section 2 | 60% | 24 |
| Section 3 | 20% | 8 |

Details of the syllabus are as below:

SECTION 1

Topic 1: Fundamentals of Compliance

1. The Concept of Compliance
2. Compliance and Control Functions
3. The Compliance Culture
4. Importance of Compliance

Appendices:

- Orange County
- Procter and Gamble
- Is compliance quite enough? Ethics - more than just doing the right thing
- Setting the right course - Business ethics
- Securities Commission Malaysia’s Press Releases
- Bursa Malaysia’s Press Releases

Topic 2: Roles and Responsibilities

1. Directors
2. Management
3. Internal Audit Department and Audit Committee
4. Risk Management and Risk Management Committee

Topic 3: Compliance Officers

1. Compliance Officer
2. Role of the Compliance Officer in Relation to the Rules and Regulations of the Regulators
3. Role of the Compliance Officer in Relation to Money Laundering & Terrorism Financing
4. Complaints from Clients
5. Compliance Independence
6. The Compliance Officer's Relationship with the Firm and Regulators
7. Compliance reporting

SECTION 2

Topic 4: Establishing and Monitoring Compliance

1. Developing a Comprehensive Compliance Programme
2. Effective Compliance Infrastructure
3. Dealing with Conflicts of Interests
4. Reporting Line and Audit Trail
5. Review of Compliance Programme

Appendices

AWA Limited - Case Study

Chinese Walls

NFA Self-examination Checklist

Sample of Compliance Monitoring Programme on Trading

Example of procedure for dealing with conflict of interest

Topic 5: Risk Management

1. Introduction to Risk Management
2. Risk Management in a Fiduciary Relationship
3. Risk Management Infrastructure
4. Tools for Risk Management
5. Ethics of Risk Management

Appendices

A billion dollars just isn't what it used to be. Lessons from two decades in the risk management morgue

Hazell v. Hammersmith and Fulham Council (1992) - A case example

The Barings Crisis: Some lessons for the management of trading risks in financial intermediaries

Topic 6: Costs and Benefits of Compliance and Case Studies

1. The Costs of Compliance
2. The Benefits of Compliance
3. 1987 Equity Market Crash
4. 1991 Junk Bond Debacle
5. 1997 Long-Term Capital Management Debacle
6. Sumitomo
7. 1997-98 Asian Financial Crisis and Economic Crisis
8. The Financial Crisis of 2007-2009

SECTION 3

Topic 7: Structural Framework and Principles of Capital Market Regulation

1. Framework
2. Principles of Regulations
3. Single Licensing Framework for the Capital Markets

Appendix

Ivan Boesky's choice

Topic 8: Guidelines for Compliance

1. Guidelines for Compliance
 - Guidelines for Compliance Officers
 - Compliance Guidelines for Futures Brokers
 - Guidelines on Compliance Function for Fund Management Companies (***Please refer to the latest Guidelines on Compliance Function for Fund Management Companies***)
 - Guidelines on Unit Trust Funds (Chapter 3 & 4) (***Please refer to the latest Guidelines on Unit Trust Funds***)
2. Best Business Practice
 - Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives (***Please refer to the latest Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives***)

Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries *(Please refer to the latest Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries)*

Rules of Bursa Malaysia Securities Berhad (Chapter 5) *(Please refer to the latest Rules of Bursa Malaysia Securities Berhad)*

Bursa Malaysia Securities Berhad Participating Organisations' Directives and Guidance *(Please refer to the latest Bursa Malaysia Securities Berhad Participating Organisations' Directives and Guidance)*

Rules of Bursa Malaysia Derivatives Berhad (Rule 600) *(Please refer to the latest Rules of Bursa Malaysia Derivatives Berhad (Rule 600))*

SAMPLE QUESTIONS AND ANSWERS

Sample Question 1

Which of the following are elements of good corporate governance?

- (i) Promotion of shareholders' rights
 - (ii) Investor education
 - (iii) Promotion of shareholders' responsibilities
 - (iv) Controlled access to the management of the company
- (A) (i) and (iii) only (C) (i), (ii) and (iii) only
- (B) (ii) and (iv) only (D) All of the above

Sample Question 2

Which of the following is TRUE about segregation of assets in stockbroking firms?

- (i) All client's asset should be segregated from Participating Organisation's assets except for collateral assets
 - (ii) All client's asset should be completely segregated from company's assets
 - (iii) Client's fund should be completely segregated from Participating Organisation's fund unless there is written instruction from clients to combine the fund
 - (iv) Participating Organisation's account should be completely segregated from client's account
- (A) (i) and (iii) only (C) (i), (ii) and (iv) only
- (B) (ii) and (iv) only (D) All of the above

Sample Question 3

Which of the following BEST describes the scope of compliance?

- (A) Compliance in the context of the capital market refers to compliance to the internal policies and procedures of a firm
- (B) Compliance by a firm is limited to ensuring compliance to the rules and regulations stipulated by the regulators
- (C) Compliance goes beyond ensuring compliance to the rules and regulations but also encompass compliance to the firm's own standards, process and procedures
- (D) Compliance refers to compliance to decisions by the board of directors or shareholders of the firm

Sample Question 4

The following are best approaches in monitoring a firm's adherence to and effectiveness of an internal compliance programme EXCEPT:

- (A) monitoring should take the form of periodic, audit-style compliance procedural reviews
- (B) monitoring should require daily reports to detect potential non-compliant trading activity
- (C) monitoring function should be solely the responsibility of the Compliance Officers and the Board of Directors
- (D) monitoring should continuously be done in tandem with the developments in rules and regulations governing the market

Sample Question 5

Select statements which are CORRECT pertaining to Compliance Culture.

- (i) Ultimate responsibility for embedding a compliance culture within a firm lies with the Compliance Officer
- (ii) Compliance Culture of a firm differs from one firm to another
- (iii) Compliance Culture of a firm arises from the firm's values, attitudes and beliefs
- (iv) Comparing the process procedures and administration of the firm with principles of compliance may determine whether a firm is pro-compliance or anti-compliance

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

Answers

Sample Question 1 - C

Sample Question 2 - B

Sample Question 3 - C

Sample Question 4 - C

Sample Question 5 - C