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# LICENSING EXAMINATION STUDY OUTLINE

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

## Module 14 Derivatives

*(Formerly known as Futures and Options)*

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(This document consists of 9 pages including the cover page)

## **STUDY OUTLINE**

### **MODULE 14: Derivatives**

This examination is designed to test candidate's knowledge and understanding of the 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

- (2) 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.

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	<ul style="list-style-type: none"> <li><input type="checkbox"/> Examination Study Guide for Module 14: Futures and Options (<i>First Print, 2013</i>)</li> <li><input type="checkbox"/> Updates on Examination Study Guide Module 14: Futures and Options (<i>July 2014</i>)</li> <li><input type="checkbox"/> Additional Reading Material on Gold Futures Contract</li> <li><input type="checkbox"/> Additional Reading Material on USD RBD Palm Olein Futures Contract</li> </ul>

**REFERENCE MATERIAL**

The reference materials for this examination can be obtained from:

**SIDC Shop, Ground Floor**

**3, Persiaran Bukit Kiara**

**Bukit Kiara**

**50490 Kuala Lumpur**

**Tel: (603) 6204 8665/8667**

For more information, please visit the SIDC website at [www.sidc.com.my](http://www.sidc.com.my).

**LEARNING OBJECTIVES**

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

- Concepts and structure of the derivatives markets
- Product knowledge on all contracts that are currently available on Bursa Derivatives
- Hedging, arbitraging and speculative trading strategies using derivatives contracts available on Bursa Derivatives
- Derivatives trading strategies including pay-off diagrams
- Valuation of derivatives instruments
- Derivatives pricing models and their uses in derivatives trading
- Market analysis - fundamental and technical analysis of futures market

**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	60%	36
Section 2: Options	60%	36

Details of the syllabus are as below:

**SECTION 1: FUTURES**

1. **Development of the Futures Market**
  1. Dawn of the Forward Market
  2. The Forward Contract
  3. Types of Forward Contracts
  4. Forward Price and the 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)
8. Technical Analysis
9. Fundamental Analysis

**4. Trading Futures in Malaysia**

1. Overview of Regulation of Futures Trading
2. Trading Commodity Futures
  - Crude Palm Oil Futures (FCPO)
  - Crude Palm Kernel Futures (FPKO)
  - USD Crude Palm Oil Futures (FUPO)
  - Gold Futures (FGLD)
  - USD RBD Palm Olein Futures Contract (FPOL)

3. Trading Equity Futures
  - FTSE Bursa Malaysia KLCI Futures (FKLI)
  - Single Stock Futures (SSF)
4. Trading Financial Futures
  - Kuala Lumpur Interbank Offered Rate Futures (FKB3)
  - 3-Year Malaysian Government Securities Futures (FMG3)
  - 5-Year Malaysian Government Securities Futures (FMG5)

## SECTION 2: OPTIONS

5. **The Options Market**
  1. Basic Concepts
  2. Underlying Instruments
  3. Option Contract Specifications
  4. Uses of Options
  5. Advantages and Disadvantages of Using Options
  6. Listed Stock Warrants and Structured Warrants
  
6. **Options Valuation**
  1. Intrinsic and Time Value
  2. Factors Affecting Options Value
  3. Options Pricing Models
  4. Option Greeks
  5. Put-Call Parity
  6. Payoff Diagrams

**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 FTSE Bursa Malaysia KLCI Futures Contract (OKLI)
3. Options on Crude Palm Oil Futures Contract (OCPO)
4. Use of Options in Portfolio Management

**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 RM1,100 and the price rises to RM1,130. The market then falls and the trader liquidates them at RM1,115. 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