

Module 6

Stock Market and Securities Law

Questions and Answers

Topic 1

Overview of the Malaysian Stock Market

Question 1

Which of the following defined as securities according to the Capital Markets and Services Act 2007 (CMSA)?

- i. Unit Trust
- ii. Stocks
- iii. Bonds
- iv. Crude Palm Oils

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

Question 2

- AC is the central market place provided by the stock exchange where people can buy and sell securities that have been previously issued to the market.
 - AC is an auction system and the price of the share is determined by supply and demand.
- Which of the following describes AC?

- (A) Primary Market
- (B) Secondary Market**
- (C) Main Market
- (D) Stock Market

Question 3

Please indicate whether the following statements in relation to sophisticated investors, listed companies and Proprietary Day Traders are TRUE or FALSE.

1. Only sophisticated investors can trade on the LEAP Market. (TRUE/FALSE)
2. In Malaysia, companies are either listed on the Main Market or ACE Market only (TRUE/FALSE)
3. Proprietary Day Traders can only execute Day Trading on behalf of their Participating Organisation and cannot execute client trades. (TRUE/FALSE)

Answer: 1. = TRUE, 2. = FALSE and 3. = TRUE

Topic 2

Regulation of the Securities Industry

Question 1

Please fill in the blanks with the correct regulatory bodies according to their functions in the list which given below:

Bursa Malaysia Depository Berhad – Companies Commission of Malaysia – **Bursa Malaysia Berhad** – Securities Commission Malaysia – **Bank Negara Malaysia** – Bursa Malaysia Securities Berhad – **Securities Industry Dispute Resolution Centre (SIDREC)**

- (1) To advise the Minister on all matters relating to securities and derivatives industries. _____.
- (2) To handle disputes involving monetary claims relating to capital market products and services that an investor may have against capital market intermediaries. _____.
- (3) To provide, operate and maintain the Malaysian securities exchange and be responsible for the surveillance of Participating Organisations, the market place and enforcement of the listing requirements. _____.
- (4) To provide, operate and maintain the central depository, which is Bursa Malaysia Berhad's scripless electronic settlement process. _____.
- (5) To operate a fully integrated exchange, offering the complete range of exchange-related services including trading, clearing, settlement and depository services.
- (6) To regulate banks and other financial institutions, and provide the stimulus for the expansion and growth of the country's financial sector. _____.
- (7) To regulate matters relating to corporations, companies and businesses. _____.

Answer:

- 1. Securities Commission Malaysia**
- 2. Securities Industry Dispute Resolution Malaysia**
- 3. Bursa Malaysia Securities Berhad**
- 4. Bursa Malaysia Depository Berhad**
- 5. Bursa Malaysia Berhad**
- 6. Bank Negara Malaysia**
- 7. Companies Commission of Malaysia**

Question 2

Referring to the diagram below, list the other three types of Participating Organisations according to the Rules of Bursa Malaysia Securities Berhad.

Participating Organisation:

- (a) Investment Bank
- (b) _____
- (c) _____
- (d) _____

Answer: Universal Broker, Special Scheme Broker, 1+1 Broker, and Standalone Broker

Question 3

Which of the following statements in relation to Exchange's disciplinary powers as set out in the Rules of Bursa Malaysia Securities Berhad are **CORRECT**?

- i. Reprimanding (publicly or privately) a Participant
- ii. Imposing a fine not exceeding RM500,000 on a Participant
- iii. Revoking a Capital Markets Services Representative's Licence
- iv. Suspending a Participant in accordance with the terms prescribed by the Exchange

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

Topic 3

Business Structures

Question 1:

Match of the following types of companies below with their CORRECT descriptions.

Company A:

For company A, the liability of each shareholder is limited to the amount unpaid on any shares he/she holds. Once the shares are fully paid, a shareholder has no further liability to the company or to anyone dealing with the company.

Answer: **COMPANY LIMITED BY SHARES**

Company B:

For B, the liability of member is limited to the amount the member has guaranteed to contribute if the company has insufficient assets to pay its debts when it is wound-up.

A member cannot be called on to contribute any capital while the company is a going concern.

Answer: **COMPANY LIMITED BY GUARANTEE**

Company C:

For company C, the shareholders are jointly and individually liable without limit for the debts of the company if the company is wound up.

Such companies are rare and are to be used to hold properties and investments passively where liabilities are unlikely to be incurred.

Answer: **UNLIMITED COMPANY**

Question 2:

The following are type of Collective Investment Schemes EXCEPT?

- I. Unit Trust
- II. Bonds
- III. Exchange Traded Funds (ETF)
- IV. Real Estate Investment (REITS)

A. II only

B. III only

C. I and II only

D. II and III only

Question 3:

Identify whether the following statements in relation to margin, credit facilities and the Capital Adequacy Ratio of a Participating Organisation are TRUE:

- I. At any time, the equity in a client's margin account should not fall below 130% of the outstanding balance.
- II. A Participating Organisation may request to additional margin and impose haircuts on any collateral and securities purchased and carried in a margin account on the occurrence of usual rapid or volatile change in value of the securities.
- III. A Participating Organisation may extend credit facilities to a single client up to a maximum of 20% of its Effective Shareholders's Funds.
- IV. Participating Organisation must ensure that its Capital Adequacy Ratio is greater than 1.

A. I and only

B. I and III only

C. II and III only

D. All of the above

Topic 4

Capital Raising on the Primary Market

1. A _____ is a legal document by which a company offers to sell its securities to the public and the document includes a notice, circular and advertisement.

A. *Prospectus*

B. Share Certificate

C. Product Highlight Sheets

D. Memorandum and Articles of Association

2. Identify whether the statements in relation to the requirement of the SC's approval for companies seeking to be listed on the ACE and Main Markets are TRUE or FALSE.

a. For ACE Market listing applications, the SC's approval is not required. **TRUE** / FALSE

b. All companies seeking listing on the Main Market of Bursa Malaysia Securities Berhad will require the SC's approval. **TRUE** / FALSE

3. The information that is required to be included in a prospectus by the CMSA includes the following:

1. Assets and liabilities of the issuer

2. The merits of investing in the securities

3. The risk involved in investing in the securities

4. Financial position, profit and losses and prospects of the issuer

5. The persons likely to consider acquiring such securities

6. The nature of the securities, the business of the issuer of the securities and the unit trust scheme or prescribed investment scheme

Answer: All of the above

Topic 5

Trading on Secondary Market

1. What is the minimum retail commission payable in terms of % calculated for the contracts below?

Contract A —The contract value is RM80,000. **Answer: 0.6%**

Contract B —The contract value is RM128,000. **Answer: 0.3%**

2. "Y is an individual who has been entrusted domestically with prominent public functions, for example as Head of State or of government, senior politician, senior government, judicial or military official, senior executive of a state-owned corporation, important political party official."

Which of the following persons is described in the above statement in relation to Guidelines on Prevention of Money Laundering and Terrorism Financing for Reporting Institutions in the Capital Market?

A. Legal Person

B. Special Officer

C. Beneficial Owner

D. *Politically Exposed Person (PEP)*

3. "This order remains in the order book if it is not fully matched, from the time it is entered till it reaches its specified expiry date, cancelled by the Participating Organisation or withdrawn by the Exchange. Unmatched quantities are carried forward to the following trading day."

Which of the following order validity matches the description above?

- A. Day Order
- B. Fill-Or-Kill (FOK) order
- c. Bursa Goof-Till-Date (Bursa FTD) order
- D. Bursa Good-Till-Cancel (Bursa GTC) order**

Topic 6 Clearing, Delivery, Settlement and Corporate Actions

Refer to the diagram below to answer question 1.

July 20X9						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

August 20X9						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

1. Amir bought 2 board lots of SS shares on 26 July 20X9 on a ready basis contract. Assuming that Friday, 27 July 20X9 and Monday, 30 July are public holidays, what is the EARLIEST date for the selling-out of the SS shares to be instituted?

- A. 31 July 20X9 at 2.00 pm
- B. 1 August 20X9 at 10.00 am
- C. 1 August 20X9 at 2.00 pm**
- D. 2 August 20X9 at 10.00 am

2. The following persons shall be eligible to open a securities account with Bursa Malaysia Depository Sdn Bhd EXCEPT:

- a. A partnership**
- b. A statutory bodies incorporated under an Act of Parliament
- c. A trustee or trust corporation duly constituted under any written law
- d. A corporation within the meaning of s.3 of the Companies Act 2016 (CA)
- e. An individual who has attained the age of 18 years as of the application date
- f. A body corporate that is incorporated within Malaysia and is by notice published in the Gazette declared to be a public authority or instrumentality or agency of the Government of Malaysia or any State

3. Robert has submitted his application to open a securities account with an authorised depository agent on Monday, 9 June 20X9. Assuming there is no public holiday for that month by which date should the authorised depository agent complete the process of the opening of Robert's securities account?

- A. Monday, 9 June 20X9
- B. Tuesday, 10 June 20X9
- C. Wednesday, 11 June 20X0**
- D. Thursday, 12 June 20X9

Topic 7

The Law of Conduct

1. The essential elements of contract include the following, EXCEPT:

- a. Certainty
- b. Consideration
- c. Genuine consent
- d. Invitation to treat**
- e. Must be in writing**
- f. Capacity to Contract
- g. Offer and acceptance
- h. Intention to create legal consideration

2. On Monday, 21 October 20X9, Sandy, a Marketing Representative of ABC Company Sdn Bhd had promoted her company's products and services by showing brochures to her clients. Based on the law of contract, the information given by Sandy is known as:

- A An offer
- B A consideration
- C A genuine consent
- D An invitation to treat**

3. Which of the following remedies may be claimed by the party not in default in a contract when there is a breach of contract?

- I Mental distress
 - II Monetary compensation
 - III Cancellation of a contract
 - IV Obtaining an order of a court restraining a person from doing a particular act
- (A) I only
(B) I and IV only
(C) II, III and IV only
(D) All of the above

Topic 8

Relationship Between Stockbroking Company and Client

1. Lisa is a dealer who is working with ROCKY Investment Sdn Bhd. Lisa has a new client and when making recommendations to her client on any transaction for the buying and selling of securities, the Rules of Bursa Malaysia Securities Berhad requires Lisa to do the following EXCEPT:

- A. To ensure that her client has the knowledge and experience in financial matters that will enable him/her to evaluate the risk involved.

- B. To disclose to her client the potential risk involved in a recommended transaction.
- C. To ensure that her client has the financial capability to bear any risk attached to such recommended transactions.
- D. **To ensure that her client discloses her sibling's financial record.**

2. Which of the following clients' information should be maintained by a participating Organisation for a period of not less than seven years?

- I. Date of opening the account
- II. Client's and his/her family's financial position
- III. Name of officer who approved the opening of the account and the date of approval
- IV. The type of transaction, products and investments for which the account is approved.

- A. I and II only
- B. III and IV only
- C. **I, III and IV only**
- D. All of the above

3. Identify the following statements which are FALSE in relation to why Participating Organisations must inform their clients when they are acting as principal rather as agents in a transaction.

- I. To prevent the client from switching to another stockbroking company
- II. To enable the client to take immediate action against the stockbroking company for misconduct
- III. To provide the client due notice that the stockbroking company may consider its own interests in addition to those of the client.

- A. I only
- B. II only
- C. **I and II only**
- D. All of the Above

Topic 9 Negligent Misstatement

1. As a Capital Market Services Representative's Licence (CMSRL) holder, Susan should have a reasonable basis in making her recommendations to her clients. Kindly identify whether the following statements in relation to elements of reasonable basis that should be used by Susan are FALSE?

- I. Susan has taken into account the investment objectives of her client
- II. Susan has considered the financial situation of her client and her family background
- III. Susan has conducted due diligence on the subject matter for her recommendation to the client.
- IV. Susan has explained the features and benefits of recommended products to her client.

- A. I only
- B. II only**
- C. I, III and IV only
- D. All of the above

2. Robert is a client of ABC Investment Sdn Bhd, intends to claim against his dealer on the basis that he has suffered a loss having relied upon advice given by his dealer, who also did not disclose his interest in the recommended securities.

Which of the following defences can be used by the dealer?

- I. The client would not have made a claim if a profit had been made.
- II. The dealer was not aware of a change in the client's investment objectives.
- III. The dealer did not know that the interest existed at the time of the recommendation.
- IV. The client would have made the investment decision even if the interest had been disclosed.

- A. I only
- B. I and II only
- C. II, III and IV only**
- D. All of the above

3. Mack was planning to increase his capital position and therefore had sought advice from his adviser, Muna. Based on Muna's advice, Mack had purchased 500,000 shares of Gula Berhad at RM1.00 on 4 June 20XX. A week later, Gula Berhad went into liquidation and its share price fell to RM0.20. Mack confronted Muna and Muna admitted the advice was given based on rumours that Gula Berhad would be acquiring another public-listed company and she did not conduct any further verification purposes.

Based on the above scenario, Mack may bring civil action against Muna for:

- A. short selling
- B. front running
- C. negligent misstatement**
- D. unlawful use of client's money

Topic 10. Licensing

1. Julia intends to make an application to the Securities Commission Malaysia (SC) to become the holder of a Capital Markets Services Representative's License (CMSRL) for dealing in securities.

Then, the following are the requirements that Julia must fulfil:

- I. Be fit, proper and be at least 21 years old.
- II. Pass the relevant licensing modules.
- III. Must have two years' experience in the capital market.
- IV. Must possess a degree that is relevant to the regulated activity of dealing in securities.

- A. I only
- B. I and II only**
- C. I, II and III only
- D. All of the above

2. Which of the following statements are CORRECT in relation to the obligations of Capital Market

Services Representative's License (CMSRL) holder dealing securities?

- I. Not deal as principal without informing his/her client
 - II. To have a reasonable basis for making an investment recommendations
 - III. To notify the SC of an event for which the SC can revoke his/her license
 - IV. Disclose interest in securities in circulars where recommendations are made.
- A. I and II only
 - B. II and IV only
 - C. I, II and III only
 - D. All of the above**

3. What is the penalty for acting as a representative for dealing in securities without a valid Capital Market Services Representative's Licence (CMSRL)?

- A. RM 2 million or imprisonment for up to two years or both
- B. RM 3 million or imprisonment for up to three years or both
- C. RM 4 million or imprisonment for up to four years or both.
- D. RM 5 million or imprisonment for up to five years or both**

**Topic 11
Securities Offences**

1. Luna a dealer representative's has been instructed by her employer ABC Securities Sdn Bhd to buy and sell shares of XYZ Berhad. The purpose of the transaction is to create an appearance of active trading of XYZ Berhad shares. However, there is no change in the beneficial ownership of the shares when the related shares are traded.

Based on the above scenario, which of the following offences has ABC Securities Sdn Bhd committed?

- A. Cornering
- B. False trading**
- C. Insider trading
- D. Short selling

2. Which of the following conducts would lead to dealer's representative to be charged for market manipulation by the SC?

- A. Selling shares which his/her client does not own at the time of selling.
- B. Carrying out transactions in which the dealer's representative is the buyer and the seller in order to create appearance of active trading on a particular counter on the Bursa Malaysia Securities Berhad
- C. Acquiring or disposing securities while in possession of information that is not publicly available.
- D. Transacting in the securities of a company that will have or is likely to have the effect of raising lowering or maintaining the price of the company's securities on Bursa Malaysia Securities Berhad.**

3. What is the maximum civil penalty for the offence of insider trading?

- A. Recovering of an amount of two times of any profit made or loss avoided by such person.
- B. Recovering an amount of four times of any profit made or loss avoided by such person and civil penalty of RM1 million.
- C. Recovering an amount of four times of any profit made or loss avoided by such person and civil penalty of RM500,000
- D. Recovering an amount of three times of any profit made or loss avoided by such person and civil penalty of RM1 million.**

Topic 12

Take-Overs And Mergers.

1. Which of the following are types of take-over offers stipulated in the Rules of Take-Overs, Mergers And Compulsory, Acquisition (2016)?

- I. Partial
- II. Voluntary
- III. Regulatory
- IV. Mandatory

- A. I and II Only
- B. II and III Only
- C. I, II, IV Only**
- D. All of the above

2. Which of the following are the main parties involved in the process of take-overs and mergers?

- I. Offerer
- II. Offerree
- III. Advisors
- IV. Trustee

- A. I and II Only
- B. II and III Only
- C. I, II and III Only**
- D. All of the above

3. Which of the following statements are FALSE in relation to the Malaysian Code on Take-Overs and Mergers 2016 and the Rules on take-overs, Mergers and Compulsory Acquisition (2016)?

- I. A partial offer is a sub-set of a voluntary offer
- II. The codes applies to the public companies that have more than 50 shareholders and
- III. Parties involved in the take-over and merger processes are offeror, offeree and board of directors of an offeree
- III. The Codes set out 14 general principles that shall be observed and complied by all persons engaged in any take-over or merger transaction.

- A. I and III only
- B. II and IV only**
- C. I, II and III only
- D. III and IV only