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Question: 1594

All else equal, the existence of an embedded call option in a fixed-rate bond causes the bond's effective duration to be:

A. Lower than that of an otherwise identical option-free bond for yields near or below the coupon rate
B. Negative when the bond trades at a deep discount
C. Higher than that of an otherwise identical option-free bond because of greater cash-flow uncertainty
D. Identical to that of an otherwise identical option-free bond at all yield levels

Answer: A

Explanation: When yields are near or below the coupon rate the probability of call exercise rises. The expected cash-flow life of the bond shortens, reducing its sensitivity to further yield changes. Consequently the effective (option-adjusted) duration of a callable bond is lower than the modified duration of an otherwise identical option-free bond in that yield region.

Question: 1595

A Capital Markets Services Representative's Licence (CMSRL) holder is approached by a high-net-worth individual seeking advice on a complex derivatives portfolio. The licensed person only holds a license for dealing in securities and is not licensed for advising on corporate finance or investment advice. What is the appropriate professional obligation of the licensed person in this scenario?

A. Execute the advisory service but require the client to sign a waiver acknowledging the representative's limited licensing scope.
B. Temporarily act as an investment adviser by utilizing the principal firm's overarching corporate advisory license for this single client.
C. Provide the requested advice informally without charging an advisory fee to circumvent the strict regulatory licensing boundaries.
D. Decline to provide the advisory services and direct the client to a properly licensed investment adviser within or outside the firm.

Answer: D

Explanation: A licensed person is only legally permitted to carry out the specific regulated activities explicitly authorized by their license. Providing investment advice without the appropriate licensing classification violates fundamental regulatory responsibilities. The individual must decline the request and refer the client to someone who possesses the legal authority and qualifications to dispense such financial advice.

Question: 1596

In primary versus secondary market activity for Malaysian Government Securities, what is the distinct role of the issuer?

A. The issuer receives the proceeds only at the time of original issuance in the primary market
B. The issuer is responsible for clearing and settlement of all secondary-market trades
C. The issuer sets daily bid-offer spreads exclusively in the secondary market
D. The issuer continuously buys and sells existing securities to provide market-

making services

Answer: A

Explanation: In the primary market the government (or corporate issuer) issues new securities and receives the capital proceeds. Once the securities are outstanding, secondary-market trading occurs among investors and does not provide additional funds to the original issuer.

Question: 1597

Which type of financial intermediary in Malaysia's financial system primarily facilitates the flow of funds by pooling deposits from saver-lenders and making loans to borrower-spenders, thereby reducing transaction costs and risks?

A. Stock exchange
B. Central depository
C. Commercial bank
D. Securities Commission

Answer: C

Explanation: Commercial banks serve as financial intermediaries in Malaysia's financial system by pooling deposits from saver-lenders (those with surplus funds) and making loans to borrower-spenders (those needing funds for spending or investment). This intermediation process reduces transaction costs and risks through economies of scale, diversification, and professional risk assessment. Financial intermediaries including commercial banks, Islamic banks, insurance companies, pension funds, and credit unions facilitate indirect finance, contrasting with direct finance through financial markets where borrowers sell securities directly to lenders.

Question: 1598

When constructing a customer profile for suitability purposes, which combination of information is indispensable?

A. The client's social-media follower count and online purchase history
B. The client's favourite holiday destinations and preferred airline
C. The client's investment knowledge, risk tolerance, financial capacity and specific investment objectives
D. The licensed person's personal opinion of the client's character

Answer: C

Explanation: Understanding investor needs and product suitability considerations rest on a complete profile that captures knowledge level, risk appetite, ability to bear losses and stated goals. These elements allow the licensed person to match products appropriately and fulfil investor-protection duties.

Question: 1599

A resident company with domestic ringgit borrowing intends to expand its operations overseas via Direct Investment Abroad (DIA). Which activity qualifies as a DIA under the guidelines?

A. Establishing a new wholly owned foreign subsidiary for manufacturing purposes outside of Malaysia.
B. Remitting funds to an offshore bank account strictly for the purpose of earning

higher fixed deposit interest.

C. Purchasing a negligible five percent equity stake in a publicly listed foreign entity purely for capital appreciation.

D. Executing short-term speculative trades on foreign currency pairs utilizing high leverage margin accounts.

Answer: A

Explanation: Direct Investment Abroad (DIA) signifies an investment that establishes a lasting interest or significant control in an overseas enterprise. Setting up a new wholly owned subsidiary clearly meets the threshold of establishing a lasting operational footprint, distinguishing it from purely passive or speculative portfolio investments.

Question: 1600

Which of the following most accurately describes the relationship between credit quality and required yield for debt securities of different issuers?

A. Lower credit quality is associated with higher required yields to compensate for elevated default risk

B. Sovereign issuers always command higher yields than corporate issuers of equivalent maturity

C. Higher credit quality is associated with higher required yields to compensate for lower liquidity

D. Credit quality has no systematic relationship to yield once maturity is controlled for

Answer: A

Explanation: Investors demand compensation for bearing default risk. As credit quality declines and the probability of loss increases, the yield spread over a risk-free benchmark widens, producing higher required yields for lower-rated issuers.

Question: 1601

A bond's market price is equal to its face value. Which equality holds among its yield measures?

A. Coupon rate exceeds current yield which equals yield to maturity
B. Coupon rate is less than current yield which equals yield to maturity
C. Coupon rate equals current yield which equals yield to maturity
D. Coupon rate equals current yield but both differ from yield to maturity

Answer: C

Explanation: At par the annual coupon divided by face value equals the coupon rate; the same coupon divided by the identical market price yields the current yield; and the internal rate of return that equates the present value of cash flows to the par price is likewise the coupon rate. All three measures therefore coincide.

Question: 1602

How does the regulatory framework for trading arrangements manage the risks associated with short selling in the domestic equity market?

A. Naked short selling is actively encouraged to artificially inflate trading volumes and enhance market liquidity.

B. All market participants are completely prohibited from engaging in any form of short selling under all circumstances.
C. Retail investors are permitted to short sell any unlisted equity instrument without prior regulatory notification.
D. Participants may execute regulated short sales provided they have borrowed the approved securities beforehand.

Answer: D

Explanation: To prevent severe settlement failures and market manipulation, regulatory authorities strictly ban the practice of selling shares without having them secured. Under authorized trading arrangements, short selling is only permitted if the participant has already successfully borrowed the shares through an approved securities borrowing and lending facility, ensuring smooth settlement.

Question: 1603

Supranational bonds are issued by multilateral institutions such as the World Bank or the Asian Development Bank. When evaluating the credit quality of this classification of issuer, what is the most distinctive feature that underpins their exceptionally high creditworthiness?

A. The substantial backing by subscribed capital from multiple sovereign governments, coupled with preferred creditor status in sovereign lending.
B. The aggressive utilization of highly leveraged derivative portfolios designed to generate massive speculative trading profits.
C. The direct legal authority to unilaterally impose and collect income taxes from all citizens residing within member nations.
D. The issuance of debt strictly in emerging market currencies, totally immunizing the institution from global interest rate fluctuations.

Answer: A

Explanation: Multilateral development banks achieve top-tier ratings primarily due to their unique capitalization structure. Their capital is provided by multiple sovereign nations, offering vast financial backing. Furthermore, when these institutions lend money to developing nations, they are generally granted preferred creditor status. This means that if a borrowing nation experiences financial distress, it will prioritize repaying the supranational institution before commercial lenders, significantly reducing the institution's non-performing loan risk.

Question: 1604

How does the ethical foundation of Shariah screening methodology in Malaysia differ fundamentally from conventional Environmental, Social, and Governance (ESG) screening?

A. Assessing a company's compliance with labor laws and environmental sustainability, which perfectly guarantees its classification as a Shariah-compliant equity.
B. Examining the demographic diversity of a company's board of directors as the sole determinant for inclusion in the official Shariah-compliant securities list.
C. Eliminating companies involved in the production of non-halal products, gambling, and conventional financial services, prior to conducting any financial ratio analysis.
D. Evaluating the environmental impact of a corporation exclusively, completely disregarding its primary business activities or its internal debt-to-asset ratios.

Answer: C

Explanation: Shariah screening initially focuses on negative screening based on business activities (excluding haram activities like alcohol, pork, gambling, and interest-based finance). Only after passing this qualitative business activity test does the methodology apply quantitative financial ratio benchmarks, distinguishing its theological foundation from secular ESG models.

Question: 1605

A corporate insider, possessing non-public material information about an impending lucrative government contract, executes trades in their company's stock. Under the Capital Markets and Services Act (CMSA), which of the following scenarios would potentially serve as a valid statutory defense against an insider trading charge?

A. The insider executed the trades exclusively through an offshore brokerage account, thereby placing the transaction outside the jurisdictional scope of the CMSA.
B. The insider demonstrates that the transaction was executed pursuant to a previously established, binding, and automated trading plan beyond their immediate control.
C. The insider intended to donate all the resulting financial profits to a registered charitable organization rather than keeping the funds for personal enrichment.
D. The insider only communicated the confidential information to immediate family members who executed the trades on their behalf.

Answer: B

Explanation: Insider trading is strictly prohibited under the CMSA. However, statutory defenses may apply if the individual can prove the trade was executed under a completely independent and previously established automated trading plan (such as a blind trust or programmed algorithmic schedule) where the insider had no discretionary influence over the execution timing once they acquired the material non-public information.

Question: 1606

Which of the following best describes the role of the Shariah Advisory Council of Bank Negara Malaysia in resolving divergent Shariah interpretations among individual Islamic banks' Shariah Committees?

A. It acts merely as a consultative body whose opinions are non-binding
B. It reviews only products offered by foreign Islamic banks operating in Malaysia
C. It serves as the highest authority whose rulings on Shariah matters for Islamic financial business are binding on the courts and on all Islamic financial institutions
D. It focuses exclusively on macroeconomic policy and does not intervene in product rulings

Answer: C

Explanation: Under the Central Bank of Malaysia Act 2009 and the IFSA 2013, the BNM Shariah Advisory Council is the apex authority whose decisions on Shariah issues relating to Islamic financial business are binding on the institutions and are to be followed by the courts.

Question: 1607

A reporting institution discovers that performing full customer due diligence on a prospective customer would tip the customer off to an existing suspicion of money laundering. Under the tipping-off provisions and related guidance, what is the permitted course of action?

A. Complete the full customer due diligence process and then file the Suspicious Transaction Report
B. Seek the customer’s written consent before filing any report
C. Proceed with the relationship under simplified due diligence while monitoring the account
D. Document the basis for not completing the customer due diligence process and immediately file a Suspicious Transaction Report

Answer: D

Explanation: Where there is a reasonable belief that completing customer due diligence would tip off the customer, the institution is permitted not to pursue the CDD process, must document the reasons, and must file a Suspicious Transaction Report immediately.

Question: 1608

Consider two otherwise identical bonds, one with a 4% coupon and one with an 8% coupon, both priced to yield 6%. Which bond exhibits greater price sensitivity to a parallel shift in the yield curve?

A. The 4% coupon bond because a larger fraction of its value is concentrated in the distant principal repayment
B. The 8% coupon bond because higher interim cash flows amplify the effect of rate changes
C. The 4% coupon bond because its duration is shorter than that of the higher-coupon bond
D. Both bonds exhibit identical sensitivity because maturity and yield are the same

Answer: A

Explanation: Lower-coupon bonds have longer Macaulay durations because a greater proportion of total cash flow occurs at maturity. Longer duration produces larger percentage price changes for any given change in yield, all else equal.

Question: 1609

The relationship between bond price and yield is best described as:

A. Convex and inverse
B. Linear and positive
C. Linear and inverse
D. Concave and positive

Answer: A

Explanation: Price is a decreasing function of yield (inverse relationship). In addition the rate of change of price with respect to yield itself declines as yield rises, producing a convex shape for the price-yield curve of an option-free bond.

Question: 1610

An investor is analyzing two corporate bonds with identical credit ratings, coupons, and maturities. Bond Alpha was issued two weeks ago, while Bond Beta was issued three years ago. Why might Bond Beta trade at a slightly higher yield than Bond

Alpha?

A. Bond Beta carries a higher default probability simply because it has been in the market longer.
B. Bond Beta benefits from being an on-the-run issue, leading to a liquidity premium and higher yield.
C. Bond Beta possesses a significantly longer modified duration, necessitating a higher yield compensation.
D. Bond Beta experiences higher liquidity risk because off-the-run issues generally trade less frequently.

Answer: D

Explanation: Recently issued bonds (on-the-run) are actively traded and highly liquid. Older bonds (off-the-run) like Bond Beta are typically locked away in buy-and-hold institutional portfolios, reducing their trading volume and liquidity in the secondary market. Investors demand a higher yield to compensate for the liquidity risk associated with off-the-run securities.

Question: 1611

When classifying debt securities issued by financial corporations versus non-financial corporations, which consideration is typically more critical for the financial issuer?

A. Dependence on a single large customer for the majority of annual revenue
B. Reliance on long-term fixed-price supply contracts
C. Vulnerability to changes in commodity input prices
D. Exposure to interest-rate risk on the asset side of the balance sheet and regulatory capital constraints

Answer: D

Explanation: Financial corporations operate with inherently matched or mismatched interest-rate exposures and are subject to stringent regulatory capital and liquidity requirements. These factors dominate the assessment of their repayment ability and default risk relative to non-financial corporates whose risks are primarily commercial and operational.

Question: 1612

In the context of Islamic capital markets and Sukuk structuring, how do asset-backed transactions structurally differ from asset-based transactions?

A. Asset-backed structures universally violate core Shariah principles, whereas asset-based structures remain the only universally accepted standard for Sukuk issuance.
B. Asset-backed structures provide a guaranteed fixed return regardless of asset performance, whereas asset-based structures strictly prohibit the originator from providing any guarantee.
C. Asset-backed structures rely entirely on the creditworthiness of the originator, whereas asset-based structures depend exclusively on the underlying asset's cash flows.
D. Asset-backed structures involve a true sale of the asset to the investors, whereas asset-based structures only transfer beneficial ownership with recourse to the originator.

Answer: D

Explanation: Asset-backed transactions involve a "true sale" where legal ownership of the asset is transferred to the investors, meaning they rely purely on the asset's performance and face asset-related risks. Asset-based transactions merely transfer beneficial ownership, with investors ultimately having recourse to the originator's balance sheet if the asset fails to perform.

Question: 1613

In a liquidation waterfall, deficiency claims of under-secured first-lien creditors rank:

A. Pari passu with other senior unsecured creditors
B. Behind subordinated debt but ahead of preferred equity
C. As residual equity claims after all debt is satisfied
D. Ahead of all other senior unsecured creditors

Answer: A

Explanation: Once the collateral is exhausted, any unpaid portion of a secured claim converts into a general unsecured claim and therefore shares equally (pari passu) with other senior unsecured creditors in the remaining estate.

Question: 1614

Corporate bond indentures frequently incorporate negative pledge clauses to protect the credit quality of unsecured debt. How does the inclusion of this configuration specifically safeguard the creditworthiness and default risk position of existing bondholders?

A. It prohibits the issuer from prepaying the outstanding bonds prior to maturity, guaranteeing investors a predetermined stream of interest income.

B. It forces the issuer to pledge all future operational cash flows directly to a sinking fund, completely eliminating any possibility of financial default.
C. It prevents the issuer from pledging its unencumbered assets to secure new debt, which would subordinate the claims of existing unsecured creditors.
D. It requires the issuer to continuously issue new equity to finance operations, thereby perpetually decreasing the company's overall leverage ratio.

Answer: C

Explanation: A negative pledge clause is a standard protective covenant. It explicitly restricts the borrowing entity from granting security interests over its assets to subsequent lenders. If the entity were allowed to do so, those new lenders would gain a priority claim on the assets in the event of a liquidation. By preventing this, the clause ensures that the original unsecured lenders are not structurally pushed further down the priority hierarchy, preserving their recovery prospects.

Question: 1615

An investor is comparing three debt instruments issued by the same entity: (1) a 2-year commercial paper, (2) a 7-year medium-term note, and (3) a 25-year debenture. Based on typical maturity classifications in debt securities markets, which of the following correctly categorizes these instruments?

A. The classification depends on the issuer's industry sector rather than the maturity period
B. The commercial paper is short-term, the medium-term note is intermediate-term, and the debenture is long-term
C. All three are classified as long-term debt since they exceed 1 year maturity
D. The commercial paper and medium-term note are both short-term, while only the debenture is long-term

Answer: B

Explanation: Debt securities are typically classified by maturity as follows: short-term debt has an original maturity of one year or less (commercial paper typically falls in this category with maturities ranging from overnight to 270 days); medium-term debt generally has maturities between 1 and 10 years (the 7-year note fits this classification); and long-term debt has maturities exceeding 10 years (the 25-year debenture is clearly long-term). This maturity classification is important for investors as it affects interest rate risk, liquidity, and the appropriate benchmark for valuation. Different maturity segments also attract different investor bases and have varying sensitivity to economic cycles.

Question: 1616

What is the regulatory distinction between Bank Negara Malaysia's oversight of payment systems versus the Securities Commission Malaysia's oversight of capital market activities?

A. BNM oversees offshore finance; SC oversees onshore finance
B. BNM oversees payment instruments and systems; SC oversees securities, derivatives, and capital market intermediaries
C. BNM oversees insurance; SC oversees takaful
D. BNM oversees securities trading; SC oversees banking transactions

Answer: B

Explanation: Bank Negara Malaysia has regulatory oversight over payment systems, payment instruments, electronic money, and money services businesses under the

Financial Services Act 2013. The Securities Commission Malaysia regulates capital market activities including securities, derivatives, fund management, investment advice, and digital assets classified as securities under the Capital Markets and Services Act 2007. This functional division ensures specialized oversight of different aspects of the financial system.

Question: 1617

During a financing audit, it is discovered that an Islamic bank executed a Murabaha selling agreement with a customer for a vehicle before the bank had successfully executed the purchase agreement with the car dealer. What is the immediate Shariah consequence?

A. The transaction is deemed completely valid provided the bank subsequently acquires the vehicle within three business days and secures a retroactive endorsement from the dealer.
B. The transaction is transformed automatically into an Ijarah contract, obligating the customer to immediately commence paying rental installments instead of purchase installments.
C. The transaction is classified as highly commendable as it aggressively minimizes the bank's inventory holding risk and significantly improves operational turnaround time.
D. The transaction is rendered fundamentally void because it constitutes the sale of an asset not yet owned or possessed by the seller, directly violating the prohibition of Gharar.

Answer: D

Explanation: A fundamental prerequisite of a valid Shariah sale (Bai') is that the seller must have ownership and constructive possession of the asset before selling it.

Selling an asset prior to acquiring it creates excessive Gharar (uncertainty) regarding delivery and ownership, rendering the Murabaha contract absolutely void (batil).

Question: 1618

What is the primary statutory purpose of the Deposit Insurance System administered by PIDM?

A. To act solely as a lender of last resort to member institutions experiencing temporary liquidity shortages
B. To guarantee returns on investment products and unit trusts sold through member banks
C. To provide unlimited protection for all financial products offered by licensed banks in Malaysia
D. To protect depositors against the loss of eligible deposits and thereby contribute to the stability of the financial system

Answer: D

Explanation: The Deposit Insurance System is established to protect depositors, whether individuals or businesses, from the loss of their insured deposits in the event a member bank fails. By providing this explicit protection, the system also helps maintain public confidence and supports the overall stability of the Malaysian financial system.
