

MODULE SPECIFICATIONS

Pasaran Kewangan Malaysia Certificate (PKMC)

Module II – The Money Market

Level of Study: Level 2

Effective date: August 2022

Version: 1.0

A. Module Aim

This module provides candidates with an in-depth understanding of the mechanics of the money market in general and of the Malaysian money market in particular. Candidates will learn about the role of the central bank and its interaction with the money market as a channel for implementing monetary policies. In addition, candidates will understand how the money market functions as a platform for secondary trading of financial instruments. Key principles and guidelines of the Shari'ah framework are also outlined in this book. These will guide candidates towards a better understanding of the subject of Islamic finance, features and structures of the various Shari'ah contracts, and the roles and functions of different market participants.

B. Learning Outcomes (LO)

Upon completion of this module, candidates will be able to:

- LO1 – Demonstrate knowledge of the financial markets
- LO2 – Explain the functions of the money market
- LO3 – Demonstrate a thorough understanding of the role of, and mechanics of dealing in, interbank money markets
- LO4 – Apply the conventions and computations based on the concept of time value of money
- LO5 – Demonstrate thorough understanding of fixed income instruments
- LO6 – Discuss the various money market instruments
- LO7 – Demonstrate a thorough understanding of reserve and liquidity requirements
- LO8 – Compute the pricing of loans and deposits
- LO9 – Use yield curve analysis in money market management
- LO10 – Demonstrate a thorough understanding of the Islamic money market

C. Learning Method

Self-study – online materials available.

D. Assessment

Examination (Pearson-VUE Online)	MCQ	Written	Assignment (Moodle)
Duration	2.5 hours		
Format	80 MCQs		
Passing mark	75%		

E. Syllabus Outline

#	Learning topics	Learning outcomes (LO)	Assessment criteria
1	Overview of Financial Markets 1.1 Introduction 1.2 Major Financial Markets 1.3 Characteristics and Functions of the Money Markets 1.4 Characteristics and Functions of the Capital Markets for Debt and Equity 1.5 Characteristics and Functions of the Foreign Exchange Markets 1.6 Characteristics and Functions of the Commodity Markets 1.7 Characteristics and Functions of the Derivatives Markets 1.8 Participants of the Money Market 1.9 The Global Financial Centres and Their Participants 1.10 Development of Financial System 1.11 Flow of Funds 1.12 Causes of Fund Flows 1.13 Typical Structure of a Treasury 1.14 Functions of the Local and Foreign Currency Desks 1.15 Functions of the Sales and Marketing Unit	LO1 – Demonstrate knowledge of the financial markets	1. To explain the characteristics and functions of the money markets, capital markets, foreign exchange markets, commodity markets and derivative markets 2. To understand the flow of funds 3. To explain the typical components and structure of a treasury in a banking institution 4. To explain the functions of sales/marketing desk, local and foreign currency desks
2	The Structure of Money Markets, Role of Central Banks and Euro Currency Deposits 2.1 A Source for Wholesale Funding 2.2 Monetary Policy and Role of Central Banks in the Money Market 2.3 Asset and Liability Management	LO2 – Explain the functions of the money market	1. To describe the Malaysian money market structure and how it functions as a source of wholesale short-term funding 2. To describe the role of central banks in the money markets and how the money market facilitates the transmission of monetary policy

	<p>2.4 Malaysian Money Market Structure</p> <p>2.5 Malaysian Money Market Instruments</p> <p>2.6 RENTAS</p> <p>2.7 The Settlement Process</p> <p>2.8 Eurocurrency Deposit Market</p> <p>2.9 Domestic Deposits Markets Versus Eurocurrency Market</p> <p>2.10 Features of Eurodeposits</p> <p>2.11 US Federal Funds</p> <p>2.12 US Federal Reserve System</p> <p>2.13 LIBOR in Transition</p>		<p>3. To describe how the money market facilitates the efficient management of asset and liabilities of banks</p> <p>4. To describe RENTAS and the settlement process</p> <p>5. To explain the Eurocurrency deposit market and differentiate it against the domestic deposit market</p> <p>6. To explain the London Interbank Offer Rate (LIBOR) and successor benchmark reference rates</p> <p>7. To explain the concept of Fed funds and the US Federal Reserve System</p>
3	<p>Money Markets Conventions</p> <p>3.1 Allocation of Funds Between Surplus and Deficit Financial Institutions</p> <p>3.2 What is Interest Rate?</p> <p>3.3 Quotation of Interest Rates</p> <p>3.4 Choice Price</p> <p>3.5 Standard Convention for Dates in Money Market Transactions</p> <p>3.6 Value Dates for Short-dated Deposits</p> <p>3.7 Nostro and Vostro Accounts</p> <p>3.8 Kuala Lumpur Interbank Offer Rate (KLIBOR)</p> <p>3.9 Factors Affecting Interest Rates</p>	LO3 – Demonstrate a thorough understanding of the role of, and mechanics of dealing in, interbank money markets	<p>1. To describe the money market function of allocating funds between surplus and deficit financial institutions</p> <p>2. To explain the concept of interest rates</p> <p>3. To describe money market quotations</p> <p>4. To calculate accrued interest using various day-count and date conventions used in the money market</p> <p>5. To describe the concept of nostro and vostro accounts</p> <p>6. To explain the Kuala Lumpur Interbank Offer Rate (KLIBOR)</p> <p>7. To explain the factors that affect interest rate levels</p>
4	<p>Time Value of Money</p> <p>4.1 Day Count Conventions in Interest Calculation</p> <p>4.2 Calculation Using Simple Interest Rate</p> <p>4.3 Calculation Using Discount Rate</p>	LO4 – Apply the conventions and computations based on the concept of time value of money	<p>1. To calculate day count factor using different day count conventions: Act/360, Act/365, 30/360 and Act/Act</p>

	<p>4.4 Converting Between Simple Interest Rate and Discount Rate</p> <p>4.5 Calculation of Present Value and Future Value</p> <p>4.6 Calculation of PV of an Annuity</p> <p>4.7 Calculation of PV for a Series of Equal and Unequal Cash Flows</p> <p>4.8 Forward Rates</p> <p>4.9 Application of Forward Rates</p> <p>4.10 Calculation of Effective Annual Interest Rate</p> <p>4.11 Comparing Different Financial Instruments Using Effective Annual Interest Rate</p>		<ol style="list-style-type: none"> 2. To calculate interest amount using simple interest rate 3. To calculate settlement proceeds using discount rate 4. To convert discount rate into simple interest rate and vice versa 5. To calculate the present value and future value 6. To calculate the PV of an annuity 7. To calculate the PV for a series of equal and unequal cash flows 8. To calculate forward rates and explain applications of forward rates 9. To calculate effective annual interest rate 10. To compare different financial instruments using effective annual interest rate
<p>5</p>	<p>Fixed Income Instruments</p> <p>5.1 Purpose of Fixed Income Instruments</p> <p>5.2 Participants of the Malaysian Fixed Income Markets</p> <p>5.3 Primary and Secondary Markets for Fixed Income Instruments</p> <p>5.4 Role of Trustees in Bond Issuance</p> <p>5.5 Features of a Fixed Income Instrument</p> <p>5.6 Coupon Rate Structures</p> <p>5.7 Bonds with Embedded Options</p> <p>5.8 Conventional Debt versus Islamic Debt Instruments</p> <p>5.9 Seniority Rankings of Corporate Debt</p> <p>5.10 Credit Risk and Role of Credit Ratings</p> <p>5.11 Evaluation of Credit Spread</p>	<p>L05 – Demonstrate thorough understanding of fixed income instruments</p>	<ol style="list-style-type: none"> 1. To describe the purpose for issuance of fixed income instruments 2. To describe the various participants and stakeholders in the Malaysian fixed income markets 3. To differentiate between the primary market and the secondary market for fixed income instruments 4. To explain the various features of a fixed income instrument 5. To differentiate between conventional debt and Islamic debt instruments 6. To discuss credit risk and seniority ranking of corporate debt 7. To explain the impact of yields on bond pricing and the different types of yield measures

	<p>5.12 Impact of Yields on Bond Pricing</p> <p>5.13 Different Types of Yield Measures</p> <p>5.14 Calculating Bond Prices</p> <p>5.15 Calculating Price of Zero Coupon Bond</p> <p>5.16 Interest Rate Risk</p> <p>5.17 Using Duration to Measure Interest Rate Risk</p> <p>5.18 Different Duration Measures</p> <p>5.19 Using Duration to Estimate Price Changes</p> <p>5.20 Profiting from Changes in Yield Curve Spreads</p> <p>5.21 Profiting from Changes in Credit Spreads</p> <p>5.22 Riding the Yield Curve</p>		<p>8. To calculate bond prices and price changes using duration</p> <p>9. To describe interest rate risk and duration</p> <p>10. To discuss bond trading and investment strategies</p>
<p>6</p>	<p>Money Market Instruments</p> <p>6.1 Short-term Deposits</p> <p>6.2 Short-term Debt Instruments</p> <p>6.3 Foreign Exchange Swaps</p> <p>6.4 Daily Monetary and Tender Operations</p> <p>6.5 Malaysian Government Securities</p> <p>6.6 Treasury Bills</p> <p>6.7 Negotiable Instruments of Deposits</p> <p>6.8 Banker's Acceptances</p> <p>6.9 Repurchase Agreements</p> <p>6.10 Cagamas Bonds</p>	<p>LO6 – Discuss the various money market instruments</p>	<p>1. To explain the features of Malaysian Government Securities (MGS)</p> <p>2. To explain the mechanics of issuance, tendering and trading for MGS</p> <p>3. To calculate the settlement amount for MGS</p> <p>4. To explain the features of Malaysian Treasury Bills</p> <p>5. To understand the mechanics of issuance, tendering and trading for Treasury Bills</p> <p>6. To calculate the settlement amount for Treasury Bills</p> <p>7. To explain types and features of Negotiable Instruments of Deposits (NIDs)</p> <p>8. To calculate interest and settlement amount for SNID, LNID, ZNID and FRNID</p> <p>9. To explain the features of Banker's Acceptance (BAs) and calculate the settlement amount</p>

			<ol style="list-style-type: none"> 10. To discuss types and features of Repurchase Agreements (Repo) 11. To calculate interest and settlement for repo transactions 12. To describe features of fixed income instruments issued by Cagamas and Khazanah 13. To understand the mechanics of trading in short-term deposits, debt instruments and foreign exchange swaps 14. To understand the mechanics of tender operations 15. To describe the use of repo to facilitate money market transactions
7	<p>Reserve and Liquidity Requirements</p> <ol style="list-style-type: none"> 7.1 Statutory Reserve Requirement (SRR) 7.2 SRR as a Monetary Policy Tool 7.3 SRR Compliance 7.4 SRR Calculation of a Financial Institution 7.5 Eligible Liabilities 7.6 Capital Requirements under Basel III 7.7 Leverage Ratio under Basel III 7.8 Single Customer Exposure Limit 7.9 Liquidity Requirements under Basel III 	LO7 – Demonstrate a thorough understanding of reserve and liquidity requirements	<ol style="list-style-type: none"> 1. To explain the role of the Statutory Reserve Requirement (SRR) 2. To explain the process for licensed financial institutions to comply with the SRR 3. To calculate the SRR of a financial institution 4. To explain the concept of eligible liabilities (EL) 5. To explain capital requirements under Basel III 6. To describe leverage ratio under Basel III 7. To explain the application of single customer exposure limit in relation to the capital of a bank 8. To explain liquidity requirements under Basel III
8	<p>Cost of Funds</p> <ol style="list-style-type: none"> 8.1 Calculation of the Cost of Funds 8.2 LCR and Its Impact on COF 	LO8 – Compute the pricing of loans and deposits	<ol style="list-style-type: none"> 1. To calculate the Cost of Funds (COF) based on the historical and marginal cost approach

	<p>8.3 Hybrid Approaches 8.4 Other Factors That Add to COF</p>		<ol style="list-style-type: none"> 2. To explain the advantages and disadvantages of using the historical cost approach compared to the marginal cost approach 3. To describe hybrid approaches 4. To explain other factors that add to the cost of funds
<p>9</p>	<p>Money Market Management and Strategies 9.1 The Yield Curve 9.2 Expectation Hypothesis 9.3 Liquidity Premium Hypothesis 9.4 Segmented Market Hypothesis 9.5 Uses of the Yield Curve 9.6 Money Market Portfolio Strategies 9.7 Running a Short-money Market Portfolio (Negative Gapping) 9.8 Running a Long-money Market Portfolio 9.9 Managing Interest Rate Risks</p>	<p>LO9 – Use yield curve analysis in money market management</p>	<ol style="list-style-type: none"> 1. To describe various types of yield curve 2. To interpret the yield curve based on the expectations, liquidity premium and segmented market hypotheses 3. To explain various uses of the yield curve 4. To apply different money market portfolio strategies 5. To identify risks in both positive and negative gapping scenarios 6. To apply correct strategy to manage interest rate risk
<p>10</p>	<p>Introduction to Islamic Money Market 10.1 Shari’ah Framework for Islamic Finance 10.2 Contracts in Islamic Finance 10.3 Development of Islamic Financial Market 10.4 Islamic Money Market</p>	<p>LO10 – Demonstrate a thorough understanding of the Islamic money market</p>	<ol style="list-style-type: none"> 1. To explain the Shari’ah framework for Islamic finance 2. To discuss the features and structures of various contracts applied in Islamic finance 3. To describe the development of the Islamic financial market 4. To understand the roles and functions of the Islamic money market 5. To explain the types of financial instruments traded in the Islamic money market 6. To calculate prices, proceeds and settlement