

UNIT TITLE: DERIVATIVES		
Attainment Level	Learning Outcome	Indicative Content
Demonstrate an understanding of:	The derivatives market structure, features, regulatory and trading environment	<ul style="list-style-type: none"> • Role, structure and regulation of global derivatives markets <ul style="list-style-type: none"> – Role of regulators, other supervisory bodies and trade associations • Range of derivative instruments and typical risks <ul style="list-style-type: none"> – Financial derivatives – Commodity derivatives – Property derivatives – Exotic derivatives • Market terminology • Key market participants and roles • Exchange trading and over-the-counter (OTC) trading – main differences <ul style="list-style-type: none"> – Standard and bespoke – Maturity, expiry, margin, collateral, liquidity – Clearing and settlement – Transparency and confidentiality – Trading mechanisms – Counterparties – Documentation • Central counterparty (CCP) clearing of OTC transactions
Demonstrate an understanding of:	The principles, components, characteristics and risks of derivatives relative to the underlying	<ul style="list-style-type: none"> • Relationships to underlying • Physically settled versus cash settled • General pricing principles – futures, options

Demonstrate an understanding of:	The market environment, product types and characteristics of Exchange Traded derivatives	<ul style="list-style-type: none"> • Main products <ul style="list-style-type: none"> – Futures – Options • Main UK and international exchanges • Trading platforms <ul style="list-style-type: none"> – Mechanisms and procedures • Wholesale trading facilities <ul style="list-style-type: none"> – Significance and uses • Clearing mechanisms and processes
Demonstrate an understanding of:	The pricing, trading and market practice of Exchange Traded derivatives	<ul style="list-style-type: none"> • Calculation of profit/loss on delivery or expiry – futures and options • Mechanisms for futures pricing <ul style="list-style-type: none"> – Factors influencing pricing – Bases for calculation • Mechanisms of options pricing <ul style="list-style-type: none"> – Factors influencing pricing and premiums – Bases for calculation • Price discovery for commodities • Market transparency, reporting and monitoring • Order/instruction flow and order type • Input and matching, trade registration processes

Demonstrate an understanding of:	The main types and characteristics of OTC traded derivatives	<ul style="list-style-type: none"> • Forwards and forward rate agreements (FRAs) • OTC option products • Contracts for difference • Swaps <ul style="list-style-type: none"> – Interest rate swaps • Credit derivatives <ul style="list-style-type: none"> – Credit default swaps • Structured products • OTC trade capture, confirmation and clearing mechanisms
Demonstrate an understanding of:	Clearing, margin, settlement, exercise and delivery of both Exchange Traded and OTC derivatives	<ul style="list-style-type: none"> • Definition and purpose of clearing <ul style="list-style-type: none"> – Roles and relationships – Risks and guarantees – Central counterparty clearing • Purpose, types and application of margin <ul style="list-style-type: none"> – Parties involved – Processing, collection and payment – Pricing factors and calculation • Purpose, types and application of collateral • Delivery and settlement • Exercise of options, assignment of obligations, abandonment and expiry

Demonstrate an ability to evaluate:	The purpose, merits, limitations and risks of the main derivatives strategies for trading, hedging and investment relevant to client investment activity	<ul style="list-style-type: none"> • Trading and Speculation • Hedging <ul style="list-style-type: none"> – Options strategies – Futures strategies • Investment and derivatives, including use of synthetics <ul style="list-style-type: none"> – Portfolio hedging – Portfolio yield enhancement – Structured funds and ETFs
Demonstrate an ability to apply:	The relevant factors and considerations to decide and implement investment recommendations	<p><i>These standards include the requirement to COMBINE and APPLY the learning content from all units of the Appropriate Exam</i></p> <ul style="list-style-type: none"> • Obtain the range of client information and subjective factors to understand their needs, wants, values and risk profile essential to planning • Synthesise client and relevant market information to provide the basis for assumptions and decisions • Analyse the advantages and disadvantages of the appropriate strategies • Select, recommend, explain and justify, and transact <ul style="list-style-type: none"> – Sources and use of research and other information • Holding derivatives within an investment portfolio: <ul style="list-style-type: none"> – Direct holdings, indirect holdings and combinations – Rationale, advantages and disadvantages – Impact on overall client objectives and priorities – Main factors to consider when holding both securities and derivatives within the portfolio – Asset allocation factors and relationship to overall portfolio – Matching to client risk appetite and trade-offs

		<ul style="list-style-type: none">• Take account of relevant tax, accounting and costs considerations• Comply with advice and dealing regulations specific to derivatives - COBS• Client reporting requirements• Communication, monitoring, review and maintenance of the portfolio to achieve the client's objectives, deal with change and respond to setbacks
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