

Derivatives

Level 3

Effective from 21 February 2026

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Objective of the Examination

The objective of the examination is to ensure that candidates have a basic knowledge of the regulations and practices in financial and commodity derivatives, their underlying markets, trading and the principles of investment strategies.

The examination will test candidates' knowledge and understanding of the following elements:

- Introduction to Derivatives
- Underlying Markets
- Market Structure
- Principles of Pricing and Valuation
- OTC Derivatives
- Principles of Clearing and Margin
- Delivery and Settlement
- Trading, Hedging and Investment Strategies
- Regulatory Requirements

Syllabus Structure

The syllabus is divided into **elements**. These are broken down into sections of **learning objectives**.

Each learning objective begins with the prefix **know, understand or be able to calculate**. These words indicate the different levels of skill to be tested.

Learning objectives prefixed:

- **know** require candidates to recall information such as facts, rules and principles
- **understand** require candidates to demonstrate comprehension of an issue, fact, rule or principle
- **be able to calculate** require candidates to be able to use formulae to perform calculations

Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (www.cisi.org.) on a regular basis for updates that could affect their examination as a result of industry change.

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Examination specification		
100 multiple choice questions		
Element number	Element	Questions
1	Introduction to Derivatives	17
2	Underlying Markets	16
3	Market Structure	9
4	Principles of Pricing and Valuation	11
5	OTC Derivatives	7
6	Principles of Clearing and Margin	14
7	Delivery and Settlement	6
8	Trading, Hedging and Investment Strategies	14
9	Regulatory Requirements	6
Total		100

Assessment Structure

A 2-hour examination of 100 multiple choice questions.

Candidates sitting the exam by Computer Based Testing will have, in addition, up to 10% of additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

Summary Syllabus

Element 1 Introduction to Derivatives

- 1.1 Risk and reward
- 1.2 Options
- 1.3 Futures and Forwards
- 1.4 Contracts for difference (CFDs)
- 1.5 Swaps
- 1.6 Derivatives trading

Element 2 Underlying Markets

- 2.1 Money Market instruments
- 2.2 Foreign Exchange
- 2.3 Bonds
- 2.4 Equities
- 2.5 Commodities
- 2.6 Other markets

Element 3 Market Structure

- 3.1 Order types
- 3.2 Wholesale trading facilities
- 3.3 Over the counter (OTC) markets
- 3.4 Market conventions
- 3.5 Account types
- 3.6 Trade reporting

Element 4 Principles of Pricing and Valuation

- 4.1 Approaches to valuation
- 4.2 Calculating forward prices
- 4.3 Futures Pricing
- 4.4 Options Pricing

Element 5 OTC Derivatives

- 5.1 Derivative instruments

Element 6 Principles of Clearing and Margin

- 6.1 Clearing
- 6.2 Prime brokers
- 6.3 Margin

Element 7 Delivery and Settlement

- 7.1 Clearing houses
- 7.2 Settlement
- 7.3 Delivery
- 7.4 Options exercise
- 7.5 Effective process control

Element 8 Trading, Hedging and Investment Strategies

- 8.1 Users
- 8.2 Spreads
- 8.3 Long / Short positions
- 8.4 Hedging
- 8.5 Trading strategies

Element 9 Regulatory Requirements

- 9.1 Regulation

Element 1 Introduction to Derivatives

1.1 Risk and reward

On completion, the candidate should:

1.1.1 understand the risk and rewards associated with derivatives:

- rewards
- counterparty risk
- market risk
- liquidity risk
- operational risk

1.1.2 understand the significance of gearing to derivatives:

- how trading on margin facilitates gearing
- effect on derivative positions
- reward versus outlay
- reward versus risk

1.2 Options

On completion, the candidate should:

1.2.1 know the basic concepts and fundamental characteristics of options contracts, including:

- basic puts and calls
- options on cash and derivative products
- American, European, Asian
- Exotics

1.2.2 understand how to interpret basic options diagrams (long call, long put, short call, short put)

1.3 Futures and Forwards

On completion, the candidate should:

1.3.1 know the basic concepts and fundamental characteristics of:

- forwards
- futures contracts

1.4 Contracts for difference (CFDs)

On completion, the candidate should:

1.4.1 know the basic concepts and fundamental characteristics of contracts for difference (CFDs)

1.4.2 know how spread betting differs from other CFDs:

1.5 Swaps

On completion, the candidate should:

1.5.1 know the basic concepts and fundamental characteristics of swaps

1.5.2 know the basic concepts and fundamental characteristics of interest rate swaps:

- underlying (fixed / fixed, fixed / floating, floating / floating)
- interest calculation (compared to bond markets)

1.5.3 know the purpose of inflation swaps

1.5.4 know the basic concepts and fundamental characteristics of zero-coupon inflation products

1.5.5 know the basic concepts and fundamental characteristics of FX and currency forwards and swaps:

- FX forward (outright quotes versus pips)
- Currency swaps

1.5.6 know the basic concepts and fundamental characteristics of equity forwards, swaps and swaptions:

- equity baskets / index

Derivatives (Level 3)

- equity forwards
- equity swaps

1.5.7 know the common equity swap instruments and their relationship to other markets and products:

- total return
- volatility
- variance
- dividend swaps

1.5.8 know the basic concepts of total return and asset swaps

1.5.9 know the basic concepts and fundamental characteristics of commodity forwards, swaps

1.5.10 know the basic purpose of commodity swaps

1.5.11 know the common interest rate swap features and their relationships to other markets:

- amortising
- accreting
- rollercoaster
- forward start

1.6 Derivatives trading

On completion, the candidate should:

1.6.1 know the trading mechanisms by which OTC and exchange traded markets meet:

- EFPs (Exchange for Physical)

1.6.2 understand the principles and differences between the two major measures of exchange-traded liquidity (open interest and volume)

1.6.3 know the main features and differences of OTC traded products in contrast to exchange-traded products:

- how an OTC traded product is traded
- standard versus bespoke OTC contracts

Derivatives (Level 3)

- set maturity or expiry dates versus bespoke OTC contracts
- margin requirements versus collateral
- counterparty risk
- liquidity
- market transparency versus confidential transactions

1.6.4 know the essential details of the trading environment:

- open outcry, telephone and electronic platforms
- whether quote or order driven
- how the trading host matches orders
- the order types accepted by the markets
- recognised trading strategies

1.6.5 know the exchange membership structures (brokers, dealers and broker / dealers) and their main activities:

- executing trades for third parties
- executing trades for their own account
- executing trades for other members
- capacity as broker
- capacity as dealer

Element 2 Underlying Markets

2.1 Money Market instruments

On completion, the candidate should:

2.1.1 know the uses and requirements of inter-bank deposits:

- characteristics of inter-bank deposits
- their purpose
- determination and role of benchmark rates
- major benchmark rates

Derivatives (Level 3)

2.1.2 understand the risk implications of trading in money market contracts:

- as a depositor
- as a source of funding

2.1.3 know the basic characteristics of Treasury Bills:

- term
- issuance / redemption
- promissory note

2.1.4 know the basic characteristics of Certificates of Deposit and Commercial Paper:

- term
- issuance / redemption
- differences in terminology between UK and USA

2.2 Foreign Exchange

On completion, the candidate should:

2.2.1 understand the nature of the spot market and the trading and settlement of spot transactions:

- purpose of the market
- contract value dates
- settlement periods and timescales

2.2.2 understand the nature, characteristics, markets and uses of FX forward contracts:

- FX forward contracts, including non-deliverable forwards
- commercial, speculative and hedging

2.2.3 understand the factors that determine forward rates and how forward rates are quoted:

- effect of interest rate differentials
- the relationship between the spot market and the forward market

Derivatives (Level 3)

- using forward points
- how prices are quoted (may be tested by the use of simple calculations)

2.2.4 be able to calculate forward foreign exchange rates using interest rate differentials

2.3 Bonds

On completion, the candidate should:

2.3.1 know the main characteristics of bonds

- coupon (fixed, floating, zero)
- redemption
- accrued interest
- quoted price vs transaction price

2.3.2 understand the reasons for government bond issuance

- public sector finance requirements
- finance long term debt
- role of national debt in government finances

2.3.3 know the main government bond markets and their main features:

- UK government bonds (gilts)
- US treasury notes and bonds
- Japanese government bonds (JGBs)
- German government bonds
- French government bonds
- settlement
- spreads between different government bonds

2.3.4 understand the relationship between return and maturity shown by yield curves:

- normal yield curves

Derivatives (Level 3)

- inverted yield curves
- flat yield curves

2.3.5 know the main features of the corporate bond market

2.3.6 understand the relationship between government and corporate bonds:

- yield spread over governments
- high grade and high yield bonds
- bond ratings, transition and default

2.4 Equities

On completion, the candidate should:

2.4.1 know the principal features and characteristics of ordinary shares and non-voting shares

2.4.2 know corporate actions:

- rights issues
- bonus issues
- stock splits
- mergers and acquisitions
- share buybacks

2.5 Commodities

On completion, the candidate should:

2.5.1 know the main softs and agriculturals and the influences on price:

- coffee, cocoa, white sugar, soya bean, frozen concentrated orange juice (FCOJ), grains, livestock
- change in demand
- change in production, weather
- holding and delivery costs

Derivatives (Level 3)

- political or strategic

2.5.2 know the main base and precious metals and the influences on price:

- copper, nickel, aluminium, zinc, tin, lead, gold, silver, platinum and palladium
- change in demand
- change in production
- marginal costs of mining
- political or strategic
- holding and delivery cost

2.5.3 know the main energy products and the influences on price (crude oil, electricity and natural gas):

- change in demand
- change in production
- marginal costs of production
- holding and delivery costs
- political or strategic

2.6 Other markets

On completion, the candidate should:

2.6.1 know the principal features and characteristics of cryptocurrencies and digital assets:

- currencies, coins, non-fungible tokens
- central control
- use of distributed ledger technologies
- risks (regulatory risks, volatility risks, ESG risks)

2.6.2 know features of markets in:

- freight
- emissions

Derivatives (Level 3)

- weather
- volatility

Element 3 Market Structure

3.1 Derivatives exchanges

On completion, the candidate should:

3.1.1 know the main products of the main derivatives exchanges

3.2 Order types

3.2.1 understand the range of types of orders, their uses and effects:

- market order
- limit order
- market if touched order
- opening and closing orders
- good 'til cancelled
- immediate or cancel / fill or kill order
- stop order
- stop limit order
- day order

3.3 Wholesale trading facilities

On completion, the candidate should:

3.3.1 know the essential details of wholesale trading facilities:

- block trades
- basis trades

3.3.2 understand the significance, implications and uses of wholesale trading facilities

3.4 Over the counter (OTC) markets

On completion, the candidate should:

3.4.1 understand the reasons for using OTC markets

3.5 Market conventions

On completion, the candidate should:

3.5.1 know the principles of order flow:

- how clients, brokers and exchange members are linked
- electronic and open outcry markets
- audit trail

3.5.2 know the definition, significance and differences between principal and agency orders (ie of dual capacity versus agency orders):

- dealing as a principal
- cross trading
- advantages to the client

3.5.3 know the processes involved in trade registration, trade input and trade matching and differing requirements of electronic and open outcry markets

3.6 Account types

On completion, the candidate should:

3.6.1 understand the use of different types of accounts:

- use of house accounts
- customer accounts – segregated and non-segregated

3.6.2 understand the purpose and importance of give-ups / allocations:

- reasons to allocate a trade to an account
- use of give-up agreements

- risk implications

3.7 Trade reporting

On completion, the candidate should:

3.7.1 know the purpose and requirements of trade reporting in markets:

- information to be reported
- process and timelines of reporting
- responsibility for reporting

3.7.2 know the advantages and main sources for Exchange Price Feeds:

- price transparency
- current bids and offers
- trade prices
- high / low prices
- last night closing price
- traded volume

3.7.3 understand the importance of monitoring volume and open interest:

- purpose of monitoring open interest
- breach of credit limit
- guarantee in the event of settlement failure

Element 4 Principles of Pricing and Valuation

4.1 Approaches to valuation

On completion, the candidate should:

4.1.1 understand the concept of arbitrage free pricing

4.1.2 understand the concept of cash flow pricing

4.2 Calculating forward prices

On completion, the candidate should:

4.2.1 understand the mechanisms for OTC derivative pricing and the relationship with the underlying cash prices together with the significance of contributing factors:

- forward and forward / forward rates
- cash flow analysis and the zero curve
- the role of interest rates and yields
- other factors affecting pricing

4.3 Futures Pricing

On completion, the candidate should:

4.3.1 understand the mechanisms for futures pricing and the relationship with the underlying cash prices together with the significance of contributing factors:

- contango and backwardation
- price convergence at maturity
- the concept of fair value

4.3.2 understand the implications of the cost or benefit of carry and what may be included in these:

- what is cost of carry
- storage costs, insurance and interest costs
- asset yields

4.3.3 be able to calculate the fair value of a future from relevant cash market prices, yields and interest rates

4.3.4 understand the importance of basis risk

4.3.5 understand the principles of cash / futures arbitrage:

- what should be included in arbitrage calculations
- when arbitrage opportunities exist
- cash and carry arbitrage

- arbitrage risk

4.4 Options Pricing

On completion, the candidate should:

4.4.1 understand basic option pricing concepts:

- option premium
- intrinsic and time value
- in-the-money, out-of-the-money and at-the-money

4.4.2 understand the basic mechanisms of option pricing and the relationship with the underlying cash prices together with the significance of contributing factors:

- volatility
- interest rates
- strike or exercise price
- time to expiry
- the underlying price
- dividends / coupons (where relevant)
- structure
- valuation inputs

4.4.3 be able to calculate the Put / Call Parity Theorem:

- what is the Put / Call Parity Theorem
- identifying arbitrage opportunities
- risk free interest rate

4.4.4 be able to calculate the approximate change in option price due to a change in underlying price

- what is delta
- uses of delta

4.4.5 understand the qualitative characteristics of the following Greeks and their uses:

Derivatives (Level 3)

- delta
- gamma
- theta
- vega
- rho

4.4.6 know the requirements of, and process for, premium payment:

- when paid, immediately or marking to market
- the roles of the clearing house and broker
- what the seller receives

Element 5 OTC Derivatives

5.1 Derivative instruments

On completion, the candidate should:

5.1.1 understand the basic concepts and fundamental characteristics of:

- Forwards
- Caps
- Floors
- Collars
- Swaps
- Swaptions (options on swaps)

5.1.2 understand the basic concepts and fundamental characteristics of credit derivatives and the main credit events for single entity and index contracts:

- default events
- ratings transitions

5.1.3 know the common credit derivative instruments and their relationships to other markets and products:

- Credit default swaps

Derivatives (Level 3)

- Credit linked notes
- Collateral Debt Obligations

5.1.4 understand the mechanisms for pricing credit derivatives and the relationships with asset swap prices

5.1.5 know the common OTC option products and features:

- European, American, Asian
- barrier products
- lookbacks and variants

5.1.6 know the basic requirements of, and process for, premium payment:

- when paid
- credit exposure
- the collateral process

5.1.7 understand the basic concepts and fundamental characteristics of flex options:

- how they differ from standard exchange traded options
- how they differ from OTC options

5.1.8 understand how structured products utilise embedded derivatives to achieve a risk/return profile:

- convertible bonds
- index linked notes
- capital protected products
- callable / puttable bonds

5.1.9 know the main ISDA documents supporting OTC derivative activities:

- Master Agreements
- Credit Support Annex Documentation
- Confirmations
- ISDA Protocols

Derivatives (Level 3)

5.1.10 understand the potential impact of credit exposures on OTC positions:

- nature of OTC contracts
- mark to market and potential exposures
- term of OTC derivatives
- acceptable forms of collateral (certainty and currency of asset)
- the margin / collateral process (upfront margin, mark to market, hurdle, minimum cashflow, parties involved)

Element 6 Principles of Clearing and Margin

6.1 Clearing

On completion, the candidate should:

6.1.1 understand the purpose of clearing and the function of novation:

- mutual offset system
- principal to principal
- broker's position

6.1.2 understand the risks mitigated through the clearing process:

- settlement risk
- counterparty risk

6.1.3 understand the role played by the clearing house in the clearing process:

- margin process
- clearing house relationship with members in settlement
- transfer of payments

6.1.4 understand the relationship between clearing members and non-clearing members:

- clearing versus non-clearing member
- use of general clearing members to clear trades

Derivatives (Level 3)

6.1.5 understand the principles and backing arrangements in place in the event of a member default:

- novation
- guarantee of performance of the contract
- default fund
- members' contributions
- principal to buyer and seller
- control of funds to clearing members' accounts
- requirement for members to use an approved bank

6.2 Prime brokers

On completion, the candidate should:

6.2.1 understand the services offered by prime brokers as they relate to derivatives:

- borrowing and lending securities
- financing positions
- providing custody and safekeeping of assets
- clearing and settling trades
- administering onshore and offshore funds
- corporate actions
- capital introductions
- risk management

6.2.2 understand how OTC products can be centrally cleared:

- eligibility and credit standing of counterparts
- constraints placed upon contract terms
- advantages and uses of centralised clearing of OTC products

6.2.3 understand price limits / circuit breakers and position limits and the effects of their application:

Derivatives (Level 3)

- price limits
- who imposes limits
- purpose of price and position limits
- action in the event of breach

6.3 Margin

On completion, the candidate should:

6.3.1 understand how a firm deals with margin payments for its own positions and for its clients' positions through its books:

- use of house accounts
- use of client segregated accounts
- use of client non-segregated / pooled accounts

6.3.2 understand the difference between the clearing house's margin and that of the broker and the collection / payment process:

- amounts paid by clearing member and its clients
- flow of margin

6.3.3 understand the differences between initial and variation margin:

- marking to market
- offsetting long and short positions
- when paid

6.3.4 know methods of margining for centrally cleared OTC products and their implications:

- how exposure is calculated
- what margins are applied
- how and when margin payments are made

6.3.5 understand the nature and use of offsets for spread/spot month margining:

- purpose of offsets
- what is spot month margin

Derivatives (Level 3)

- purpose of spot month margins
- purpose of spread margins

6.3.6 understand why the clearing house might call intra-day margin:

- purpose of intra-day margin
- when is intra-day margin paid

6.3.7 know methods of initial margining including SPAN:

- use of delta
- use of SPAN

6.3.8 know the means by which exchanges establish settlement prices:

- what are settlement prices
- closing ranges / prices

6.3.9 know the definition, purpose and uses of collateral and the major types of acceptable collateral (cash versus non-cash)

6.3.10 understand the significance of credit and initial margin lines

6.3.11 understand the mechanisms of collateral management:

- Valuation and pricing
- Credit Support Annex (CSA)
- One-way CSAs
- Threshold amounts
- Haircuts
- Minimum Transfer Amount

6.3.12 understand the impact of uncleared margin rules (UMR):

- what does UMR stand for?
- what are UMR rules?
- what is the purpose of UMR?
- what are the UMR phase 6 thresholds?
- what is the ANNA calculation?
- what derivatives are in scope?

Derivatives (Level 3)

- what is the standardised initial margin schedule?
- UMR collateral thresholds

Element 7 Delivery and Settlement

7.1 Clearing houses

On completion, the candidate should:

7.1.1 know the role of the clearing house as counterparty in delivery:

- when the clearing house becomes the counterparty
- role of the clearing house as counterparty
- role of the clearing house as guarantor
- counterparty risk
- assignment
- use of warrants delivery

7.2 Settlement

On completion, the candidate should:

7.2.1 be able to calculate the profit / loss on delivery / expiry of futures and options

7.2.2 understand the differences between cash settlement and physically delivered contracts and the final payment process:

- what is cash settlement
- what is physical delivery
- factors used in ascertaining the invoice amount
- who calculates the invoice amount
- differences between financial and commodity products

7.3 Delivery

Derivatives (Level 3)

On completion, the candidate should:

7.3.1 understand the importance and implications of the delivery of open contracts at expiry and the significance of the short position:

- physical versus cash delivery
- financials versus commodities
- avoidance of delivery – reasons and methods
- advantages and disadvantages of cash delivery
- asset delivery via the clearing house
- relevance of first notice day, last notice day and delivery day or period

7.3.2 understand the purpose of the Exchange Delivery Settlement Price (EDSP) and the factors affecting it:

- purpose of EDSP
- auction process
- factors included in calculating the EDSP value
- reasons for exchange to set the EDSP

7.4 Options exercise

On completion, the candidate should:

7.4.1 understand the significance and implications of the exercise of options, the assignment of obligations, abandonment and expiry:

- purpose of assignment of obligations
- instigating an assignment notice
- receiving an assignment notice
- abandonment
- which options are most likely to be exercised before expiry
- exercise at expiry
- European, American and Asian options
- action upon exercise

Derivatives (Level 3)

- assignment

7.4.2 understand the significance of automatic exercise:

- purpose of automatic exercise
- options that may be subject to automatic exercise
- reasons for clearing houses to adopt automatic exercise
- benefits to members and holders of long positions
- prevention of automatic exercise

7.5 Effective process control

On completion, the candidate should:

7.5.1 know the importance of accurate and timely settlement processes:

- deal tickets and term sheets
- trade confirmations
- reconciliation processes (internal and external)
- cashflow / asset movement instructions and control processes
- close out or maturity instructions

7.5.2 understand the main control process:

- front to back office reconciliation
- trade validation
- profit and loss reporting

Element 8 Trading, Hedging and Investment Strategies

8.1 Users

Derivatives (Level 3)

On completion, the candidate should:

8.1.1 understand the categories of users of derivatives and structured products and their respective uses of these products:

- hedger
- speculator
- arbitrageur

8.2 Spreads

On completion, the candidate should:

8.2.1 know the distinctions between intra-market spreads and intermarket spreads and the scenarios in which they may be appropriate:

- use in differing market conditions
- situations resulting in profitability / loss

8.3 Long / Short positions

On completion, the candidate should:

8.3.1 know the characteristics and implications of long and short positions

8.4 Hedging

On completion, the candidate should:

8.4.1 understand the importance of hedging ratios in cheapest to deliver bonds (CTDs):

- price factors
- highest implied repo rate
- number of contracts to hedge an exposure to the CTD bond
- duration based hedge ratios for non-CTD bonds

8.4.2 understand hedge ratio calculation for other short-term interest rate futures:

- basis point value

Derivatives (Level 3)

- number of contracts to hedge an interest rate exposure

8.4.3 understand hedge ratio calculation for equity futures:

- stock and portfolio beta
- number of contracts to hedge an equity exposure

8.4.4 understand basis, basis trading and basis risk:

- problems caused by changes in basis
- how changes in basis can be used to advantage by an investor

8.4.5 understand the application and effects of delta hedging and be able to establish an investor's net long / short position

8.4.6 understand the use of derivatives for speculation and hedging:

- speculation: long calls, short puts (bullish)
- speculation: short call, long puts (bearish)
- covered calls and protective puts
- recognise diagrammatic representation of each strategy
- maximise upside and downside for each strategy

8.5 Trading strategies

On completion, the candidate should:

8.5.1 understand the uses and advantages of covered calls and protective puts:

- motivation for the writer of a covered call
- motivation for the buyer of a protective put
- risks / maximum losses
- use in different market conditions

8.5.2 be able to calculate (through the knowledge gained above), a derivatives position with an underlying market equivalency, either to establish or to hedge a required exposure:

- Long / short through futures
- Long / short through single options

Derivatives (Level 3)

- Long / short through option combinations
- Limits to upside and / or downside exposures

8.5.3 understand the characteristics and effects of vertical spreads:

- bull call and bear call spreads
- bull put and bear put spreads
- use in differing market conditions
- anticipating modest market rises / falls (bull / bear markets)
- risks

8.5.4 be able to calculate maximum profits / losses in simple examples of the above strategies

8.5.5 understand the uses, characteristics and effects of horizontal and diagonal spreads:

- use in differing market conditions
- anticipating modest market rises / falls (bull / bear markets)
- risks

8.5.6 understand the characteristics and effects of long and short straddles and strangles:

- use in differing market conditions
- anticipating modest market rises / falls (bull / bear markets)
- risks

8.5.7 understand how to create basic synthetic options and futures:

- synthetic long / short
- synthetic put / call

8.5.8 understand the advantages and disadvantages of using exchange-traded versus OTC products:

- exposure flexibility versus contract specification
- ease / cost of closing OTC transactions versus Exchange Traded positions
- price transparency
- best execution

Derivatives (Level 3)

- documentation
- clearing and settlement mechanisms

8.5.9 understand the relative attractiveness of derivative positions or investments to specific client circumstances:

- Private Client investment portfolios
- Individual portfolios
- Institutional Asset Managers
- Corporate Treasurers
- Hedge Funds
- Sovereign Wealth Funds
- Pension Funds

Element 9 Regulatory Requirements

9.1 Regulation

On completion, the candidate should:

9.1.1 know in general terms the scope and purposes of regulation of derivatives and the main activities of regulators:

- UK / Europe / other
- US (Fed, SEC & CFTC)
- Far East (Hong Kong, Singapore and Japan)
- MiFID II, ESMA, EMIR
- Orderly Markets
- Consumer Protection
- Education
- Combating Financial Crime
- Regulation of individuals, companies
- Supervision
- Sanction processes

Derivatives (Level 3)

- Passporting regulated status
- Classifications / Exemption

9.1.2 know the primary requirements of a regulated derivatives exchange

9.1.3 know in general terms the importance of the principles-based approach to derivatives regulation:

- client classification
- fair treatment of customers
- suitability and appropriateness of the transaction/product
- best execution

9.1.4 know the differences between rules-based and principles-based regulation

9.1.5 know the role of regulation on derivative markets:

- MiFID II
- client money
- client accounts
- margining practices
- unregulated markets
- access to overseas markets
- access to overseas clients

9.1.6 know the role of the Securities and Exchange Commission (SEC) in the regulation of derivatives:

- what is the SEC
- regulated investments
- regulated exchanges

9.1.7 know the role of the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA):

- what is the CFTC
- what is the NFA
- regulated investments

Derivatives (Level 3)

- regulation of other entities
- dispute resolution

9.1.8 know the prohibitions of CFTC Part 30 (Foreign Futures and Segregation of Customer Funds)