



Derivatives

Level 4

Effective from 21 January 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 assets
- Exchange Traded Futures and Options
- OTC Derivatives
- Clearing
- Delivery and Settlement
- Portfolio Research and Construction
- Trading, Hedging and Investment Strategies
- Investment Selection and Administration
- Regulatory Requirements

Syllabus Structure

The unit is divided into **elements**. These are broken down into a series of **learning objectives**.

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

Level 4 Derivatives

Learning objectives prefixed:

- **know** require the candidate to recall information such as facts, rules and principles
- **understand** require the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **calculate** require the candidate to be able to use formulae to perform calculations
- **apply** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle
- **analyse** require the candidate to review the information content in detail and draw conclusions
- **assess** require the candidate to review the information content and to make an informed judgement

Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (cisi.org/candidateupdate) 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.

Level 4 Securities

Examination specification		
80 multiple choice questions		
Element number	Element	Questions
1	Introduction to Derivatives	4
2	Underlying assets	10
3	Exchange Traded Futures and Options	14
4	OTC Derivatives	14
5	Clearing	7
6	Delivery and Settlement	5
7	Portfolio Research and Construction	5
8	Trading, Hedging and Investment Strategies	14
9	Investment Selection and Administration	4
10	Regulatory Requirements	3
Total		80

Assessment Structure

A 2-hour examination of 80 multiple choice questions.

Candidates sitting the exam by Computer Based Testing may have, in addition, up to 10% 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 General

Element 2 Underlying assets

- 2.1 Money Market Instruments
- 2.2 Fixed Income Securities
- 2.3 Foreign Exchange Instruments
- 2.4 Equities
- 2.5 Indices and Tracker Products
- 2.6 Softs and Agriculturals
- 2.7 Base and Precious Metals
- 2.8 Energy Products
- 2.9 Others

Element 3 Exchange Traded Futures and Options

- 3.1 Exchanges
- 3.2 Trading Platforms
- 3.3 Exchange Traded Derivative Contracts
- 3.4 Future Pricing
- 3.5 Options Pricing
- 3.6 Order / Instruction Flow and Order Type
- 3.7 Market Transparency, Trade Reporting and Monitoring

Element 4 OTC Derivatives

- 4.1 Forwards, FRAs and Contracts for Difference
- 4.2 Cross Currency Swaps
- 4.3 Interest Rate Swaps
- 4.4 Other Types of Swaps
- 4.5 Options
- 4.6 Credit Derivatives
- 4.7 Structured Products
- 4.8 Master Agreements
- 4.9 Collateral Management
- 4.10 Trade Processing

Element 5 Clearing

- 5.1 Definition and Purpose of Clearing
- 5.2 Structure of the Clearing System
- 5.3 Clearing House Guarantee
- 5.4 Margin

Element 6 Delivery and Settlement

- 6.1 Futures
- 6.2 Options
- 6.3 Clearing Mechanisms and Other Factors
- 6.4 Uncleared Margin Rules

Element 7 Portfolio Research and Construction

- 7.1 Market information and Research
- 7.2 Portfolio Construction

Element 8 Trading, Hedging and Investment Strategies

- 8.1 Futures Spread Trading
- 8.2 Hedging with Futures
- 8.3 Hedging using Options
- 8.4 Options Spreads
- 8.5 Options Combinations
- 8.6 Synthetics
- 8.7 Comparison of Exchange-Traded and OTC Hedges
- 8.8 Derivatives Enhanced Indirect Investments
- 8.9 Application of Derivative Strategies and Funds

Element 9 Investment Selection and Administration

- 9.1 Advisory Process
- 9.2 Administration and Maintenance

Element 10 Regulatory Requirements

- 10.1 Scope of Regulation
- 10.2 EU and US Regulations

Element 1 Introduction to Derivatives

1.1 General

On completion, the candidate should be able to:

1.1.1 understand the core concepts and key characteristics of forwards

1.1.2 understand the significance of gearing to exchange-traded derivatives:

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

1.1.3 understand the purpose, risks and rewards associated with derivatives:

- uses of derivatives: hedging, speculation and arbitrage
- counterparty, market, liquidity, operational and legal risk
- specific risks to buyers, writers and sellers

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

1.1.5 understand the main features and differences of OTC traded products in contrast to exchange-traded products:

- how an OTC traded product is traded
- standard size, versus bespoke OTC contracts
- set maturity or expiry dates versus bespoke OTC contracts
- risk profile of actively managed exchange-traded versus OTC hedging
- market transparency versus confidential transactions

1.1.6 understand options profit and loss profiles and the characteristics and implications of long and short positions

1.1.7 understand the main markets, and roles of key participants:

- Quote driven versus order driven

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- Floor versus voice versus electronic
- Price givers - central banks, banks, major market corporates
- Price takers - central banks, banks, corporates, asset managers, insurance companies, hedge funds, pension funds, private clients
- Brokers/intermediaries including Futures Commission Merchants (FCMs)
- Buy-side
- Sell-side

Element 2 Underlying assets

2.1 Money Market Instruments

On completion, the candidate should be able to:

2.1.1 analyse the main investment characteristics and risks of Treasury Bills:

- purpose and method of issue
- minimum denomination
- term
- redemption
- zero coupon structure

2.1.2 analyse the main investment characteristics and risks of inter- bank and money market deposits:

- purpose and method of placement
- minimum denomination
- term
- redemption
- determination of inter-bank rates

EURIBOR, €STER, SONIA, SOFR

2.2 Fixed Income Securities

On completion, the candidate should be able to:

2.2.1 analyse the main issuers of government debt, and the key investment characteristics and risks of sovereign and government debt securities:

- supranationals
- sovereign governments
- public authorities: local government/ municipalities
- index-linked
- short, medium, long
- fixed/ floating rate
- zero coupon
- ratings

2.2.2 analyse the main issuers of corporate debt, and the key investment characteristics and risks of corporate debt securities:

- corporates
- financial institutions & special purpose vehicles
- unsecured and secured debt
- fixed and floating rates
- medium term notes (MTNs)
- asset-backed securities
- convertibles
- ratings

2.2.3 analyse the main determinants of bond prices and bond valuation:

- relationship with interest rates
- government bond prices and the risk-free rate
- accrued interest, clean and dirty prices

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- inflation, nominal and real interest rates
- yield to maturity
- yield spread: relative to benchmarks
- flat, normal and inverted yield curves
- role of rating agencies
- credit rating and impact of changes
- economic outlook, interest rates, inflation and the impact of changes
- trading volume and liquidity of domestic and international securities markets

2.3 Foreign Exchange Instruments

On completion, the candidate should be able to:

2.3.1 understand the role, structure and main characteristics of the foreign exchange market:

- market structure
- quotes, spreads and exchange rate information
- market participants and access to markets
- margin and transaction costs
- volume, volatility and liquidity
- settlement dates and systems
- risk mitigation: rollovers and stop losses
- commercial and speculative uses
- hedging in investment management

2.3.2 understand the determinants of spot foreign exchange prices:

- currency demand - transactional and speculative
- economic and political variables
- cross-border trading of financial assets

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- interest rates
- free floating and pegged rates
- central bank actions

2.3.3 understand forward foreign exchange rates:

- relationship between spot and forward market
- factors determining interest rate parity and differential quotation
- forward points, premiums and discounts
- non-deliverable forwards

2.4 Equities

On completion, the candidate should be able to:

2.4.1 understand the key investment characteristics and risks of the main types and classes of equity:

- ordinary shares
- voting rights, voting and non-voting shares
- cumulative, participating, redeemable and convertible preference shares
- ranking for dividends
- ranking in liquidation
- tax treatment of capital gains and dividend income

2.4.2 analyse how the following factors influence equity markets and equity valuation:

- equity valuation based on the Net Present Value of future expected cash flows
- trading volume and liquidity of domestic and international securities markets
- relationship between cash and derivatives markets, and the effect of timed events
- market consensus and analyst opinion

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- changes to key pricing determinants such as credit ratings, economic outlook and significant events

2.4.3 understand the key investment characteristics and differences between equity warrants and equity options:

- purpose and issuers
- benefits to an investor or speculator
- time to expiry
- trading venues
- strike prices
- effect of exercise
- settlement
- gearing against the underlying
- effect of corporate actions on equity warrants

2.5 Indices and Tracker Products

On completion, the candidate should be able to:

2.5.1 Know:

- about index sponsors and index rules
- the role indices play in financial markets
- about exchange traded funds (ETFs)
- the risks associated with embedded derivatives in indices and tracker products

2.6 Softs and Agricultural

On completion, the candidate should be able to:

2.6.1 understand the main soft and agricultural commodities and the influences on price:

- coffee, cocoa, sugar, soya beans, grains, livestock

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- change in demand
- change in supply
- marginal costs of production
- holding and delivery costs
- political and strategic factors
- environmental factors

2.7 Base and Precious Metals

On completion, the candidate should be able to:

2.7.1 understand the main base and precious metals and the influences on price:

- copper, nickel, aluminium, zinc, tin, lead, gold, silver, platinum, palladium and steel
- change in demand
- change in supply
- marginal costs of production
- changes in industry
- holding and delivery costs
- political and strategic factors
- environmental factors

2.8 Energy Products

On completion, the candidate should be able to:

2.8.1 understand the main energy and power products and the influences on price:

- change in demand
- change in supply

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- marginal costs of production
- changes in industry
- holding and delivery costs
- political and strategic factors
- environmental factors

2.9 Others

On completion, the candidate should be able to:

2.9.1 know the basic features of the following markets:

- freight
- emissions
- weather
- cryptocurrency

Element 3 Exchange Traded Futures and Options

3.1 Exchanges

On completion, the candidate should be able to:

3.1.1 know the basic features of the major global derivatives exchanges

3.1.2 understand the membership structures (brokers, dealers and broker / dealers, general clearing, individual clearing and non- clearing) and their principal rights:

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

3.2 Trading Platforms

On completion, the candidate should be able to:

3.2.1 know characteristics of:

- open outcry, telephone and electronic platforms (ECN / STP)
- quote versus order driven
- order matching
- wholesale trading facilities
- Regulated Markets
- Multilateral Trading Facilities
- Organised Trading Facilities
- Systematic Internalisers
- block trades
- exchange for physicals (EFPs) and exchange for swaps (EFSs)
- flex products

3.3 Exchange Traded Derivative Contracts

On completion, the candidate should be able to:

3.3.1 understand the range, key features and investment characteristics of the main types of exchange traded derivatives on:

- equities
- indices
- short term interest rates
- bonds
- foreign exchange
- commodities

3.4 Future Pricing

On completion, the candidate should be able to:

3.4.1 understand the purpose and structure of corporate actions and their implications for investors:

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

3.4.2 calculate the fair value of a future from relevant cash market prices, yields and interest rates

3.4.3 analyse the effect of basis:

- behaviour at expiry
- causes of basis strengthening or weakening
- response to basis risk

3.4.4 apply appropriate strategies for cash / futures arbitrage trades:

- identifying opportunities and risks of arbitrage
- arbitrage calculations
- arbitrage channel and effect of transaction costs
- cash and carry
- reverse cash and carry
- hedging basis risk

3.5 Options Pricing

On completion, the candidate should be able to:

3.5.1 understand the inputs to an option pricing model in determining option premiums:

- volatility

Level 4 Derivatives

- time to expiry
- strike or exercise price
- underlying asset price
- interest rates
- dividends / coupons

3.5.2 calculate the intrinsic and time value of an option

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

- delta
- gamma
- theta
- vega
- rho

3.5.4 be able to calculate the estimated change in option premium brought about by a small change in the price of the underlying

3.6 Order / Instruction Flow and Order Type

On completion, the candidate should be able to:

3.6.1 understand how exchange-traded orders are processed:

- acting as principal, agent or in dual capacity
- how clients, brokers and exchange members are linked
- principles of order flow on electronic and open outcry markets
- opening, closing and cross trades
- liquidity measures: volume and open interest
- audit trail

3.6.2 understand the typical range of orders placed in derivatives markets and the reasons for using them:

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- market order
- limit order
- spread order
- scale order
- market if touched order
- opening and closing orders
- GTC (good-til-cancelled)
- immediate or cancel / fill or kill order
- stop, stop limit and guaranteed stop orders
- day order
- iceberg

3.7 Market Transparency, Trade Reporting and Monitoring

On completion, the candidate should be able to:

3.7.1 understand the purpose, process and responsibilities of trade reporting including:

- constituents of exchange price feeds and display screens
- advantages of transparency to investors
- monitoring volume and open interest

Element 4 OTC Derivatives

4.1 Forwards, FRAs and Contracts for Difference

On completion, the candidate should be able to:

4.1.1 understand the key characteristics of:

- forward contracts
- forward rate agreements (FRAs)
- contracts for difference

Level 4 Derivatives

- spread betting
- OTC pricing mechanisms
- Cashflow analysis
- the role of interest rates and yields
- other factors affecting pricing including volatility for OTC options

4.2 Cross Currency Swaps

On completion, the candidate should be able to:

4.2.1 know characteristics of cross currency swaps

4.3 Interest Rate Swaps

On completion, the candidate should be able to:

4.3.1 analyse the purpose and key characteristics of interest rate swaps:

- types of swap agreements including: forward starts, vanilla, basis, index, currency and overnight index
- interest calculations (compared to bond markets)
- constant maturity

4.4 Other Types of Swaps

On completion, the candidate should be able to:

4.4.1 analyse the key features and risk / reward trade-offs of other types of swap instruments including investment applications and relationships to other markets:

- asset and total return swaps
- excess return swaps
- commodity swaps

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- inflation-linked swaps
- property and environmental swaps
- Zero coupon inflation products

4.5 Options

On completion, the candidate should be able to:

4.5.1 understand the key features, risk / reward trade-offs and investment applications of OTC option products:

- main types: European, American, Asian, and Bermudan
- exotic options
- key differences between Exchange-Traded and OTC instruments

4.5.2 understand:

- the purposes, key features and risk/ reward trade-offs of flexible exchange (FLEX) options including how they differ from standard Exchange-Traded and OTC options
- the likely outcome of implementing caps, floors and collars

4.6 Credit Derivatives

On completion, the candidate should be able to:

4.6.1 analyse the key features, risk / reward trade-offs and investment applications of credit derivatives:

- credit events
- credit default swaps: single name, index and basket
- agreements including compensation or settlement

4.7 Structured Products

On completion, the candidate should be able to:

4.7.1 understand the purpose of structured products and how they utilise embedded derivatives to achieve a specific risk / return profile:

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- notes, certificates and warrants
- callable and puttable featured products
- capital protected and auto call products
- exotics: baskets of securities and / or indices

4.8 Master Agreements

On completion, the candidate should be able to:

4.8.1 understand the potential impact of credit exposures on OTC positions and the documentation designed to protect against counterparty risk:

- purposes and protocols of ISDA documentation
- master agreement including main areas of content
- confirmation
- credit support annex documentation

4.9 Collateral Management

On completion, the candidate should be able to:

4.9.1 understand the purpose and application of collateral management:

- quality of collateral: volatility, creditworthiness, liquidity
- acceptable types of cash and non-cash collateral
- credit lines and credit support annex (CSA)
- valuation and pricing
- thresholds, haircuts, credit value adjustment (CVA), and funding value adjustment (FVA)
- delivery, return and minimum transfer amount (MTA)
- collateral call frequency

4.10 Trade Processing

On completion, the candidate should be able to:

4.10.1 understand the key features of the main platforms and mechanisms used for trading and settling OTC derivatives

4.10.2 understand the main control processes in trading and processing OTC instruments:

- order placement, deal tickets and term sheets
- trade matching and confirmation
- reconciliation processes: internal and external
- cash flow / asset movement instructions and control processes
- profit and loss reporting and position management
- risks of weak controls
- close out or maturity instructions

Element 5 Clearing

5.1 Definition and Purpose of Clearing

On completion, the candidate should be able to:

5.1.1 understand the process of clearing, the risks involved and how these can be reduced:

- market, settlement, counterparty and operational risks
- eligibility and credit standing of counterparties
- implications of default
- novation

5.2 Structure of the Clearing System

On completion, the candidate should be able to:

5.2.1 understand the role played by the clearing house in the clearing process and the relationship between the clearing house, clearing members and non-clearing members:

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- trade reporting, confirmation, matching, registration and novation
- use of protected payments systems
- the processes involved in trade registration, input, matching and allocation

5.2.2 understand the benefits of centralised OTC clearing and how this is achieved in the major OTC markets

5.3 Clearing House Guarantee

On completion, the candidate should be able to:

5.3.1 understand the financial support arrangements in place in the event of a member default, and how they are utilised:

- margin and collateral
- default fund

5.4 Margin

On completion, the candidate should be able to:

5.4.1 understand the purpose of margin, its various types, and how margin payments are paid or collected:

- reduction of counterparty credit risk
- initial and variation margin
- end of day and intra-day margin calls
- advantages and risks of house, client segregated and non-segregated accounts
- requirement to offer clients a choice between segregated and omnibus accounts (Article 38 of CSDR)
- clearing house and broker margin
- flow of margin

5.4.2 understand how initial margin is calculated and the factors that exchanges take into account when calculating initial margin:

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- methodology – SPAN and others
- spreads: calendar and inter-commodity
- effect of volatility changes
- short option minimum charge
- extreme move charge
- spot month charge

5.4.3 understand the calculation of variation margin based on marking to market

5.4.4 understand the purpose of settlement price limits and position limits including:

- key features and differences
- who imposes limits
- the effects of their application
- action in the event of breach

Element 6 Delivery and Settlement

6.1 Futures

On completion, the candidate should be able to:

6.1.1 understand the purpose of closing contracts compared with rollover or delivery, and the main methods for performing close-outs

6.1.2 understand the purpose, key features and differences between cash settlement and physically delivered contracts:

- factors used in ascertaining the invoice amount
- warrant delivery
- differences between financial and commodity products
- cash settlement versus physical delivery
- delivery time and methods
- underlying asset delivery to the clearing house

Level 4 Derivatives

- relevance of first notice day, last notice day & delivery day or period

6.1.3 understand the processes for physical delivery including:

- exchange delivery settlement price (EDSP) and the factors affecting its value
- auction process
- calculation of the invoice amount on a physically settled contract
- initiation of delivery
- exchange minimum quality standards for delivery

6.2 Options

On completion, the candidate should be able to:

6.2.1 understand the processes and implications of the exercise of options, the assignment of obligations, abandonment and expiry:

- assignments
- obligations
- assignment notice
- abandonment
- cabinet trades
- exercise at expiry
- European and American
- action upon exercise
- advantages to the holder
- options into futures
- options into cash
- automatic exercise
- prevention of automatic exercise

6.3 Clearing Mechanisms and Other Factors

6.3.1 understand how the physical delivery methods for commodities operate and where they differ from other derivatives:

- warehouses, warrants and good delivery
- price discovery – official and closing price

6.3.2 calculate the profit / loss on delivery / expiry of futures and options

6.4 Uncleared Margin Rules

6.4.1 know the uncleared margin rules

Element 7 Portfolio Research and Construction

7.1 Market information and Research

On completion, the candidate should be able to:

7.1.1 understand how to access and use economic and financial communications:

- news services
- government resources and statistics
- broker research and distributor information
- desk research

7.1.2 understand the different types, uses and availability of research and reports:

- fundamental analysis
- technical analysis
- volatility in underlying sector: benchmark and relative
- sector-specific reports

7.1.3 be able to assess key factors that influence markets and sectors:

- responses to change and uncertainty

Level 4 Derivatives

- volume, liquidity, and nature of trading activity in domestic and overseas markets
- volatility
- risk-based regulations and restrictions

7.2 Portfolio Construction

On completion, the candidate should be able to:

7.2.1 analyse the main types of portfolio risk and their implications for investors:

- systemic risk
- systematic risk and market risk - historic and implied price volatility, currency, interest rates
- specific risk
- investment horizon
- liquidity, credit risk and default

7.2.2 understand the core principles used to help mitigate portfolio risk:

- correlation
- diversification
- active and passive strategies
- hedging and immunisation

7.2.3 understand the main purposes and applications of derivatives in portfolio management strategies and styles:

- indexing / passive management
- active / market timing
- passive-active combinations
- growth versus income
- immunisation
- long, short and leveraged

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- contrarian
- yield enhancement

7.2.4 assess portfolio risk and return using the following measures:

- holding period return
- total return and its components
- standard deviation
- volatility
- covariance and correlation
- risk- adjusted returns
- benchmarking

Element 8 Trading, Hedging and Investment Strategies

8.1 Futures Spread Trading

On completion, the candidate should be able to:

8.1.1 analyse futures spreads and the scenarios in which they may be appropriate:

- intramarket spreads
- intermarket spreads
- motivations and uses in differing market conditions
- situations resulting in profitability / loss

8.2 Hedging with Futures

On completion, the candidate should be able to:

8.2.1 calculate the number of contracts required to hedge a portfolio of Cheapest To Deliver bonds (CTDs):

- price factors
- highest implied repo rate

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- understand the basis of adjustment for non-CTD bonds
- 8.2.2 calculate the number of contracts required to hedge an exposure to a single equity holding or equity portfolio
- 8.2.3 calculate the change in value caused by movement in basis and know the implications of basis risk

8.3 Hedging using Options

On completion, the candidate should be able to:

- 8.3.1 analyse an investor's net long / short position using delta:
- delta hedging
- 8.3.2 calculate the number of contracts required to hedge to expiry a long underlying position by:
- buying a put option
- 8.3.3 calculate the number of contracts required to hedge to expiry a short underlying position by:
- buying a call option
- 8.3.4 apply covered calls and covered short puts as part of an investment strategy:
- characteristics and risks
 - motivation for covered calls and puts
 - calculation of the outcome on expiry
 - maximum upside and downside
 - uses in different market conditions

8.4 Options Spreads

On completion, the candidate should be able to:

- 8.4.1 apply vertical spreads as part of an investment strategy:
- characteristics and risks

Level 4 Securities

- bull call and bear call spreads
- bull put and bear put spreads
- calculation of the outcome on expiry
- maximum upside and downside
- uses in differing market conditions

8.4.2 apply horizontal and diagonal spreads as part of an investment strategy:

- characteristics and risks
- horizontal spreads
- diagonal spreads
- calculation of the outcome on expiry
- maximum upside and downside
- uses in differing market conditions

8.5 Options Combinations

On completion, the candidate should be able to:

8.5.1 apply long and short straddles and strangles as part of an investment strategy:

- characteristics and risks
- long / short straddle
- long / short strangle
- calculation of the outcome on expiry
- maximum upside and downside
- uses in differing market conditions

8.6 Synthetics

On completion, the candidate should be able to:

8.6.1 understand the use of synthetic positions by combining futures and options:

- characteristics and risks
- synthetic long and short futures
- synthetic long and short calls
- synthetic long and short puts
- calculation of the outcome on expiry
- calculation of put / call parity
- maximum upside and downside
- uses in differing market conditions

8.7 Comparison of Exchange-Traded and OTC Hedges

On completion, the candidate should be able to:

8.7.1 analyse the advantages and disadvantages of using exchange-traded versus OTC products in hedging:

- exposure flexibility versus contract specification
- ease / cost of closing OTC transactions versus exchange-traded positions
- margin calculation and settlement versus collateral processes
- counterparty exposure versus centralised clearing
- price transparency
- best execution
- documentation
- settlement mechanism

8.8 Derivatives Enhanced Indirect Investments

On completion, the candidate should be able to:

8.8.1 analyse the main types, features, styles and applications of derivatives enhanced indirect investments:

- pooled funds
- speculative, guaranteed and synthetic funds
- retail schemes
- onshore and offshore funds
- taxation, access and cost considerations

8.9 Application of Derivative Strategies and Funds

On completion, the candidate should be able to:

8.9.1 analyse common applications of derivative positions or investments to specific client circumstances:

- private client investment portfolios
- high net worth portfolios
- institutional asset managers
- corporate treasurers
- hedge funds
- structured funds
- sovereign wealth funds

Element 9 Investment Selection and Administration

9.1 Advisory Process

On completion, the candidate should be able to:

9.1.1 apply a range of essential information and factors to form the basis of appropriate financial planning and advice for clients:

- financial objectives

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- current and future status risk profile
- level of knowledge about investments
- existing debts and investments

9.1.2 analyse and select strategies suitable for the client's aims and objectives in terms of:

- investment objectives
- risk tolerance
- liquidity, trading and ongoing management
- mandatory or voluntary investment restrictions
- tax and cost considerations
- direct holdings, indirect holdings and combinations
- rationale
- balance of investments

9.2 Administration and Maintenance

On completion, the candidate should be able to:

9.2.1 apply key elements involved in managing a client portfolio:

- systematic and compliant approach to client portfolio monitoring, review, reporting and management
- selection of appropriate benchmarks to include market and specialist indices, total return and maximum drawdown
- arrangements for client communication
- measures to address changes that can affect a client portfolio

Element 10 Regulatory Requirements

10.1 Scope of Regulation

On completion, the candidate should be able to:

10.1.1 understand in outline the scope of regulation of derivatives markets and related activities in the main developed and emerging economies:

- UK, USA, Japan and Europe
- India, China, Singapore and South America
- passporting and cross-border agreements
- business versus investment activity

10.1.2 apply FCA principles and Conduct of Business Rules when advising on, trading in or managing derivative based investments and products for clients:

- client classification
- Consumer Duty requirement
- suitability and appropriateness of the transaction/product
- best execution
- justification and risk warnings

10.2 EU and US Regulations

On completion, the candidate should be able to:

10.2.1 understand the role of European regulation on EU derivative markets:

- MiFID II and the Transparency Directive
- clients' money
- clients' accounts
- margining practices
- unregulated markets
- access to overseas markets

Level 4 Derivatives

- access to overseas clients

10.2.2 understand the principles set out in the European Market Infrastructure Regulations (EMIR) and the role of the European Securities and Markets Authority (ESMA) regarding:

- central clearing obligations
- central reporting obligations

10.2.3 understand the role of the Securities and Exchange Commission (SEC) in the regulation of derivatives:

- regulated investments
- regulated exchanges

10.2.4 know:

- the role of the Commodity Futures Trading Commission (CFTC)
- the National Futures Association (NFA) and delegated functions
- the prohibitions of CFTC Part 30 (Foreign Futures and Segregation of Customer Funds)