

ApEx17  
Derivatives

# Summary of Learning Outcomes

**ApEx17 DERIVATIVES**

<b>ApEx17 Derivatives</b>	<b>Level</b>
Candidates will be expected to:	
<b>K Demonstrate a knowledge of:</b>	
K1 regulatory requirements affecting derivatives	Knowledge
K2 principles and key operating features, including the products traded, of key overseas markets	Knowledge
K3 clearing and settlement	Knowledge
<b>U Demonstrate an understanding of:</b>	
U1 principles, characteristics and operation of futures	Comprehension
U2 principles, characteristics and operation of options	Comprehension
U3 characteristics of typical products	Comprehension
U4 methods and organisations involved in the trading of products	Comprehension

Indicative Content  
for each Learning Outcome

**ApEx17 DERIVATIVES**

<b>Attainment Level</b>	<b>Outcome</b>	<b>Indicative Content</b>
<b>17 Derivatives</b>		
<b>K</b> Demonstrate knowledge of:	<b>K1 Regulatory requirements affecting derivatives</b>	K1.1 Differences in the UK & US Regulations <ul style="list-style-type: none"> <li>1.1.1 Segregation of accounts</li> <li>1.1.2 Wholesale and retail markets</li> <li>1.1.3 Role of the Securities and Exchange Commission (SEC) in regulation of derivatives</li> <li>1.1.4 FSA Conduct of Business Rules specific to derivatives</li> </ul> K1.2 Market transparency, trade reporting and monitoring K1.3 International Accounting Standards (IAS 4)

<p><b>U</b> Demonstrate understanding of:</p>	<p><b>U1 Principles, characteristics and operation of futures</b></p>	<p>U1.1 Features and characteristics of futures contracts  U1.2 Risk reward profile  1.2.1 What you could lose/gain  U1.3 Pricing  1.3.1 Fair value  1.3.2 Basis  1.3.3 Arbitrage  U1.4 Strategies  1.4.1 Investment funds, styles, and uses  1.4.2 Types of spread, appropriateness of each and risks  1.4.3 Hedging  1.4.4 Trading different dates  1.4.5 Outrights  U1.5 Margins  1.5.1 Concept and principles  1.5.2 Initial and variation  1.5.3 Intraday margin calls  1.5.4 Calculation methods, including SPAN and TIMS  1.5.5 Cover and collateral  1.5.6 Clearing house, clearing broker and client relationships</p>
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<p><b>U</b> Demonstrate understanding of:</p>	<p><b>U2 Principles, characteristics and operation of options</b></p>	<p>U2.1 Features and characteristics of options contracts  2.1.1 Calls  2.1.2 Puts  U2.2 Risk reward profile  2.2.1 What you could lose/gain for calls and puts according to whether you are buying or selling  U2.3 Pricing  2.3.1 Fair value  2.3.2 Basis  2.3.3 Arbitrage  2.3.4 Premiums  2.3.4a Factors affecting premium calculation  2.3.4b In the money  2.3.4c Out of the money  2.3.4d At the money  2.3.5 Impact of volatility  U2.4 Strategies  2.4.1 Investment funds, styles, and users  2.4.2 Types of spread, appropriateness of each and risks  2.4.3 Straddles and strangles  2.4.4 Hedging  U2.5 Exercise styles – European and American</p>
<p><b>U</b> Demonstrate understanding of:</p>	<p><b>U3 Characteristics of typical products</b></p>	<p>U3.1 Commodities – what the following are, what influences their price, how they are delivered and settled:  3.1.1 Metals  3.1.2 Energy  3.1.3 Agriculturals and softs  3.1.4 Bandwidth and others  U3.2 Financial – characteristics, markets and uses, including leverage, of the following asset types:  3.2.1 Interest rates  3.2.2 Forex  3.2.3 Equities  U3.3 Financial – characteristics, markets and uses, including leverage, of the following product types:  3.3.1 Swaps  3.3.2 Credit derivatives  3.3.3 Covered warrants  3.3.4 Structured Capital At Risk Products (SCARPs)</p>

<p><b>U</b> Demonstrate understanding of:</p>	<p><b>U4 Methods and organisations involved in the trading of products</b></p>	<p>U4.1 OTC  4.1.1 Products – swaps, options, forwards, contracts for difference (CFD), forward rate agreements (FRA)  4.1.2 How the products are traded and settled  4.1.3 Relevance of moving markets and the implications for market abuse  U4.2 Exchange Traded  4.2.1 Products of the London Metal Exchange (LME), International Commodities Exchange (ICE), Euronext.liffe and EDX London  4.2.2 How these products are traded and settled  U4.3 Principal exchanges and their key operating principles</p>
<p><b>K</b> Demonstrate knowledge of:</p>	<p><b>K2 Principles and operating features, including the products traded, of key overseas markets</b></p>	<p>K2.1 US  K2.2 Europe  K2.3 Asia</p>
<p><b>K</b> Demonstrate knowledge of:</p>	<p><b>K3 Clearing and settlement</b></p>	<p>K3.1 Role of the clearing and settlement process  3.1.1 Purpose, operation and risks  3.1.2 Relationship with exchanges, membership criteria and applicable regulations  3.1.3 Contract novation and registration  3.1.4 Margining  3.1.5 Close out  3.1.6 Futures cash settlement and delivery  3.1.7 Option exercise and assignment  3.1.8 Emergency and default powers</p>