

CAPITAL MARKETS

INTRODUCTION TO DERIVATIVES

PROGRAMME DURATION	MODE OF DELIVERY	HRD CORP SCHEME	PROGRAMME FEE
04 HRS 58 MIN	ONLINE LEARNING Self-Paced	SBL-KHAS	RM1,050.00

SECTIONS & DURATION AT A GLANCE

This table provides an overview of the sections covered and the duration of each topic:

SECTION NO	SECTION TITLE		DURATION
Section 1	Derivatives – An Introduction		00 Hrs 45 Min
Section 2	Derivatives – Markets		00 Hrs 50 Min
Section 3	Forwards & Futures – An Introduction		00 Hrs 40 Min
Section 4	Options – An Introduction		00 Hrs 40 Min
Section 5	Swaps – An Introduction		00 Hrs 40 Min
Section 6	Derivatives Applications – Scenario		00 Hrs 45 Min
Assessment	Introduction to Derivatives -Assessment		00 Hrs 15 Min
	OLICK Title for Section Details	TOTAL DURATION	04 Hrs 58 Min

30 Days access are given to participants to complete the entire programmes

This is an Online Learning; participants are learning at their own paced







THE CONTENTS

SECTION 1

Derivatives – An Introduction

Prerequisite Knowledge	Financial Markets	
Section Level	Introductory	
Section Duration	45 Minutes	

Overview

This Section focuses on the basic types of derivatives - forward-type instruments (forwards, futures, and swaps) and options. The key differences between these instruments are described, along with the basics of their pricing. The tutorial also discusses the uses of these instruments, differences between exchange-traded and OTC instruments, and how derivatives are settled and cleared.

Objectives

On completion of this section, you will be able to: -

- Recall the historical development of the derivatives market
- Identify the key types of derivatives, namely futures and options
- Define an interest rate swap
- List the main uses of derivatives, namely, hedging, speculation, and arbitrage
- Recognize how derivatives may use physical or cash settlement
- Compare exchange-traded derivatives to OTC derivatives
- Recognize the importance of clearing arrangements in reducing counterparty risk in derivatives markets

The Outline

OVERVIEW OF DERIVATIVES Overview of Derivatives . **Development of Derivatives Markets TYPES OF DERIVATIVES** Types of Derivatives Options **Derivative Structures** Symmetrical & Asymmetrical Payoffs Forwards/Futures **SWAPS** SWAPS What is a SWAP TOPIC 4 🔶 🔶 **USES OF DERIVATIVES** SETTLEMENT Settlement Types of Settlement **EXCHANGE-TRADED & OTC DERIVATIVES** Exchange-Traded & OTC Derivatives Exchange-Traded Derivatives: Basis Risk Types of Trading **OTC** Derivatives Exchange-Traded Markets: Key Features **CLEARING** Clearing **Role & Impact of Central Clearers** Page 2 of 6 MARC LEARNING SDN BHD





Derivatives – Markets

Prerequisite Knowledge	Derivatives		
Section Level	Introductory		
Section Duration	50 Minutes		

Overview

This section describes derivatives markets today, both OTC and exchange-traded – and how the lines between these have become blurred by regulations adopted following the global financial crisis. The section also looks at the many applications of derivatives for the various market players as well as instruments with embedded options, and linear and nonlinear products.

Objectives

On completion of this section, you will be able to: -

- Distinguish between exchange-traded and OTC markets for derivatives
- Identify the key features of derivatives on financial and nonfinancial assets
- List the main motivations for trading derivatives, such as hedging, speculation, arbitrage, investing in intangible instruments, avoiding delivery, asset allocation, and accessing foreign markets
- Identify the main types of instruments with embedded options, such as callable bonds, CoCos, and dual-currency bonds
- Recognize the difference between linear products such as forwards/futures and nonlinear products such as options

The Outline

	KETPLACES	
 Marketplaces 		Exchange-Traded vs. OTC Transactions
TOPIC 2 ++ FINA	NCIAL & NONFINANCIAL AS	SETS
Financial & Nonfinancial AFinancial Assets	Issets •	Nonfinancial Assets
TOPIC 3 + + + DER	IVATIVES STRATEGIES	
Derivatives StrategiesWhy Use Derivatives?Hedging	•	Speculation Arbitrage Other Trading Motivations
TOPIC 4 + + + EME	EDDED DERIVATIVES	
 Embedded Derivatives 	•	Instruments with Embedded Derivatives
	AR & NONLINEAR PRODUCT	S
 Linear & Nonlinear Product Derivatives & Linearity 	xts	Linear Products Nonlinear Products





Forwards & Futures – An Introduction

Prerequisite Knowledge	Derivatives		
Section Level	Introductory		
Section Duration	40 Minutes		

Overview

This section focuses on the most basic derivatives building block, the forward transaction, which can take the form of an OTC forward contract or an exchange-traded futures contracts. The similarities and the differences between these two product types are examined in detail. The section also covers contracts for difference (CFDs), which have similarities to forwards/futures contracts.

Objectives

On completion of this section, you will be able to: -

- Identify different types of future exposure such as agricultural, FX, and interest rate exposure, and how such
 exposure might be hedged
- List the key differences between forwards and futures
- Recognize how forward/future prices are linked to spot through the economics of ownership but are not
 predictors of actual prices in the future
- Identify some main features of contracts for difference (CFDs)

The Outline

	FUTURE EXPOSURES		
Future ExposuresDevelopment of Forw	vards & Futures	:	Types of Future Exposure Hedge: Scenario
	FORWARDS VS. FUTURES		
Forwards vs. FuturesForwards vs. Futures		:	Why Standardize? Counterparty Risk
TOPIC 3 +++	FORWARD & FUTURE PRICES		
Forward & Future PriPredictive Power of F	ces forward/Futures Prices	:	Contango vs. Backwardation Fair forward Price
	CONTRACTS FOR DIFFERENCE		
 Contracts for Different What are Contracts for 	nce (CFDs)	•	Market Liquidity & CFDs





Options – An Introduction

Prerequisite Knowledge	Derivatives
Section Level	Introductory
Section Duration	40 Minutes

Overview

Options are one of the basic building blocks in finance. A combination of options with other products allows almost infinite customization possibilities for hedgers, investors, traders, and speculators. This section outlines the basic structures and terminology associated with options, and how they are traded and settled. The section also discusses the main components of option value, namely intrinsic value, and time value.

Objectives

On completion of this section, you will be able to: -

- Recognize the connection between optionality and uncertain economic outcomes
- List the key terminology associated with options, such as premium, calls and puts, option holder and writer, strike (exercise) price, expiration date, and underlying assets
- Recall how options are traded and settled
- Identify the key types of volatility in options markets, namely, realized volatility, implied volatility, and projected volatility
- List the key factors affecting the value of an option, including time to expiration, exercise style, implied volatility, and moneyness, and distinguish between an option's intrinsic value and its time value

The Outline

TOPIC 1 • UNCERTAINTY, CHOICES, & OPTIONALITY

Uncertainty, Choices, & Optionality TOPIC 2 ++ OPTION TERMINOLOGY	 Uncertainty, Choices, & Outcomes
Option TerminologyKey Option Terminology	 Option Terminology: Scenario
TRADING & SETTLEMENT	
Trading & SettlementOTC & Exchange-Traded Options	 Cash & Physical Settlement
TOPIC 4 + + + + VOLATILITY	
VolatilityUncertainty & Volatility in Options Markets	 Types of Volatility
TOPIC 5 + + + + OPTION VALUATION	
 Option Valuation Factors Affecting the Value of an Option Intrinsic Value & Time Value 	Time Value & American OptionsTrading Volatility





Swaps – An Introduction

Prerequisite Knowledge	Derivatives
Section Level	Introductory
Section Duration	40 Minutes

Overview

Originating in the 1970s, swaps were once small, heavily structured, transactions. Today, they have developed into commoditized products that dominate derivatives markets around the globe. This sectioni looks at the key types of swaps, namely interest rate swaps, equity index swaps, and credit default swaps. The role of standardization, clearing, netting, and compression in swaps markets is also discussed in detail.

Objectives

On completion of this section, you will be able to: -

- Identify the key characteristics of swap contracts
- List the main types of swaps, such as interest rate swaps, equity index swaps, and credit default swaps
- Identify the reasons behind the standardization and clearing of swaps contracts
- Recognize the importance of netting and compression of swap trades for bank regulatory swap requirements

The Outline

	TYPES OF SWAPS		
 Types of Swaps What is a Swap? Interest Rate Swap Equity Index Swap 		:	Credit Default Swap Swap Collateralization Contracts Not Securities
	NOTIONAL PRINCIPAL		
 Notional Principal 		÷	Notional Value & Market Value
	STANDARDIZATION & CLEAR	ING	
 Standardization & G Overview of Standa 	Clearing ardization & Clearing	·	Market Liquidity
	NETTING & COMPRESSION		
Netting & CompresOverview of Netting	sion g & Compression	•	Netting & Compression: Example
SECTION 6			
Derivatives A	pplications – Scena	rio	

Prerequisite Knowledge	A solid knowledge of derivatives is required, particularly interest rate derivatives, equity swaps, and stock options. A basic understanding of hedge funds would also be useful.
Section Level	Intermediate
Section Duration	45 Minutes

Overview

This scenario explores the practical application of financial derivatives by a US hedge fund trader. It incorporates three separate strategies that represent just a small selection of the many choices available to hedge funds when using derivatives to manage exposures and positions. While the scenario is based on the activities of a hedge fund, many other entities also use derivatives to manage the types of exposure described (as well as other risk exposures).

