

# CFA space

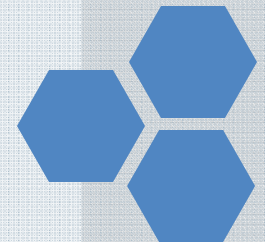
Provided by APF  
Academy of Professional Finance 专业金融学院

## CFA Level I

Derivatives

Study Session 17

CFA Lecturer: Elise Jia





# Contents

1

Brief introduction of Derivatives

2

Derivative Markets and Instruments



# CFA Exam Topic Area Weights

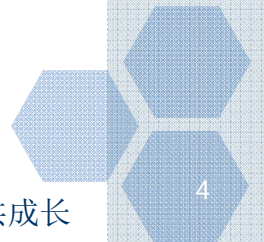
Topic Area	Level I	Level II	Level III
<b>Ethical and Professional Standards (total)</b>	<b>15</b>	<b>10</b>	<b>10</b>
<b>Investment Tools (total)</b>	<b>50</b>	<b>30-60</b>	<b>0</b>
Corporate Finance	8	5-15	0
Economics*	10	5-10	0
Financial Reporting and Analysis	20	15-25	0
Quantitative Methods	12	5-10	0
<b>Asset Classes (total)</b>	<b>30</b>	<b>35-75</b>	<b>35-45</b>
Alternative Investments	3	5-15	5-15
Derivatives	5	5-15	5-15
Equity Investments	10	20-30	5-15
Fixed Income	12	5-15	10-20
<b>Portfolio Management and Wealth Planning (total)</b>	<b>5</b>	<b>5-15</b>	<b>45-55</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*Economics is part of Portfolio Management at Level III.



## Candidate Body of Knowledge Topic Outline

- ❖ **A. Types of Derivative Instruments and their Characteristics**
- ❖ **B. Forward Markets and Instruments**
- ❖ **C. Futures Markets and Instruments**
- ❖ **D. Options Markets and Instruments**
- ❖ **E. Swaps Markets and Instruments**
- ❖ **F. Credit Derivatives Markets and instruments**





# Brief Introduction of Derivatives

Reading 60: Derivative markets and instruments

Reading 61: Forwards

Reading 62: Futures

Reading 63: Options

Reading 64: Swaps

Reading 65: Use of options in risk management



# Derivative Markets and Instruments

**LOS 60.a: Define a derivative and distinguish between exchange-traded and over-the-counter derivatives.**

□ A **derivative** is a financial instrument that offers a return based on the return of some other **underlying asset**.

Example 1:

For derivative contracts, the notional principal is *best* described as:

- A.** the amount of the underlying asset covered by the contract.
- B. a measure of the actual payments made and received in the contract.
- C. tending to underestimate the actual payments made and received in the contract.



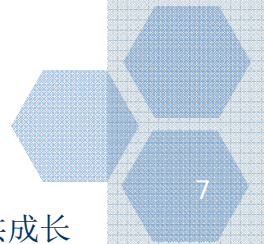
# Derivative Markets and Instruments

## Exchange-traded contracts

- standard terms and features
- are traded on an organized derivatives trading facility
- backed by a clearinghouse

## Over-the-counter contracts

- any transactions created by two parties anywhere else





# Derivative Markets and Instruments

**LOS 60.b: Contrast forward commitments and contingent claims.**

- A forward commitment is a **legally binding promise** to perform some action in the future.
  - Include: forward contracts, future contracts and swaps.
  
- A contingent claim is a claim (to a payoff) **that depends** on a particular event.
  - We generally refer to these types of derivatives as options.



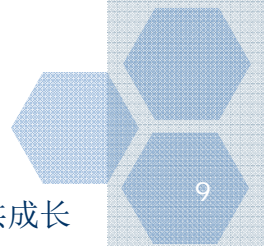


# Derivative Markets and Instruments

**LOS 60.c: Define forward contracts, futures contracts, options {calls and puts}, and swaps and compare their basic characteristics.**

A futures contract is a forward contract that is standardized and exchange-traded.

In a forward contract, one party agrees to buy and the counterparty to sell a physical asset or a security at a specific price on a specific date in the future.





# Derivative Markets and Instruments

**LOS 60.c: Define forward contracts, futures contracts, options {calls and puts}, and swaps and compare their basic characteristics.**

- A swap is a series of forward contracts.
- An option to buy an asset at a particular price is termed a call option.
- An option to sell an asset at a particular price is termed a put option.



# Derivative Markets and Instruments

## Example 2:

Which of the following is *most* representative of forward contracts and contingent claims?

### Forward Contracts

- A. Premium paid at inception
- B. Premium paid at inception
- C. No premium paid at inception

### Contingent Claims

- Premium paid at inception
- No premium paid at inception
- Premium paid at inception



# Derivative Markets and Instruments

**LOS 60.d: Describe purposes of and controversies related to derivative markets.**

## Benefits

- Provide Price Information.
- Allow Risk to be managed and shifted among market participants.
- Reduce transaction costs

## Criticism

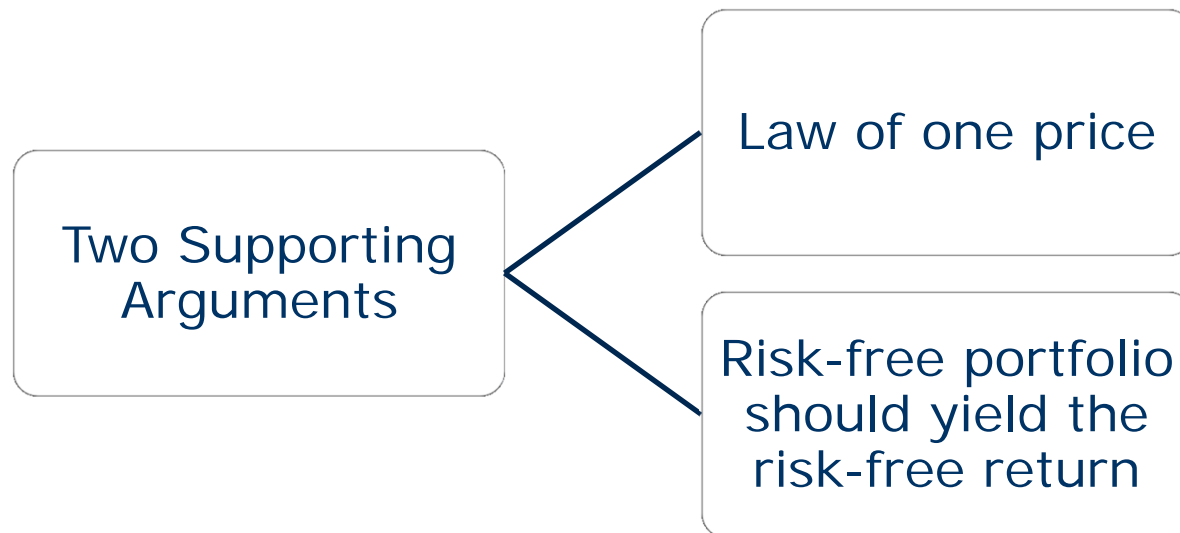
- Too risky.



# Derivative Markets and Instruments

**LOS 60.e: Explain arbitrage and the role it plays in determining prices and promoting market efficiency.**

- Arbitrage occurs when equivalent assets or combinations of assets sell for two different prices.
  - Riskless
  - Profitable



CFAspace



Thank You!

