

## Paper 9 — Derivatives (Effective on 01 March 2010)

**Topic 1: Overview of the Derivatives Markets**

- 1 Fundamentals of derivatives markets**
  - What are derivatives?
  - Exchange-traded derivatives
  - Over-the-counter (“OTC”) derivatives
  - The derivatives market in Hong Kong
  - Overseas derivatives markets
- 2 Types of derivatives**
  - Futures
  - Forwards
  - Swaps
  - Options
- 3 Uses of derivative products**
  - Hedging
  - Asset switching
  - Deriving an income
- 4 Participants in derivatives markets**
  - Hedgers
  - Speculators
  - Arbitrageurs

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**Topic 2: Generic Derivative Products**

- Features of a futures product
- Futures spread strategies

**2 Forwards**

- Features of a forward product
- Forward rate agreements (“FRA”)

**3 Swaps**

- Features of a swap
- Credit Default Swap

**4 Options**

- Features of an option
- Option markets
- Pay-off diagram
- Option trading strategies
- Option pricing models

**5 Option trading strategies**

- Straddles
- Strangles
- Spreads
- Options with underlying assets

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**Topic 3: Equity Derivatives****1 Exchange-traded equity derivatives**

- Hang Seng Index futures
- Hang Seng Index options
- Mini-Hang Seng Index futures / options
- Hang Seng China Enterprise (H-shares) Index futures / options
- Stock futures
- Stock options

**2 Warrants**

- Features of a warrant
- The warrant market in Hong Kong
- Types of warrant
- Issuance of derivative warrants
- Liquidity providers for derivative warrants
- Reasons for investing in warrants

**3 Over-the-counter equity derivatives**

- Equity-linked debt investments
- Equity swaps
- OTC options and warrants

**4 New structured products**

- Equity-linked note (“ELN”)
- Callable range accrual note
- Callable Bull/Bear Contract (“CBBC”)
- Accumulator

**5 Pricing equity derivatives**

- Principles of equity derivatives valuation
- Pricing index futures

**6 Hedging using equity derivatives**

- Hedging using stock futures.

**7 Trading strategies for equity derivatives**

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**Topic 4: Interest-rate Derivatives****1 Exchange-traded interest-rate derivatives**

- HIBOR futures
- Three-year Exchange Fund Note (“EFN”) futures

**2 OTC-traded interest-rate derivatives**

- Forward rate agreements (“FRAs”)
- Interest-rate swaps
- OTC interest-rate options

**3 Pricing interest-rate futures contract**

- Pricing HIBOR futures contract
- Calculating the contracted value of HIBOR futures
- Calculating the contracted value of three-year EFN futures

**4 Hedging using interest-rate derivatives**

- Hedging using HIBOR futures
- Hedging using EFN futures

**5 Trading strategies for interest-rate derivatives**

- Trading strategies using HIBOR futures
- Trading strategies using three-year EFN futures

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## Topic 5: Currency and Commodity Derivatives

- 1 **Currency derivative products**
  - Currency forwards
  - Foreign exchange (“FX”) swaps
  - Currency swaps
  - Currency options
- 2 **Pricing currency derivatives**
  - Pricing currency forwards
  - Pricing FX swaps
  - Pricing currency options
  - Valuing Foreign Exchange (“FX”) options
- 3 **Hedging using currency derivatives**
- 4 **Trading strategies for currency derivatives**
- 5 **Commodity derivative products**
  - Commodity goods
  - Types of commodity derivatives
- 6 **Pricing commodity derivatives**
  - Pricing fundamentals
- 7 **Hedging using commodity derivatives**
- 8 **Trading strategies for commodity derivatives**

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## Topic 6: Derivatives: Trading, Clearing and Settlement

- 1 **Trading derivative products**
  - Risks and benefits of derivative products
  - Analysis of the market
  - Trading practices
  - Dealing with clients
  - Value-at-risk (“VaR”)
- 2 **Margining systems**
  - Margining methods
- 3 **Derivatives clearing and settlement**
  - HKFE Clearing Corporation

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