

# The Licensing Examination for Securities and Futures Intermediaries

## Paper 9 Derivatives

### Syllabus

(Effective from 1 June 2021)

#### Topic 1: Overview of the derivatives markets

- 1 Fundamentals of derivatives markets
  - What are derivatives?
  - Exchange-traded derivatives
  - Over-the-counter 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
  - Making a profit
- 4 Participants in derivatives markets
  - Hedgers
  - Speculators
  - Arbitrageurs

#### Topic 2: Generic derivative products

- 1 Futures
  - Features of a futures product
  - Futures spread strategies
- 2 Forwards
  - Features of a forward product
  - Forward rate agreements
- 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

#### 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 Enterprises Index futures/options
  - Stock futures
  - Stock options
  - Dividend futures
  - HSI Volatility Index futures
  - BRICS futures
  - CES China 120 Index futures
  - Sector index futures
  - MSCI Equity Indexes futures/options
  - Hang Seng TECH Index futures/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
  - Callable range accrual note
  - Callable Bull/Bear Contract
  - Accumulator
  - Inline Warrants
- 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

**Topic 4: Interest-rate derivatives**

- 1 Exchange-traded interest-rate derivatives
- Hong Kong Interbank Offered Rate futures
- 2 OTC-traded interest-rate derivatives
- Forward rate agreements
  - Interest-rate swaps
  - OTC interest-rate options
- 3 Pricing interest-rate derivatives
- Pricing HIBOR futures contract
  - Calculating the contracted value of HIBOR futures
- 4 Hedging using interest-rate derivatives
- Hedging using HIBOR futures
- 5 Trading strategies for interest-rate derivatives
- Trading strategies using HIBOR futures

**Topic 5: Currency and commodity derivatives**

- 1 Currency derivative products
- Currency forwards
  - Foreign exchange swaps
  - Currency swaps

- Currency options
  - Non-deliverable forwards
  - Exchange-traded currency derivative products in Hong Kong
- 2 Pricing currency derivatives
- Pricing currency forwards
  - Pricing foreign exchange swaps
  - Pricing currency options
  - Valuing foreign exchange options
- 3 Hedging using currency derivatives
- 4 Trading strategies for currency derivatives
- 5 Commodity derivative products
- Commodity goods
  - Types of commodity derivatives
  - Exchange-traded commodity derivative products in Hong Kong

- 6 Pricing commodity derivatives
- Pricing fundamentals
- 7 Hedging using commodity derivatives
- 8 Trading strategies for commodity derivatives

**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
- 2 Margining systems
- Margining methods
- 3 Derivatives clearing and settlement
- HKFE Clearing Corporation
- 4 Over-the-counter derivatives trading and central counterparty clearing
- Trade execution and confirmation
  - Mandatory reporting
  - Central counterparty clearing

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