

Understanding Derivatives

Derivatives are financial products whose usage exploded in the 1990s; their complexity has only increased since then. They have many uses: leverage, risk mitigation, managing exposure, hedging currency risk, speculation, income generation, capital efficiency, etc.

This comprehensive course offers a practical understanding of how to use derivatives as tools to obtain certain outcomes and avoid others. You will also learn how fund managers, traders and risk managers use them. We will look at live data and stock exchange platforms for an immersive experience.

We will delve into the practical uses of future, forwards, options and swaps before investigating how advanced combinations can be used to either gain exposure to or hedge away very specific outcomes. The event will finish with an investigation of how to use derivatives to incorporate directionality and non-directionality in a portfolio.

Who should attend?

Delegates who work in the financial, legal, supervisory or fund management spaces. The programme can be delivered as part of an induction session, as a focused specialist intensive or as a general upskilling course. It can be adapted for introductory to advanced level. It is best delivered over three non-consecutive days but can be customised to suit your needs.

Course outline

Day 1: Introduction to Derivatives

- What is a derivative and why does it have that name?
- What are futures and forwards?
- Swaps
- Options
- Credit derivatives including Credit Default Swaps
- Bonds with an embedded derivative
- Cashflow path of each derivative
- The margin process



Day 2: Implications of Derivatives

- Global exposure
- Measuring and controlling risk
- Derivatives Regulation
- Absolute & Relative VAR
- Risk Management
- Contracts for Difference
- Stock lending and short sales
- Capital buffers, collateral and margin calls
- Repos and reverse repos
- Structured Products
- Delta One securities

Day 3: Derivatives and Funds

Mechanics of Exchange Traded Funds

- What is an ETF and why is it the fastest growing financial product in the world?
- The creation/redemption process of ETFs
- Trading ETFs – what is the path of the cashflow?
- Six methods of ascertaining what stocks comprise an ETF
- Tracking error of ETFs

Money Market Funds

- Money market funds/shadow banking
- Variable NAV/Stable NAV

Derivatives & ETFs

- Swap-based ETFs and their incremental risks
- Levered and short ETFs and their incremental risks
- Settlement and clearing of ETFs

Securitisation

- What is securitisation, why and how does it happen?
- Mortgage Backed Securities (MBS)
- Asset Backed Securities (ABS)
- Collateralised Mortgage Obligations (CMOs)