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**CPD HOURS: 3.5**

## INTRODUCTION TO DERIVATIVES

This half-day workshop is designed to provide a fast-track introduction to the main derivative contracts and their uses by investment managers.

No prior knowledge is assumed and all terms will be fully explained.

Case studies form an integral part of the course, to allow the delegates to consolidate the information and provide the basis for group discussions.

### OBJECTIVES

By the end of the workshop, delegates will have a better understanding of:

- The main contracts
- The role of the exchange
- The role of the clearing house and clearing brokers
- Margining
- Common strategies
- Impact of the wider powers under UCITS III and the risk management process
- Valuing derivatives in client portfolios

### WHO SHOULD ATTEND?

- |  |                            |                              |
|--|----------------------------|------------------------------|
| • Client services and call centres         | • Finance and accounting   | • HR and training            |
| • Investment administration and operations | • Investment professionals | • IT and software developers |
| • Legal and compliance                     | • New entrants             | • PR and recruitment firms   |
| • Risk management                          | • Sales and marketing      |                              |

### THIS COURSE IS ALSO APPROPRIATE FOR THE FOLLOWING EXAMS

- |                                      |  |  |
|--------------------------------------|--|--|
| • UKSIP – Introduction to investment | • SII Diploma – Global operations management             | • SII IAQ – Introduction to securities and investments |
| • IMC                                | • SII Certificate – Derivatives                          | • SII IAQ – Exchange-traded derivatives administration |
| • CFA Levels 1 & 2                   | • SII Certificate – Securities and financial derivatives |  |



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## CONTENT

- **Forwards and futures**

- Trading and settlement

- OTC vs exchange-traded contracts

- Uses of both types

- **Valuing contracts**

- What is the fair value for a contract?

- Calculating the forward delivery settlement price

- What is basis?

- What affects the price of a contract?

- What is a tick?

- Calculating the closing settlement price (EDSP)

- Contango and Backwardation

- Case study: Calculating the fair price for an index future***

- **Trading futures contracts**

- The main derivative markets

- Electronic vs open-outcry trading

- Opening and closing out positions

- **Clearing**

- Role of the clearing house

- Role of clearing brokers

- Novation

- Margining positions

- Initial margin, variation margin and maintenance margin

- Securitising derivatives positions

- Cash buffers, using other collateral

- Case study: Margining a futures contract***



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- **Index futures**

Valuing index futures

How do portfolio managers use index futures?

Hedging, asset allocation, securitising cash

***Case study: Hedging a portfolio using index futures***

***Case study: Asset allocation using index futures***

- **Options**

Puts and calls

American vs European options

Options vs futures

- **Swaps and CFDs**

What are CFDs?

Using CFDs in portfolio management

***Worked example of a CFD***

- **Regulations governing the use of derivatives by portfolio managers**

COLL Chapter 5 (UCITS III rules) for authorised funds

Non-UCITS Retail (NURS rules)

Qualified Investor Schemes rules

Hedge funds

- **Accounting for derivatives in portfolios**

Valuing futures and forwards held in portfolios

Associated economic exposure

Cash/stock adjustment

Gearing

Impact on the balance sheet and P&L

Implications for performance measurement