Derivatives and Pooled Funds
2 day 14 CPD Points

Course outline:

Session One:

- Introduction to Derivatives Instruments
  - Linkages to underlying cash markets
  - Payoff Profiles
  - Principles of Derivatives Pricing
    - Costs of Hedging
    - Arbitrage Free Principles
    - Discounted Cash Flows
- Functions and Applications of Derivatives Instruments
  - Hedging of Real Commercial Transactions (Agricultural Futures)
  - Risk Transfer Mechanisms
  - Funding Instruments
  - Leveraged Applications

Session Two:

- Over-the-Counter Forwards
  - Foreign Exchange Forwards & Swaps
    - Pricing Principles
    - Cash and Carry Modelling
    - Applications for Funding
  - Commodity Forwards & Swaps
    - Relationship between the Financial and Physical Markets
    - Delivery Requirements
    - Convenience Yields
  - Interest Rate Forward Agreements
    - Introduction to Forward / Forward Pricing Principles
    - Basic Construction of Interest Hedge
    - Building blocks for Interest Rate Swap Technology
- Exchange Traded Futures
  - Major Venues for Financial and Other Futures Products
  - Futures Contract Specifications
    - Standardisaton
    - Regular Calendar Frequencies
    - Contract sizes
    - Point and Tick Trading Specifications
    - Margin Requirements
  - Currency, Interest Rate, Equity and Commodity Futures Markets

Session Three:

- Options Contracts
  - Call and Put Definitions
  - Basic Payoff Profiles
  - Put-Call Parity and Related Principles
  - Intrinsic and Time Value Components of Option Premium
  - Essential Option Pricing and Value Drivers
    - Volatility
    - Time
    - Moneyness
  - Basic Applications of Options and Options Structures

Session Four:

- Swap Contracts
  - Interest Rate Swap Pricing Principles (Fixed v Floating)
  - Basis Swap Pricing Principles (Floating v Floating)
  - Risk Characteristics
  - Risk Transfer Features
- Risk Management Principles for Derivatives
  - Definition of Appropriate Risk Metrics
    - Time Dependencies
    - Path Dependent Features
    - Volatility
    - Asset Return Distribution Assumptions
    - Amortisation & Diffusion Characteristics of Derivatives Instruments
    - Credit Value Adjustments for Counterparty Credit Risk

Session Five:

- Accounting for Derivatives
  - Recognition of Financial Instruments (IFRS 9)
  - Instrument Categorisation
    - Business Model and Cash Flow Characteristics Tests
    - Amortised Cost
    - Fair Value through other Comprehensive Income (FVOCI)
    - Fair Value through Profit and Loss (FVTPL)
  - Embedded Derivatives in Assets & Liabilities

Session Six:

- Accounting for Derivatives
  - Introduction to Derivatives Accounting in IFRS9
    - Derivatives Definition
    - Hedge Accounting
      - Hedged Item and Hedging Instrument
      - Fair Value Hedge
      - Cash Flow Hedge
    - Undesignated or Speculative Classifications

Session Seven:

- Accounting for Derivatives
  - Forwards and Hedge Accounting
  - Options and Hedge Accounting
  - Swaps and Hedge Accounting
  - Examples from the Equity, Foreign Exchange, and Interest Rate Markets
  - Financials Disclosure Requirements for Derivatives

Session Eight:

- Tax Treatment for Derivatives
  - Characterising Derivatives Income
    - Taxable Income
    - Gross Income
    - Derivatives Income Classification
    - Sources of Derivatives Income
    - Expenditure & Losses
    - Timing of Taxation of Derivatives Income

Session Nine:

- Introduction to Pooled Funds
  - Definitions and Examples
  - Funding Mechanisms
  - Economies of Scale & Cost Minimisation
  - Diversification Opportunities flowing from Pooled Funds
- Examples of Pooled Funds
  - Hedge Funds
  - Mutual Funds
  - Pension Funds
  - Differences and Similarities in Construction, Management & Operations
- Pros and Cons of Pooled Funds
- Comparison of and Differences between Pooled & Segregated Funds
  - Operational Differences
  - Risk / Return Features of both Types of Funds
  - Tax Treatment for Pooled Funds
  - Accounting Treatment for Pooled Funds