# 2024 Level III Topic Outlines

# Derivatives

## LEARNING OUTCOMES

**Options Strategies**

***The candidate should be able to:***

- □ demonstrate how an asset's returns may be replicated by using options
- □ discuss the investment objective(s), structure, payoff, risk(s), value at expiration, profit, maximum profit, maximum loss, and breakeven underlying price at expiration of a covered call position
- □ discuss the investment objective(s), structure, payoff, risk(s), value at expiration, profit, maximum profit, maximum loss, and breakeven underlying price at expiration of a protective put position
- □ compare the delta of covered call and protective put positions with the position of being long an asset and short a forward on the underlying asset
- □ compare the effect of buying a call on a short underlying position with the effect of selling a put on a short underlying position
- □ discuss the investment objective(s), structure, payoffs, risk(s), value at expiration, profit, maximum profit, maximum loss, and breakeven underlying price at expiration of the following option strategies: bull spread, bear spread, straddle, and collar
- □ describe uses of calendar spreads
- □ discuss volatility skew and smile
- □ identify and evaluate appropriate option strategies consistent with given investment objectives
- □ demonstrate the use of options to achieve targeted equity risk exposures

**Swaps, Forwards, and Futures Strategies**

***The candidate should be able to:***

- ☐ demonstrate how interest rate swaps, forwards, and futures can be used to modify a portfolio's risk and return
- ☐ demonstrate how currency swaps, forwards, and futures can be used to modify a portfolio's risk and return
- ☐ demonstrate how equity swaps, forwards, and futures can be used to modify a portfolio's risk and return
- ☐ demonstrate the use of volatility derivatives and variance swaps
- ☐ demonstrate the use of derivatives to achieve targeted equity and interest rate risk exposures
- ☐ demonstrate the use of derivatives in asset allocation, rebalancing, and inferring market expectations