

## 2025 Level III Core Topic Outlines

# Derivatives and Risk Management

### 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

**Currency Management: An Introduction**

*The candidate should be able to:*

- analyze the effects of currency movements on portfolio risk and return
- discuss strategic choices in currency management
- formulate an appropriate currency management program given financial market conditions and portfolio objectives and constraints
- compare active currency trading strategies based on economic fundamentals, technical analysis, carry-trade, and volatility trading
- describe how changes in factors underlying active trading strategies affect tactical trading decisions
- describe how forward contracts and FX (foreign exchange) swaps are used to adjust hedge ratios
- describe trading strategies used to reduce hedging costs and modify the risk–return characteristics of a foreign-currency portfolio
- describe the use of cross-hedges, macro-hedges, and minimum-variance-hedge ratios in portfolios exposed to multiple foreign currencies
- discuss challenges for managing emerging market currency exposures