



Subject Outline

FPE015 Derivatives in Financial Planning



Section 1 — General information

1.1 Administrative details

Duration	Credit points	Level
One study period (12 weeks)	6	AQF9

1.2 Core or elective subject

This is an elective subject for the Master of Financial Planning.

1.3 Delivery mode

This subject is delivered online.

1.4 Prerequisites

There are no prerequisites for this subject. However please review the 'Assumed knowledge' section below to understand the prior knowledge Kaplan advises you should hold before enrolling in this subject.

1.5 Assumed knowledge

Whilst there are no prerequisites for this subject, Kaplan assumes that students have completed FPC006 Taxation for Financial Planning and FPC008 Investment Advice, or understand the content covered in those subjects, prior to undertaking FPE015 Derivatives in Financial Planning.

1.6 Course transition subject equivalence

- there are no equivalences for this subject.

1.7 Work integrated learning

There are no placements, internships or work experience requirements associated with undertaking this subject.

1.8 Other resource requirements

Students do not require access to specialist facilities and/or equipment to undertake this subject.



Section 2 — Academic details

2.1 Subject overview

This subject focuses on the investment product knowledge, especially in wholesale markets (such as derivatives) and how they are used to generate yield and/or modify risk. The subject explores the increasing financial planning context of these investment instruments which most financial advisers have traditionally only been exposed to through the use of managed investment funds.

Students will follow a fictitious case study through the assessment, so they may apply their knowledge of investments and the above concepts are used to generate yield and/or modify risk.

2.2 Subject learning outcomes

On successful completion of this subject, students should be able to:

1. Recommend various specialised investment products having considered their characteristics and relative benefits.
2. Assess the suitability of specialised investment products for clients.
3. Determine compliant advice for clients incorporating 'Derivatives' product knowledge.
4. Design an investment portfolio to manage investment risk by using Derivatives and other specialised products for a client.
5. Apply an understanding of the relevant regulatory guidelines related to the use of specialised investment products.
6. Analyse any tax implications of using specialised investment products.

2.3 Topic learning outcomes

Topic 1: Foreign exchange and debt markets

On successful completion of this topic, students should be able to:

- understand the relationship between Reserve Bank of Australia (RBA), financial institutions and markets
- discuss the basic functions of the Australian foreign exchange and debt markets, the players in these markets and the securities traded in them
- describe interest rate fundamentals and the basic relationship between risk and rates of return
- explain foreign exchange quotations, including the trade-weighted index, cross rates, spot rates and forward rates
- outline the factors impacting on interest rates and foreign exchange rates and the rationale for risk management.

Topic 2: Fundamentals of derivatives

On successful completion of this topic, students should be able to:

- describe what a derivative is and outline the different types of derivatives available in the market
- distinguish between exchange-traded and over-the-counter derivatives
- outline the concepts of short selling and hedging
- summarise major derivative market developments
- discuss the role that technical and fundamental analysis plays in determining trading and hedging decisions
- discuss the factors which can affect prices and the way in which derivatives can be used by different market participants to achieve different goals
- list and explain the types of risks involved in derivatives trading.

Topic 3: Futures

On successful completion of this topic, students should be able to:

- define a futures contract
- explain the different types of futures available to investors
- discuss the potential uses of managed futures, bank bill futures and bond futures
- calculate the value of futures contracts.

Topic 4: Options

On successful completion of this topic, students should be able to:

- define an option and explain the types of options available
- outline the advantages and risks of using options
- interpret a call and put option delta, put–call ratio and option payoff diagrams
- discuss factors affecting the pricing of options
- explain the rationale for basic option strategies in bear, bull and neutral markets.



Topic 5: Innovative financial products

On successful completion of this topic, students should be able to:

- define a warrant and list the different types of warrants available and their features
- compare and contrast warrants with other securities
- explain how CFDs operate, including the risks involved in using these products
- discuss the primary users of forward rate agreements (FRAs) and swaps
- outline the advantages and disadvantages of entering into swaps or FRAs.

Topic 6: Legal and regulatory guidelines

On successful completion of this topic, students should be able to:

- summarise the key points relating to ASX 24 Operating Rules
- describe the difference between the two different types of ASX 24 participants
- discuss the general role of a clearing house and the rationale for OTC market reform
- outline the different types of margins in futures trading and the function of margin calls
- explain the key obligations when conducting a derivatives business
- provide a rationale for the requirements for OTC transaction documentation
- describe the functions and purpose of front office, middle office and back office operations
- explain what is meant by 'fair value' and how this relates to accounting for derivatives
- explain the accounting benefits of designing an effective hedge
- describe the key tax implications relating to investment in derivatives.

Topic 7: Using derivatives and other specialised products in financial planning: Assessing financial risk in client portfolios

On successful completion of this topic, students should be able to:

- explain how to determine an appropriate risk profile
- design appropriate asset allocations for different risk profiles
- discuss the concept of investment risk and describe how risk can be measured
- define diversification and explain its limits
- discuss the use of standard deviation, beta and correlation in identifying ways to reduce risk
- discuss and apply methods used to minimise and manage risk
- outline some behavioural aspects relating to risk.

Topic 8: Hedging

On successful completion of this topic, students should be able to:

- describe the main types of, and purposes of, hedging
- identify and explain important risks that must be considered when hedging
- apply basic hedging strategies using equity index futures
- apply basic hedging strategies using 90-day bank bill and bond futures.

2.4 Assessment schedule

Assessment	Description	Week	Topics	Weighting	Subject learning outcomes assessed
Online Quiz 1	Auto mark questions	Week 4	1, 2, 3, 4	10%	LO1 & LO4
Assignment 1	Short- and long-answer responses linked to case study	Week 6	1, 4, 5, 6, 7, 8	40%	LO1–LO6
Online Quiz 2	Auto mark questions	Week 10	1,4,5	10%	LO1 & LO4
Assignment 2	Short- and long-answer responses linked to case study	Week 12	6,7	40%	LO1–LO6

Please refer to our website <www.kaplanprofessional.edu.au> to review student policies relating to your assessment, including the Kaplan *Assessment Policy* and *Academic Integrity and Conduct Policy*.

2.5 Prescribed text

There is no prescribed text for this subject. Students are provided with key readings and access to Kaplan's online databases. Students are encouraged to research and read widely on the topic.

2.6 Study plan

Week(s)	Topic name	Study load in hours
1	Topic 1: Foreign exchange and debt markets	10
2	Topic 2: Fundamentals of derivatives	10
3	Topic 3: Futures	10
4	Topic 4: Options Online Quiz 1 Due (Weighting 10%)	10
5	Topic 5: Innovative financial products	10
6	Assignment 1 Due (weighting 40%)	10
7	Topic 6: Legal and regulatory guidelines	10
8	Topic 7: Using derivatives and other specialised products in financial planning: Assessing financial risk in client portfolios	10
9	Topic 8: Hedging	10
10	Online Quiz 2 Due (Weighting 10%)	10
11	Work on Assignment	10
12	Assignment 2 due (Weighting 40%)	10
Total minimum study load		120 hours

Additional study hours (if required), dependent on knowledge and personal commitments	70 hours
Total study load, including additional study hours	190 hours