Section 9

(b)

Define the Term Financial Derviates.

<u>financial Derivates</u>:

Financial derviates are financial instrument that are linked to a specific financial instrument or indictors or commodity and though which Specific financial risk.

financial derviates were also known as off-balance Sheet Instrument because no assets or liability under the contract was put on the balance sheet.

<u>Features of Derviates</u>:

1. The transaction in derviates are separate from the Transaction in the underlying securities.

2. The financial derviates is priced according to the value of underlying assets.

3 Financial derivates are used for wide varitey of reason, such as hedging, risk mgt

4→ The settlement of derivates generally take place through net payment of Cash. It is generally done by before the maturity date.

~~Basic financial Derivates are~~ :

1 ~~Options~~ →

There are literally thousand of different types of financial derivates.

1 Option →

Option are contract b/w two parties to buy or sell a security at a given price. They are most often used to trade stk option, but may be used for other investment as well.

option market is the sum total of all buying or selling contract which is conducted and may be described either global or regional.

Date / /

(2) futur →

future work on the same premise option, although the underlying securities is diffent.

future are traditionally used for purchasing the right to buy and sell a commodity.

but they are also used to purchase financial securities

(3) Swapn →

Swaps give investors the opprounity to exchange the benefits of their securities with each other.

For example →

One party may have a bound with a fixed Int rate but is in a line business where they have season to prefer a varying Int.