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CMFAS Capital Markets – Specified Investment Products – Derivatives and Collective Investment Schemes (CM-SIP)

Summary of Updates
(January 2026 – Version 1.1)

The updates made to the CMFAS CM-SIP (February 2024 – Version 1.0) are summarized as follows:
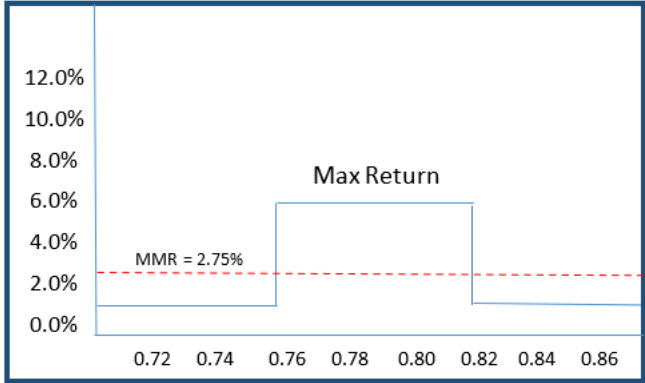
Additions / updates / corrections are indicated in blue italics.
 Deletions are indicated in strikethrough.

Section and page references relate to the updated study guide.

Chapter	Page No.	Update / Amendment
2.3.3.2 Pricing Equity Index Futures	36	Equity index futures do not trade at precisely the fair value level aligned with the spot or cash value of the associated equity index all the time. This difference between the futures and spot values is known as the **basis**. The fair value of an equity index futures contract is normally expected to be positive such that futures prices are more than the spot prices ~~(S > F)~~ *(F > S)*. This is attributed to the fact that under normal market conditions, financing costs, as reflected in short-term interest rates such as the London Interbank Offered Rate (LIBOR) or Singapore Interbank Offered Rate (SIBOR), normally exceed dividend yields. Due to a loose monetary policy by central banks in recent years after the 2007-2008 financial crisis, the reverse has been true.
2.6 Basis in Futures Contracts	46	The difference between the actual futures price and the spot price is called the basis. ~~When the markets are not bullish, not volatile or are in an upward secular run, basis is usually positive but at times when markets turn bearish, basis can turn negative.~~ *When markets are in **contango** (typically during stable or bullish conditions), the basis is usually **positive**, meaning the futures price is higher than the spot price due to carrying cost such as financing and storage.* *Conversely, when markets move into **backwardation** (often during bearish or stressed conditions), the basis can become **negative**, meaning the futures price is lower than the spot price.* Since a futures contract is settled at the cash market price on the expiry date, *the futures price and the spot price will **converge as expiration approaches***. ~~therefore as it reaches expiration, the futures price and spot price converge.~~

Chapter	Page No.	Update / Amendment
5.6.1 Intrinsic Value (IV)	176 - 177	This is the difference between the exercise price of a warrant and the market price of the underlying asset. Only in-the-money warrants have intrinsic value. ~~Call Warrant: IV = MAX {0, -S - X)/n}~~ ~~Put Warrant: IV = MAX {0, -X - S)/n}~~ **Call Warrant: IV = MAX {0, (S - X)/n}** **Put Warrant: IV = MAX {0, (X - S)/n}**
5.6.3 Premium	177 - 178	Call and put warrant premiums are calculated using the following formula: **Call Warrant Premium ($) = nWP + X − S** ~~Put Warrant Premium ($) = nW P - X + S~~ *Put Warrant Premium ($) = nWP - X + S* Premium is usually expressed as a percentage of the underlying share price. By definition, premium is the percentage by which the underlying share price needs to have moved at maturity for the investor to break even. Hence, the premiums are calculated as follows: ~~Call Premium (%) = [(nWP + −X - S)/ S] x 100~~ ~~Put Premium (%) = [(nW−P - X + S)/ S] x 100~~ *Call Premium (%) = [(nWP + X - S)/ S] x 100* *Put Premium (%) = [(nWP - X + S)/ S] x 100*
8.3 Types of Structured Notes	253 - 254	**8.3 Types of Structured Notes** There are three main types of Structured Notes: a. Those offering some capital preservation focus on yield enhancement/optimisation; b. Those focused on yield enhancement/optimisation with no capital preservation; and c. Those focused on capital gains from the price movement of the underlying with no capital preservation.

Chapter	Page No.	Update / Amendment
Case Study 12.5 - More Yield in Quiet Currency Markets with Some Degree of Capital Preservation	371 - 374	**Case Study 12.5 - More Yield in Quiet Currency Markets with Some Degree of Capital Preservation** Your client, Robert, believes that the AUD/USD will be range bound for the next 3 months between AUD/USD 0.7600-0.8200. He *has 2 million to invest and* was offered the ~~following double No Touch Structure~~ *range accrual note* to secure a higher yield. ~~Robert has 2 million to invest.~~ **Table 12.5.1 – Features of AUD/USD ~~Double No Touch Structure~~ *Range Accrual Note***

Table 12.5.1 – Features of AUD/USD Range Accrual Note

Maturity	3 months
Underlying Spot	AUD/USD
Range	0.7600 - 0.8200
Current Spot Reference	0.7830
Maximum Yield offered	6.00%
Minimum Yield	1.00%
***Money Market Rate* (MMR)**	2.75%

Chapter	Page No.	Update / Amendment
Case Study 12.5 - More Yield in Quiet Currency Markets with Some Degree of Capital Preservation	371 – 374	**Figure 12.5.2 – Payoff of AUD/USD** ~~Double No Touch Structure~~ *Range Accrual Note* In this range accrual *note*, as long as the currency AUD/USD stays within the range of 0.7600-0.8200, the bank will pay 6% for the days the currency is within range. If the exchange rate falls outside the range i.e., below 0.7600 or above 0.8200, Robert will only receive 1% p.a. for this period.

Below content appears in the green box:

Calculating the Yield of the Range Accrual ~~Deposit Structure~~ *Note*

Question 1

What will be the annualized yield if the exchange rate stays within the range for 2 months?

a. 2.67%.
b. 4.32%.
c. 6.00%.
d. 1.00%.

Rationale/ Workings:

If the exchange rate stays within range for 2 months, Robert will get 6% x 2 months / 3 months = 3.99%.
If the exchange rate is outside the range for 1 month, he will get 1% x 1 month / 3 months = 0.33%.
Therefore, Robert will receive 3.99% + 0.33% = 4.32% per annum for 3 months.

Learning Outcomes (Chapter 8 – Structured Notes)

- Explain what the basic characteristics and features of a structured note are.

- Describe range accrual notes and other types of yield enhancement note structures.

Chapter	Page No.	Update / Amendment
Case Study 12.5 - More Yield in Quiet Currency Markets with Some Degree of Capital Preservation	371 – 374	Suppose ~~that~~ Robert is unhappy and wants a higher maximum yield of 10% or to lower the cost of the digital option spread. What can you do to offer this higher return, or to lower the price of the digital call spread option? To offer a cheaper price for the structure or to offer a higher maximum yield, one or more of the following can be carried out: • Narrow the range (e.g., AUD/USD 0.7650-0.8150); • Shift and skew the range to more to one side (e.g., AUD/USD 0.7400 - 0.8000); • Stretch the maturity period (e.g., extend the maturity to 6 months); or • Sacrifice more minimum yield (e.g., offer 0.5% if spot rate rests outside the range at maturity). **Increasing the Yield or Lowering the Cost of the Range Accrual ~~Deposit Structure~~ *Note* / Digital Option Spread** **Question 2** What strategies can help you offer Robert a cheaper structure or a higher maximum yield? (Select all options that apply) a. Widen the range. **b. Skew the range to either side.** **c. Reduce the minimum yield requirement.** d. Reduce the maturity period. **Rationale / Workings:** Option A is incorrect. The wider the range, the more likely the exchange rate will fall within the range and the option will be more expensive. Option B is correct. Skewing the range to one side (with the spot nearer to the barrier) will increase the likelihood of the exchange rate falling outside the range, Hence the range accrual deposit structure will be cheaper, and the client's potential yield will be higher. Option C is correct. Reducing the minimum yield requirement will make the range accrual deposit structure cheaper. Option D is incorrect. Reducing the maturity period will make the range accrual deposit structure more expensive, not cheaper.

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Chapter	Page No.	Update / Amendment
Case Study 12.5 - More Yield in Quiet Currency Markets with Some Degree of Capital Preservation	371 - 374	**Learning Outcomes (Chapter 7 – Structured Deposits and Other Structured Products)** • Understand the main strategies used in structured deposits. • Discuss the risk-return trade-off for specific structured deposits. • Explain the different client needs in using structured products. --- *Suppose* ~~instead that~~ Robert is very confident that the AUD/USD will stay within the range. He doesn't want you to change the range in any way and he wants to keep the maturity range of 3 months. He also wants to have a minimum of 1.00% return. So effectively everything above in (1) stays the same. How else can you change the structure so as to offer a higher rate? To offer a higher maximum yield without the earlier changes offered, we can offer the double no-touch version of this range accrual *note*. When we offer the double no-touch version, we are not looking only at the exchange rate ~~only~~ at expiry, we are looking at the performance of the spot rate throughout its life. If the spot rate touches any of the two barriers during the life of the double-no touch range accrual note, Robert will be knocked out and only payment of 1% will be made. **Double No-Touch Range Accrual ~~Deposit~~ *Note*** **Question 3** Assume that Robert was wrong in his prediction and the currency AUD/USD stays outside the range at expiry. How much would he receive from the bank? a. 2.67%. b. 4.33%. c. 6.00%. **d. 1.00%.** **Rationale / Workings:** In a range accrual note, as long as the currency AUD/USD stays within the range of 0.7600-0.8200 at expiry, the bank will pay 6%. If the exchange rate falls outside the range i.e., below 0.7600 or above 0.8200, Robert will only receive 1%. **Learning Outcomes (Chapter 8 – Structured Notes)** • Explain what the basic characteristics and features of a structured note are.

Chapter	Page No.	Update / Amendment
		• Describe range accrual notes and other types of yield enhancement note structure.
Appendix E – Review Questions (Qn 8)	410	8. A local company wishes to take a 6-month USD 50 million loan and the prevailing the 6-month USD lending rate is 2.15%. The September Eurodollar futures contract is trading at 98.15. At the time of entering the hedge, the price of September Eurodollar futures is 98.65. *The Eurodollar futures contract size: $1,000,000 with each Eurodollar futures contract represents a 3-month LIBOR period (0.25 years).* Assuming that the interest rate on the loan is correlated one to one with the Eurodollar, and the company intends to fully hedge its interest rate exposure using September futures. Calculate the number of contracts that will be needed to execute the hedge. a. 25 b. 50 c. **100** d. 150
Appendix E – Review Questions (Qn 9)	410	9. Calculate the hedge ratio required to hedge the interest rate on a 6-month loan for USD 100 million. Assume that the interest rate on the loan is correlated one-to-one with the Eurodollar rate of the nearest 90-day Eurodollar futures contract. Assume a stack hedge is employed. *The Eurodollar futures contract size: $1,000,000 with each Eurodollar futures contract represents a 3-month LIBOR period (0.25 years).* a. 200 b. 20 c. **2** d. 0.2