Question #1 of 4

Question ID: 1502362

When comparing exchanged-traded and over-the-counter (OTC) derivatives, which of the following differences between the two markets is correct?

A) Novation of contracts may be problematic given the lack of fungibility in the OTC markets.

B) OTC derivatives are typically shorter term and are settled within a few days.

C) OTC derivatives are standardized contracts with a liquid, active, and regulated market.

D) Exchange-traded derivatives are privately negotiated bilateral contracts transacted in a market with little or no regulation.

Question #2 of 4

Question ID: 1502361

Regarding the functions of exchanges, which of the following statements is incorrect?

A) Exchanges may be physical locations or electronic platforms that provide a central location for trading, which then facilities price discovery.

B) Exchanges set the terms of traded, standardized products.

C) Exchanges report transaction prices to various entities, including trading participants, vendors, and subscribers.

D) Entities trading on an exchange may opt out of the exchange’s rules and conditions.

Question #3 of 4

Question ID: 1502363

Which of the following classes of derivatives securities dominates the OTC market in terms of total gross notional value outstanding?

A) Credit default swaps.

B) Interest rate derivatives.

C) Commodity derivatives.

D) Foreign exchange derivatives.

Question #4 of 4

Question ID: 1502364

Richard Wilson is concerned about the credit risk on a particular over-the-counter (OTC) contract. How does the process of collateralization work in the OTC market?

A) There is a mark to market feature and losses are settled in cash daily.

B) Collateral is held by the exchange and losses are covered via the collateral at conclusion of the contract term.

C) There is no collateralization process in the OTC market.

D) Collateral is posted and losses are guaranteed by the exchange.