#3-12

CFA® Exam Tips – LEVEL III

Study Tips

Liability-Driven Strategies

Immunization (for managing multiple liabilities)

1. Cash flow matching:

Different bonds used to match each maturity date of Liabilities (from longest to shortest)

Accounting defeasance: Portion of Asset & Liability removed from B/S

2. Duration matching process:

(1) Initial PVA = PVL

→(2) BPVA = BPVL
(Money Duration matched)

→(3) Dispersion & Convexity
of Assets > Liabilities

→(4) Regularly Portfolio rebalancing
such that BPVA = BPVL

3. Tools:

Use of Derivatives for matching

Required Notional:

$$N_f = \frac{\text{BPV of liability} - \text{BPV of current portfolio}}{\text{BPV of futures}}$$

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