

# Derivatives Trader interview questions

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## What to expect

Interviews for derivatives trading roles are typically rigorous and multi-stage, designed to test your technical knowledge, risk awareness and ability to perform under pressure. You can expect a mix of technical, behavioural and scenario-based questions, often with a focus on how you handle live market situations.

- **Technical:** Questions that probe your understanding of derivatives pricing, Greeks, and risk metrics like VaR.
- **Behavioural:** Questions about how you have handled pressure, worked in a team, or managed a difficult trade.
- **Scenario:** Hypothetical market events where you must describe your trading decisions and risk management.
- **Process:** Questions about the trade lifecycle, from execution to settlement and reconciliation.
- **Regulatory:** Questions about ASIC rules, position limits, and compliance obligations.
- **Market awareness:** Questions about current market conditions and how they affect derivatives trading.

The interview process usually starts with a phone screen or initial meeting with a recruiter, followed by one or more technical interviews with senior traders. You may also face a scenario-based exercise or a psychometric test. Final rounds often involve meeting the desk head and HR. Expect to be asked to explain your thought process out loud.

## 1. Can you walk me through how you would price a European call option and explain the key Greeks?

### Why they ask

This tests your fundamental pricing knowledge and understanding of risk sensitivities.

### How to structure your answer

For a technical question like this, structure your answer by first naming the model, then explaining the inputs, then describing the Greeks and how they measure sensitivity.

### Example answer

*"Sure. I would start with the Black-Scholes model for a European call option. The inputs are the current spot price, the strike price, the risk-free interest rate, the time to expiry, the implied volatility, and any expected dividends. Using those, I calculate the theoretical price. Then I look at the Greeks: delta measures the change in option price for a small change in the underlying, gamma measures the rate of change of delta, vega measures sensitivity to volatility, theta measures time decay, and rho measures sensitivity to interest rates. In practice, I also consider the implied volatility surface and skew, because Black-Scholes assumes constant volatility, which is not realistic."*

## 2. Tell me about a time when you had to manage a large loss or a significant risk breach. How did you handle it?

### Why they ask

This assesses your risk management discipline and resilience under pressure.

### How to structure your answer

Use the STAR method: describe the Situation, the Task you faced, the Action you took, and the Result.

### Example answer

*"In my previous role, I had a position in interest rate swaps that moved against me due to an unexpected central bank announcement. The loss was approaching my daily limit. I immediately assessed the exposure, consulted with my risk manager, and decided to hedge the position with futures to cap further downside. I then communicated the situation to my desk head and documented the incident. We closed out the position over the next few hours with a loss that was within our tolerance. The key lesson was to act quickly and transparently, and I now build in more scenario analysis for rate decisions."*

### **3. The market has just moved sharply against your portfolio. What steps do you take?**

#### **Why they ask**

This tests your judgement and ability to act decisively under pressure.

#### **How to structure your answer**

For a scenario question, structure your answer as a step-by-step response: first assess the magnitude and cause, then check your risk limits, then decide whether to hedge, reduce or hold, and finally communicate with relevant teams.

#### **Example answer**

*"First, I would quickly check the size of the move and which positions are most affected. I would look at the news or data that triggered it. Then I would check our value-at-risk and position limits to see how close we are to breaching. If we are near a limit, I would immediately reduce exposure by hedging with correlated instruments or closing positions. I would also inform my risk manager and desk head. Depending on the cause, I might hold some positions if I believe the move is overdone, but I would never exceed limits. After the immediate response, I would review the event to improve our risk models."*

### **4. Describe the trade lifecycle for an OTC derivatives trade, from execution to settlement.**

#### **Why they ask**

This checks your operational knowledge and attention to detail.

#### **How to structure your answer**

For a process question, walk through each stage in order: pre-trade checks, execution, confirmation, clearing if applicable, collateral management, and settlement. Be clear about your role at each step.

#### **Example answer**

*"For an OTC derivatives trade, it starts with pre-trade checks: credit limits, counterparty approval, and regulatory requirements. Then execution: we agree on terms with the counterparty, often over the phone or via an electronic platform. Next is confirmation: we send a confirmation detailing the trade economics. If the trade is cleared, it goes to a central counterparty; if not, it stays bilateral. Then collateral management: we exchange margin based on mark-to-market. Finally, settlement: payments are exchanged according to the contract. Throughout, I reconcile the trade in our systems and report positions to comply with regulatory limits."*

### **5. What are the key ASIC requirements you need to comply with as a derivatives trader?**

#### **Why they ask**

This tests your regulatory knowledge and commitment to compliance.

#### **How to structure your answer**

For a regulatory question, list the main obligations: AFSL, market integrity rules, position limits, reporting, and conduct rules. Explain how you ensure compliance in your daily work.

#### **Example answer**

*"As a derivatives trader, I need to ensure my firm holds an Australian Financial Services Licence, and I trade within the ASIC market integrity rules. That includes respecting position limits set by ASIC or the exchange, reporting trades accurately and on time, and maintaining proper records. I also need to comply with conduct rules around market manipulation and insider trading. In practice, I check my positions against limits daily, use approved systems for reporting, and escalate any potential breach immediately. I also keep up to date with ASIC updates and attend compliance training."*

## **6. How do you stay informed about market developments, and how does that shape your trading?**

### **Why they ask**

This assesses your market awareness and analytical approach.

### **How to structure your answer**

For a market awareness question, describe your daily routine: reading research, monitoring news, using Bloomberg, and how you translate that into trades. Be specific about sources.

### **Example answer**

*"I start each day by reading overnight market summaries and checking key economic data releases. I use Bloomberg Terminal to monitor prices, news and analyst commentary. I also follow central bank announcements and geopolitical events. For example, if I see a surprise in inflation data, I might adjust my positions in interest rate futures or options. I also discuss with colleagues to get different perspectives. Staying informed helps me identify opportunities and manage risk proactively."*