

NISM-Series-I: Currency Derivatives Certification Examination (NISM-Series-I: CD Examination)

Test Objectives

Unit 1: Introduction to Currency Markets

1.1 Commonly used terms in currency markets

Define:

Spot
Forward Outright
Base Currency
Terms Currency
Swaps

1.2 Exchange Rate Mechanism

Define Foreign Exchange
Explain the rationale behind Foreign Exchanges
Explain the price discovery mechanism in Foreign Exchange markets
Explain the motives of the various participants in the Foreign Exchange market
Describe in brief the exchange rate mechanism

1.3 Major currencies of the world and their characteristics.

Describe the following currencies:

Indian Rupee
US Dollar
Euro
Japanese Yen
British Pound
Swiss Franc

1.4 Overview of the international currencies markets

Describe

The infrastructure of the international currency markets
The operations of the international currency markets
How the difference in timing for various markets impacts the exchange rate

1.5 Economic variables impacting exchange rate movements

List and understand the impact of economic variables on the movement of exchange.
Describe how the government policies can strengthen the home currency

Unit 2: Foreign Exchange Derivatives

2.1 Derivatives – Definition

Describe the evolution of derivatives
Define a derivative as per SC(R)A and RBI Act

2.2 Derivative Products

Briefly describe the various derivative products
Forwards
Futures
Options
Swaps
Warrants
Swaptions
LEAPS
Baskets

2.3 Growth Drivers of Derivatives

Describe the factors that have driven the growth in derivatives market

2.4 Market Players

List the various players in the Foreign Exchange market

Describe how the Foreign Exchange market presents different opportunities for all the Players

2.5 Key Economic Functions of Derivatives

Describe how

Derivatives help in price discovery

Derivatives market helps in transfer of risk

Derivatives market is linked to underlying cash market

Speculative trade impacts the Forex market

Understand advantages and disadvantages of speculative trading in Foreign Exchange market

2.6 Exchange-Traded Vs. Over-the-Counter Derivatives

Understand

Differences between Exchange Traded and OTC Derivatives

Features of OTC Derivatives that may give rise to instability in the financial system

Unit 3: Exchange Traded Currency Futures

3.1 Currency Futures - Definition

Define:

Futures Contract

Currency Futures Contract

Tick size

3.2 Futures Terminology

Define:

Spot price

Futures price

Contract cycle

Value Date/Final Settlement Date

Expiry date

Contract size

Basis

Cost of carry

Initial margin

Marking-to-market

3.3 Rationale behind Currency Futures

Define the Standardized items in a futures contract

Understand the rationale behind introducing currency futures in the Indian context

3.4 Distinction between Futures and Forward Contracts

Understand

Advantages of Futures Contracts

Limitations of Futures Contracts

3.5 Interest Rate Parity and Pricing of Currency Futures

Understand the relationship between spot price, future price and term to maturity

Calculate one given the rest:

Future price

Spot price

Term to maturity

Calculate Forward or Spot rates given either one of them; rates of interest and basis

Unit 4: Strategies Using Currency Futures

- 4.1 Speculation in Futures Markets
 - Understand the role of speculation in currency futures markets
- 4.2 Long Position in Futures
 - Understand speculative transactions and payoffs using long position in futures
- 4.3 Short Position in Futures
 - Understand speculative transactions and payoffs using short position in futures
- 4.4 Hedging Using Currency Futures
 - Understand
 - Concept of hedging
 - Types of hedgers
 - Proper size of the hedging position
 - Possible hedging strategies that can be used by Corporate Bodies and Retail Customers and their impact in various possible market situations
- 4.5 Trading Spreads Using Currency Futures
 - Understand the concept of spread and the factors that influence its movement
- 4.6 Arbitrage
 - Understand
 - Concept of arbitrage
 - Use of arbitrage in currency futures markets
 - Calculate arbitrage opportunities under various conditions

Unit 5 Trading

- 5.1 Currency Futures Contract Specification
 - Define the contract specifications for currency futures market segment
- 5.2 Trading Parameters
 - Define and understand the trading parameters
 - Base Price
 - Closing Price
- 5.3 Tenors of Futures Contract
 - Define and understand the tenor of a futures contract:
 - Expiry Date
 - Settlement Price
- 5.4 Trader Workstation Screen (TWS)
 - Understand basic features of a TWS (Exchange specific TWS details may be obtained from Exchanges)
- 5.5 Entities in the Trading System
 - Define and understand the role of various entities in the trading system for currency futures:
 - Trading Members
 - Clearing Members
 - Trading-cum-Clearing Members
 - Professional Clearing Members
 - Participants
- 5.6 Types of Orders
 - Define and understand the types of orders that can be entered in the trading system
 - Understand the conditions that can be attached to orders that are entered including time / price and other conditions
 - Understand applicability of price limit circuit filters

5.7 Mark-to-Market

Understand

Concept of mark- to- market

Applicability of the concept in trading in currency futures

5.8 Position Limits

Define maximum allowable open position limits for members trading in currency futures

Understand the rules related to monitoring and enforcement of position limits in the currency futures market

Understand the objectives and broad functioning of the surveillance systems and procedures of exchanges

Unit 6 Clearing, Settlement and Risk Management

6.1 Clearing Entities

Define and understand the role of various entities involved in clearing system for currency futures

6.2 Clearing Mechanism

Understand the clearing mechanism

Calculate the open positions and obligations of clearing members under various situations

6.3 Settlement Mechanism

Understand the concept of MTM settlement

Calculate end of day MTM under various situations

Understand the final settlement for currency futures contract

6.4 Risk Management Measures

Understand the salient features of the exchange risk management measures

6.5 Margin Requirements

Understand the concept and applicability of

Initial margin

Portfolio based margin

Calendar spread margin

Extreme loss margin

Liquid net worth

Liquid assets

Real time computation

MTM settlement

Understand

Margin collection processes by Clearing Corporations

Enforcement mechanisms employed by Clearing Corporations

Unit 7 Regulatory Framework for Currency Derivatives

7.1 Securities Contracts (Regulation) Act, 1956 [SC(R)A]

Know basic features of SC(R)A

Define

Securities

Derivative

Know the provisions of Section 18 A

7.2 Securities and Exchange Board of India Act, 1992

Know

Basic features of the SEBI Act, 1992

Powers of SEBI

- 7.3 RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives
Know
Objectives of the Committee
Major recommendations of the Committee
- 7.4 Foreign Exchange Management Act, 1999 – Provisions
Know
Basic features
Amendments that impacted introduction of currency futures trading
Salient features of RBI notification ‘Currency Futures (Reserve Bank) Directions, 2008 ‘
Salient features of RBI Circular, ‘Guidelines on trading of Currency Futures in Recognised Stock / New Exchanges’ etc.
- 7.5 Regulatory Framework for Exchanges
Know salient features of SEBI Regulations for Currency Futures Exchanges
- 7.6 Regulatory Framework for Clearing Corporations
Know salient features of SEBI Regulations for Clearing Corporations
- 7.7 Governing Council of the Exchange and Clearing Corporation
Know
Requirement for separate Governing councils for Currency Futures exchanges/ segments
Representation of Trading/ Clearing members on Governing Council
- 7.8 Eligibility Criteria for Members
Know
Entities eligible for membership of currency futures exchanges
Eligibility criteria for each of these types of entities

Unit 8 Accounting And Taxation

- 8.1 Accounting
Understand Accounting treatment for derivative contracts at:
Inception of contract
Daily Settlement
Final Settlement
In case of Default
- 8.2 Taxation Of Derivative Transaction In Securities
Understand tax treatment of profit/ loss on derivative transaction in securities

Unit 9 Codes of Conduct and Investor Protection Measures 60

- 9.1 Adherence to SEBI Codes of Conduct for Brokers/ Sub-Brokers
Understand basic features of SEBI Code of Conduct for Brokers
Understand basic features of SEBI Code of Conduct for Sub-brokers
- 9.2 Adherence to Codes of Conduct Specific to ETCF Segment
Understand basic features of Codes of Conduct for Trading Members
- 9.3 Grievance Redressal Mechanism for Investors
Understand
Investor Grievance Redressal Process
Nature of complaints considered by exchanges
Arbitration Mechanism at exchanges