

NISM-Series-I: Currency Derivatives Certification Examination
(NISM-Series-I: CD Examination)**Test Objectives [new syllabus effective 21st February 2012]****Unit 1: Introduction to Currency Markets**

- 1.1 Brief history of foreign exchange markets
- 1.2 Major currency pairs
- 1.3 Overview of international currency markets
- 1.4 Basics of currency markets and peculiarities in India
 - 1.4.1 Currency pair
 - 1.4.2 Base Currency / Quotation Currency
 - 1.4.3 Interbank market and merchant market
 - 1.4.4 Two way quotes
 - 1.4.5 Appreciation/ Depreciation
 - 1.4.6 Market timing
 - 1.4.7 Price benchmarks:
 - 1.4.8 Price discovery
 - 1.4.9 RBI reference rate
- 1.5 Settlement or value date
- 1.6 OTC forward market
- 1.7 Exchange rate arithmetic- cross rate,
 - 1.7.1 EURINR
 - 1.7.2 GBPINR
 - 1.7.3 JPYINR
- 1.8 Impact of market economics on currency prices
- 1.9 Economic indicators
 - 1.9.1 Gross Domestic Product (GDP)
 - 1.9.2 Retail Sales
 - 1.9.3 Industrial Production
 - 1.9.3 Consumer Price Index (CPI)
 - 1.9.5 Nonfarm payrolls (NFP)
 - 1.9.6 Central bank meetings and key decisions

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
- 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

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, interest rates 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 in Currency Futures

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 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

5.5 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

5.6 Mark-to-Market

Understand

Concept of mark- to- market

Applicability of the concept in trading in currency futures

5.7 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 in Currency Futures

6.1 Clearing Entities

Define and understand 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 Exchange Traded Currency Options

- 7.1 Options – Definition, basic terms
 - Option definition
 - Call vs. Put option
 - Bought vs. sold option
 - Option premium
- 7.2 Difference between futures and options
 - Rights vs. obligations
- 7.3 Options in financial market
- 7.4 Style of options
 - European vs. American option
- 7.5 Moneyness of an option
 - In the money
 - At the money
 - Out of the money
- 7.6 Basics of option pricing and option Greeks:
 - Parameters impacting option pricing
 - Definition of option greeks
- 7.7 Option pricing methodology
 - Very brief mention of Black and Scholes and binomial pricing model
- 7.8 Option pay offs
 - Pay off diagram of futures, put option, call option
- 7.9 Option strategies
 - Vanilla option
 - Combination options
- 7.10 Uses of currency options
 - Practical application of options to real life business needs
- 7.11 Clearing, Settlement and Risk Management for currency options
 - Contract design
 - Clearing, Settlement, position limits
 - Initial margin, Extreme loss margin, Net option value, Calendar margin

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 Regulatory Framework for Currency Derivatives

- 9.1 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
- 9.2 Securities and Exchange Board of India Act, 1992
 - Know
 - Basic features of the SEBI Act, 1992
 - Powers of SEBI
- 9.3 RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives
 - Know
 - Objectives of the Committee
 - Major recommendations of the Committee

9.4 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.

9.5 Regulatory Framework for Exchanges

Know salient features of SEBI Regulations for Currency Derivatives Exchanges

9.6 Regulatory Framework for Clearing Corporations

Know salient features of SEBI Regulations for Clearing Corporations

9.7 Governing Council of the Exchange and Clearing Corporation

Know

Requirement for separate Governing councils for Currency Derivatives exchanges/ segments

Representation of Trading/ Clearing members on Governing Council

9.8 Eligibility Criteria for Members

Know

Entities eligible for membership of currency derivatives exchanges

Eligibility criteria for various types of entities

Unit 10 Codes of Conduct and Investor Protection Measures**10.1 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

10.2 Adherence to Codes of Conduct Specific to Exchange Traded Currency Derivatives Segment

Understand basic features of Codes of Conduct for Trading Members

10.3 Grievance Redressal Mechanism for Investors

Understand

Investor Grievance Redressal Process

Nature of complaints considered by exchanges

Arbitration Mechanism at exchanges