

NISM-Series-XII: Securities Markets Foundation Certification Examination

Test Objectives

Unit 1: Understanding Securities Markets and Performance

- 1.1. Understand the role of securities markets
 - 1.1.1. Understand how securities markets facilitate allocation of capital from supply side to demand side
- 1.2. Understand the meaning of securities and securities markets
 - 1.2.1. List the key functions of securities markets participants
- 1.3. Describe the structure of securities markets and role of its participants
 - 1.3.1. Investors (Individual/ Institutional)
 - 1.3.2. Issuers (Corporate/ Government/ Local/ Municipal)
 - 1.3.3. Intermediaries
 - 1.3.4. Regulators (SEBI/ RBI/ MCA/ MoF/ IBBI/ IRDAI)
- 1.4. List the various technological advancements brought in securities market and explain its criticality (Cyber-security/ Cyber resilience/ Sandboxes etc)

Unit 2: Securities - Types, Features and Concepts relating to asset allocation and investing

- 2.1. List out different securities available in the securities market
 - 2.1.1. Equity
 - 2.1.2. Debt
 - 2.1.3. Hybrid
 - 2.1.4. Commodities
 - 2.1.5. Derivatives
 - 2.1.6. Mutual Funds
 - 2.1.7. Structured Products
 - 2.1.8. Distressed Securities
- 2.2. Understand the factors that influence the choice between equity and debt capital for issuers
- 2.3. Know the characteristics and role of **equities**
 - 2.3.1. Explain the features of equity capital
 - 2.3.2. List the types of equity capital with distinct features (Preference shares/ Differential Voting Rights)
 - 2.3.3. Explain the risk and return from investing in equity
- 2.4. Know the characteristics and role of **debt securities**
 - 2.4.1. Explain the basic features of debt instrument
 - 2.4.2. List the types and structures of debt instruments
 - 2.4.3. Distinguish between various types, tenors and structures of debt instruments
 - 2.4.4. Explain the classification of debt market instrument
 - Describe various types of money market instruments and their features
 - Describe government securities and their features
 - Describe corporate bonds and debentures and their features
 - 2.4.5. Understand the benefits and risks of investing in debt securities
- 2.5. Describe the factors that influence the choice between equity and debt for investors

- 2.6. Know the types and features of **hybrid securities**
 - 2.6.1. Convertible debentures
 - 2.6.2. Depository Receipts (IDR, GDR and ADR)
 - 2.6.3. Foreign Currency Convertible Bonds (FCCB)
 - 2.6.4. Warrants
- 2.7. Know the characteristics and role of **commodities**
- 2.8. Know the characteristics and role of **derivatives**
 - 2.8.1. Explain features of equity derivatives
 - 2.8.2. Explain the features of commodity derivatives
 - 2.8.3. Explain the features of interest rate derivatives
 - 2.8.4. Explain the features of currency derivatives
- 2.9. Explain the concepts and benefits of asset allocation process and diversification
- 2.10. Understand various underlying factors while investing
 - 2.10.1. Managing risk and return requirements
 - 2.10.2. Aligning investment horizon to selection of investment products/ asset class
 - 2.10.3. Aligning portfolio features to investor's needs
 - 2.10.4. Ease of investments and exits
 - 2.10.5. Flexibility in investments
 - 2.10.6. Availability of information and updates
- 2.11. Describe the various aspects of investing in equity
 - 2.11.1. Understand the concepts and differences between price and intrinsic value
- 2.12. Describe the equity investing process
 - 2.12.1. Define and describe the commonly used terms in equity investing with appropriate illustrations
 - Price Earning Multiple (PE multiple)
 - Price to Book Value (PBV)
 - Dividend Yield
 - 2.12.2. Explain the importance of equity research and its role in evaluation of equities
 - 2.12.3. Describe the concepts and elements of equity analysis and valuation
 - Understand the fundamental and technical analysis
 - Understand the Discounted Cash Flow and Relative Valuation models
- 2.13. Understand the concepts and terms relating to debt securities with appropriate illustrations
 - Time Value of money
 - Yield and Price
 - Yield to maturity (YTM)
- 2.14. Describe in brief the debt investing process

Unit 3: Primary Markets

- 3.1. Understand the nature and functions of the primary market
 - 3.1.1. Define primary markets
 - Primary markets for equities
 - Primary markets for debt (Corporate/ G-secs)
 - Primary markets for other securities (Depository Receipts/ Warrants)
 - 3.1.2. List and describe the functions of the primary markets
- 3.2. List the different intermediaries in Primary Market for both equity and debt (MB/ RTA/ Underwriter/ Bankers/ SCSB/ Depository/ BRLM/ PD ...)
- 3.3. Discuss various types of issues in primary markets (Public issue, Private Placement, Preferential issue, Rights & Bonus issues)

- 3.4. List the categories of issuers in the primary markets
- 3.5. List the types of investors in the primary markets
- 3.6. Discuss the IPO framework for primary markets
 - 3.6.1. List the key regulations for public issue of shares
 - Eligibility criteria
 - Promoters' Contribution
 - Minimum offer to public
 - Period of subscription
 - Underwriting
 - Dematerialization of shares
 - Credit ration of IPOs
- 3.7. Describe the types of public issues of equity shares
 - 3.7.1. Define and differentiate initial public offer (IPO) and follow on public offer
 - 3.7.2. Define and differentiate fresh issue of equity shares and offer for sale
- 3.8. Describe the pricing process in a public issue of shares
 - 3.8.1. Fixed price issue
 - 3.8.2. Book built issue
- 3.9. Describe the public issue process of equities
 - 3.9.1. List the constituents in a public issue and their roles
- 3.10. Define and list the features of a prospectus
- 3.11. Describe the process of applying to a public issue
 - 3.11.1. Explain the basis of allotment
 - 3.11.2. Discuss the role of Green shoe option
- 3.12. Understand the process and importance of listing of public issues
- 3.13. Describe the rights issues in equity
- 3.14. Understand the regulatory requirements in public issue of debt securities
 - 3.14.1. Eligibility criteria
 - 3.14.2. Base issue size
 - 3.14.3. Offer document and Shelf prospectus
 - 3.14.4. Listing of securities
 - 3.14.5. Credit rating
 - 3.14.6. Minimum subscription
 - 3.14.7. Dematerialization
 - 3.14.8. Debenture Trustees
 - 3.14.9. Debenture redemption reserves
 - 3.14.10. Creation of security
 - 3.14.11. Coupon rate
- 3.15. Describe the public issue process of debt
- 3.16. Describe private placements in equity and debt
 - 3.16.1. Qualified Institutions Placement (QIP)
 - 3.16.2. Electronic system for debt book building

Unit 4: Secondary Markets

- 4.1. Describe the role and list the functions of the secondary markets
- 4.2. List the types of secondary markets available for different securities
 - 4.2.1. Secondary market for equities (stock exchanges)
 - 4.2.2. Secondary market for debt securities (CCIL/ OTC/ Stock Exchanges)
 - 4.2.3. Secondary market for commodities (mandis)
- 4.3. Understand the market infrastructure institutions (MIIs) and describe the functions of the market participants

- 4.3.1. Stock exchanges and their members
- 4.3.2. Investors
- 4.3.3. Intermediaries involved in trading, clearing and settlement processes
- 4.3.4. Depositories and Depository Participants
- 4.3.5. Clearing Corporation
- 4.3.6. Regulator
- 4.3.7. MII Governance norms
- 4.4. Describe the role of stock brokers and authorized persons and explain the process for client acquisition
 - 4.4.1. Understand the Client acquisition process by a trading member
 - 4.4.2. Understand the purpose of 3-in-1 account
 - 4.4.3. Discuss the role and importance of Power of Attorney
- 4.5. Understand the trade execution process and explain related concepts
 - 4.5.1. Electronic Trading system
 - Algo trading and Co-location
 - Internet based trading
 - Mobile Trading
 - 4.5.2. Orders and their types
 - 4.5.3. Trade and order execution
 - Price Time Priority
 - Active and Passive orders
 - 4.5.4. Block deals and Bulk deals
 - 4.5.5. Explain the concept and role of circuit breakers
 - 4.5.6. Contract note
 - 4.5.7. Cost of trading (user charges/ statutory charges/ bid-ask spread)
- 4.6. Understand the clearing and settlement process of a trade
 - 4.6.1. Explain the concepts of delivery and squaring off
 - 4.6.2. Determine settlement obligation
 - 4.6.3. Understand the concepts of settlement cycle, pay-in and pay-out
 - 4.6.4. Explain the importance and types of margin requirements
 - 4.6.5. Describe concepts of short delivery and short payment
 - 4.6.6. Understand the impact of Corporate actions on settlement process
 - 4.6.7. Discuss in brief the advantage of Interoperability of Clearing Corporations
- 4.7. Understand Trading & Settlement process from investors' point of view (online trading platform/ mobile trading etc)
 - 4.7.1. Explain Securities Lending and Borrowing Mechanism (SLBM) and its role
- 4.8. Understand and interpret market information
 - 4.8.1. Market size and activity/ liquidity aspect (impact cost)
 - 4.8.2. Reading market prices
 - 4.8.3. Disclosures by listed companies
- 4.9. Understanding the margining and risk management systems for secondary markets
 - 4.9.1. Capital adequacy norms
 - 4.9.2. Margins and Cross-margining
 - 4.9.3. Settlement Guarantee Fund (SGF)/ Investors services fund
- 4.10. List the rights, obligations and grievance redressal mechanism for investors in secondary markets
 - 4.10.1. Discuss briefly the importance of Investor Protection Fund (IPF)
- 4.11. Secondary market trading & reporting of debt instruments

Unit 5: Mutual Funds

- 5.1. Define and explain the concept of mutual fund (an alternate channel of investing into debt and equity)
 - 5.1.1. Explain the basic features of a mutual fund
 - 5.1.2. Understand various features of mutual fund products
- 5.2. Describe key terms and concepts associated with mutual funds
 - 5.2.1. Types and categories of Mutual fund schemes
 - 5.2.2. Know about units and unit capital
 - 5.2.3. Explain the concepts of Mark to market (MTM) and Net Asset Value (NAV)
 - 5.2.4. Know about Fund running expenses (FRE) and Loads
 - 5.2.5. Compare and contrast Open-end, Closed-end and Interval funds
 - 5.2.6. Explain the importance of mutual fund being a pass through entity
 - 5.2.7. Differentiate between Dividend and Growth options
 - 5.2.8. Understand the workings of a mutual fund and roles of constituents in the mutual fund (Sponsor/ Trustee/ AMC/ RTA/ Custodian/ Distributors/ Stock Exchange)
- 5.3. Define and List the types of open-ended mutual fund products
 - 5.3.1. Equity schemes
 - 5.3.2. Debt schemes
 - 5.3.3. Hybrid schemes
 - 5.3.4. Solution oriented schemes
 - 5.3.5. Other schemes
- 5.4. Define and List the types of close-ended mutual fund products
 - 5.4.1. Fixed Maturity Plans (FMP)
 - 5.4.2. Infrastructure Debt Funds (IDF)
 - 5.4.3. Real Estate Mutual Funds (REMF)
- 5.5. Explain the types of investing in mutual funds
 - 5.5.1. Active investing
 - 5.5.2. Passive investing (ETF/ Index funds)
- 5.6. Describe the modes and processes associated with investing in mutual funds
 - 5.6.1. Online investment and Offline investment modes
 - 5.6.2. Permanent Account Number (PAN) and Know Your Customer (KYC) process including FATCA and CRS compliance (eKYC)
 - 5.6.3. Purchases: New Fund Offer (NFO) and Continuous offer, Offer Document/ KIM/ Fund Factsheet
 - 5.6.4. Redemptions
 - 5.6.5. Non-financial transactions
 - 5.6.6. Statement of Account (SoA) and Consolidated Account Statement (CAS)
 - 5.6.7. Distributor commissions
- 5.7. Understand how systematic transactions are conducted and their uses
 - 5.7.1. Systematic Investment Plan
 - 5.7.2. Systematic Withdrawal Plan
 - 5.7.3. Systematic Transfer Plan
 - 5.7.4. Switches
- 5.8. Know the regulatory framework for mutual funds
 - 5.8.1. Features of Mutual Fund Regulation
- 5.9. Investor Service Standards

Unit 6: Derivative Markets

- 6.1. Define derivative products
 - 6.1.1. Explain the role of derivatives in risk management and support with real life illustrations
 - 6.1.2. Describe how a derivative product is structured (pay-off structuring)
- 6.2. Describe various concepts and features associated with derivatives
 - 6.2.1. Zero Sum Game
 - 6.2.2. Settlement Mechanism
 - 6.2.3. OTC and Exchange Traded Derivatives
 - 6.2.4. Arbitrage
- 6.3. List the types of derivative products and discuss their features
 - 6.3.1. Forwards
 - 6.3.2. Futures
 - 6.3.3. Options
 - 6.3.4. Swaps
- 6.4. Describe the structure of derivative markets and list out the derivative products available for trading
- 6.5. Understand how derivative contracts are traded and settled – Futures & Options
 - 6.5.1. Discuss the contract specifications
 - 6.5.2. Discuss the trading and settlement process
- 6.6. Describe the risk management system in derivative markets and its regulatory requirements
 - 6.6.1. Understand Base Minimum Capital and Liquid Net-worth requirements including cash and non-cash collateral
 - 6.6.2. Understand the purpose and types of margins required
 - 6.6.3. Understand how position limits are calculated
- 6.7. Understand the application of derivatives products in risk management and support with real life examples
 - 6.7.1. Describe briefly about hedging, speculation and arbitrage
 - 6.7.2. Describe the costs and benefits of derivatives
- 6.8. Understand the key market indicators in derivative markets
 - 6.8.1. Describe Open Interest
 - 6.8.2. Describe Put Call Ratio (PCR)