

Annexure –II

NISM-Series-I: Currency Derivatives Certification Examination

Test Objectives

Unit 1: Introduction to Currency Markets

- 1.1 Know the brief history of foreign exchange markets
- 1.2 List major currency pairs
- 1.3 Understand the basics of currency markets (such as base currency, quotation currency, two way quotes, currency appreciation/depreciation, price benchmarks, RBI reference rate, value date, OTC forward market, etc) and peculiarities in India
- 1.4 Calculate cross rates (compute exchange rate arithmetic)
- 1.5 Discuss the impact of economic factors on currency prices
- 1.6 Describe key economic indicators and their impact on currency market (such as GDP, retail sales, industrial production, consumer price index, nonfarm payrolls, etc.)

Unit 2: Foreign Exchange Derivatives

- 2.1 Define the term Derivatives as per the SC(R)A
- 2.2 Recognize various derivative products such as forwards, futures, options, swaps
- 2.3 Know the factors driving the growth of financial derivatives
- 2.4 List various market players in the Foreign Exchange market
- 2.5 Understand the key economic functions of derivatives
- 2.6 Compare exchange-traded and over-the-counter Derivatives and recognize the features of OTC derivatives that may give rise to instability in the financial system

Unit 3: Exchange Traded Currency Futures

- 3.1 Define currency futures and understand the futures terminology including spot price, futures price, contract cycle, tick size, value date, expiry date, contract size, marking to market, etc.
- 3.2 Know the rationale for introducing currency futures in India
- 3.3 State the advantages and limitations of futures contracts in comparison to forwards
- 3.4 Understand the concept of interest rate parity and its role in pricing of currency futures

Unit 4: Strategies Using Currency Futures

- 4.1 Understand the role of hedgers, speculators and arbitrageurs in currency futures markets
- 4.2 Explain how currency futures can be used for hedging various kinds of FX exposures
- 4.3 Discuss how currency futures can be used for speculative transactions
- 4.3 Describe some of the trades that arbitrageurs execute using currency futures contracts
- 4.4 Understand the concept of spread and spread trading using currency futures

Unit 5: Trading in Currency Futures

- 5.1 Know the contract specifications for currency futures contracts
- 5.2 List the entities in the trading system and their roles
- 5.3 Understand various types of orders that can be entered in the trading system and the conditions that can be attached to orders
- 5.4 Understand applicability of price limit circuit filters

Unit 6: Clearing, Settlement and Risk Management in Currency Futures

- 6.1 Distinguish between clearing and settlement mechanisms
- 6.2 Know various entities involved in clearing process and their roles
- 6.3 Understand the clearing mechanism and calculate open positions and obligations of clearing members under various situations
- 6.4 Understand settlement Mechanism and MTM settlement
- 6.5 Calculate MTM settlement and final settlement of currency futures under various situations
- 6.6 Know the salient features of the exchange risk management measures
- 6.7 Know different margin requirements for currency derivatives contracts
- 6.8 Discuss margin collection processes of clearing corporations

Unit 7: Exchange Traded Currency Options

- 7.1 Define options and basic terms used in options contracts
- 7.2 Differentiate between futures and options contracts in terms of rights and obligations of buyers and sellers
- 7.3 Distinguish between European and American options and their significant differences
- 7.4 Understand the concept of Moneyness of an option and define ITM, ATM and OTM options
- 7.5 List the determinants of option price and the impact of these factors on the value of calls and puts
- 7.6 Familiarize with option greeks
- 7.7 List common methodologies for options pricing
- 7.8 Draw the payoff diagrams of futures, put options and call options
- 7.9 Practice various option trading strategies and draw their payoff diagrams
- 7.10 Discuss some practical applications of currency options in real life business needs
- 7.11 Know the contract specifications for currency options contracts

Unit 8: Accounting And Taxation

- 8.1 Understand accounting treatment for derivative contracts at inception of contract, daily Settlement, final Settlement and in case of Default
- 8.2 Know the taxation of currency derivatives contracts

Unit 9: Regulatory Framework for Currency Derivatives

9.1 Know Securities Contracts (Regulation) Act, 1956 [SC(R)A] and the definition of securities and derivatives under this act

9.2 Know the role of RBI-SEBI standing technical committee on exchange traded currency and interest rate derivatives

9.3 Know the salient features of Foreign Exchange Management Act

9.4 Know the salient features of SEBI regulations for currency derivatives exchanges and clearing corporations

9.5 Know Requirement for separate Governing councils for Currency Derivatives exchanges/segments

9.6 Know entities eligible for membership of currency derivatives exchanges and the eligibility criteria applicable for various types of entities

Unit 10: Codes of Conduct and Investor Protection Measures

10.1 Understand the basic features of SEBI code of conduct for brokers and sub-brokers

10.2 Know the investor grievance redressal mechanism and the arbitration Mechanism at exchanges