

Annexure II – Test Objectives

NISM-Series-VIII: Equity Derivatives Certification Examination

Unit 1: Basics of Derivatives

- 1.1 Define the term 'Derivatives'
- 1.2 Know brief history of financial derivatives and list the factors influencing the growth of derivatives markets globally
- 1.3 Know the history of derivatives in India and state the derivative products traded in India
- 1.4 List different types of market participants and their roles
- 1.5 Differentiate between OTC and exchange traded markets
- 1.6 Explain the importance of derivatives
- 1.7 List various risks faced by the participants in derivatives markets

Unit 2: Understanding Index

- 2.1 Explain the term 'Index'
- 2.2 Understand the economic purpose of index
- 2.3 Discuss various types of Indices and their computation
- 2.4 List important attributes for construction of an Index and understand the concept of 'impact cost'
- 2.5 Understand how index is constructed, maintained and revised
- 2.6 List some of the major equity indices in India
- 2.7 Understand various applications of indices

Unit 3: Introduction to Equity Futures and Forwards

- 3.1 Explain the term Forward contract, list essential features and major drawbacks of forward contracts
- 3.2 Explain the term Futures contract, list salient features and limitations of Futures contract
- 3.3 Discuss the contract specification of Exchange Traded Equity Futures
- 3.4 Understand the key terminology associated with futures contracts
- 3.5 Compare the advantages and disadvantages of forwards and futures
- 3.6 Illustrate payoffs for Futures and draw payoff charts for Long and Short Futures
- 3.7 Explain the Cost-of-carry model and Expectations model for futures pricing
- 3.8 Understand the concept of convergence of cash and futures prices
- 3.9 Describe uses/applications of equity futures

Unit 4: Introduction to Equity Options

- 4.1 Explain the term option contract and understand the options terminology
- 4.2 Discuss the contract specifications of Exchange Traded Equity Options contracts
- 4.3 Understand the concept of Moneyness of an option and define ITM, ATM and OTM
- 4.4 Describe the intrinsic value and time value of Options
- 4.5 Explain the payoff diagrams of call and put options for the buyer and writer of these options
- 4.6 Differentiate between futures and options contracts in terms of rights and obligations of buyers and sellers
- 4.7 List the determinants of option price, know the impact of these factors on the value of calls and puts and understand option greeks
- 4.8 Outline the commonly used models for options pricing
- 4.9 Understand the concept of implied volatility and its importance
- 4.10 Analyse the profitability of call and put options of different strikes from the perspectives of buyer and seller of these options

Unit 5: Strategies using Equity Futures and Equity Options

- 5.1 Discuss different strategies for hedging, trading and arbitrage using equity futures
- 5.2 Understand various option trading strategies for hedging, trading and arbitrage purposes
- 5.3 Describe the principle of Put-Call Parity and Synthetic Option Strategies
- 5.4 Explain Delta-hedging with suitable examples
- 5.5 Discuss how information from Open Interest, Volume, futures price and Put-Call ratio is used for formulating trading strategies

Unit 6: Trading Mechanism

- 6.1 Know the entities involved in the trading in equity derivatives exchanges, know the market timing of derivatives market and outline the corporate hierarchy of trading system. Explain Order Management and understand various types of orders that can be entered in the trading system and the conditions that can be attached to the orders.
- 6.2 Explain the eligibility criteria of stocks for derivatives trading
- 6.3 Describe the criteria for selection of an index for derivatives trading
- 6.4 Understand the adjustments made to derivatives contracts for various corporate actions
- 6.5 Know various trading costs such as Brokerage, Exchange transaction charges, SEBI turnover fee, other costs like Stamp duty, GST, STT, etc.
- 6.6 Briefly introduce the algorithmic trading
- 6.7 Know sources to track the futures and options data

Unit 7: Clearing, Settlement and Risk Management

- 7.1 Understand the clearing and settlement mechanisms
- 7.2 Know various entities involved in clearing and settlement process and their roles
- 7.3 Understand the clearing mechanism and calculate open positions and obligations of clearing members under various situations
- 7.4 Understand the responsibilities of a clearing corporation and discuss the Interoperability among clearing corporations
- 7.5 Understand settlement Mechanism, Daily Settlement Price and Final Settlement Price
- 7.6 Calculate MTM settlement and final settlement of equity derivatives under various situations and understand the Settlement of funds and securities
- 7.7 Know the salient features of the exchange risk management measures which includes Regulatory guidelines on open positions and know the penalties for violations
- 7.8 Understand margining and mark to market (MTM) and know the effects of non-payment of margin. Discuss margin collection processes of clearing corporations, understand the importance of client margin reporting and the new framework for verification of upfront margin collection from clients (including the segregation and monitoring of collateral at client level).
- 7.9 Briefly discuss about Settlement Guarantee Fund (SGF) and Investor Protection Fund (IPF)

Unit 8: Legal and Regulatory Environment

- 8.1 Know important provisions of Securities Contract (Regulation) Act, 1956 and know the definition of securities and derivatives under this act
- 8.2 Define the role of SEBI in regulating exchange traded equity derivatives market
- 8.3 List important rules and regulations pertaining to trading in equity derivatives market
- 8.4 Know important rules and regulations related to clearing, settlement and risk management
- 8.5 Know the eligibility criteria for membership on derivative segment

Unit 9: Accounting and Taxation

- 9.1 Explain accounting treatment of futures and options contracts
- 9.2 Understand the taxation of derivative transactions and describe the applicability of STT on derivatives contracts

Unit 10: Codes of Conduct and Investor Protection Measures

- 10.1 Discuss the importance of understanding the risk profile of the clients
- 10.2 Understand the importance of the risk disclosure to client, KYC and Suspicious Transaction Reporting (STR)

10.3 Briefly discuss the anti-money laundering procedures

10.4 Understand the investor grievance redressal mechanism
