

Annexure II – Test Objectives

NISM-Series-I: Currency Derivatives Certification Examination

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, FBIL reference rate, value date, OTC forward market, etc.) and peculiarities in India
- 1.4 Calculate cross rates (know the computation of 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 Understand the key economic functions of derivatives
- 2.3 Recognize various derivative products such as forwards, futures, options, swaps
- 2.4 Know the factors driving the growth of financial derivatives
- 2.5 List various market players in the Currency Derivatives market
- 2.6 Compare exchange-traded and over-the-counter Derivatives
- 2.7 Know the rationale for introducing exchange traded currency derivatives in India

Unit 3: Exchange Traded Currency Futures

- 3.1 Define currency futures and understand the basic terms used in currency futures contract
- 3.2 Draw pay-off diagram of futures
- 3.3 Know the contract specification of Exchange Traded Currency Futures (INR pairs, Cross-currency contracts, weekly/monthly expiries) including underlying assets, spot price, futures price, contract cycle, tick size, value date, expiry date, trading cycle, contract size, market timings, etc.
- 3.4 Understand tick size and its relation to the minimum change in the contract value
- 3.5 State the advantages and limitations of futures contracts in comparison to forwards
- 3.6 Understand the concept of interest rate parity and its role in pricing of currency futures

Unit 4: Exchange Traded Currency Options

- 4.1 Define options and basic terms used in options contracts
- 4.2 Differentiate between futures and options contracts in terms of rights and obligations of buyers and sellers
- 4.3 Distinguish between European and American options and their significant differences

- 4.4 Understand the concept of Moneyness of an option and define ITM, ATM and OTM options
- 4.5 List the determinants of option price and the impact of these factors on the value of calls and puts and understand option greeks with suitable examples
- 4.6 Outline the commonly used models for options pricing
- 4.7 Understand the concept of “Implied Volatility”
- 4.8 Draw the payoff diagrams of put options and call options
- 4.9 Know the contract specifications for currency options contracts (INR pairs, Cross-currency contracts, weekly/monthly expiries)
- 4.10 State the advantages and limitations of Exchange Traded Option contracts in comparison to OTC Option Contracts

Unit 5: Strategies Using Exchange Traded Currency Derivatives

- 5.1 Understand the role of hedgers, speculators and arbitrageurs in currency derivatives markets
- 5.2 Understand various option trading strategies and draw their payoff diagrams
- 5.3 Explain how currency derivatives can be used for hedging various kinds of FX exposures
- 5.4 Discuss how currency derivatives can be used for speculative transactions
- 5.5 Describe some of the trades that arbitrageurs execute using currency derivatives contracts
- 5.6 Understand the concept of spread and spread trading using currency derivatives contracts
- 5.7 Understand the limitations of currency derivatives for hedgers

Unit 6: Trading Mechanism in Exchange Traded Currency Derivatives

- 6.1 List the entities in the trading system and their roles
- 6.2 Know the salient features of Exchange segment, Trading System, Trader Workstation, Placing of Order, Order Book, Order Matching Rule
- 6.3 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 orders.
- 6.4 Understand the Risk Management and Order Routing
- 6.5 Understand applicability of price limit circuit filters
- 6.6 Understand the trading costs (such as Brokerage, Exchange transaction charges, SEBI turnover fee, other costs like Stamp duty, GST, etc.)

Unit 7: Clearing, Settlement and Risk Management in Exchange Traded Currency Derivatives

- 7.1 Overview of the clearing and settlement mechanisms
- 7.2 Know various entities involved in clearing and settlement process and their roles
- 7.3 Understand the Interoperability among clearing corporations
- 7.4 Understand the clearing mechanism
- 7.5 Determine the settlement obligation
- 7.6 Know the Regulatory guidelines on open position limits and monitoring of position limits

- 7.7 Understand settlement Mechanism, Daily Settlement Price and final settlement price
- 7.8 Understand the funds settlement
- 7.9 Know the salient features of the exchange risk management measures
- 7.10 Discuss margin collection processes of clearing corporations
- 7.11 Know the importance of Core Settlement Guarantee Fund

Unit 8: Regulatory Framework for Exchange Traded Currency Derivatives

- 8.1 Know Securities Contracts (Regulation) Act, 1956 [SC(R)A] and the definition of securities and derivatives under this act
- 8.2 Know the role of RBI-SEBI standing technical committee on exchange traded currency and interest rate derivatives
- 8.3 Know the salient features of Foreign Exchange Management Act
- 8.4 Know the salient features of SEBI regulations for currency derivatives exchanges and clearing corporations
- 8.5 Know the RBI guidelines on participation in Exchange Traded Currency Derivatives
- 8.6 Know the Regulatory guidelines on participation of various entities in Exchange Traded Currency Derivatives
- 8.7 Know entities eligible for membership of currency derivatives exchanges and the eligibility criteria applicable for various types of entities

Unit 9: Accounting and Taxation

- 9.1 Know the accounting guidelines and disclosure requirements for currency derivatives
- 9.2 Discuss the key aspects of taxation of currency derivatives contracts

Unit 10: Codes of Conduct and Investor Protection Measures

- 10.1 Understand the basic features of SEBI code of conduct for brokers
- 10.2 Know the investor grievance redressal mechanism
- 10.3 Understand the importance of Investor Protection Fund
- 10.4 Discuss the arbitration mechanism
- 10.4 Understand the importance of the Risk disclosure to client and KYC
