

Annexure II: Test Objectives

NISM-Series-V-D: Mutual Fund-Specialized Investment Fund Distributors Certification Examination

Module 1: Mutual Fund Distributors

Unit 1: Investment Landscape

- 1.1 Describe about Investors and their Financial Goal
 - 1.1.1 Importance of Investments
 - 1.1.2 Know the Financial Goals
 - 1.1.3 Compare Short term needs and Long-Term Goals
 - 1.1.4 Know the Financial Goals, Time Horizon for their achievement and Inflation
- 1.2 Understand Savings and Investment
 - 1.2.1 Factors to evaluate investments
- 1.3 Discuss Different Asset Classes
 - 1.3.1 Real estate
 - 1.3.2 Commodities
 - 1.3.3 Fixed Income
 - 1.3.4 Equity
- 1.4 Understand the classification of Investment Risks
 - 1.4.1 Inflation Risk
 - 1.4.2 Liquidity Risk
 - 1.4.3 Credit Risk
 - 1.4.4 Market Risk and Price Risk
 - 1.4.5 Interest Rate Risk
- 1.5 Explain Risk Measure and Management Strategies
- 1.6 Understand Behavioural Biases in Investment Decision Making
- 1.7 Understand Risk Profiling
- 1.8 Explain the Asset Allocation
- 1.9 Comparison between the two approaches – Do-it-yourself and Taking Professional Help

Unit 2: Concept & Role of a Mutual Fund

- 2.1 Explain the concept of mutual fund
 - 2.1.1 Understand the role of mutual fund
 - 2.1.2 Understand the investment objectives of mutual funds
 - 2.1.3 Understand the Investment Policy of mutual fund
 - 2.1.4 Understand the important concepts in mutual funds
 - 2.1.5 List the advantages of mutual funds for investors
 - 2.1.6 List the Limitations of mutual funds for investors
- 2.2 Understand the classifications of mutual funds
 - 2.2.1 By the structure of the fund
 - 2.2.2 By the management of the portfolio
 - 2.2.3 By the investment universe
 - 2.2.4 Explain in detail the SEBI categorization of Mutual Fund Scheme
 - 2.2.5 Explain the recent MF Schemes/products such as Smart Beta Fund, Quant Fund etc.
- 2.3 Describe the Growth of the mutual fund industry in India

Unit 3: Legal Structure of Mutual Funds in India

- 3.1 Describe the structure of mutual funds in India
- 3.2 Understand the key constituents of a Mutual Funds
 - 3.2.1 Know about the Role of Sponsor
 - 3.2.2 Know about the Board of Trustees
 - 3.2.3 Know about the Mutual Fund Trust
 - 3.2.4 Understand the role of Asset Management Company
 - 3.2.5 Know the importance of Custodian
- 3.3 Understand the organisation structure of Asset Management Company
 - 3.3.1 Know the Risk and Compliance Function
 - 3.3.2 Know about Fund Management
 - 3.3.3 Know about the operations and customer services team
 - 3.3.4 List the role of Sales and Marketing team
 - 3.3.5 Know about the other functions (HR function, Finance function, Administration function and Information Technology function)
- 3.4 Understand the role and support functions of service providers of mutual funds
 - 3.4.1 Explain the role of Fund Accountant
 - 3.4.2 Know the importance of Registrar and Transfer Agent
 - 3.4.3 Explain the Responsibility of Auditor
 - 3.4.4 Explain the importance Role of Distributors
 - 3.4.5 Know about Collecting Bankers / Payment Gateway/Aggregators
 - 3.4.6 Know about the role of KYC Registration Agencies
 - 3.4.7 Know about Valuation Agencies
 - 3.4.8 List the role of Credit Rating Agencies
 - 3.4.9 Know about Depositories and Depository Participants (DPs)
 - 3.4.10 Know the stock exchanges and transaction platforms for investors
- 3.5 Explain the Role and Function of AMFI

Unit 4: Legal and Regulatory Framework

- 4.1 Describe role of regulators in India
- 4.2 Discuss role of Securities and Exchange Board of India
 - 4.2.1 Describe Regulatory reforms by SEBI
 - 4.2.2 Know the important provisions of Mutual Fund Regulations
 - 4.2.3 Explain the investment restrictions and portfolio diversification norms for mutual fund schemes.
 - 4.2.4 Know the Important provisions pertaining to SEBI Advertisement Code and Guidelines for Mutual funds
 - 4.2.5 Describe Investors rights and obligations
- 4.3 Know the Due Diligence process followed by AMCs for distributors of mutual funds
- 4.4 Explain Investor Grievance and Redressal standards (Explain about SCORES)
- 4.5 Understand AMFI Code of conduct for Intermediaries
 - 4.5.1 Know the AMFI Code of Ethics
 - 4.5.2 Know the AMFI Code of Conduct for Intermediaries of Mutual Funds

Unit 5: Scheme Related Information

5.1 Understanding the Mandatory Documents and their purpose, objective and significance

5.1.1 Explain Scheme Information Document (SID)—Content, Objective, relevance

5.1.2 Explain Statement of Additional Information (SAI)—Content, Objective, relevance

5.1.3 Explain Key Information Memorandum (KIM)

5.1.4 Explain Addendum

5.1.5 Discuss the regulatory provisions governing the mandatory updation of scheme document

5.1.6 Discuss Other Mandatory information / disclosure:

- Disclosure of daily NAV
- Disclosure of Total Expense Ratio
- Scheme wise dashboard on MF Website
- Portfolio Disclosure
- Financial Results
- Annual Report and related Disclosures

5.2 Explain the Non-Mandatory Disclosures

Unit 6: Fund Distribution and Channel Management Practices

6.1 Explain the role and importance of mutual fund distributors

6.2 Understand the classification of mutual fund distributors

6.2.1 Explain about Individual players

6.2.2 Explain about Non-individual entities.

6.3 Explain the modes of distribution

6.3.1 Know about Online Channel Partners

6.3.2 Know about Stock Exchange Platforms

6.3.3 Know about MF Utility (MFU)

6.3.4 Know about Computer-based & Mobile-based Apps offered by distributors

6.3.5 Know about Electronic platforms created by the AMCs

6.3.6 Know about New Age investment platforms.

6.4 Understand the Pre-requisites to become Distributor of the Mutual Fund

6.4.1 Explain the Procedure for getting empaneled as a mutual fund distributor with AMC

6.5 Explain Revenue for a mutual fund distributor

6.5.1 Define Concept of Trail Commission

6.5.2 Discuss Additional commission for promoting mutual funds in small towns

6.5.3 Explain the transaction charges

6.5.4 Understand Applicability of GST on distributors commission

6.6 Know the Commission Disclosure mandated by SEBI

6.7 Explain the Due Diligence Process by AMCs for Distributors of Mutual Funds

6.8 Difference between distributors and advisor role in context of Amendment to SEBI Investor Advisory Regulation

6.8.1 Advisory

6.8.2 Execution Wholly

6.8.3 Do Mutual Fund Distributors advise their client? (box)

6.9 Discuss Nomination facilities to Agents / Distributors and Payment of Commission to Nominee

6.10 Explain about change of distributor

Unit 7: Net Asset Value, Total Expense Ratio and Pricing of Units

- 7.1 Discuss the Fair Valuation Principles
- 7.2 Compute net assets of a mutual fund scheme and NA
 - 7.2.1 Understand the Net Assets of Scheme
 - 7.2.2 Understand the Net Asset Value (NAV)
 - 7.2.3 Understand the concept of Mark to Market
 - 7.2.4 Understand the Total Expense in Mutual Fund Scheme.
 - 7.2.5 Perpetual Bond Valuation
- 7.3 Explain about Dividends & Distributable Reserves
- 7.4 Know about the Concept of Entry and Exit Load and its impact on NAV
- 7.5 Know about the Key Accounting and Reporting Requirements applicable to mutual funds
- 7.6 Know about the NAV, Total expense ratio and pricing of units for the Segregated Portfolio

Unit 8: Taxation

- 8.1 Understand Applicability of various taxes in respect of mutual funds
 - 8.1.1 Income from investment in mutual fund units
 - 8.1.2 Income earned by mutual fund schemes
 - 8.1.3 Income earned by the investor from investment in mutual fund units
- 8.2 Understand about Capital gains, Capital gains (Long term & Short term) tax and Indexation.
- 8.3 Understand about the Dividend Income and Dividend Income tax
- 8.4 Understand Stamp duty on mutual funds
- 8.5 Understand the basics of Setting off Gains and Losses under Income Tax Act
- 8.6 Understand about Securities Transaction Tax
- 8.7 Understand about Tax benefit under Section 80C of the Income Tax Act for investment pertaining to mutual funds
- 8.8 Understand about Tax Deducted at Source (TDS) in mutual funds
- 8.9 Understand Applicability of GST in mutual funds

Unit 9: Investor Services

- 9.1 Describe the NFO Process
- 9.2 Explain about the New Fund Offer Price /On-going price for subscription
- 9.3 Discuss Different types of investment plans and Services
 - 9.3.1 Understand the Difference between Direct and Regular Plans
 - 9.3.2 Differentiate the features of a Income distribution cum capital withdrawal payout, Income distribution cum capital withdrawal re-investment and growth options
- 9.4 Explain how the mutual fund units are allotted to the investor
- 9.5 Describe the content and periodicity of Statement of Accounts for investments
- 9.6 Describe different types of Mutual Fund Investors
- 9.7 Explain how to fill in the application form for mutual funds
- 9.8 Describe the financial transactions with mutual funds (Purchase, Redemption and Switches)
 - 9.8.1 Describe the different payment mechanisms for purchasing mutual fund units
 - 9.8.2 Explain the different payment mechanism for repurchase of units
- 9.9 Explain Cut-off time and Time Stamping
- 9.10 Describe the KYC requirement for mutual fund investors
 - 9.10.1 Explain the concept of KYC and list the documents required for KYC compliance
 - 9.10.2 Explain about KYC Registration Agencies (KRAs)

9.10.3 Explain the process of KYC

- Minors
- NRI
- PoA holder

9.10.4 Describe the additional documentation requirements applicable to institutional investors

9.10.5 Explain Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)

9.11 Explain the different types of systematic transactions

9.11.1 Describe Systematic investment plan (SIP)

9.11.2 Describe Systematic withdrawal Plan (SWP)

9.11.3 Describe Systematic transfer plan (STP)

9.11.4 Know about Switch

9.11.5 Describe Dividend Transfer Plan (DTP)

9.12 Explain operational aspects of systematic transaction

9.13 Explain Non – Financial Transactions in Mutual Funds

9.13.1 Explain Nomination

9.13.2 Explain Pledge/ lien of units

9.13.3 Understand the concept of Demat Account

9.13.4 Explain change in folio details

9.13.5 Explain Transmission of units

9.14 Discuss change in Status of Special Investor Categories

9.14.1 Minor turned Major

9.14.2 NRI to Resident Indian

9.14.3 Change in Karta of HUFs

9.15 Explain Investor Transactions – turnaround times

Unit 10: Risk, Return and Performance of funds

10.1 Understand the General and Specific Risk Factors

10.1.1 Specify General Risk Factors

10.1.2 Specify Specific Risk Factors

10.2 Explain the Factors that affect mutual fund performance

10.2.1 Compare market / systematic risk and company specific risk

10.3 Describe Drivers of Returns and Risk in mutual fund Scheme

10.3.1 Explain the Factors that affecting performance of Equity Schemes

10.3.2 Explain the Factors that affecting performance of Debt Schemes

10.3.3 Explain the Factors that affecting performance of Gold Funds

10.3.4 Explain the Factors that affecting performance of Real estate funds

10.4 Understand the Measures of Returns

10.4.1 Discuss the Simple Return

10.4.2 Discuss the Annualized Return

10.4.3 Discuss the Compounded Return

10.4.4 Compounded Annual Growth Rate

10.5 Know about the SEBI norms regarding representation of returns by mutual funds in India

10.6 Explain risks in fund investing with a focus on investors

10.6.1 Identify the sources of risk in an equity funds

10.6.2 Identify the sources of risk in a debt funds

- 10.6.3 Identify the sources of risk in hybrid funds
- 10.6.4 Identify the sources of risk in Gold Funds
- 10.6.5 Identify the sources of risk in Real Estate Funds
- 10.7 Understand the Measures of Risk
 - 10.7.1 Understand the concept of Variance
 - 10.7.2 Understand the concept of Standard Deviation
 - 10.7.3 Understand the concept of Beta
 - 10.7.4 Understand the concept of Modified Duration
 - 10.7.5 Understand the concept of Weighted Average Maturity
 - 10.7.6 Understand the concept of Credit Rating
- 10.8 Explain certain provisions with respect to Credit risk
 - 10.8.1 Understand the Gating or restriction on redemption in mutual funds
 - 10.8.2 Explain segregated portfolios or side pocketing

Unit 11: Mutual Fund Scheme Performance

- 11.1 Explain the concept of Benchmarks
- 11.2 Compare Price Return Index and Total Return Index
- 11.3 Identify the Basis of choosing an appropriate performance benchmark
- 11.4 Describe the use of market benchmarks to evaluate Equity Fund Performance
- 11.5 Describe the use of market benchmarks to evaluate Debt Fund Performance
- 11.6 Describe the use of market benchmarks to evaluate Other Schemes
- 11.7 Explain Quantitative Measures of Fund Manager Performance
 - 11.7.1 Know about Sharpe Ratio
 - 11.7.2 Know about Treynor Ratio
 - 11.7.3 Know about Alpha
- 11.8 Define Tracking Error
- 11.9 Understand the different Sources for disclosure of scheme performance (Scheme documents, AMFI and AMC website and Fund Fact Sheet).

Unit 12: Mutual Fund Scheme Selection

- 12.1 Explain Scheme Selection based on Investor needs, preferences and risk-profile
- 12.2 Explain Risk Levels in mutual fund scheme
- 12.3 Explain Scheme Selection based on investment strategy of mutual funds
- 12.4 Explain Selection of Mutual Fund scheme offered by different AMCs or within the scheme category
- 12.5 Know about selecting options in mutual fund schemes
- 12.6 Know about Do's and Don'ts while selecting mutual fund schemes

Module 2: Equity Derivatives

Unit 13: Basics of Derivatives

- 13.1 Define the term 'Derivatives'
- 13.2 Know brief history of financial derivatives and list the factors influencing the growth of derivatives markets globally
- 13.3 Know the history of derivatives in India and state the derivative products traded in India
- 13.4 List different types of market participants and their roles

- 13.5 Differentiate between OTC and exchange traded markets
- 13.6 Explain the importance of derivatives
- 13.7 List various risks faced by the participants in derivatives markets

Unit 14: Understanding Index

- 14.1 Explain the term 'Index'
- 14.2 Understand the economic purpose of index
- 14.3 Discuss various types of Indices and their computation
- 14.4 List important attributes for construction of an Index and understand the concept of 'impact cost'
- 14.5 Understand how index is constructed, maintained and revised
- 14.6 List some of the major equity indices in India
- 14.7 Understand various applications of indices

Unit 15: Introduction to Equity Futures and Forwards

- 15.1 Explain the term Forward contract, list essential features and major drawbacks of forward contracts
- 15.2 Explain the term Futures contract, list salient features and limitations of Futures contract
- 15.3 Discuss the contract specification of Exchange Traded Equity Futures
- 15.4 Understand the key terminology associated with futures contracts
- 15.5 Compare the advantages and disadvantages of forwards and futures
- 15.6 Illustrate payoffs for Futures and draw payoff charts for Long and Short Futures
- 15.7 Explain the Cost-of-carry model and Expectations model for futures pricing
- 15.8 Understand the concept of convergence of cash and futures prices
- 15.9 Describe uses/applications of equity futures

Unit 16: Introduction to Equity Options

- 16.1 Explain the term option contract and understand the options terminology
- 16.2 Discuss the contract specifications of Exchange Traded Equity Options contracts
- 16.3 Understand the concept of Moneyness of an option and define ITM, ATM and OTM
- 16.4 Describe the intrinsic value and time value of Options
- 16.5 Explain the payoff diagrams of call and put options for the buyer and writer of these options
- 16.6 Differentiate between futures and options contracts in terms of rights and obligations of buyers and sellers
- 16.7 List the determinants of option price, know the impact of these factors on the value of calls and puts and understand option greeks
- 16.8 Outline the commonly used models for options pricing
- 16.9 Understand the concept of implied volatility and its importance
- 16.10 Analyse the profitability of call and put options of different strikes from the perspectives of buyer and seller of these options

Unit 17: Strategies using Equity Futures and Equity Options

- 17.1 Discuss different strategies for hedging, trading and arbitrage using equity futures
- 17.2 Understand various option trading strategies for hedging, trading and arbitrage purposes
- 17.3 Describe the principle of Put-Call Parity and Synthetic Option Strategies

- 17.4 Explain Delta-hedging with suitable examples
- 17.5 Discuss how information from Open Interest, Volume, futures price and Put-Call ratio is used for formulating trading strategies

Module 3: Interest Rate Derivatives

Unit 18: Introduction to Interest Rate, Interest Rate Instruments and Fixed Income Market

- 18.1 Understand the concept of interest rate
- 18.2 Define Fixed Income Securities and their key components
- 18.3 Know the basic classification of bonds based on various criteria (cash flow pattern, tenor, etc.)
- 18.4 Differentiate between Equity and Debt securities
- 18.5 Explain the concept of risk-free interest rate
- 18.6 Understand term structure of interest rates (yield curve), its shape, shifts and their interpretation
- 18.7 Understand the conversion of interest rate into interest amount: effect of payment frequency, compounding frequency, day count basis and business day adjustment
- 18.8 Explain the concept of Accrued Interest
- 18.9 Define spot rate (or zero rate) and holding period return
- 18.10 Define and calculate various measures of return: coupon, current yield, yield-to-maturity
- 18.11 Determine cashflow, yield and price of bonds
- 18.12 Define and calculate various measures of risk: Macaulay Duration, Modified Duration, Rupee Duration, Price value of a basis point (PVBP) and Convexity
- 18.13 Explain the economic role of debt markets and discuss the importance of debt market for the economic development of a country
- 18.14 Know the primary and secondary markets for debt securities in India

Unit 19: Interest Rate Derivatives

- 19.1 Define derivatives and discuss economic role (key economic functions) of derivatives
- 19.2 Recognize various derivative products such as forwards, futures, options and swaps
- 19.3 Know the factors driving the growth of financial derivatives
- 19.4 List various market players in the Interest Rate Derivatives market
- 19.5 Understand interest rate derivatives and bond derivatives with specific reference to their underlying assets
- 19.6 Differentiate between features of Over-The-Counter (OTC) and Exchange Traded derivatives

Unit 20: Exchange Traded Interest Rate Futures

- 20.1 Define Interest rate futures (IRF) and understand the basic terms in IRF contracts
- 20.2 Draw a pay-off diagram of futures
- 20.3 Know the contract specification of Exchange Traded Interest Rate Futures including underlying assets, spot price, futures price, contract cycle, tick size, value date, expiry date, trading cycle (weekly/monthly), contract size, market timings, etc.
- 20.4 Understand tick size and its relation to the minimum change in the contract value
- 20.5 Know the rationale for introducing exchange traded Interest Rate derivatives in India
- 20.6 State the advantages and limitations of futures contracts in comparison to forward rate

agreement (FRA)

20.7 Understand the computation of interest rate futures price

Unit 21: Exchange Traded Interest Rate Options

21.1 Define Options and basic terms used in options contracts

21.2 Differentiate between futures and options contracts in terms of rights and obligations of buyers and sellers

21.3 Distinguish between European and American options

21.4 Understand the concept of Moneyness of an option and define ITM, ATM and OTM

21.5 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

21.6 Outline the commonly used models for options pricing

21.7 Understand the concept of Implied Volatility

21.8 Draw the payoff diagrams of put options and call options

21.9 Know the contract specifications for interest rate options contracts

21.10 State the advantages and limitations of Exchange Traded Options contracts in comparison to OTC Options Contracts

Unit 22: Strategies Using Exchange Traded Interest Rate Futures and Options

22.1 Understand the role of hedgers, speculators and arbitrageurs in Interest rate derivatives markets

22.2 Explain how interest rate derivatives can be used for hedging various kinds of interest rate exposures

22.3 Understand various option trading strategies and draw their payoff diagrams

22.4 Discuss how interest rate derivatives can be used for speculative transactions (trading)

22.5 Describe some of the trades that arbitrageurs execute using interest rate derivatives

22.6 Understand the concept of spread and spread trading using interest rate derivatives

22.7 Understand the limitations of interest rate derivatives for hedgers
