

Annexure II — Test Objectives

NISM-Series-VIII: Equity Derivatives Certification Examination

Unit 1: Basics of Derivatives

1.1 Basics of Derivatives

To explain the term derivatives

1.2 Derivatives Market — History & Evolution

To study the history of derivatives

To explain the factors influencing the growth of derivatives market globally

1.3 Indian Derivatives Market

To study the history of derivatives in India

Understanding of available derivative products suite in India

1.4 Market Participants

List various stakeholders and their roles

1.5 Types of Derivatives market

Differentiate between OTC and Exchange Traded Market

1.6 Significance of Derivatives

Explain economic purpose of derivatives

1.7 Various risk faced by the participants in derivatives

List types of risk in derivatives

Unit 2: Understanding Index

2.1 Introduction to Index

Explain the term Index

2.2 Significance of Index

Understand economic purpose of index

2.3 Types of Indices

List different types of Indices

2.4 Attributes of an Index

List important attributes for construction of an Index

Explain the term impact cost

2.5 Index management

Understand how index is constructed, maintained and revised

2.6 Major Indices in India

List various indices in India

2.7 Applications of Index

Understand various direct and indirect applications of indices

Unit 3: Introduction to Forwards and Futures

3.1 Introduction to Forwards and Futures contracts

Explain the term Forward contract

List essential features of forward contract

Illustrate major drawbacks in Forward contracts

Explain the term Futures contract

List salient features of Futures contract

List and explain terminologies used in Futures contract

Illustrate various limitations in Futures

Compare the advantages and disadvantages of forwards and futures

- 3.2 Payoff Charts for Futures contract
 - Illustrate payoffs for Futures
 - Draw payoff charts for Long and Short Futures
- 3.3 Futures pricing
 - Explain the basics of cash and carry / Non-arbitrage model for futures pricing
 - Describe the expectancy model of futures pricing
 - Understand concept of convergence of cash and futures prices
- 3.4 Commodity, Equity & Index Futures
 - Explain the basic difference in Commodity, Equity and Index Futures
- 3.5 Uses of futures
 - Analyze the role of different players in futures market
 - Outline the use of futures contract as an effective instrument for managing risk
 - Explain different strategies for hedging, speculation and arbitrage in futures market

Unit 4 Introduction to Options

- 4.1 Basics of options
 - Explain the term option contract
 - List and explain various terms of options
- 4.2 Payoff Charts for Options
 - Illustrate payoffs for Options
 - Draw payoff charts for Long and Short Options
 - Discuss the risk and return profile of option contracts
- 4.3 Basics of options pricing and option Greeks
 - Understand options pricing fundamentals
 - Interpret impact of each factor on Option pricing for Call and Put Options
 - Give an overview of Binomial and Black-Scholes option pricing models
 - Explain the term Option Greeks
- 4.4 Uses of Options
 - Analyse the Option trading from trader's perspective

Unit 5 Option Trading Strategies

- 5.1 Option spreads
 - Explain the term option spread
 - Illustrate various option spreads
 - Draw payoff charts for various option spread strategies
- 5.2 Straddle
 - Explain what straddle position is
 - Elaborate what should be the market view when Straddle is to be used (Long/Short)
 - Draw Net Payoff Chart for Straddle
- 5.3 Strangle
 - Explain what is strangle position
 - Elaborate what should be the market view when Strangle is to be used (Long/Short)
 - Draw Net Payoff Chart for Strangle
- 5.4 Covered Call
 - Explain what Covered Call position is

Elaborate what should be the market view when Covered Call is to be used
Draw Net Payoff Chart for Covered Call

5.5 Protective Put

Explain what Protective Put position is
Elaborate what should be the market view when Protective Put is to be used
Draw Net Payoff Chart for Protective Put

5.6 Collar

Explain what Collar position is
Elaborate what should be the market view when Collar is to be used
Draw Net Payoff Chart for Collar

5.7 Butterfly spread

Explain what Butterfly spread position is
Elaborate what should be the market view when Butterfly spread is to be used
Draw Net Payoff Chart for Butterfly spread

Unit 6: Introduction to Trading Systems

6.1 Trading System

Elaborate trading system in India
List different entities involved in trading system and explain their roles
Explain market timing of derivatives market
Outline the corporate hierarchy of trading system
Illustrate the Client Broker Relationship in Derivatives Segment
List various order types and conditions
List various windows displayed on the trader workstation
List various futures and options market instruments

6.2 Selection criteria of Stock for trading

Explain the eligibility criteria of
Stocks
Continued eligibility
Re-introduction of excluded stocks
Derivatives trading especially on account of corporate restructuring

6.3 Selection criteria of Index for trading

Explain basic criteria for Index trading as a Derivative contract

6.4 Adjustments for Corporate Actions

Understand how an adjustment is made in position value and contract
specification for various corporate actions

6.5 Position Limits

Explain the position limits at various hierarchy levels

6.6 Using daily newspapers to track futures and options

Unit 7: Introduction to Clearing and Settlement system

7.1 Clearing Members

List different types of clearing members and their roles
Explain the eligibility norms of clearing members

7.2 Clearing Mechanism

Explain how to arrive at the open positions of trading members and custodial
participants

7.3 Settlement Mechanism

- Explain the Settlement schedule

- Elaborate the process of arriving at Settlement Price

- Explain the settlement mechanism of Futures contract on Index and Stocks

- Explain the settlement mechanism of Option contract on Index and Stocks

7.4 Understanding margining and mark to market under SPAN

7.5 Risk Management

- List the salient features of risk containment measures on F&O segment

- Describe process of calculating position limits

- List and elaborate effects of non-payment of margin

Unit 8: Legal and Regulatory Environment

8.1 Securities Contract (Regulation) Act, 1956

- Explain provisions of SC(R)A relevant to Derivatives market

- Explain how SC(R)A aims at preventing undesirable transactions in securities

8.2 Securities and Exchange Board of India Act, 1992

- Define the role of SEBI in regulating Derivatives market

8.3 Regulation in Trading

- List important rules and regulations on trading in Derivatives market

8.4 Regulation in Clearing & Settlement and Risk Management

- List the eligibility criteria for membership on derivative segment

- Explain the mode of payment of margins

- Explain the salient features of cross margining

- List the responsibilities of the clearing corporation

- Outline the main objectives of trade guarantee fund

8.5 Outline major recommendations of the L C Gupta Committee

8.6 Outline major recommendations of the J R Verma Committee

Unit 9: Accounting and Taxation

9.1 Accounting

- Explain accounting of Futures and Options contracts

9.2 Taxation of Derivative transaction in securities

- Explain the treatment of Profit/ Loss on Derivatives transactions

- Describe applicability of Securities Transaction Tax on Derivatives contracts

Unit 10: Sales Practices and Investors Protection Services

10.1 Understanding risk profile of the investors

- Discuss what does an investor perceive and understand by the word 'Risk'

- Understand importance of profiling clients in sales process

- List the importance of KYC

- List the documents required by the investors to trade in Derivatives contract

- Best practices in derivatives sales

10.2 Investors Grievance Mechanism