Roots Institute of Financial Markets

RIFM

NISM –Series –I:

Currency Derivatives

Certification Examination

Forward

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Roots Institute of Financial Markets is an advanced research institute Promoted by Mrs. Deep Shikha CFP^{CM}. RIFM specializes in Financial Market Education and Services. RIFM is introducing preparatory classes and study material for Stock Market Courses of NSE , NISM and CFP certification. RIFM train personals like FMM Students, Dealers/Arbitrageurs, and Financial market Traders, Marketing personals, Research Analysts and Managers.

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Faculty and content team, RIFM

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- M.Com., B.Ed.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- IRDA Certified for General Insurance
- PG Diploma in Human Resource Management

CA. Ravi Malhotra

- B.Com.
- FCA
- DISA (ICA)
- CERTIFIED FINANCIAL PLANNER^{CM}

Vipin Sehgal CFP^{CM}

- B.Com.
- NCFM Diploma in Capital Market (Dealers) Module
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

Neeraj Nagpal CFP^{CM}

- B.Com.
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance

NCFM Certification In:

- Capital Market (Dealers) Module
- Derivatives Market (Dealers) Module
- Commodities Market Module

Kavita Malhotra

- M.Com. Previous (10th Rank in Kurukshetra University)
- AMFI Certified for Mutual Funds
- IRDA Certified for Life Insurance
- Certification in all Modules of CFP^{CM} Curriculum (FPSB India)

Commodity Market (Dealers) Module

Distribution of weights in the Commodities Market (Dealers) Module Curriculum

Chapter No.	Title	Weights (%)
1	Introduction to derivatives	6
2	Commodity Derivatives	7
3	The NCDEX Platform	5
4	Application of Futures & Options	3
5	Instruments available for trading	15
6	Pricing Commodity Futures	16
7	Using Commodity Futures	14
8	Trading	16
9	Clearing and Settlement	17
10	Regulatory Framework	8
11	Implications of Sale Tax	3

Exam Pattern

Test Duration	120 Min.
No. of Questions	60
Maximum Marks	100
Pass %	50
Negative Marks	25%

Commodity Market (Dealers) Module

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Roots Institute of Financial Markets
1197 NHBC Mahavir Dal Road. Panipat. 132103 Haryana.
Ph.99961-55000, 0180-2663049 email: info@rifm.in
Web: www.rifm.in

Chapter 1
Introduction to Currency Markets

Q. 1 Foreign exchange spot trading is buying one currency with a different currency for _______________delivery.

A. Forward
B. Futures
C. Immediate
D. Any of the above

Q. 2 The standard settlement convention for Foreign Exchange Spot trades is ____________

A. T+1 Days
B. T+2 Days
C. T+3 Days
D. T+ 4Days

Q. 3 Rates for days other than spot are always calculated with reference to _____rate.

A. Forward
B. Future
C. Spot
D. Any of the above

Q. 4 A foreign exchange forward is a contract between two counterparties to exchange one currency for another on _______________.

A. Any day
B. Any day after spot
C. Same day
D. Before future date

Q. 5 For Value Cash Transaction Settlement Date is

A. Trade Date
B. Trade Date + 1
C. Trade Date + 2
D. Trade Date + 3 or any later date

Q. 6 For Value Tom (Tomorrow) Transaction Settlement Date is

A. Trade Date

B. Trade Date + 1
C. Trade Date + 2
D. Trade Date + 3 or any later date

Q. 7 For Spot Transaction Settlement Date is

A. Trade Date
B. Trade Date + 1
C. Trade Date + 2
D. Trade Date + 3 or any later date

Answer Sheet Chapter 1			
1	C	20	D
2	B	21	C
3	C	22	B
4	B	23	B
5	A	24	B
6	B	25	B
7	C	26	C
8	D	27	D
9	A	28	A
10	B	29	C
11	A	30	B
12	D	31	C
13	A	32	B
14	B	33	C
15	D	34	D
16	C	35	B
17	B	36	B
18	C	37	B
19	D	38	B

Chapter 3
Exchange Traded Currency Futures

Q1 ----------is a contract to exchange one currency for another currency at a specified date and a specified rate in the Future.

A. Currency options
B. Currency futures
C. Currency forwards
D. All of the above

Q2 currency futures are cash settled.

A. True
B. False

Q3 _________ is the minimum trading increment or price differential at which traders are able to enter bids and offers.

A. Bid
B. Bases
C. Tick
D. None of the above

Q4 imagine a trader buys a contract (USD 1000 being the value of each contract) at Rs. 42.2500.Iif he buys 5 contracts and the price moves up by 4 ticks, what will be his profit or loss//? (Tick size 0.25 paisa ignore transaction cost)

A. Rs. 10
B. Rs. 12.5
C. Rs. 50
D. Rs. 100

Q5 In the case of USD/INR, spot value is _________

A. Immediate value
B. T+2 VALUE
C. T+1 VALUE
D. T+3 VALUES.

Q6 Currency futures exchanges will have 12 contracts outstanding at any given point in time.

A. True
B. False

Q7 the last________ of the month will be termed the Value date / Final Settlement date of each contract.

A. Thursday
B. Friday
C. Business day
D. None of the above

Answer Sheet CHAPTER 3			
1	C	16	A
2	B	17	D
3	C	18	B
4	C	19	B
5	B	20	A
6	A	21	C
7	C	22	A
8	C	23	A
9	B	24	B
10	D	25	C
11	B	26	A
12	B	27	B
13	C	28	C
14	A	29	C
15	A	30	B
		31	B

Chapter 4
Strategies Using Currency Futures

Q.30 A person is an active trader in the currency futures market. In September 2008. He is of the view that in the current environment of high inflation and high interest rate the premium will move higher and hence USD will appreciate far more than the indication in the current quotes. On the basis of his views he will__________________-

A. Buy oct currency future and sell dec. currency future
B. Sell oct currency future and buy dec currency future

Q.31 The above strategy is called_________--
A. Hedging
B. Speculation
C. Arbitrage
D. Spread

Q.32 _______________means locking in a profit by simultaneously entering into transactions in two or more markets.
A. Hedging
B. Speculation
C. Arbitrage
D. Spread

Q.33 the spot rate for USD/INR is quoted @ Rs. 44.325 and one month forward is quoted at 3 paisa premium to spot @ 44.3550 while at the same time one month currency futures is trading @ Rs. 44.4625. an arbitrager will__________

A. Buys forward @ Rs. 44.3550 and sell future @Rs. 44.4625
B. Sells forward @ Rs. 44.3550 and buys future @Rs. 44.4625

Q.34 Hedging eliminates the risk.
A. True
B. False

Q.35 The most important approach to be successful in future trading is_________
A. Hard work
B. Discipline
C. Dedication
D. All of the above

Q.36 In India an importer will profit in a contract where he has to make the payment at fixed dollar rate if___
A. INR weakens
B. Dollar weakens

Q.37 An Indian Importer is short on USD in spot market and is long in USD/INR future contract. He can make profit if

A. Dollar appreciate
B. Dollar depreciate
C. INR Appreciate
D. None of the above

Q.38 Mr. A has to pay Dollar 5000 on august 29th. He wants to lock in the foreign exchange rate today so that the value of outflow in Indian rupee terms is safeguarded. He can do so by_____________

A. Buying five contracts of USD/INR futures
B. Selling five contracts of USD/INR futures
C. Buying five thousand contracts of USD/INR futures
D. Selling five thousand contracts of USD/INR futures

39. A Gold-importing firm - XYZ Co. is expected to make future payments of USD 1750000 after 3 months (in USD) for payment against Gold imports. Suppose the current 3 -month futures rate is Rs. 46. XYZ Co. goes short in the futures contract to hedge itself. Its hedging strategy will protect itself against adverse exchange rat e movements.

A. True
B. False

Answer Sheet Chapter 4					
1	C	21	A	41	A
2	A	22	A	42	B
3	B	23	B	43	D
4	C	24	B	44	C
5	A	25	A	45	C
6	A	26	B	46	C
7	B	27	D	47	B
8	B	28	A	48	A
9	B	29	B	49	A
10	B	30	B	50	D
11	A	31	D	51	B
12	B	32	C	52	C
13	A	33	A	53	B
14	B	34	B	54	A
15	B	35	D	55	D
16	B	36	B	56	B
17	B	37	A	57	A
18	C	38	A	58	A
19	C	39	B	59	B
20	B	40	A	60	A

Solutions

Solution: 56
Cost of Oil on January 1, 2009 = 3000*120*43 = 15480000
Cost of Oil on July 1, 2009 = 3000*120*45 = 16200000
Loss due to currency fluctuation = 16200000-15480000 = 720000

Solution: 57
Cost of Oil on January 1, 2009 = 1000*95*47 = 4465000
Cost of Oil on March 1, 2009 = 1000*95*44.50 = 4227500
Loss due to currency fluctuation = 4465000-4227500 = 237500

Solution:58
Cost of Gold on January 1, 2009 = 100*950*45 = 4275000
Cost of Gold on March 1, 2009 = 100*950*43 = 4085000
Loss due to currency fluctuation = 4275000 – 4085000 = 190000

Solution: 59
Purchase Price: 200000*44.20=8840000
Appreciation in S & P Index = 10%
Index Value in USD terms = 200000+200000*20%=240000
Sale Price = 240000*40.75=9780000
Profit on sale = 9780000-8840000=940000

Solution: 60

Purchase Price: 200000*44.20=8840000
Appreciation in S & P Index = 10%
Index Value in USD terms = 200000+200000*20%=240000
Sale Price = 240000*40.75=9780000
Profit on sale = 9780000-8840000=940000

Profit on Future Contracts:
USD/INR contract is at 44.50. Price per contract is 1000*44.50 = 44500
Required Currency Future Contract to sale = 8840000/44500=199
Ram has to sell 199 contracts to hedge the position,
Sale value of contracts = 199*44500 = 8855500
Buy value of 199 contracts = 199*41050(1000*41.05) = 8168950
Profit on future transactions = 8855500-8168950=686550
Total Profit = 940000+686550 = 1626550

Chapter 6
Clearing, Settlement and Risk Management

Q.1 ____________ acts as legal counterparty to all trades on the Currency Derivatives segment and guarantees their financial settlement.

A. Clearing Banks
B. Clearing Member
C. Professional Clearing Member
D. Clearing Corporation

Q.2 ____________________, clear and settle their own trades as well as trades of other trading members (TMs).

A. Trading Members
B. Clearing Banks
C. Trading-cum-clearing Members
D. Professional Clearing Members

Q.3 ____________________clear and settle trades executed by TMs.

A. Trading Members
B. Clearing Banks
C. Trading-cum-clearing Members
D. Professional Clearing Members

Q.4 The Clearing and Settlement process comprises which of the following main activities:

A. Clearing
B. Settlement
C. Risk Management
D. All of the above

Q.5 ________________ Position is considered for exposure and daily margin purposes.

A. Short
B. Long
C. Open
D. All of the above

Q.6 While entering orders on the trading system, ___________ are required to identify the orders, whether proprietary or client through 'Pro/Cli' indicator provided in the order entry screen.

A. Clearing Members
B. Trading Members
C. Brokers
D. Dealers

Q.7 Proprietary positions are calculated on net basis(buy-Sell)

A. True
B. False

Answer Sheet Chapter 6			
1	D	21	B
2	C	22	A
3	D	23	D
4	D	24	A
5	C	25	A
6	B	26	B
7	A	27	A
8	B	28	B
9	A	29	B
10	C	30	C
11	C	31	C
12	B	32	C
13	D	33	B
14	B	34	B
15	A	35	B
16	A	36	B
17	C	37	
18	B	38	
19	C	39	
20	C	40	

Chapter 8
Accounting and Taxation

Q. 1 The Institute of Chartered Accountants of India (ICAI) has issued guidance notes on accounting of index futures contracts from the view point of parties who enter into such futures contracts as ____________.

A) Trading Members
B) Brokers
C) Clearing Members
D) Buyers or Sellers

Q. 2 Clearing corporation/house means a clearing corporation/house approved by _________ for clearing and settlement of trades on the currency derivatives exchange/segment.

A) RBI
B) Stock Exchange
C) Central Government
D) SEBI

Q. 3 A _________ means a person, on whose instructions and on whose account, the trading member enters into any contract for the purchase or sale of any contract or does any act in relation thereto.

A) Clearing Member
B) Client
C) Professional Clearing Member
D) None of above

Q. 4 Contract month means the month in which the exchange/clearing corporation rules require a contract to be finally settled.

A) True
B) False

Q. 5 _______________ is the closing price of the currency futures contract for the day or such other price as may be decided by the clearing house from time to time.

A) Final Settlement Price
B) Base Price
C) Daily Settlement Price
D) Any of above

Q. 6 ____________means a member of the clearing corporation and includes all categories of clearing members as may be admitted as such by the clearing corporation to the currency segment.

A) Trading Member
B) Clearing Member
C) Trading-cum-clearing Member
D) Professional Clearing Member

Q. 7 Currency Derivative exchange means an exchange approved by _________as a currency derivative exchange.

A) RBI
B) Stock Exchange
C) Central Government
D) SEBI

Q. 8 Currency Derivative segment means segment of an existing exchange approved by _______I as currency derivative segment.

A) RBI
B) Stock Exchange
C) Central Government
D) SEBI

Answer Sheet Chapter 8			
1	D	21	D
2	D	22	B
3	B	23	C
4	A	24	C
5	C	25	A
6	B	26	A
7	D	27	A
8	D	28	B
9	A	29	B
10	A	30	D
11	C	31	B
12	C	32	C
13	B	33	B
14	A	34	C
15	B	35	D
16	B		
17	B		
18	D		
19	B		
20	A		

Sample Paper 1

1) The market where currencies are traded is known as the ______.
   A. Equity Market
   B. Bond Market
   C. Fixed Income Market
   D. Foreign Exchange Market

2) The USD/CAD (US – Canadian Dollars) currency pair settles in _____ basis.
   A. T+1
   B. T+2
   C. T+3
   D. T+4

3) A derivatives contract cannot exist without an ________.
   A. Exchange
   B. Underlying, be it equity, interest rate etc.
   C. Increase in volatility
   D. Increase in arbitrage

4) The first participants who traded in derivatives where those exposed to __________.
   A. Exchange rate risk
   B. Interest Rate risk
   C. Equity price risk
   D. Commodity price risk

5) OTC Derivatives stand for ________.
   A. Over the Counter Derivatives
   B. Outstanding Transaction Credit Derivatives
   C. Options Trade Credit Derivatives
   D. Commodity price risks

6) There are no formal rules or mechanisms for ensuring market stability and integrity, and for safeguarding the collective interests of market participants. Which type of Derivatives contracts are being referred to here?
   A. Over the Counter Derivatives
   B. Exchange traded derivatives
   C. Stock Futures
   D. Commodity derivatives

7) In a currency pair, term currency is in the:
   A. Numerator
   B. Denominator

8) Bids and offers are for the:
   A. Counter Currency
   B. Term Currency
   C. Base Currency
   D. All the above

Answer Sheet Sample Paper 1			
1	D	21	B
2	A	22	B
3	B	23	C
4	D	24	A
5	A	25	A
6	A	26	B
7	B	27	A
8	C	28	B
9	C	29	D
10	D	30	A
11	C	31	D
12	A	32	B
13	C	33	B
14	D	34	B
15	A	35	D
16	D	36	D
17	B	37	B
18	C	38	A
19	B	39	B
20	A	40	A

Sample Paper 2

Q:1 There are many _____ in the financial and business environment today.
A. Risks
B. Mergers and acquisitions
C. Legal issues
D. Consolidations

Q:2 Exchange rate fluctuations are a risk to _________.
A. Issuers
B. Merchant Bankers
C. Those with an obligation to pay in a foreign currency
D. None of the above

Q:3 Exchange rate risks can be mitigated by using ________.
A. Index Futures
B. Currency derivatives
C. Stock Futures
D. Interest Rate derivatives

Q:4 Financial Institutions assist businesses in managing their financial risks by creating various ________ instruments.
A. Hedging
B. Speculative
C. exotic
D. Financial

Q:5 Businesses use derivatives primarily for ______
A. Hedging
B. Forecasting
C. Estimation
D. Understanding stock price behavior

Q: 6 ________ use currency derivatives to hedge against exchange rate risks.
A. Exporters
B. Importers
C. Banks
D. All of the above

Q:7 USD-GBP futures is a contract on the ______
A. US Dollar and Indian Rupees
B. US Dollar and Japanese Yen
C. US Dollar and Euro
D. US Dollar and British Pound

Answers sample paper 2			
1	A	26	B
2	C	27	A
3	B	28	D
4	A	29	C
5	A	30	C
6	D	31	A
7	D	32	B
8	B	33	A
9	A	34	D
10	A	35	A
11	B	36	B
12	D	37	B
13	D	38	A
14	C	39	A
15	A	40	C
16	B	41	A
17	A	42	D
18	C	43	B
19	A	44	A
20	B	45	D
21	A	46	A
22	A	47	A
23	B	48	B
24	B	49	A
25	A	50	D

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