UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series I

Currency Derivatives

Currency markets, forwards, futures and options on USD-INR and other pairs, strategies, trading, settlement, regulation and tax.

100 QUESTIONS · 120 MINUTES · PASS 60% · 10 UNITS

UpperCrust Academy · ucwacademy.in · Free for every learner · Edition 2026

ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series I certifies people who deal in or advise on exchange-traded currency derivatives. It covers how the forex market works, how futures and options are priced and traded, how positions are margined and settled, and the rules that apply.

100	120 min	60%	25% of marks
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Dealers, sales and advisory staff at brokers, bank treasury and forex desks, corporate treasury teams and compliance staff working with currency derivatives.

How this guide works

1. Read the unit overview
2. Study each concept card
3. Say the example aloud
4. Check the watch-outs
5. Take the unit mock

Each unit opens with its exam weight, so you know where marks are. Each concept card gives the idea, a worked example, and the mistake the exam wants you to make. The same ideas power the five mock tests on the UpperCrust Academy app, which get harder one by one.

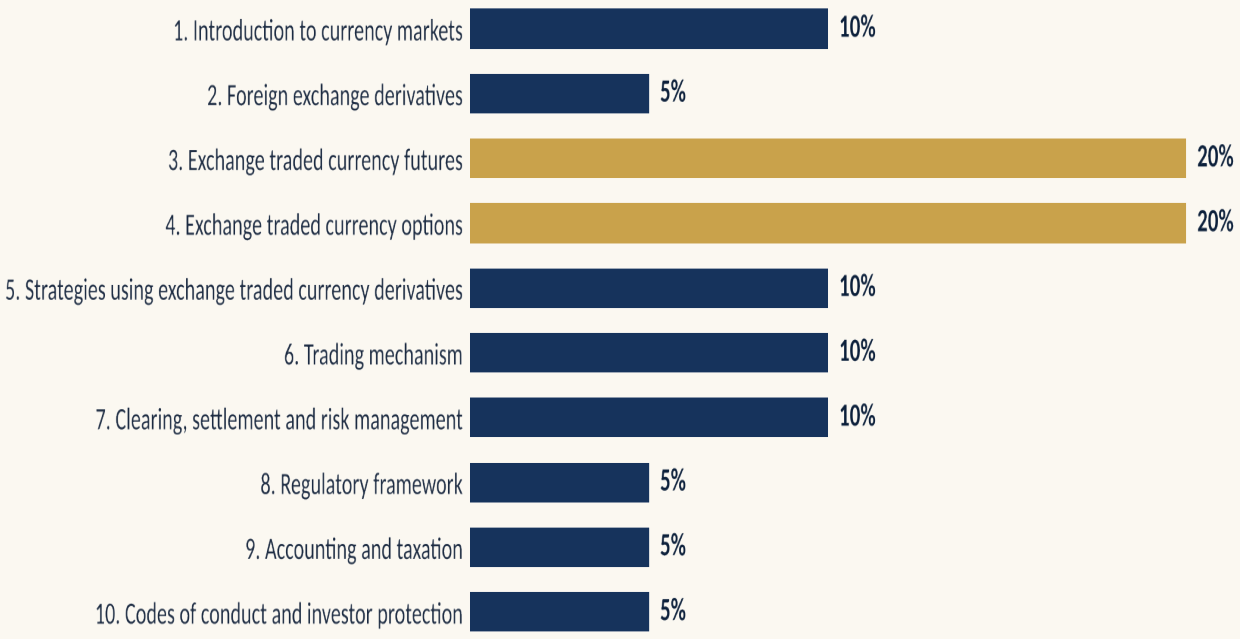
> **Keep this in mind**
>
> NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	Computer-based, multiple-choice questions
Questions and marks	100 questions, 1 mark each, 100 marks
Duration	2 hours
Passing score	60 marks (60%)
Negative marking	25% of a question's marks, so 0.25 per wrong answer
Certificate validity	Three years; renew through NISM
Where it leads	Currency derivative dealing and advisory roles

Where the marks are



Read the chart like an examiner

Units above 10% decide most results. Master them first, then use the small units for easy marks. A unit worth 3% still supplies three marks at no extra effort once you have the concepts.

YOUR STUDY PLAN

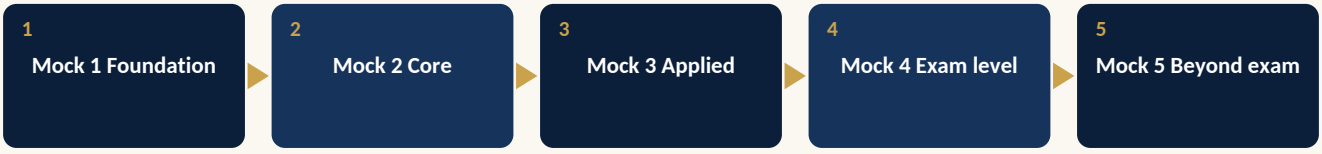
Time follows marks.

The bar shows how the exam is split across units. Spend your hours in the same proportion.



Unit	Marks	Share of study time	Suggested days
1. Introduction to currency markets	10	10%	1
2. Foreign exchange derivatives	5	5%	1
3. Exchange traded currency futures	20	20%	3
4. Exchange traded currency options	20	20%	3
5. Strategies using exchange traded currency derivatives	10	10%	1
6. Trading mechanism	10	10%	1
7. Clearing, settlement and risk management	10	10%	1
8. Regulatory framework	5	5%	1
9. Accounting and taxation	5	5%	1
10. Codes of conduct and investor protection	5	5%	1
Revision and five mocks			7

The mock ladder



Take Mock 1 after your first pass through the guide. Move to the next mock only when you score 15 marks above the pass mark. Review every wrong answer in the app; each one links back to its unit.

UNIT 1 · 10% OF THE EXAM

Introduction to currency markets

Exchange rates, quotes and how the foreign exchange market works.

What the exam looks for

- Quotes and cross rates.
- Spot market and participants.
- Exchange rate regimes.

Concept cards

01

Exchange rate

An exchange rate is the price of one currency in terms of another.

EXAMPLE USD-INR at 83 means one dollar costs 83 rupees.

WATCH OUT Not true: an exchange rate is the interest rate on currency loans.

02

Base and quote currency

In a pair quoted as A-B, A is the base currency and B is the quote currency, and the rate shows units of B per unit of A.

EXAMPLE In USD-INR, the dollar is the base and the rupee is quoted.

WATCH OUT Not true: in USD-INR, the rupee is the base currency.

03

Direct and indirect quote

A direct quote gives the home currency per unit of foreign currency; an indirect quote gives foreign currency per unit of home currency.

EXAMPLE For an Indian dealer, 83 rupees per dollar is direct.

WATCH OUT Not true: a direct quote shows foreign currency per rupee.

04

Bid and ask

The bid is the price at which a dealer buys the base currency and the ask is the price at which the dealer sells it, with the ask higher than the bid.

EXAMPLE A dealer quotes 82.98-83.02.

WATCH OUT Not true: the bid is higher than the ask.

05

Spread

The spread is the difference between ask and bid and is the dealer's margin and a measure of liquidity.

EXAMPLE A narrow spread shows a liquid pair.

WATCH OUT Not true: a wide spread signals high liquidity.

06

Appreciation and depreciation

A currency appreciates when it buys more foreign currency and depreciates when it buys less.

EXAMPLE USD-INR rising from 82 to 84 means the rupee has depreciated.

WATCH OUT Not true: a rising USD-INR means the rupee has strengthened.

07

Cross rate

A cross rate between two currencies is derived from their rates against a third, usually the dollar.

EXAMPLE EUR-INR is computed from EUR-USD and USD-INR.

WATCH OUT Not true: cross rates are fixed by the central bank.

08

Spot market

In the spot market currencies are bought and sold for settlement in two working days.

EXAMPLE A bank buys dollars for delivery after two days.

WATCH OUT Not true: spot trades are settled after one year.

09

Interbank market

The interbank market is where banks trade large amounts of currency among themselves and sets reference rates.

EXAMPLE Banks quote to each other over electronic platforms.

WATCH OUT Not true: the interbank market is only for retail customers.

10

Market participants

Participants include banks, corporates, exporters, importers, investors, speculators and central banks.

EXAMPLE An importer buys dollars to pay a foreign supplier.

WATCH OUT Not true: only banks take part in currency markets.

11

Hedgers and speculators

Hedgers use derivatives to reduce existing currency risk; speculators take risk hoping to profit from price moves.

EXAMPLE An exporter sells dollars forward to lock in a rate.

WATCH OUT Not true: hedgers aim to profit from price moves.

12

Arbitrageurs

Arbitrageurs exploit price differences in the same or related instruments across markets to earn low-risk profit.

EXAMPLE A trader buys dollars on one venue and sells on another at a higher price.

WATCH OUT Not true: arbitrageurs take large directional bets.

13

Exchange rate regimes

Regimes range from fixed to floating; India follows a managed float where the central bank may intervene to curb volatility.

EXAMPLE The RBI sells dollars to steady the rupee.

WATCH OUT Not true: india has a rigidly fixed rate.

14

Drivers of exchange rates

Rates move with interest rate differentials, inflation, trade and capital flows, growth and sentiment.

EXAMPLE Heavy foreign portfolio inflows strengthen the rupee.

WATCH OUT Not true: exchange rates depend only on exports.

15

Purchasing power parity

PPP says exchange rates adjust so that price levels are equal across countries, so higher inflation tends to weaken a currency.

EXAMPLE A country with high inflation sees its currency weaken over time.

WATCH OUT Not true: pPP says high inflation strengthens the currency.

16

Foreign exchange reserves

Reserves are foreign currency assets held by the central bank to manage the exchange rate and meet external obligations.

EXAMPLE The RBI uses reserves to curb sharp falls.

WATCH OUT Not true: reserves are held by commercial banks only.

17

Balance of payments

The balance of payments records a country's transactions with the rest of the world and is an important driver of currency demand.

EXAMPLE A large current account deficit puts pressure on the currency.

WATCH OUT Not true: the balance of payments records only government spending.

Unit recap · one line each

Exchange rate · Base and quote currency · Direct and indirect quote · Bid and ask · Spread · Appreciation and depreciation · Cross rate · Spot market · Interbank market · Market participants · Hedgers and speculators · Arbitrageurs · Exchange rate regimes · Drivers of exchange rates · Purchasing power parity · Foreign exchange reserves · Balance of payments

UNIT 2 · 5% OF THE EXAM

Foreign exchange derivatives

Forwards, swaps and the basics of pricing and hedging.

What the exam looks for

- Forward contracts and pricing.
- Swaps and NDFs.
- OTC versus exchange traded.

Concept cards

01

Forward contract

A forward contract is a customised agreement to buy or sell a currency at a fixed rate on a future date, traded over the counter.

EXAMPLE An importer books dollars for delivery in three months.

WATCH OUT Not true: a forward contract is traded on an exchange with standard terms.

02

Forward premium and discount

A currency trades at a forward premium if the forward rate is above spot and at a discount if below.

EXAMPLE With rupee interest rates above dollar rates, USD-INR forwards trade at a premium.

WATCH OUT Not true: a forward premium means the forward is below spot.

03

Interest rate parity

Interest rate parity links the forward rate to spot and the interest rate differential, so the currency with higher interest rate trades at a forward discount.

EXAMPLE The forward rate reflects the difference in rupee and dollar interest rates.

WATCH OUT Not true: forward rates are independent of interest rates.

04

Forward rate formula

Forward rate is approximately spot x (1 + rupee rate x t) / (1 + dollar rate x t).

EXAMPLE Spot 83 with a higher rupee rate gives a forward above 83.

WATCH OUT Not true: forward rate equals spot always.

05

Currency swap

A currency swap exchanges principal and interest in one currency for another over a period.

EXAMPLE Two firms swap loans in different currencies.

WATCH OUT Not true: a swap is an exchange-traded futures contract.

06

Non-deliverable forward

An NDF is settled in cash in a convertible currency based on the difference between the contract rate and a fixing rate, with no delivery of the restricted currency.

EXAMPLE Offshore parties trade rupee NDFs settled in dollars.

WATCH OUT Not true: an NDF requires physical delivery.

07

OTC versus exchange traded

OTC contracts are customised and carry counterparty risk, while exchange-traded contracts are standardised and guaranteed by the clearing corporation.

EXAMPLE A futures trade is guaranteed by the clearing corporation.

WATCH OUT Not true: oTC contracts are guaranteed by the exchange.

08

Hedging with forwards

An exporter expecting dollars sells them forward to fix the rupee amount, removing the risk of rupee appreciation.

EXAMPLE An exporter locks in a rate for payment due in six months.

WATCH OUT Not true: hedging removes all possible gains and costs.

09

Exposure types

Transaction, translation and economic exposure describe how currency changes affect cash flows, balance sheets and long-term value.

EXAMPLE A firm with dollar debt faces transaction exposure.

WATCH OUT Not true: exposure only arises for exporters.

10

Currency options OTC

Banks also offer OTC currency options that are customised for corporates.

EXAMPLE A corporate buys a tailored dollar call from a bank.

WATCH OUT Not true: oTC options are always exchange guaranteed.

Unit recap · one line each

Forward contract · Forward premium and discount · Interest rate parity · Forward rate formula · Currency swap · Non-deliverable forward · OTC versus exchange traded · Hedging with forwards · Exposure types · Currency options OTC

UNIT 3 · 20% OF THE EXAM

Exchange traded currency futures

The core of the exam. Contract specifications, pricing, profit and loss, and hedging with futures.

What the exam looks for

- Contract specs.
- Futures pricing.
- Daily profit and loss.
- Hedging and speculation.

USD-INR futures at a glance

Item	Detail
Lot size	1,000 USD
Tick size	0.0025 rupee
Tick value	₹2.50
Quotation	Rupees per dollar
Settlement	Cash in rupees
Expiry	Last working day of the month, two working days before

FORMULA · Futures profit

Profit = (Selling price - Buying price) x Lot size x Number of lots

Concept cards

01

Currency futures

A currency future is a standardised exchange-traded contract to buy or sell a currency pair at a fixed price on a future date.

EXAMPLE An investor buys USD-INR futures to bet on rupee depreciation.

WATCH OUT Not true: a currency future is a customised OTC contract.

02

Contract size

The contract size of USD-INR futures is 1,000 US dollars per lot.

EXAMPLE One lot represents $1,000.

WATCH OUT Not true: the standard lot is $100,000.

03

Tick size and value

The tick is 0.0025 rupee, so one tick on a lot of 1,000 dollars is worth ₹2.50.

EXAMPLE A move of 10 ticks equals ₹25 per lot.

WATCH OUT Not true: the tick size is one rupee.

04

Quotation

Futures on USD-INR are quoted in rupees per dollar.

EXAMPLE A price of 83.2500 means ₹83.25 per dollar.

WATCH OUT Not true: the quote shows dollars per rupee.

05

Expiry and cycle

Contracts expire on the last working day of the month, with 12 monthly contracts available.

EXAMPLE A contract for next month is available to trade.

WATCH OUT Not true: contracts expire on the first working day.

06

Cash settlement

Currency futures are settled in cash in rupees; there is no delivery of foreign currency.

EXAMPLE At expiry, gains or losses are paid in rupees.

WATCH OUT Not true: physical dollars are delivered on expiry.

07

Final settlement price

The final settlement price is the RBI reference rate on the expiry day, used to settle open positions.

EXAMPLE Open positions settle at the RBI reference rate.

WATCH OUT Not true: the final price is the previous day's close.

08

Long and short futures

A long futures position gains if the currency pair rises, and a short position gains if it falls.

EXAMPLE A buyer of USD-INR futures gains if the dollar rises against the rupee.

WATCH OUT Not true: a long position gains when the price falls.

09

Futures profit and loss

Profit or loss equals the price change multiplied by the lot size and number of lots.

EXAMPLE Buying at 83.00 and selling at 83.20 on one lot gives ₹200.

WATCH OUT Not true: profit is the price change multiplied by the margin.

10

Daily mark-to-market

Positions are marked to market each day, with gains credited and losses debited to the margin account.

EXAMPLE A client whose position has fallen sees her margin reduced that evening.

WATCH OUT Not true: profit or loss arises only at expiry.

11

Cost of carry

The futures price is based on spot plus the cost of carry, which reflects the interest rate differential.

EXAMPLE With higher rupee rates, the futures trade above spot.

WATCH OUT Not true: futures prices are unrelated to spot.

12

Basis

Basis is the difference between spot and futures price, which narrows to zero as expiry nears.

EXAMPLE Futures converge to spot at expiry.

WATCH OUT Not true: the basis widens at expiry.

13 **Convergence**

As expiry approaches, the futures price converges to the spot price.

EXAMPLE The gap between spot and futures shrinks daily.

WATCH OUT Not true: futures diverge from spot near expiry.

14 **Hedging with futures**

A hedger takes a position in futures opposite to the exposure; an importer with dollar payables buys futures, and an exporter sells.

EXAMPLE An importer buys USD-INR futures to lock in cost.

WATCH OUT Not true: an importer hedges by selling dollar futures.

15 **Speculation**

Speculators take positions in futures to profit from price moves, using leverage through margin.

EXAMPLE A trader buys a lot expecting the dollar to strengthen.

WATCH OUT Not true: speculators remove risk from the market.

16 **Spread trading**

A calendar spread involves buying one expiry and selling another, profiting from changes in the price gap.

EXAMPLE A trader buys the near month and sells the far month.

WATCH OUT Not true: a spread involves two different currency pairs only.

17 **Open interest**

Open interest is the total number of outstanding contracts not yet closed or settled.

EXAMPLE Open interest rises when new positions are created.

WATCH OUT Not true: open interest is the number of trades in a day.

18 **Leverage**

Futures allow control of a large value with a small margin, magnifying gains and losses.

EXAMPLE Margin of 3% allows exposure of about 33 times.

WATCH OUT Not true: leverage reduces risk.

19 **Other pairs**

Exchanges also offer futures on EUR-INR, GBP-INR and JPY-INR and cross-currency pairs.

EXAMPLE A trader takes a view on the euro against the rupee.

WATCH OUT Not true: only USD-INR futures exist.

20 **Contract value**

The value of a contract is price multiplied by lot size.

EXAMPLE At 83.00, one lot has a value of ₹83,000.

WATCH OUT Not true: the contract value equals the margin.

21

Hedge ratio

The hedge ratio is the number of futures contracts required to cover an exposure, found by dividing the exposure by the lot size.

EXAMPLE A $50,000 exposure needs 50 lots of $1,000.

WATCH OUT Not true: a $50,000 exposure needs one lot.

22

Position limits

Exchanges and SEBI set limits on positions to prevent excessive speculation, with higher limits for hedgers under conditions.

EXAMPLE A trader's position cannot exceed the stated cap.

WATCH OUT Not true: there are no limits on positions.

23

Rolling over

Rolling over means closing a near-month position and opening a similar one in a later month to maintain exposure.

EXAMPLE A hedger rolls her short position into next month.

WATCH OUT Not true: rolling over means taking delivery.

24

Futures versus forwards

Futures are standardised, exchange traded, daily settled and guaranteed by the clearing corporation, while forwards are customised and carry counterparty risk.

EXAMPLE Futures are marked to market daily, forwards are not.

WATCH OUT Not true: forwards are settled daily.

Unit recap · one line each

Currency futures · Contract size · Tick size and value · Quotation · Expiry and cycle · Cash settlement · Final settlement price · Long and short futures · Futures profit and loss · Daily mark-to-market · Cost of carry · Basis · Convergence · Hedging with futures · Speculation · Spread trading · Open interest · Leverage · Other pairs · Contract value · Hedge ratio · Position limits · Rolling over · Futures versus forwards

UNIT 4 · 20% OF THE EXAM

Exchange traded currency options

Option terminology, payoffs, premium, and factors affecting option value.

What the exam looks for

- Calls and puts.
- Payoff and break-even.
- Intrinsic value and time value.
- Greeks in outline.

Option payoffs

Position	Gains when	Max loss
Long call	Currency rises	Premium
Long put	Currency falls	Premium
Short call	Currency stays flat or falls	Unlimited
Short put	Currency stays flat or rises	Large (to zero)

FORMULA · Break-even

Call: Strike + Premium. Put: Strike - Premium.

Concept cards

01

Currency option

A currency option gives the buyer the right but not the obligation to buy or sell a currency at a fixed rate on or before a date.

EXAMPLE A buyer pays a premium for the right to buy dollars at 83.

WATCH OUT Not true: an option obliges both parties to trade.

02

Call option

A call gives the right to buy the underlying at the strike price.

EXAMPLE The holder of a USD call gains if the dollar rises above the strike.

WATCH OUT Not true: a call gives the right to sell.

03

Put option

A put gives the right to sell the underlying at the strike price.

EXAMPLE The holder of a USD put gains if the dollar falls below the strike.

WATCH OUT Not true: a put gives the right to buy.

04

Strike price

The strike price is the fixed rate at which the option can be exercised.

EXAMPLE A call with a strike of 83.00 allows buying dollars at 83.

WATCH OUT Not true: the strike is the premium paid.

05

Premium

The premium is the price paid by the buyer to the seller of the option, and is the buyer's maximum loss.

EXAMPLE The buyer pays ₹0.50 per dollar.

WATCH OUT Not true: the premium is paid at expiry only if exercised.

06

Option buyer and writer

The buyer pays the premium and has the right; the writer receives the premium and has the obligation if the buyer exercises.

EXAMPLE A writer must deliver if the buyer exercises.

WATCH OUT Not true: the buyer has an obligation to deliver.

07

European style

Exchange traded currency options in India are European style and can be exercised only on expiry.

EXAMPLE The holder cannot exercise before the expiry day.

WATCH OUT Not true: they can be exercised any time before expiry.

08

Cash settlement of options

Options are settled in cash in rupees, with the in-the-money amount paid at expiry.

EXAMPLE A call with strike 83 and final price 84 pays ₹1 per dollar.

WATCH OUT Not true: options are settled by physical delivery.

09

In, at and out of the money

A call is in the money if spot is above strike; a put is in the money if spot is below strike; at the money if equal.

EXAMPLE A put with strike 83 when spot is 82 is in the money.

WATCH OUT Not true: a call is in the money if spot is below strike.

10

Intrinsic value

Intrinsic value is the in-the-money amount, and is zero if the option is out of the money.

EXAMPLE A call with strike 82 and spot 83 has intrinsic value of 1.

WATCH OUT Not true: intrinsic value can be negative.

11

Time value

Time value is the premium minus intrinsic value and declines to zero at expiry.

EXAMPLE An at-the-money option has only time value.

WATCH OUT Not true: time value increases near expiry.

12

Long call payoff

A long call's payoff is the greater of zero and spot minus strike, less premium paid.

EXAMPLE Strike 83, premium 0.40, spot 84 gives a net 0.60.

WATCH OUT Not true: a long call can lose more than the premium.

13

Long put payoff

A long put's payoff is the greater of zero and strike minus spot, less premium paid.

EXAMPLE Strike 83, premium 0.40, spot 82 gives a net 0.60.

WATCH OUT Not true: a long put has unlimited loss.

14

Short call risk

A short call has limited profit equal to the premium received and unlimited potential loss.

EXAMPLE A writer of a call faces rising losses as the currency climbs.

WATCH OUT Not true: a short call has limited loss.

15

Short put risk

A short put has limited profit equal to the premium received and substantial loss if the price falls.

EXAMPLE A writer of a put loses if the currency falls sharply.

WATCH OUT Not true: a short put has unlimited profit.

16

Factors affecting premium

Option premium depends on spot, strike, time to expiry, volatility and interest rate differentials.

EXAMPLE Higher volatility raises both call and put premiums.

WATCH OUT Not true: volatility does not affect premium.

17

Volatility and premium

Greater expected volatility increases the chance of large moves and hence raises option premiums.

EXAMPLE A calm market leads to cheaper options.

WATCH OUT Not true: falling volatility raises premiums.

18

Delta

Delta measures the change in option price for a unit change in the underlying; a call has positive delta and a put negative.

EXAMPLE A delta of 0.5 means the option moves half as much as the currency.

WATCH OUT Not true: delta measures time decay.

19

Gamma

Gamma measures the rate of change of delta as the underlying moves.

EXAMPLE A high gamma means delta changes quickly.

WATCH OUT Not true: gamma measures the effect of interest rates.

20

Theta

Theta measures the loss in option value as time passes, which hurts option buyers and helps sellers.

EXAMPLE An option loses value each day, all else being equal.

WATCH OUT Not true: theta measures sensitivity to volatility.

21

Vega

Vega measures the change in option price for a change in volatility.

EXAMPLE A rise in volatility lifts the option's price.

WATCH OUT Not true: vega measures the change with time.

22

Rho

Rho measures the sensitivity of option price to changes in interest rates.

EXAMPLE A change in rate differential changes option value slightly.

WATCH OUT Not true: rho measures sensitivity to volatility.

23

Put-call parity

Put-call parity links the prices of a call and put with the same strike and expiry to the forward price.

EXAMPLE A violation allows arbitrage.

WATCH OUT Not true: put and call prices are independent.

24

Hedging with options

Options let a hedger fix a worst-case rate while keeping the benefit of favourable moves, at the cost of the premium.

EXAMPLE An importer buys a call to cap the price of dollars.

WATCH OUT Not true: options fix the rate completely like forwards.

25

Option contract specs

USD-INR options have a lot size of 1,000 dollars, a tick of 0.0025 and expiry on the last working day of the month with cash settlement.

EXAMPLE One lot covers $1,000.

WATCH OUT Not true: the lot size of options is $100,000.

26

Exercise and assignment

At expiry, in-the-money options are automatically exercised and writers are assigned by the clearing corporation.

EXAMPLE A call with a profit is exercised without any instruction.

WATCH OUT Not true: the holder must give a written exercise notice.

Unit recap · one line each

Currency option · Call option · Put option · Strike price · Premium · Option buyer and writer · European style · Cash settlement of options · In, at and out of the money · Intrinsic value · Time value · Long call payoff · Long put payoff · Short call risk · Short put risk · Factors affecting premium · Volatility and premium · Delta · Gamma · Theta · Vega · Rho · Put-call parity · Hedging with options · Option contract specs · Exercise and assignment

UNIT 5 · 10% OF THE EXAM

Strategies using exchange traded currency derivatives

Combining futures and options to hedge or speculate.

What the exam looks for

- Spreads and straddles.
- Covered positions.
- Hedging strategies.

Common strategies

Strategy	View	Construction
Bull call spread	Moderately bullish	Buy low call, sell high call
Bear put spread	Moderately bearish	Buy high put, sell low put
Long straddle	Big move either way	Buy call and put at same strike
Long strangle	Big move, cheaper	Buy OTM call and OTM put

Concept cards

01

Bull call spread

A bull call spread buys a lower strike call and sells a higher strike call, limiting both cost and profit.

EXAMPLE A trader expects a moderate rise in the dollar.

WATCH OUT Not true: a bull call spread has unlimited profit.

02

Bear put spread

A bear put spread buys a higher strike put and sells a lower strike put to profit from a moderate fall.

EXAMPLE A trader expects a moderate fall in the dollar.

WATCH OUT Not true: a bear put spread profits when prices rise.

03

Long straddle

A long straddle buys a call and a put at the same strike and expiry and profits from a large move in either direction.

EXAMPLE A trader expects a big move after an event but is unsure of direction.

WATCH OUT Not true: a straddle profits when the market stays flat.

04

Short straddle

A short straddle sells a call and a put at the same strike, earning premium if the price stays near the strike, but with unlimited risk.

EXAMPLE A trader expects a quiet market.

WATCH OUT Not true: a short straddle has limited risk.

05

Long strangle

A strangle buys an out-of-the-money call and put, cheaper than a straddle but requiring a bigger move to profit.

EXAMPLE A trader buys a 84 call and a 82 put.

WATCH OUT Not true: a strangle is more expensive than a straddle.

06

Covered position

Combining an option with an underlying position, such as a short call against a long futures position, can enhance income but caps gains.

EXAMPLE A holder of futures writes a call for premium.

WATCH OUT Not true: a covered position removes all risk.

07

Protective put

Buying a put against a long exposure sets a floor on losses while keeping the upside.

EXAMPLE An exporter holding dollars buys a put to protect against a fall.

WATCH OUT Not true: a protective put caps the upside.

08

Maximum profit in a spread

In a bull call spread, maximum profit equals the difference in strikes less the net premium.

EXAMPLE Strikes 83 and 84 with net premium 0.30 give a maximum profit of 0.70.

WATCH OUT Not true: maximum profit equals the net premium.

09

Hedging a payable

An importer with a dollar payable can buy futures or a call option to protect against dollar appreciation.

EXAMPLE A firm buys a call to cap the cost of dollars.

WATCH OUT Not true: an importer protects herself by selling dollar futures.

10

Hedging a receivable

An exporter with a dollar receivable can sell futures or buy a put to protect against dollar depreciation.

EXAMPLE A firm buys a put to set a floor on rupee proceeds.

WATCH OUT Not true: an exporter protects herself by buying dollar futures.

11

Choosing between futures and options

Futures lock the rate but remove favourable moves; options keep favourable moves at the cost of premium.

EXAMPLE A hedger who wants upside buys an option.

WATCH OUT Not true: options cost nothing.

12

Margin and strategy risk

Short option legs require margin, and strategies must be assessed on net risk and capital needs.

EXAMPLE A short straddle needs substantial margin.

WATCH OUT Not true: spread positions need no margin.

Unit recap · one line each

Bull call spread · Bear put spread · Long straddle · Short straddle · Long strangle · Covered position · Protective put · Maximum profit in a spread · Hedging a payable · Hedging a receivable · Choosing between futures and options · Margin and strategy risk

UNIT 6 · 10% OF THE EXAM

Trading mechanism

How orders are placed and matched on the exchange.

What the exam looks for

- Trading system and hours.
- Orders and matching.
- Price limits.

Concept cards

01

Trading hours

Currency derivatives trade on weekdays from 9:00 am to 5:00 pm, subject to exchange schedule.

EXAMPLE A trader places an order at 4 pm.

WATCH OUT Not true: currency derivatives trade round the clock.

02

Order types

Exchanges allow market, limit and stop-loss orders, with validity such as day or immediate or cancel.

EXAMPLE A trader places a limit order at a stated rate.

WATCH OUT Not true: only market orders are allowed.

03

Order matching

Orders are matched on price-time priority in an electronic order book.

EXAMPLE The best priced and earliest order is filled first.

WATCH OUT Not true: orders are matched manually by the exchange.

04

Trading members and clients

Trading members execute for clients, and clients must be registered with unique client codes mapped to PAN.

EXAMPLE A client trades through a registered broker.

WATCH OUT Not true: clients may trade directly without any member.

05

Permitted participants

Resident individuals and entities may trade in exchange traded currency derivatives only with underlying exposure limits for certain pairs, and FPIs have separate limits.

EXAMPLE A trader without exposure is limited to a position cap.

WATCH OUT Not true: anyone may take unlimited positions.

06

Operating range

Exchanges set daily price bands to restrict extreme movements in contract prices.

EXAMPLE An order outside the range is rejected.

WATCH OUT Not true: there is no limit on daily price movement.

07

Price bands and circuit breakers

If prices move beyond set limits, trading can be paused to calm the market.

EXAMPLE Trading halts after a sharp fall.

WATCH OUT Not true: circuit breakers apply only to equities.

08

Trade confirmation

Trades are confirmed through contract notes issued by the broker.

EXAMPLE A client receives a contract note after execution.

WATCH OUT Not true: contract notes are issued monthly.

09

Client code modification

Modifying client codes after trade is restricted and subject to penalties, to prevent misuse.

EXAMPLE A broker cannot change codes freely to shift trades.

WATCH OUT Not true: client codes can be changed any time.

10

Contracts on offer

Different currency pairs and expiry months are available, with near-month contracts typically being most liquid.

EXAMPLE Near-month USD-INR futures see heavy trading.

WATCH OUT Not true: far-month contracts are the most liquid.

Unit recap · one line each

Trading hours · Order types · Order matching · Trading members and clients · Permitted participants · Operating range · Price bands and circuit breakers · Trade confirmation · Client code modification · Contracts on offer

UNIT 7 · 10% OF THE EXAM

Clearing, settlement and risk management

Margins, daily settlement and the guarantee of the clearing corporation.

What the exam looks for

- Margin types.
- Daily and final settlement.
- Clearing corporation.

Daily cycle



Concept cards

01

Clearing corporation

The clearing corporation acts as the counterparty to every trade, guaranteeing its performance.

EXAMPLE The buyer and seller each deal with the clearing corporation.

WATCH OUT Not true: buyers and sellers deal directly with each other.

02

Initial margin

Initial margin is collected up front to cover the potential loss on a position over a short period.

EXAMPLE A client deposits margin before taking a position.

WATCH OUT Not true: initial margin is returned immediately.

03

SPAN margin

SPAN margin is computed by a risk-based method that estimates the worst loss across scenarios for the portfolio.

EXAMPLE The system calculates margin for combined positions.

WATCH OUT Not true: sPAN margin is a fixed percentage of premium.

04

Extreme loss margin

An additional margin is collected to cover losses beyond the normal scenario.

EXAMPLE A buffer margin is added for extreme moves.

WATCH OUT Not true: extreme loss margin replaces initial margin.

05

Mark-to-market settlement

Daily mark-to-market profits and losses are settled in cash through the clearing banks.

EXAMPLE A losing member pays the loss the next morning.

WATCH OUT Not true: gains and losses are carried until expiry.

06

Daily settlement price

The daily settlement price is based on the weighted average price of the last half hour of trading.

EXAMPLE Positions are marked at the daily settlement price.

WATCH OUT Not true: the settlement price is the opening price.

07

Final settlement

At expiry open positions are settled in cash at the final settlement price and the contract ceases.

EXAMPLE A position is closed automatically at expiry.

WATCH OUT Not true: open positions roll over automatically.

08

Margin call

If margin falls below the requirement, the member must top it up promptly or face position closure.

EXAMPLE A client receives a call to add funds.

WATCH OUT Not true: a margin call is a request to withdraw funds.

09

Option premium settlement

Option premiums are paid by the buyer and received by the seller on the next day after the trade.

EXAMPLE A buyer pays the premium after the trade.

WATCH OUT Not true: premiums are paid at expiry.

10

Settlement guarantee fund

A fund maintained by the clearing corporation protects the market in the event of member default.

EXAMPLE The fund helps to complete settlement in a default.

WATCH OUT Not true: the fund pays clients' trading profits.

11

Position limits and risk

Position limits for members and clients help control concentration and systemic risk.

EXAMPLE A member cannot hold positions above its cap.

WATCH OUT Not true: limits only apply to the exchange.

12

Default management

In a default, the clearing corporation closes positions, uses the defaulter's margin and then other resources as per a waterfall.

EXAMPLE The defaulter's margin is used first.

WATCH OUT Not true: the clearing corporation ignores defaults.

Unit recap · one line each

Clearing corporation · Initial margin · SPAN margin · Extreme loss margin · Mark-to-market settlement · Daily settlement price · Final settlement · Margin call · Option premium settlement · Settlement guarantee fund · Position limits and risk · Default management

UNIT 8 · 5% OF THE EXAM

Regulatory framework

The authorities and rules that govern currency derivatives.

What the exam looks for

- RBI and SEBI roles.
- FEMA.
- Eligibility and limits.

Concept cards

01

RBI role

The RBI regulates foreign exchange and the currency derivatives framework along with SEBI.

EXAMPLE The RBI issues rules on forex and eligible participants.

WATCH OUT Not true: the RBI has no role in currency derivatives.

02

SEBI role

SEBI regulates exchange-traded currency derivatives, including exchanges, brokers and trading rules.

EXAMPLE SEBI approves contract specifications.

WATCH OUT Not true: sEBI regulates only mutual funds.

03

FEMA

The Foreign Exchange Management Act governs foreign exchange transactions in India.

EXAMPLE Cross-border payments follow FEMA rules.

WATCH OUT Not true: fEMA is a tax law.

04

Underlying exposure

Residents may hold positions in some pairs freely, while in others positions beyond limits require proof of underlying exposure.

EXAMPLE A trader with no exposure stays within the cap.

WATCH OUT Not true: exposure proof is never required.

05

Eligible pairs

Exchange traded contracts are available only in pairs permitted by the RBI and SEBI, including INR pairs and certain cross-currency pairs.

EXAMPLE USD-INR and EUR-INR contracts are listed.

WATCH OUT Not true: any currency pair can be listed.

06

Position limits for clients

Limits for individual clients are set at a set dollar amount of gross open position per currency pair.

EXAMPLE Retail position caps apply.

WATCH OUT Not true: there are no client-level limits.

07

Broker obligations

Brokers must follow KYC, risk disclosure and record-keeping rules under SEBI and exchange regulations.

EXAMPLE A broker gives the client a risk disclosure document.

WATCH OUT Not true: brokers may skip KYC for small clients.

08

Grievance redressal

Investors can approach the broker, then the exchange and SEBI to resolve complaints.

EXAMPLE A client escalates an unresolved complaint to the exchange.

WATCH OUT Not true: clients cannot complain about brokers.

Unit recap · one line each

RBI role · SEBI role · FEMA · Underlying exposure · Eligible pairs · Position limits for clients · Broker obligations · Grievance redressal

UNIT 9 · 5% OF THE EXAM

Accounting and taxation

How gains from currency derivatives are treated for accounting and tax.

What the exam looks for

- Taxation of gains.
- Accounting treatment.

Concept cards

01

Business income

Profits and losses from exchange traded currency derivatives are generally treated as non-speculative business income.

EXAMPLE A trader reports gains as business income.

WATCH OUT Not true: gains are treated as capital gains.

02

Non-speculative loss

Non-speculative business losses can be set off against other income except salary, and carried forward for eight years.

EXAMPLE A trader carries forward unabsorbed losses.

WATCH OUT Not true: business losses can never be carried forward.

03

Turnover for audit

Turnover from derivatives is computed on the basis of the absolute sum of profits and losses, with audit rules based on thresholds.

EXAMPLE A trader calculates turnover for tax audit.

WATCH OUT Not true: turnover is the total contract value.

04

Accounting at settlement

Daily mark-to-market gains and losses are recognised in accounts on settlement or at the balance sheet date for open positions.

EXAMPLE Unsettled positions are marked at year end.

WATCH OUT Not true: accounting ignores open positions.

05

Transaction costs

Brokerage, exchange charges, GST and stamp duty apply to currency derivative trades.

EXAMPLE The contract note shows these charges.

WATCH OUT Not true: there are no costs besides brokerage.

06

Record maintenance

Traders should maintain contract notes, margin statements and ledgers to substantiate returns.

EXAMPLE A trader keeps statements for tax filing.

WATCH OUT Not true: records are not needed for tax filing.

Unit recap · one line each

Business income · Non-speculative loss · Turnover for audit · Accounting at settlement · Transaction costs · Record maintenance

UNIT 10 · 5% OF THE EXAM

Codes of conduct and investor protection

Ethical duties of intermediaries and the safeguards for investors.

What the exam looks for

- Code of conduct.
- Investor protection.

Concept cards

01

Code of conduct

Intermediaries must act with integrity, diligence and fairness and avoid manipulative practices.

EXAMPLE A broker refuses to execute a manipulative trade.

WATCH OUT Not true: the code allows guaranteeing returns.

02

Risk disclosure

Brokers must inform clients of the risks, including leverage and potential losses beyond margin.

EXAMPLE A client signs the risk disclosure form.

WATCH OUT Not true: disclosure is needed only for large clients.

03

Suitability and mis-selling

Products should match the client's needs and understanding, and mis-selling is a violation.

EXAMPLE A dealer explains the risk of a short option.

WATCH OUT Not true: a dealer may push complex products to all clients.

04

Front running

Trading ahead of a client's order for personal gain is prohibited.

EXAMPLE A dealer trades before executing a client order.

WATCH OUT Not true: front running is acceptable on small orders.

05

Investor Protection Fund

The exchange maintains a fund to compensate investors in case of a broker default up to specified limits.

EXAMPLE A client of a defaulting broker may claim compensation.

WATCH OUT Not true: the fund covers market losses.

06

Confidentiality

Client data must be kept confidential and disclosed only as required by law.

EXAMPLE A dealer does not share client positions.

WATCH OUT Not true: client positions may be shared with other clients.

07

Complaint resolution

Complaints should be acknowledged and resolved within prescribed timelines.

EXAMPLE A firm responds to a complaint in time.

WATCH OUT Not true: complaints may be ignored.

Unit recap · one line each

Code of conduct · Risk disclosure · Suitability and mis-selling · Front running · Investor Protection Fund · Confidentiality · Complaint resolution

QUICK REFERENCE

Numbers and formulas.

Contract basics

Item	USD-INR futures
Lot size	1,000 USD
Tick	0.0025 rupee
Tick value	₹2.50
Settlement	Cash in rupees
Expiry	Last working day of the month

Option payoffs

Position	Break-even
Long call	Strike + premium
Long put	Strike - premium
Short call	Strike + premium
Short put	Strike - premium

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Accounting at settlement	Daily mark-to-market gains and losses are recognised in accounts on settlement or at the balance sheet date for open positions.	9
Appreciation and depreciation	A currency appreciates when it buys more foreign currency and depreciates when it buys less.	1
Arbitrageurs	Arbitrageurs exploit price differences in the same or related instruments across markets to earn low-risk profit.	1
Balance of payments	The balance of payments records a country's transactions with the rest of the world and is an important driver of currency demand.	1
Base and quote currency	In a pair quoted as A-B, A is the base currency and B is the quote currency, and the rate shows units of B per unit of A.	1
Basis	Basis is the difference between spot and futures price, which narrows to zero as expiry nears.	3
Bear put spread	A bear put spread buys a higher strike put and sells a lower strike put to profit from a moderate fall.	5
Bid and ask	The bid is the price at which a dealer buys the base currency and the ask is the price at which the dealer sells it, with the ask higher than the bid.	1
Broker obligations	Brokers must follow KYC, risk disclosure and record-keeping rules under SEBI and exchange regulations.	8
Bull call spread	A bull call spread buys a lower strike call and sells a higher strike call, limiting both cost and profit.	5
Business income	Profits and losses from exchange traded currency derivatives are generally treated as non-speculative business income.	9
Call option	A call gives the right to buy the underlying at the strike price.	4
Cash settlement	Currency futures are settled in cash in rupees; there is no delivery of foreign currency.	3
Cash settlement of options	Options are settled in cash in rupees, with the in-the-money amount paid at expiry.	4
Choosing between futures and options	Futures lock the rate but remove favourable moves; options keep favourable moves at the cost of premium.	5
Clearing corporation	The clearing corporation acts as the counterparty to every trade, guaranteeing its performance.	7
Client code modification	Modifying client codes after trade is restricted and subject to penalties, to prevent misuse.	6
Code of conduct	Intermediaries must act with integrity, diligence and fairness and avoid manipulative practices.	10
Complaint resolution	Complaints should be acknowledged and resolved within prescribed timelines.	10
Confidentiality	Client data must be kept confidential and disclosed only as required by law.	10
Contract size	The contract size of USD-INR futures is 1,000 US dollars per lot.	3
Contract value	The value of a contract is price multiplied by lot size.	3

Term	Meaning	Unit
Contracts on offer	Different currency pairs and expiry months are available, with near-month contracts typically being most liquid.	6
Convergence	As expiry approaches, the futures price converges to the spot price.	3
Cost of carry	The futures price is based on spot plus the cost of carry, which reflects the interest rate differential.	3
Covered position	Combining an option with an underlying position, such as a short call against a long futures position, can enhance income but caps gains.	5
Cross rate	A cross rate between two currencies is derived from their rates against a third, usually the dollar.	1
Currency futures	A currency future is a standardised exchange-traded contract to buy or sell a currency pair at a fixed price on a future date.	3
Currency option	A currency option gives the buyer the right but not the obligation to buy or sell a currency at a fixed rate on or before a date.	4
Currency options OTC	Banks also offer OTC currency options that are customised for corporates.	2
Currency swap	A currency swap exchanges principal and interest in one currency for another over a period.	2
Daily mark-to-market	Positions are marked to market each day, with gains credited and losses debited to the margin account.	3
Daily settlement price	The daily settlement price is based on the weighted average price of the last half hour of trading.	7
Default management	In a default, the clearing corporation closes positions, uses the defaulter's margin and then other resources as per a waterfall.	7
Delta	Delta measures the change in option price for a unit change in the underlying; a call has positive delta and a put negative.	4
Direct and indirect quote	A direct quote gives the home currency per unit of foreign currency; an indirect quote gives foreign currency per unit of home currency.	1
Drivers of exchange rates	Rates move with interest rate differentials, inflation, trade and capital flows, growth and sentiment.	1
Eligible pairs	Exchange traded contracts are available only in pairs permitted by the RBI and SEBI, including INR pairs and certain cross-currency pairs.	8
European style	Exchange traded currency options in India are European style and can be exercised only on expiry.	4
Exchange rate	An exchange rate is the price of one currency in terms of another.	1
Exchange rate regimes	Regimes range from fixed to floating; India follows a managed float where the central bank may intervene to curb volatility.	1
Exercise and assignment	At expiry, in-the-money options are automatically exercised and writers are assigned by the clearing corporation.	4
Expiry and cycle	Contracts expire on the last working day of the month, with 12 monthly contracts available.	3
Exposure types	Transaction, translation and economic exposure describe how currency changes affect cash flows, balance sheets and long-term value.	2
Extreme loss margin	An additional margin is collected to cover losses beyond the normal scenario.	7

Term	Meaning	Unit
Factors affecting premium	Option premium depends on spot, strike, time to expiry, volatility and interest rate differentials.	4
FEMA	The Foreign Exchange Management Act governs foreign exchange transactions in India.	8
Final settlement	At expiry open positions are settled in cash at the final settlement price and the contract ceases.	7
Final settlement price	The final settlement price is the RBI reference rate on the expiry day, used to settle open positions.	3
Foreign exchange reserves	Reserves are foreign currency assets held by the central bank to manage the exchange rate and meet external obligations.	1
Forward contract	A forward contract is a customised agreement to buy or sell a currency at a fixed rate on a future date, traded over the counter.	2
Forward premium and discount	A currency trades at a forward premium if the forward rate is above spot and at a discount if below.	2
Forward rate formula	Forward rate is approximately spot x (1 + rupee rate x t) / (1 + dollar rate x t).	2
Front running	Trading ahead of a client's order for personal gain is prohibited.	10
Futures profit and loss	Profit or loss equals the price change multiplied by the lot size and number of lots.	3
Futures versus forwards	Futures are standardised, exchange traded, daily settled and guaranteed by the clearing corporation, while forwards are customised and carry counterparty risk.	3
Gamma	Gamma measures the rate of change of delta as the underlying moves.	4
Grievance redressal	Investors can approach the broker, then the exchange and SEBI to resolve complaints.	8
Hedge ratio	The hedge ratio is the number of futures contracts required to cover an exposure, found by dividing the exposure by the lot size.	3
Hedgers and speculators	Hedgers use derivatives to reduce existing currency risk; speculators take risk hoping to profit from price moves.	1
Hedging a payable	An importer with a dollar payable can buy futures or a call option to protect against dollar appreciation.	5
Hedging a receivable	An exporter with a dollar receivable can sell futures or buy a put to protect against dollar depreciation.	5
Hedging with forwards	An exporter expecting dollars sells them forward to fix the rupee amount, removing the risk of rupee appreciation.	2
Hedging with futures	A hedger takes a position in futures opposite to the exposure; an importer with dollar payables buys futures, and an exporter sells.	3
Hedging with options	Options let a hedger fix a worst-case rate while keeping the benefit of favourable moves, at the cost of the premium.	4
In, at and out of the money	A call is in the money if spot is above strike; a put is in the money if spot is below strike; at the money if equal.	4
Initial margin	Initial margin is collected up front to cover the potential loss on a position over a short period.	7
Interbank market	The interbank market is where banks trade large amounts of currency among themselves and sets reference rates.	1
Interest rate parity	Interest rate parity links the forward rate to spot and the interest rate differential, so the currency with higher interest rate trades at a forward discount.	2

Term	Meaning	Unit
Intrinsic value	Intrinsic value is the in-the-money amount, and is zero if the option is out of the money.	4
Investor Protection Fund	The exchange maintains a fund to compensate investors in case of a broker default up to specified limits.	10
Leverage	Futures allow control of a large value with a small margin, magnifying gains and losses.	3
Long and short futures	A long futures position gains if the currency pair rises, and a short position gains if it falls.	3
Long call payoff	A long call's payoff is the greater of zero and spot minus strike, less premium paid.	4
Long put payoff	A long put's payoff is the greater of zero and strike minus spot, less premium paid.	4
Long straddle	A long straddle buys a call and a put at the same strike and expiry and profits from a large move in either direction.	5
Long strangle	A strangle buys an out-of-the-money call and put, cheaper than a straddle but requiring a bigger move to profit.	5
Margin and strategy risk	Short option legs require margin, and strategies must be assessed on net risk and capital needs.	5
Margin call	If margin falls below the requirement, the member must top it up promptly or face position closure.	7
Mark-to-market settlement	Daily mark-to-market profits and losses are settled in cash through the clearing banks.	7
Market participants	Participants include banks, corporates, exporters, importers, investors, speculators and central banks.	1
Maximum profit in a spread	In a bull call spread, maximum profit equals the difference in strikes less the net premium.	5
Non-deliverable forward	An NDF is settled in cash in a convertible currency based on the difference between the contract rate and a fixing rate, with no delivery of the restricted currency.	2
Non-speculative loss	Non-speculative business losses can be set off against other income except salary, and carried forward for eight years.	9
Open interest	Open interest is the total number of outstanding contracts not yet closed or settled.	3
Operating range	Exchanges set daily price bands to restrict extreme movements in contract prices.	6
Option buyer and writer	The buyer pays the premium and has the right; the writer receives the premium and has the obligation if the buyer exercises.	4
Option contract specs	USD-INR options have a lot size of 1,000 dollars, a tick of 0.0025 and expiry on the last working day of the month with cash settlement.	4
Option premium settlement	Option premiums are paid by the buyer and received by the seller on the next day after the trade.	7
Order matching	Orders are matched on price-time priority in an electronic order book.	6
Order types	Exchanges allow market, limit and stop-loss orders, with validity such as day or immediate or cancel.	6
OTC versus exchange traded	OTC contracts are customised and carry counterparty risk, while exchange-traded contracts are standardised and guaranteed by the clearing corporation.	2
Other pairs	Exchanges also offer futures on EUR-INR, GBP-INR and JPY-INR and cross-currency pairs.	3
Permitted participants	Resident individuals and entities may trade in exchange traded currency derivatives only with underlying exposure limits for certain pairs, and FPIs have separate limits.	6
Position limits	Exchanges and SEBI set limits on positions to prevent excessive speculation, with higher limits for hedgers under conditions.	3

Term	Meaning	Unit
Position limits and risk	Position limits for members and clients help control concentration and systemic risk.	7
Position limits for clients	Limits for individual clients are set at a set dollar amount of gross open position per currency pair.	8
Premium	The premium is the price paid by the buyer to the seller of the option, and is the buyer's maximum loss.	4
Price bands and circuit breakers	If prices move beyond set limits, trading can be paused to calm the market.	6
Protective put	Buying a put against a long exposure sets a floor on losses while keeping the upside.	5
Purchasing power parity	PPP says exchange rates adjust so that price levels are equal across countries, so higher inflation tends to weaken a currency.	1
Put option	A put gives the right to sell the underlying at the strike price.	4
Put-call parity	Put-call parity links the prices of a call and put with the same strike and expiry to the forward price.	4
Quotation	Futures on USD-INR are quoted in rupees per dollar.	3
RBI role	The RBI regulates foreign exchange and the currency derivatives framework along with SEBI.	8
Record maintenance	Traders should maintain contract notes, margin statements and ledgers to substantiate returns.	9
Rho	Rho measures the sensitivity of option price to changes in interest rates.	4
Risk disclosure	Brokers must inform clients of the risks, including leverage and potential losses beyond margin.	10
Rolling over	Rolling over means closing a near-month position and opening a similar one in a later month to maintain exposure.	3
SEBI role	SEBI regulates exchange-traded currency derivatives, including exchanges, brokers and trading rules.	8
Settlement guarantee fund	A fund maintained by the clearing corporation protects the market in the event of member default.	7
Short call risk	A short call has limited profit equal to the premium received and unlimited potential loss.	4
Short put risk	A short put has limited profit equal to the premium received and substantial loss if the price falls.	4
Short straddle	A short straddle sells a call and a put at the same strike, earning premium if the price stays near the strike, but with unlimited risk.	5
SPAN margin	SPAN margin is computed by a risk-based method that estimates the worst loss across scenarios for the portfolio.	7
Speculation	Speculators take positions in futures to profit from price moves, using leverage through margin.	3
Spot market	In the spot market currencies are bought and sold for settlement in two working days.	1
Spread	The spread is the difference between ask and bid and is the dealer's margin and a measure of liquidity.	1
Spread trading	A calendar spread involves buying one expiry and selling another, profiting from changes in the price gap.	3

Term	Meaning	Unit
Strike price	The strike price is the fixed rate at which the option can be exercised.	4
Suitability and mis-selling	Products should match the client's needs and understanding, and mis-selling is a violation.	10
Theta	Theta measures the loss in option value as time passes, which hurts option buyers and helps sellers.	4
Tick size and value	The tick is 0.0025 rupee, so one tick on a lot of 1,000 dollars is worth ₹2.50.	3
Time value	Time value is the premium minus intrinsic value and declines to zero at expiry.	4
Trade confirmation	Trades are confirmed through contract notes issued by the broker.	6
Trading hours	Currency derivatives trade on weekdays from 9:00 am to 5:00 pm, subject to exchange schedule.	6
Trading members and clients	Trading members execute for clients, and clients must be registered with unique client codes mapped to PAN.	6
Transaction costs	Brokerage, exchange charges, GST and stamp duty apply to currency derivative trades.	9
Turnover for audit	Turnover from derivatives is computed on the basis of the absolute sum of profits and losses, with audit rules based on thresholds.	9
Underlying exposure	Residents may hold positions in some pairs freely, while in others positions beyond limits require proof of underlying exposure.	8
Vega	Vega measures the change in option price for a change in volatility.	4
Volatility and premium	Greater expected volatility increases the chance of large moves and hence raises option premiums.	4

FINAL STRETCH

The last seven days.

Revision checklist

Practise futures profit and loss until it is automatic.

Learn contract specifications: lot size, tick, expiry, settlement.

Draw payoffs for long and short calls and puts.

Revise margin types and daily settlement.

Take Mock 5 with negative marking.

Exam-day tips

- Futures pay off in rupees: lot size x price change.
- Read the quote carefully: USD-INR means rupees per dollar.
- A call gains when the currency rises, a put when it falls.
- Break-even for a long call is strike plus premium.
- Eliminate two options before guessing; wrong answers cost marks.

Disclaimer

This guide is independent exam-preparation material written by UpperCrust Academy against the published NISM syllabus outline. It is not NISM's workbook, not endorsed by NISM or SEBI, and not investment, tax or legal advice. Rules and figures change; confirm against the latest NISM workbook, SEBI circulars and exchange notices before relying on any number.