UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series V-D

Mutual Fund: Specialized Investment Fund Distributors

The common certification for mutual fund and SIF distributors: fund basics, the SIF framework, plus equity and interest rate derivatives.

150 QUESTIONS · 180 MINUTES · PASS 60% · 12 UNITS

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

ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series V-D is the common certification for distributors who sell mutual funds and Specialized Investment Funds (SIFs), effective for exams from 22 July 2026. It combines three modules: mutual fund distribution (68 of 150 marks), equity derivatives (52 marks) and interest rate derivatives (30 marks). SIFs use derivatives and long-short strategies, so the exam tests derivatives as seriously as fund rules. This guide groups the 22 official chapters into twelve units.

150	180 min	60%	10% of marks
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

Mutual fund distributors, bank and wealth relationship managers, AMC sales staff and advisers who want to sell SIFs, and anyone who wants to understand how long-short and derivative-based funds work.

How this guide works



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

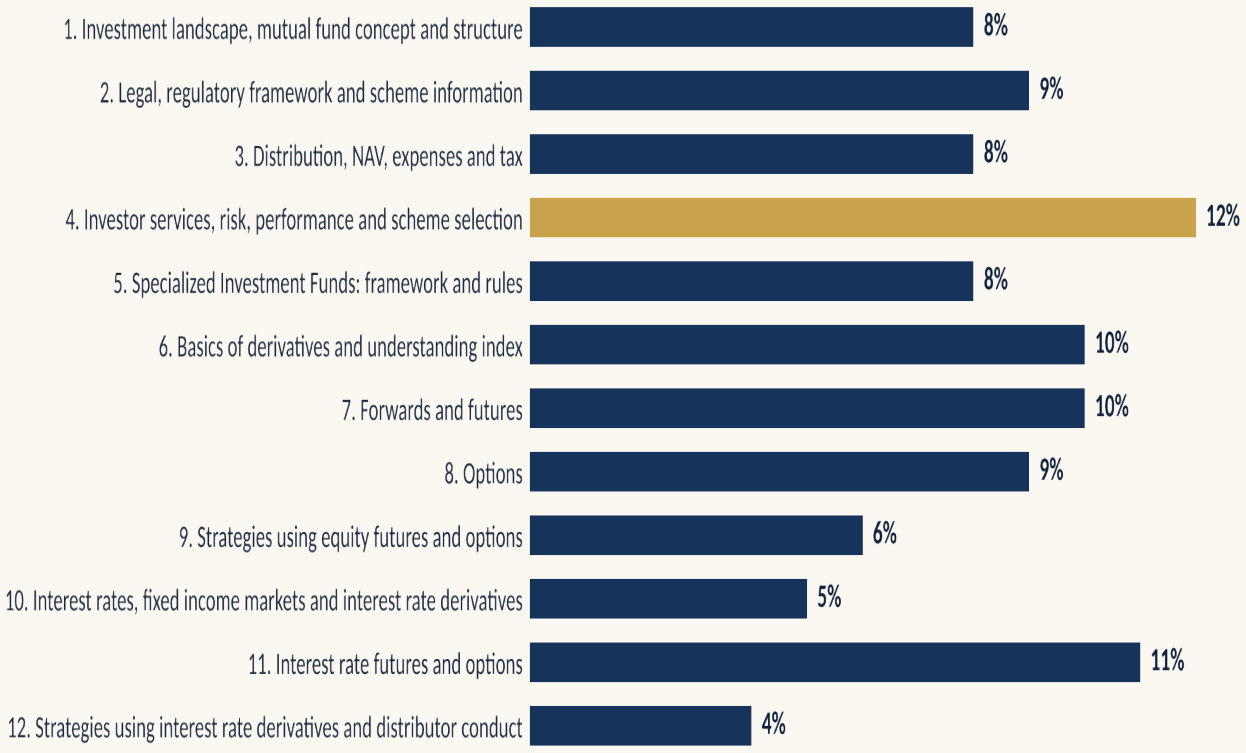
NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

EXAM AT A GLANCE

Structure and marks.

Item	Detail
Format	Computer-based, multiple-choice questions
Questions and marks	150 questions, 1 mark each, 150 marks
Duration	3 hours
Passing score	90 marks (60%)
Negative marking	10% of a question's marks, so 0.1 per wrong answer
Certificate validity	Three years; pass the exam again before expiry
Module weights	Mutual funds 68, equity derivatives 52, interest rate derivatives 30
Fee	Check the current fee on the NISM portal

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. Investment landscape, mutual fund concept and structure	8	8%	2
2. Legal, regulatory framework and scheme information	9	9%	3
3. Distribution, NAV, expenses and tax	8	8%	2
4. Investor services, risk, performance and scheme selection	12	12%	3
5. Specialized Investment Funds: framework and rules	8	8%	2
6. Basics of derivatives and understanding index	10	10%	3
7. Forwards and futures	10	10%	3
8. Options	9	9%	3
9. Strategies using equity futures and options	6	6%	2
10. Interest rates, fixed income markets and interest rate derivatives	5	5%	1
11. Interest rate futures and options	11	11%	3
12. Strategies using interest rate derivatives and distributor conduct	4	4%	1
Revision and five mocks			7

The mock ladder

1 Mock 1 Foundation ▶ 2 Mock 2 Core ▶ 3 Mock 3 Applied ▶ 4 Mock 4 Exam level ▶ 5 Mock 5 Beyond exam

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 · 8% OF THE EXAM

Investment landscape, mutual fund concept and structure

Asset classes, risk and return, how a mutual fund pools money and the sponsor-trustee-AMC structure.

What the exam looks for

- Risk and return.
- Role of a mutual fund.
- Sponsor, trust, AMC, custodian.

Concept cards

01

Risk and return

Higher expected return generally needs higher risk, and investors are compensated for bearing risk that cannot be diversified away.

EXAMPLE A client who wants high returns is told to expect bigger falls too.

WATCH OUT Not true: a high return can be earned with no added risk.

02

Inflation and real return

Real return is the return after adjusting for inflation, so it shows the rise in purchasing power.

EXAMPLE An 8% return with 6% inflation gives roughly 2% real return.

WATCH OUT Not true: nominal return already shows purchasing power.

03

Mutual fund

A mutual fund pools money from many investors and invests it in securities according to a stated objective, managed by professionals.

EXAMPLE Thousands of investors share one diversified portfolio.

WATCH OUT Not true: a mutual fund guarantees a fixed return to investors.

04

Unit holders and units

Investors own units of a scheme in proportion to their money invested, and share its gains, losses and expenses.

EXAMPLE An investor holding 1% of a scheme's units owns 1% of its portfolio.

WATCH OUT Not true: unit holders own a specific share held by the fund.

05

Three-tier structure

A mutual fund has a sponsor, a trust with trustees and an asset management company, with a custodian holding the securities.

EXAMPLE The trustees oversee the AMC which manages the schemes.

WATCH OUT Not true: the AMC owns the fund assets in its own name.

06

Role of trustees

Trustees are responsible for protecting unit holders' interests and for overseeing the AMC's compliance.

EXAMPLE Trustees review the AMC's reports every quarter.

WATCH OUT Not true: trustees pick the stocks for each scheme.

07

Role of custodian

A custodian holds the scheme's securities in safe custody and settles transactions, separate from the AMC.

EXAMPLE Securities of a scheme are kept with an independent custodian.

WATCH OUT Not true: the AMC holds securities in its own accounts.

08

Advantages of mutual funds

Funds give diversification, professional management, liquidity, affordability and transparency in one product.

EXAMPLE An investor with small savings holds dozens of stocks through one fund.

WATCH OUT Not true: funds remove all investment risk.

09

Open-ended and closed-ended

Open-ended schemes accept entries and exits at NAV on any business day, while closed-ended schemes have a fixed maturity and are listed.

EXAMPLE An investor redeems an open-ended scheme at that day's NAV.

WATCH OUT Not true: closed-ended schemes can be redeemed from the AMC any day.

Unit recap · one line each

Risk and return · Inflation and real return · Mutual fund · Unit holders and units · Three-tier structure · Role of trustees · Role of custodian · Advantages of mutual funds · Open-ended and closed-ended

UNIT 2 · 9% OF THE EXAM

Legal, regulatory framework and scheme information

SEBI regulation, the role of AMFI, scheme documents, offer rules and scheme categories.

What the exam looks for

- SEBI Mutual Fund Regulations.
- SID, SAI and KIM.
- Scheme categorisation.

Concept cards

01

SEBI as regulator

SEBI regulates mutual funds in India through the SEBI (Mutual Funds) Regulations and issues circulars to AMCs, trustees and distributors.

EXAMPLE SEBI changes how schemes are categorised through a circular.

WATCH OUT Not true: each AMC makes its own rules without SEBI's approval.

02

AMFI

AMFI is the industry body of AMCs that promotes standards, sets code of conduct for distributors and registers them with an ARN.

EXAMPLE A distributor gets an ARN code through AMFI.

WATCH OUT Not true: aMFI is the statutory regulator of mutual funds.

03

ARN and EUIN

A distributor needs an AMFI Registration Number to sell funds, and an EUIN identifies the employee or sales person who gave advice.

EXAMPLE A bank staff member quotes an EUIN on the application form.

WATCH OUT Not true: a distributor can sell funds without an ARN.

04

Scheme Information Document

The SID contains the scheme's objective, strategy, risks, fees and other details an investor needs before investing.

EXAMPLE An investor reads the SID before applying in an NFO.

WATCH OUT Not true: the SID is optional and not available to investors.

05

Statement of Additional Information

The SAI has details about the mutual fund such as constitution, trustees and legal matters, and is common to all its schemes.

EXAMPLE A distributor checks the SAI for the sponsor details.

WATCH OUT Not true: the SAI is specific to one scheme only.

06

Key Information Memorandum

The KIM is a short summary of key scheme features that is given with the application form.

EXAMPLE An applicant receives the KIM along with the form.

WATCH OUT Not true: the KIM replaces the SID for risk factors.

07

Scheme categorisation

SEBI groups schemes into categories such as equity, debt, hybrid, solution-oriented and others, with defined features for each.

EXAMPLE Large cap, mid cap and flexi cap are equity categories.

WATCH OUT Not true: aMCs can name categories freely.

08

One scheme per category

An AMC can generally offer only one scheme in each defined category, with a few exceptions, to avoid confusion.

EXAMPLE An AMC cannot launch two large cap funds.

WATCH OUT Not true: an AMC can launch any number of schemes in a category.

09

Riskometer

The riskometer shows a scheme's risk on six levels from low to very high and must be shown on scheme documents.

EXAMPLE A cover page shows a dial at very high.

WATCH OUT Not true: the riskometer shows expected return.

10

New fund offer

An NFO is the first-time offer of units of a new scheme, usually at a face value of ₹10 per unit.

EXAMPLE An investor applies for units of a new scheme at ₹10.

WATCH OUT Not true: nFO units are priced at the earlier NAV of another scheme.

Unit recap · one line each

SEBI as regulator · AMFI · ARN and EUIN · Scheme Information Document · Statement of Additional Information · Key Information Memorandum · Scheme categorisation · One scheme per category · Riskometer · New fund offer

UNIT 3 · 8% OF THE EXAM

Distribution, NAV, expenses and tax

How funds are sold, how NAV and TER work and how mutual fund income is taxed.

What the exam looks for

- Distribution channels.
- NAV and TER.
- Taxation of gains.

Concept cards

01 Net asset value

NAV is the net assets of a scheme after liabilities divided by units outstanding, and is the price at which units are bought and sold.

EXAMPLE A scheme with ₹100 crore net assets and 5 crore units has a NAV of ₹20.

WATCH OUT Not true: nAV is the market price set by supply and demand.

02 Total expense ratio

TER is the annual cost of running a scheme as a percentage of assets, charged to the scheme and reflected in NAV.

EXAMPLE A 1% TER reduces the return the investor sees by 1% a year.

WATCH OUT Not true: tER is paid by the investor separately at purchase.

03 Direct and regular plans

A direct plan has no distributor commission and a lower TER, while a regular plan includes distributor commission in its expenses.

EXAMPLE A client buying through a distributor holds the regular plan.

WATCH OUT Not true: a direct plan costs more than a regular plan.

04 Exit load

Exit load is a charge deducted on redemption within a stated period and goes to the scheme, reducing the amount the investor receives.

EXAMPLE A 1% exit load on redemption within one year reduces the proceeds.

WATCH OUT Not true: exit load is charged on all units regardless of holding period.

05 Cut-off time

Applications for liquid funds and others are allotted the NAV of the day only if received before the cut-off time, otherwise the next day's NAV applies.

EXAMPLE A purchase after the cut-off time gets the next day's NAV.

WATCH OUT Not true: any time of the day gets the same day's NAV.

06

Stamp duty on units

Stamp duty is charged at 0.005% on purchase of units, including switches and SIP instalments.

EXAMPLE A small deduction appears at allotment.

WATCH OUT Not true: stamp duty is charged only on redemption.

07

Equity fund taxation

Gains on equity-oriented funds are short-term if sold within 12 months, taxed at 20%, and long-term above that, taxed at 12.5% above ₹1.25 lakh in a year (as at writing).

EXAMPLE An investor with ₹3 lakh long-term gain pays tax on the amount above ₹1.25 lakh.

WATCH OUT Not true: equity fund gains are tax-free.

08

Taxation depends on portfolio

How a fund is taxed depends on the nature of its underlying portfolio, so distributors must check the scheme's tax treatment from its documents before advising.

EXAMPLE A distributor checks how the scheme is classified for tax.

WATCH OUT Not true: all schemes are taxed alike.

09

Distributor commission

AMCs pay trail commission to distributors for regular plans and this must be disclosed to investors.

EXAMPLE A distributor tells the client how she is paid.

WATCH OUT Not true: commission is hidden from the investor.

Unit recap · one line each

Net asset value · Total expense ratio · Direct and regular plans · Exit load · Cut-off time · Stamp duty on units · Equity fund taxation · Taxation depends on portfolio · Distributor commission

UNIT 4 · 12% OF THE EXAM

Investor services, risk, performance and scheme selection

Account services, KYC, risk profiling, performance measures and choosing a scheme.

What the exam looks for

- KYC and services.
- Risk measures.
- Return measures.
- Suitability.

Concept cards

01

KYC

Investors must complete KYC with proof of identity and address and PAN before investing in funds.

EXAMPLE A first-time investor completes KYC before investing.

WATCH OUT Not true: kYC is only needed above ₹50,000 and only for equity funds.

02

Systematic investment plan

A SIP invests a fixed amount at regular intervals, averaging cost across market ups and downs.

EXAMPLE An investor puts ₹5,000 every month.

WATCH OUT Not true: a SIP guarantees profits.

03

Systematic withdrawal plan

A SWP lets an investor take a fixed amount at regular intervals by redeeming units.

EXAMPLE A retiree withdraws ₹20,000 every month.

WATCH OUT Not true: a SWP puts money into the scheme monthly.

04

Systematic transfer plan

A STP moves a fixed amount at regular intervals from one scheme to another.

EXAMPLE An investor moves ₹10,000 monthly from a liquid fund to an equity fund.

WATCH OUT Not true: a STP withdraws money to the bank.

05

Standard deviation

Standard deviation measures how much returns vary around their average, so a higher value means a more volatile fund.

EXAMPLE A fund with 18% standard deviation swings more than one with 8%.

WATCH OUT Not true: a higher standard deviation means safer returns.

06

Beta

Beta measures a fund's sensitivity to the market, where 1.2 means a move 20% larger than the market.

EXAMPLE A fund with beta 1.2 rises 12% when the market rises 10%.

WATCH OUT Not true: beta is the fund's absolute return.

07

Sharpe ratio

The Sharpe ratio measures excess return over the risk-free rate per unit of total risk.

EXAMPLE A higher Sharpe ratio means better risk-adjusted performance.

WATCH OUT Not true: a lower Sharpe ratio means better risk-adjusted performance.

08

CAGR

CAGR is the annualised rate at which an investment grows over a period longer than a year.

EXAMPLE ₹100 growing to ₹121 in two years is a 10% CAGR.

WATCH OUT Not true: cAGR is the simple total gain divided by years.

09

Benchmark and tracking

A fund's performance should be compared with its stated benchmark over comparable periods and consistently, not for one period only.

EXAMPLE An adviser compares a fund with its benchmark over five years.

WATCH OUT Not true: a fund can be judged by its last month's return.

10

Risk profiling

Risk profiling assesses a client's capacity and willingness to take risk to guide product choice.

EXAMPLE A distributor asks how the client would feel if the portfolio fell 25%.

WATCH OUT Not true: every client of the same age has the same risk profile.

11

Suitability

A distributor must recommend products that suit the client's goals, horizon, risk profile and financial situation.

EXAMPLE A conservative client is not pushed into a high-risk fund.

WATCH OUT Not true: the highest commission product is the suitable one.

Unit recap · one line each

KYC · Systematic investment plan · Systematic withdrawal plan · Systematic transfer plan · Standard deviation · Beta · Sharpe ratio · CAGR · Benchmark and tracking · Risk profiling · Suitability

UNIT 5 · 8% OF THE EXAM

Specialized Investment Funds: framework and rules

What a SIF is, how it sits between mutual funds and PMS, the strategies, the ₹10 lakh threshold, limits and distributor duties.

What the exam looks for

- Minimum investment.
- Strategy rules.
- Limits and redemption.
- Suitability for SIFs.

Concept cards

01

Specialized Investment Fund

A SIF is a SEBI-regulated investment product launched by an AMC for investors who want more sophisticated strategies than regular mutual funds, with a higher minimum investment.

EXAMPLE A wealthy investor wants a long-short strategy not available in ordinary funds.

WATCH OUT Not true: a SIF is the same as a regular mutual fund scheme.

02

Position between MF and PMS

SIFs sit between mutual funds and portfolio management services, with MF-style pooling and regulation but more flexible strategies.

EXAMPLE A client wants more flexibility than a fund but not a customised PMS.

WATCH OUT Not true: sIFs are an individually managed portfolio for each investor.

03

Minimum investment

The minimum investment in SIFs is ₹10 lakh per investor, aggregated across all the SIF strategies of the same AMC at the PAN level.

EXAMPLE An investor's investments across two strategies of one AMC are added up for the ₹10 lakh test.

WATCH OUT Not true: the minimum ₹10 lakh applies separately to each strategy.

04

Accredited investors

Accredited investors are exempt from the ₹10 lakh minimum investment.

EXAMPLE An accredited investor invests a smaller amount in a SIF.

WATCH OUT Not true: accredited investors must invest ₹1 crore.

05

Passive breach of minimum

If market movement reduces an investor's holding below ₹10 lakh, the investor can only redeem the entire remaining amount rather than part.

EXAMPLE An investor's holding falls to ₹9 lakh because of NAV decline.

WATCH OUT Not true: falling below ₹10 lakh makes the folio freeze permanently.

06

SIP, SWP and STP in SIFs

SIPs, SWPs and STPs are allowed in SIFs provided the investor's investment meets the minimum threshold.

EXAMPLE An investor with ₹10 lakh sets up a SIP into a SIF.

WATCH OUT Not true: sIFs allow only lump sum investment.

07

Equity Long-Short

The Equity Long-Short strategy must invest at least 80% in equity and equity-related instruments and may take limited short positions through derivatives.

EXAMPLE A SIF buys stocks and also shorts through index futures.

WATCH OUT Not true: equity Long-Short can invest only in debt.

08

Equity Ex-Top 100 Long-Short

This strategy must invest at least 65% in equity of companies outside the top 100 by market capitalisation.

EXAMPLE A SIF holds mostly mid and small caps outside the largest 100.

WATCH OUT Not true: this strategy must invest only in the top 100 stocks.

09

Sector Rotation Long-Short

This equity strategy must keep at least 80% in equity and can be exposed to a maximum of four sectors at a time.

EXAMPLE A SIF shifts between banking, auto, IT and pharma.

WATCH OUT Not true: sector Rotation must be spread equally across ten sectors.

10

Debt Long-Short

The Debt Long-Short strategy can take up to 25% unhedged short exposure through exchange-traded debt derivatives.

EXAMPLE A debt SIF shorts interest rate futures when it expects yields to rise.

WATCH OUT Not true: debt SIFs cannot use any derivatives.

11

Sectoral Debt Long-Short

This strategy invests in at least two sectors, with no more than 75% in a single sector and up to 25% unhedged short exposure.

EXAMPLE A debt SIF holds 70% in one sector and the rest elsewhere.

WATCH OUT Not true: this strategy can put 100% in one sector.

12

Hybrid Long-Short

The Hybrid Long-Short strategy holds at least 25% each in equity and debt, with maximum 25% short exposure through unhedged derivatives.

EXAMPLE A hybrid SIF keeps 40% in equity and 40% in debt.

WATCH OUT Not true: a Hybrid Long-Short fund must be fully invested in equity.

13

Derivative and short limits

Unhedged short exposure through derivatives is limited to 25% of net assets, and non-hedging use of exchange-traded derivatives is also limited to 25%.

EXAMPLE A SIF cannot run an unhedged short of 40% of net assets.

WATCH OUT Not true: sIFs have no limit on unhedged short positions.

14

Gross exposure cap

Cumulative gross exposure across cash and derivatives must not exceed 100% of net assets.

EXAMPLE A SIF cannot leverage beyond its net assets.

WATCH OUT Not true: sIFs can freely leverage to two times net assets.

15

Redemption and structure

SIFs can be open-ended or interval and redemption notice can be up to 15 working days, with the redemption frequency set out in the scheme documents.

EXAMPLE A SIF allows redemption only at fixed intervals.

WATCH OUT Not true: all SIFs allow instant daily redemption.

16

Separate branding

SIFs must keep branding and marketing distinct from the mutual fund, with the MF brand shown only as the offeror and not more prominently than the SIF brand.

EXAMPLE A SIF advertisement uses a smaller MF brand name than the SIF name.

WATCH OUT Not true: a SIF must use the MF brand more prominently.

17

Risks of SIFs

SIFs carry market, strategy, derivative, liquidity and concentration risks and do not guarantee returns or capital.

EXAMPLE A distributor explains that short positions can lose money.

WATCH OUT Not true: sIFs protect the investor's capital.

18

Suitability for SIFs

SIFs suit investors who understand complex strategies, can bear higher risk, accept lower liquidity and have a higher net worth, so suitability must be checked before sale.

EXAMPLE A distributor declines to sell a SIF to an investor who needs liquidity every month.

WATCH OUT Not true: sIFs are suitable for any retail investor.

Unit recap · one line each

Specialized Investment Fund · Position between MF and PMS · Minimum investment · Accredited investors · Passive breach of minimum · SIP, SWP and STP in SIFs · Equity Long-Short · Equity Ex-Top 100 Long-Short · Sector Rotation Long-Short · Debt Long-Short · Sectoral Debt Long-Short · Hybrid Long-Short · Derivative and short limits · Gross exposure cap · Redemption and structure · Separate branding · Risks of SIFs · Suitability for SIFs

UNIT 6 · 10% OF THE EXAM

Basics of derivatives and understanding index

What derivatives are, who uses them, the types of contracts and how stock indices are built.

What the exam looks for

- Hedgers, speculators, arbitrageurs.
- Forwards, futures, options, swaps.
- Index construction.

Concept cards

01

Derivative

A derivative is a contract whose value is derived from an underlying asset such as a share, index, currency or interest rate.

EXAMPLE An index future derives its value from the index.

WATCH OUT Not true: a derivative has a value independent of any underlying.

02

Hedger

A hedger uses derivatives to reduce an existing risk.

EXAMPLE A fund holding shares sells index futures to protect against a fall.

WATCH OUT Not true: a hedger takes derivative positions to increase risk.

03

Speculator

A speculator takes a view on price movements and accepts risk in hope of profit.

EXAMPLE A trader buys futures expecting the index to rise.

WATCH OUT Not true: a speculator uses derivatives to remove risk.

04

Arbitrageur

An arbitrageur exploits price differences between related markets to earn riskless profit.

EXAMPLE A trader buys in the cash market and sells in the futures market when they are mispriced.

WATCH OUT Not true: an arbitrageur depends on the market direction.

05

Types of derivatives

The main types are forwards, futures, options and swaps.

EXAMPLE A fund uses futures and options on an index.

WATCH OUT Not true: shares and bonds are derivatives.

06

Exchange-traded and OTC

Exchange-traded derivatives are standardised and cleared through a clearing corporation, while OTC derivatives are customised and privately negotiated.

EXAMPLE Index futures trade on an exchange.

WATCH OUT Not true: oTC derivatives are traded on exchange with standard terms.

07

Underlying

The underlying is the asset, rate or index from which the derivative gets its value.

EXAMPLE An option on the Nifty has the Nifty index as the underlying.

WATCH OUT Not true: the underlying is the derivative contract itself.

08

Stock index

A stock index measures the value of a basket of shares to show the market's movement.

EXAMPLE The Nifty 50 tracks 50 large stocks.

WATCH OUT Not true: an index tracks a single stock.

09

Free-float market capitalisation

Index weights are commonly based on free-float market capitalisation, which counts only the shares available for public trading.

EXAMPLE A company with a large promoter holding gets a lower weight than its full market cap.

WATCH OUT Not true: free-float counts shares held by promoters.

10

Index uses

Indices are used as benchmarks, for index funds and ETFs and as the underlying for futures and options.

EXAMPLE A fund compares itself with its benchmark index.

WATCH OUT Not true: indices cannot be used for investing.

11

Systematic and unsystematic risk

Systematic risk affects the whole market and cannot be diversified away, while unsystematic risk is specific to a company and can be diversified.

EXAMPLE An index future hedges market risk.

WATCH OUT Not true: index futures hedge company-specific risk completely.

Unit recap · one line each

Derivative · Hedger · Speculator · Arbitrageur · Types of derivatives · Exchange-traded and OTC · Underlying · Stock index · Free-float market capitalisation · Index uses · Systematic and unsystematic risk

UNIT 7 · 10% OF THE EXAM

Forwards and futures

Futures contracts, pricing, margins, mark-to-market and settlement.

What the exam looks for

- Forward vs future.
- Cost of carry.
- Margins and MTM.
- Settlement.

Concept cards

01

Forward contract

A forward is a customised OTC agreement to buy or sell an asset at a fixed price on a future date.

EXAMPLE Two parties agree today on the price of an asset for delivery in three months.

WATCH OUT Not true: a forward is traded on the exchange with fixed terms.

02

Futures contract

A futures contract is a standardised exchange-traded agreement to buy or sell an underlying at a set price on a future date.

EXAMPLE An investor buys the near-month index future.

WATCH OUT Not true: futures contracts are customised for each buyer.

03

Long and short futures

A long position gains when the price rises, and a short position gains when the price falls.

EXAMPLE An investor who sells a future profits if the index falls.

WATCH OUT Not true: a short futures position gains when the price rises.

04

Lot size

Futures and options trade in fixed lots, so the contract value is the price multiplied by the lot size.

EXAMPLE A future at 20,000 with lot size 50 has a contract value of ₹10 lakh.

WATCH OUT Not true: one can trade a single unit of a futures contract.

05

Cost of carry

A futures price is the spot price plus the cost of carrying the asset to the future date, so futures normally trade above spot in the usual case.

EXAMPLE A one-month future trades above spot due to financing cost.

WATCH OUT Not true: futures always trade below the spot price.

06

Basis

Basis is the difference between the spot price and the futures price, and it narrows to zero at expiry.

EXAMPLE The gap between spot and futures falls as expiry nears.

WATCH OUT Not true: basis widens as expiry nears.

07

Initial margin

Initial margin is the deposit a trader must put up to open a futures position, to cover potential losses.

EXAMPLE A trader deposits margin before buying an index future.

WATCH OUT Not true: initial margin is the full contract value.

08

Mark-to-market

Futures positions are marked to market daily, with gains and losses settled each day through the margin account.

EXAMPLE A fall in price leads to a daily debit to the long holder.

WATCH OUT Not true: gains and losses are settled only at expiry.

09

Margin call

If the margin balance falls below the maintenance level, the trader gets a margin call to top it up.

EXAMPLE A client gets a call to add funds after a loss.

WATCH OUT Not true: a margin call returns excess margin to the trader.

10

Cash settlement of index futures

Index futures are settled in cash at expiry, as the index cannot be delivered.

EXAMPLE On expiry, the difference is paid in cash.

WATCH OUT Not true: index futures are settled by delivering all index shares.

11

Hedging with index futures

A fund can protect a diversified equity portfolio by selling index futures, reducing market risk while keeping the portfolio.

EXAMPLE A fund sells Nifty futures to hedge a fall.

WATCH OUT Not true: selling index futures increases exposure to a market fall.

12

Futures P&L

The profit on a long futures trade is the exit price minus entry price multiplied by lot size and lots.

EXAMPLE Buy at 100 and sell at 110 with a lot of 100 gives ₹1,000.

WATCH OUT Not true: the profit on a long trade is the entry minus exit price.

13

Clearing corporation

A clearing corporation becomes the counterparty to both sides of every exchange-traded contract, reducing counterparty risk.

EXAMPLE A trader need not worry about the other side defaulting.

WATCH OUT Not true: each trader faces the counterparty's default risk directly.

Unit recap · one line each

Forward contract · Futures contract · Long and short futures · Lot size · Cost of carry · Basis · Initial margin · Mark-to-market · Margin call · Cash settlement of index futures · Hedging with index futures · Futures P&L · Clearing corporation

UNIT 8 · 9% OF THE EXAM

Options

Calls, puts, premium, moneyness, payoffs, pricing drivers and Greeks.

What the exam looks for

- Call and put.
- Intrinsic and time value.
- Moneyness.
- Greeks.

Concept cards

01

Call option

A call option gives the buyer the right, not the obligation, to buy the underlying at the strike price.

EXAMPLE A buyer pays premium for the right to buy at 100.

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

02

Put option

A put option gives the buyer the right, not the obligation, to sell the underlying at the strike price.

EXAMPLE A holder buys a put to protect a falling portfolio.

WATCH OUT Not true: a put option gives the buyer the obligation to sell.

03

Option premium

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

EXAMPLE A buyer pays ₹50 per unit and can lose at most that.

WATCH OUT Not true: the buyer of an option can lose more than the premium.

04

Writer's risk

The option seller earns the premium but can face large or unlimited loss, so must keep margin.

EXAMPLE A call writer loses if the price rises sharply.

WATCH OUT Not true: an option writer's loss is limited to the premium.

05

Strike price

The strike is the fixed price at which the option holder can buy or sell the underlying.

EXAMPLE A call with a strike of 18,000 on the index.

WATCH OUT Not true: the strike changes every day.

06

European and American

A European option can be exercised only at expiry while an American option can be exercised any time before expiry, and index options in India are European.

EXAMPLE Nifty options are exercised at expiry.

WATCH OUT Not true: index options in India are American.

07

Moneyness

A call is in the money when spot is above strike, at the money when equal and out of the money when below, and the reverse for a put.

EXAMPLE A call with strike 90 when spot is 100 is in the money.

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

08

Intrinsic and time value

Premium equals intrinsic value plus time value, and time value falls to zero at expiry.

EXAMPLE An in-the-money option has intrinsic value plus time value.

WATCH OUT Not true: an out-of-the-money option has intrinsic value.

09

Long call payoff

A long call's profit at expiry is the greater of spot minus strike and zero, less the premium.

EXAMPLE Strike 100, spot 120, premium 5 gives a profit of 15.

WATCH OUT Not true: a long call's profit is limited to the premium.

10

Breakeven

The breakeven for a long call is the strike plus premium, and for a long put it is the strike minus premium.

EXAMPLE A call at strike 100 and premium 5 breaks even at 105.

WATCH OUT Not true: the breakeven of a long call is strike minus premium.

11

Delta

Delta shows how much the option price changes for a unit move in the underlying.

EXAMPLE A call delta of 0.5 gains about 0.5 for each 1 rise.

WATCH OUT Not true: delta measures time decay.

12

Theta

Theta shows the loss of option value as time passes, hurting option buyers.

EXAMPLE An option loses value each day while spot is unchanged.

WATCH OUT Not true: theta benefits option buyers as time passes.

13

Vega

Vega measures the sensitivity of an option's price to changes in volatility, and higher volatility increases option prices.

EXAMPLE An option gains when volatility rises.

WATCH OUT Not true: higher volatility reduces the value of all options.

14

Put-call parity

Put-call parity links call, put, spot and the present value of strike for European options with the same strike and expiry.

EXAMPLE Mispricing between a call and put creates an arbitrage chance.

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

Unit recap · one line each

Call option · Put option · Option premium · Writer's risk · Strike price · European and American · Moneyness · Intrinsic and time value · Long call payoff · Breakeven · Delta · Theta · Vega · Put-call parity

UNIT 9 · 6% OF THE EXAM

Strategies using equity futures and options

Hedging, spreads, straddles and how funds and SIFs use equity derivatives.

What the exam looks for

- Hedges.
- Covered call and protective put.
- Straddle and spreads.

Concept cards

01

Protective put

A protective put is buying a put against shares held, which limits the downside while keeping the upside.

EXAMPLE An investor holds shares and buys a put at a lower strike.

WATCH OUT Not true: a protective put involves selling a put.

02

Covered call

A covered call is holding shares and selling a call, earning premium but capping the upside.

EXAMPLE A fund sells a call on shares it holds.

WATCH OUT Not true: a covered call has no limit to the loss.

03

Long straddle

A long straddle buys a call and a put at the same strike and expiry, gaining from a big move in either direction.

EXAMPLE A trader expects a large move after results.

WATCH OUT Not true: a long straddle gains when the price stays still.

04

Bull call spread

A bull call spread buys a lower strike call and sells a higher strike call, giving limited profit and limited loss.

EXAMPLE A trader mildly expects a rise.

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

05

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 mildly expects a fall.

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

06

Long-short use

A long-short equity fund buys stocks expected to rise and uses futures or options to short those expected to fall, reducing market exposure.

EXAMPLE A SIF is long on strong stocks and short on index futures.

WATCH OUT Not true: a long-short strategy is always fully long.

07

Short futures to hedge

Selling futures against a stock portfolio offsets losses on the portfolio if the market falls, though it gives up gains on a rise.

EXAMPLE A fund sells futures before an uncertain event.

WATCH OUT Not true: short futures add to losses when the market falls.

08

Arbitrage use

Equity arbitrage funds exploit price differences between cash and futures markets, with the futures sold against the shares bought.

EXAMPLE A fund buys shares and sells futures to lock the spread.

WATCH OUT Not true: arbitrage funds take full directional equity risk.

09

Derivative risk

Leverage in derivatives magnifies both gains and losses, so position limits and margins matter.

EXAMPLE A small market move causes a large margin loss.

WATCH OUT Not true: derivatives lower risk in every use.

Unit recap · one line each

Protective put · Covered call · Long straddle · Bull call spread · Bear put spread · Long-short use · Short futures to hedge · Arbitrage use · Derivative risk

UNIT 10 · 5% OF THE EXAM

Interest rates, fixed income markets and interest rate derivatives

Interest rate basics, bond price and yield, and why interest rate derivatives exist.

What the exam looks for

- Bond price and yield.
- Duration.
- Why IRDs.

Concept cards

01

Bond price and yield

Bond prices and yields move in opposite directions, so a rise in yields lowers bond prices.

EXAMPLE A bond falls in price when yields rise.

WATCH OUT Not true: bond prices rise when yields rise.

02

Coupon

A coupon is the periodic interest payment a bond pays based on its face value and coupon rate.

EXAMPLE A 7% bond of ₹100 pays ₹7 a year.

WATCH OUT Not true: a coupon is the bond's market price.

03

Yield to maturity

Yield to maturity is the return from holding a bond to maturity, with all coupons reinvested at the same rate.

EXAMPLE An investor compares bonds by their yields.

WATCH OUT Not true: yield to maturity ignores the bond's price.

04

Government securities

G-Secs are issued by the government and have no credit risk, but they carry interest rate risk.

EXAMPLE A 10-year G-Sec falls in value if yields rise.

WATCH OUT Not true: g-Secs have no interest rate risk.

05

Duration

Duration measures a bond's sensitivity to interest rate changes, and a longer duration means greater price change for a change in yield.

EXAMPLE A bond with a duration of 7 moves more than one with 2.

WATCH OUT Not true: duration measures a bond's credit risk.

06

Interest rate risk

Interest rate risk is the risk that the value of a bond or fund changes because rates change.

EXAMPLE A debt fund falls when yields rise.

WATCH OUT Not true: interest rate risk is the same as default risk.

07

Interest rate derivative

An interest rate derivative is a contract whose value depends on an interest rate or a bond price, and it is used to hedge or take a view on rates.

EXAMPLE A debt fund hedges a rate rise with a futures contract.

WATCH OUT Not true: interest rate derivatives depend on equity prices.

08

Money market

The money market deals in short-term instruments such as T-bills, commercial paper and call money.

EXAMPLE A liquid fund holds T-bills.

WATCH OUT Not true: the money market deals only in long-term bonds.

Unit recap · one line each

Bond price and yield · Coupon · Yield to maturity · Government securities · Duration · Interest rate risk · Interest rate derivative · Money market

UNIT 11 · 11% OF THE EXAM

Interest rate futures and options

How exchange-traded interest rate futures and options are built, priced and settled.

What the exam looks for

- Notional bond and T-bill futures.
- PV01 and hedge ratio.
- Interest rate options.

Concept cards

01

Interest rate futures

An interest rate future is an exchange-traded contract on an underlying interest rate instrument, such as a government security or T-bill.

EXAMPLE A fund buys a G-Sec future on the exchange.

WATCH OUT Not true: interest rate futures trade only over the counter.

02

Notional underlying

Interest rate futures on bonds use a notional security, so settlement is in cash and no actual bond is delivered.

EXAMPLE A contract settles in cash against a notional bond.

WATCH OUT Not true: the seller must deliver a bond at expiry.

03

Price and yield

The futures price moves inversely to yield, so a rise in yields lowers the futures price.

EXAMPLE A long position loses if yields rise.

WATCH OUT Not true: a long position gains when yields rise.

04

Long and short IRF

A long position gains when yields fall and a short position gains when yields rise.

EXAMPLE A bond fund sells futures to hedge against a rate rise.

WATCH OUT Not true: a short position gains when yields fall.

05

PV01

PV01 is the change in the value of a position for a one basis point change in yield.

EXAMPLE A position loses ₹5,000 for each 1 bp rise in yield.

WATCH OUT Not true: pV01 is measured for a 1% change in price.

06

Basis point

One basis point is one hundredth of a percentage point, so 100 basis points equal 1%.

EXAMPLE A rise from 7.00% to 7.25% is 25 basis points.

WATCH OUT Not true: one basis point equals one percent.

07

Hedge ratio

The hedge ratio gives the number of futures contracts needed to offset the portfolio's interest rate sensitivity, using the PV01 of the portfolio and the future.

EXAMPLE A fund divides its portfolio PV01 by the future's PV01.

WATCH OUT Not true: the hedge ratio is the portfolio's credit rating.

08

T-bill futures

A T-bill future is based on a short-term treasury bill and can be used to hedge short-term rates.

EXAMPLE A short-term fund hedges using T-bill futures.

WATCH OUT Not true: t-bill futures are based on long-term bonds.

09

Mark-to-market in IRF

Interest rate futures are marked to market daily like other futures, with gains and losses settled through margin.

EXAMPLE A day's yield rise is settled in the margin account.

WATCH OUT Not true: interest rate futures are settled only at expiry.

10

Interest rate options

An interest rate option gives the buyer the right, not the obligation, to buy or sell the underlying interest rate instrument at a strike.

EXAMPLE A buyer pays premium to protect against a yield rise.

WATCH OUT Not true: an interest rate option obliges the buyer to transact.

11

Basis risk in IRF

Hedging with futures leaves basis risk because the portfolio and the contract do not move together perfectly.

EXAMPLE A hedge does not offset all loss because bonds differ.

WATCH OUT Not true: a futures hedge removes every kind of risk.

12

Who uses IRDs

Banks, mutual funds, insurers and corporates use interest rate derivatives to manage rate risk.

EXAMPLE A debt fund manager uses futures to manage duration.

WATCH OUT Not true: interest rate derivatives are only for speculators.

Unit recap · one line each

Interest rate futures · Notional underlying · Price and yield · Long and short IRF · PV01 · Basis point · Hedge ratio · T-bill futures · Mark-to-market in IRF · Interest rate options · Basis risk in IRF · Who uses IRDs

UNIT 12 · 4% OF THE EXAM

Strategies using interest rate derivatives and distributor conduct

Hedging and trading strategies with interest rate derivatives and the distributor's duties for complex products.

What the exam looks for

- Hedge a bond portfolio.
- Adjust duration.
- Ethics and disclosure.

Concept cards

01

Hedging a bond portfolio

A holder of bonds fears a rise in yields and hedges by selling interest rate futures to offset the fall in bond values.

EXAMPLE A fund sells G-Sec futures against its bond holdings.

WATCH OUT Not true: a holder of bonds hedges by buying more bonds.

02

Adjusting duration

A manager can lengthen or shorten a portfolio's effective duration using interest rate futures without selling bonds.

EXAMPLE A manager reduces duration using short futures.

WATCH OUT Not true: duration can be changed only by selling bonds.

03

Trading a view on rates

A trader expecting yields to fall buys interest rate futures and one expecting yields to rise sells them.

EXAMPLE A trader buys futures before an expected rate cut.

WATCH OUT Not true: a trader expecting a rate cut sells futures.

04

Disclosure of complexity

Distributors must explain the strategy, derivative use and risks of a SIF in plain language before the investor decides.

EXAMPLE A distributor explains how short positions can lose money.

WATCH OUT Not true: a distributor should only mention likely gains.

05

No assured returns

Distributors must not promise or imply guaranteed returns on mutual funds or SIFs.

EXAMPLE A distributor refuses to state a fixed return for a SIF.

WATCH OUT Not true: a distributor may promise 12% for a SIF.

06

Code of conduct

Distributors must act with honesty and care, avoid mis-selling, keep client information confidential and disclose commissions.

EXAMPLE A distributor discloses the commission and gives true information.

WATCH OUT Not true: the code allows exaggerated claims.

07

Mis-selling

Mis-selling is selling a product that does not suit the client or by giving misleading information, and it can lead to penalties.

EXAMPLE A distributor sells a complex SIF to a client who needs regular liquidity.

WATCH OUT Not true: mis-selling happens only if the client loses money.

08

Grievance redressal

Investors can complain to the AMC, then to SEBI's complaint system and use online dispute resolution if unresolved.

EXAMPLE An unhappy investor files a complaint on SCORES.

WATCH OUT Not true: investors have no place to complain about mis-selling.

Unit recap · one line each

Hedging a bond portfolio · Adjusting duration · Trading a view on rates · Disclosure of complexity · No assured returns · Code of conduct · Mis-selling · Grievance redressal

QUICK REFERENCE

Numbers and formulas.

SIF strategies at a glance

Strategy	Key rule
Equity Long-Short	At least 80% in equity; limited unhedged short exposure
Equity Ex-Top 100 Long-Short	At least 65% in stocks outside the top 100 by market cap
Sector Rotation Long-Short	At least 80% in equity, across up to four sectors
Debt Long-Short	Up to 25% unhedged short exposure through exchange-traded debt derivatives
Sectoral Debt Long-Short	At least two sectors, no sector above 75%, up to 25% unhedged short
Hybrid Long-Short	At least 25% each in equity and debt, up to 25% unhedged short

Option payoffs at expiry

Position	Profit/loss at expiry
Long call	Max(S − K, 0) − premium
Short call	Premium − Max(S − K, 0)
Long put	Max(K − S, 0) − premium
Short put	Premium − Max(K − S, 0)

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Accredited investors	Accredited investors are exempt from the ₹10 lakh minimum investment.	5
Adjusting duration	A manager can lengthen or shorten a portfolio's effective duration using interest rate futures without selling bonds.	12
Advantages of mutual funds	Funds give diversification, professional management, liquidity, affordability and transparency in one product.	1
AMFI	AMFI is the industry body of AMCs that promotes standards, sets code of conduct for distributors and registers them with an ARN.	2
Arbitrage use	Equity arbitrage funds exploit price differences between cash and futures markets, with the futures sold against the shares bought.	9
Arbitrageur	An arbitrageur exploits price differences between related markets to earn riskless profit.	6
ARN and EUIN	A distributor needs an AMFI Registration Number to sell funds, and an EUIN identifies the employee or sales person who gave advice.	2
Basis	Basis is the difference between the spot price and the futures price, and it narrows to zero at expiry.	7
Basis point	One basis point is one hundredth of a percentage point, so 100 basis points equal 1%.	11
Basis risk in IRF	Hedging with futures leaves basis risk because the portfolio and the contract do not move together perfectly.	11
Bear put spread	A bear put spread buys a higher strike put and sells a lower strike put to profit from a moderate fall.	9
Benchmark and tracking	A fund's performance should be compared with its stated benchmark over comparable periods and consistently, not for one period only.	4
Beta	Beta measures a fund's sensitivity to the market, where 1.2 means a move 20% larger than the market.	4
Bond price and yield	Bond prices and yields move in opposite directions, so a rise in yields lowers bond prices.	10
Breakeven	The breakeven for a long call is the strike plus premium, and for a long put it is the strike minus premium.	8
Bull call spread	A bull call spread buys a lower strike call and sells a higher strike call, giving limited profit and limited loss.	9
CAGR	CAGR is the annualised rate at which an investment grows over a period longer than a year.	4
Call option	A call option gives the buyer the right, not the obligation, to buy the underlying at the strike price.	8
Cash settlement of index futures	Index futures are settled in cash at expiry, as the index cannot be delivered.	7
Clearing corporation	A clearing corporation becomes the counterparty to both sides of every exchange-traded contract, reducing counterparty risk.	7
Code of conduct	Distributors must act with honesty and care, avoid mis-selling, keep client information confidential and disclose commissions.	12

Term	Meaning	Unit
Cost of carry	A futures price is the spot price plus the cost of carrying the asset to the future date, so futures normally trade above spot in the usual case.	7
Coupon	A coupon is the periodic interest payment a bond pays based on its face value and coupon rate.	10
Covered call	A covered call is holding shares and selling a call, earning premium but capping the upside.	9
Cut-off time	Applications for liquid funds and others are allotted the NAV of the day only if received before the cut-off time, otherwise the next day's NAV applies.	3
Debt Long-Short	The Debt Long-Short strategy can take up to 25% unhedged short exposure through exchange-traded debt derivatives.	5
Delta	Delta shows how much the option price changes for a unit move in the underlying.	8
Derivative	A derivative is a contract whose value is derived from an underlying asset such as a share, index, currency or interest rate.	6
Derivative and short limits	Unhedged short exposure through derivatives is limited to 25% of net assets, and non-hedging use of exchange-traded derivatives is also limited to 25%.	5
Derivative risk	Leverage in derivatives magnifies both gains and losses, so position limits and margins matter.	9
Direct and regular plans	A direct plan has no distributor commission and a lower TER, while a regular plan includes distributor commission in its expenses.	3
Disclosure of complexity	Distributors must explain the strategy, derivative use and risks of a SIF in plain language before the investor decides.	12
Distributor commission	AMCs pay trail commission to distributors for regular plans and this must be disclosed to investors.	3
Duration	Duration measures a bond's sensitivity to interest rate changes, and a longer duration means greater price change for a change in yield.	10
Equity Ex-Top 100 Long-Short	This strategy must invest at least 65% in equity of companies outside the top 100 by market capitalisation.	5
Equity fund taxation	Gains on equity-oriented funds are short-term if sold within 12 months, taxed at 20%, and long-term above that, taxed at 12.5% above ₹1.25 lakh in a year (as at writing).	3
Equity Long-Short	The Equity Long-Short strategy must invest at least 80% in equity and equity-related instruments and may take limited short positions through derivatives.	5
European and American	A European option can be exercised only at expiry while an American option can be exercised any time before expiry, and index options in India are European.	8
Exchange-traded and OTC	Exchange-traded derivatives are standardised and cleared through a clearing corporation, while OTC derivatives are customised and privately negotiated.	6
Exit load	Exit load is a charge deducted on redemption within a stated period and goes to the scheme, reducing the amount the investor receives.	3
Forward contract	A forward is a customised OTC agreement to buy or sell an asset at a fixed price on a future date.	7
Free-float market capitalisation	Index weights are commonly based on free-float market capitalisation, which counts only the shares available for public trading.	6
Futures contract	A futures contract is a standardised exchange-traded agreement to buy or sell an underlying at a set price on a future date.	7

Term	Meaning	Unit
Futures P&L	The profit on a long futures trade is the exit price minus entry price multiplied by lot size and lots.	7
Government securities	G-Secs are issued by the government and have no credit risk, but they carry interest rate risk.	10
Grievance redressal	Investors can complain to the AMC, then to SEBI's complaint system and use online dispute resolution if unresolved.	12
Gross exposure cap	Cumulative gross exposure across cash and derivatives must not exceed 100% of net assets.	5
Hedge ratio	The hedge ratio gives the number of futures contracts needed to offset the portfolio's interest rate sensitivity, using the PV01 of the portfolio and the future.	11
Hedger	A hedger uses derivatives to reduce an existing risk.	6
Hedging a bond portfolio	A holder of bonds fears a rise in yields and hedges by selling interest rate futures to offset the fall in bond values.	12
Hedging with index futures	A fund can protect a diversified equity portfolio by selling index futures, reducing market risk while keeping the portfolio.	7
Hybrid Long-Short	The Hybrid Long-Short strategy holds at least 25% each in equity and debt, with maximum 25% short exposure through unhedged derivatives.	5
Index uses	Indices are used as benchmarks, for index funds and ETFs and as the underlying for futures and options.	6
Inflation and real return	Real return is the return after adjusting for inflation, so it shows the rise in purchasing power.	1
Initial margin	Initial margin is the deposit a trader must put up to open a futures position, to cover potential losses.	7
Interest rate derivative	An interest rate derivative is a contract whose value depends on an interest rate or a bond price, and it is used to hedge or take a view on rates.	10
Interest rate futures	An interest rate future is an exchange-traded contract on an underlying interest rate instrument, such as a government security or T-bill.	11
Interest rate options	An interest rate option gives the buyer the right, not the obligation, to buy or sell the underlying interest rate instrument at a strike.	11
Interest rate risk	Interest rate risk is the risk that the value of a bond or fund changes because rates change.	10
Intrinsic and time value	Premium equals intrinsic value plus time value, and time value falls to zero at expiry.	8
Key Information Memorandum	The KIM is a short summary of key scheme features that is given with the application form.	2
KYC	Investors must complete KYC with proof of identity and address and PAN before investing in funds.	4
Long and short futures	A long position gains when the price rises, and a short position gains when the price falls.	7
Long and short IRF	A long position gains when yields fall and a short position gains when yields rise.	11
Long call payoff	A long call's profit at expiry is the greater of spot minus strike and zero, less the premium.	8
Long straddle	A long straddle buys a call and a put at the same strike and expiry, gaining from a big move in either direction.	9

Term	Meaning	Unit
Long-short use	A long-short equity fund buys stocks expected to rise and uses futures or options to short those expected to fall, reducing market exposure.	9
Lot size	Futures and options trade in fixed lots, so the contract value is the price multiplied by the lot size.	7
Margin call	If the margin balance falls below the maintenance level, the trader gets a margin call to top it up.	7
Mark-to-market	Futures positions are marked to market daily, with gains and losses settled each day through the margin account.	7
Mark-to-market in IRF	Interest rate futures are marked to market daily like other futures, with gains and losses settled through margin.	11
Minimum investment	The minimum investment in SIFs is ₹10 lakh per investor, aggregated across all the SIF strategies of the same AMC at the PAN level.	5
Mis-selling	Mis-selling is selling a product that does not suit the client or by giving misleading information, and it can lead to penalties.	12
Money market	The money market deals in short-term instruments such as T-bills, commercial paper and call money.	10
Moneyness	A call is in the money when spot is above strike, at the money when equal and out of the money when below, and the reverse for a put.	8
Mutual fund	A mutual fund pools money from many investors and invests it in securities according to a stated objective, managed by professionals.	1
Net asset value	NAV is the net assets of a scheme after liabilities divided by units outstanding, and is the price at which units are bought and sold.	3
New fund offer	An NFO is the first-time offer of units of a new scheme, usually at a face value of ₹10 per unit.	2
No assured returns	Distributors must not promise or imply guaranteed returns on mutual funds or SIFs.	12
Notional underlying	Interest rate futures on bonds use a notional security, so settlement is in cash and no actual bond is delivered.	11
One scheme per category	An AMC can generally offer only one scheme in each defined category, with a few exceptions, to avoid confusion.	2
Open-ended and closed-ended	Open-ended schemes accept entries and exits at NAV on any business day, while closed-ended schemes have a fixed maturity and are listed.	1
Option premium	The premium is the price paid by the buyer to the seller of the option and is the buyer's maximum loss.	8
Passive breach of minimum	If market movement reduces an investor's holding below ₹10 lakh, the investor can only redeem the entire remaining amount rather than part.	5
Position between MF and PMS	SIFs sit between mutual funds and portfolio management services, with MF-style pooling and regulation but more flexible strategies.	5
Price and yield	The futures price moves inversely to yield, so a rise in yields lowers the futures price.	11
Protective put	A protective put is buying a put against shares held, which limits the downside while keeping the upside.	9
Put option	A put option gives the buyer the right, not the obligation, to sell the underlying at the strike price.	8

Term	Meaning	Unit
Put-call parity	Put-call parity links call, put, spot and the present value of strike for European options with the same strike and expiry.	8
PV01	PV01 is the change in the value of a position for a one basis point change in yield.	11
Redemption and structure	SIFs can be open-ended or interval and redemption notice can be up to 15 working days, with the redemption frequency set out in the scheme documents.	5
Risk and return	Higher expected return generally needs higher risk, and investors are compensated for bearing risk that cannot be diversified away.	1
Risk profiling	Risk profiling assesses a client's capacity and willingness to take risk to guide product choice.	4
Riskometer	The riskometer shows a scheme's risk on six levels from low to very high and must be shown on scheme documents.	2
Risks of SIFs	SIFs carry market, strategy, derivative, liquidity and concentration risks and do not guarantee returns or capital.	5
Role of custodian	A custodian holds the scheme's securities in safe custody and settles transactions, separate from the AMC.	1
Role of trustees	Trustees are responsible for protecting unit holders' interests and for overseeing the AMC's compliance.	1
Scheme categorisation	SEBI groups schemes into categories such as equity, debt, hybrid, solution-oriented and others, with defined features for each.	2
Scheme Information Document	The SID contains the scheme's objective, strategy, risks, fees and other details an investor needs before investing.	2
SEBI as regulator	SEBI regulates mutual funds in India through the SEBI (Mutual Funds) Regulations and issues circulars to AMCs, trustees and distributors.	2
Sector Rotation Long-Short	This equity strategy must keep at least 80% in equity and can be exposed to a maximum of four sectors at a time.	5
Sectoral Debt Long-Short	This strategy invests in at least two sectors, with no more than 75% in a single sector and up to 25% unhedged short exposure.	5
Separate branding	SIFs must keep branding and marketing distinct from the mutual fund, with the MF brand shown only as the offeror and not more prominently than the SIF brand.	5
Sharpe ratio	The Sharpe ratio measures excess return over the risk-free rate per unit of total risk.	4
Short futures to hedge	Selling futures against a stock portfolio offsets losses on the portfolio if the market falls, though it gives up gains on a rise.	9
SIP, SWP and STP in SIFs	SIPs, SWPs and STPs are allowed in SIFs provided the investor's investment meets the minimum threshold.	5
Specialized Investment Fund	A SIF is a SEBI-regulated investment product launched by an AMC for investors who want more sophisticated strategies than regular mutual funds, with a higher minimum investment.	5
Speculator	A speculator takes a view on price movements and accepts risk in hope of profit.	6
Stamp duty on units	Stamp duty is charged at 0.005% on purchase of units, including switches and SIP instalments.	3
Standard deviation	Standard deviation measures how much returns vary around their average, so a higher value means a more volatile fund.	4

Term	Meaning	Unit
Statement of Additional Information	The SAI has details about the mutual fund such as constitution, trustees and legal matters, and is common to all its schemes.	2
Stock index	A stock index measures the value of a basket of shares to show the market's movement.	6
Strike price	The strike is the fixed price at which the option holder can buy or sell the underlying.	8
Suitability	A distributor must recommend products that suit the client's goals, horizon, risk profile and financial situation.	4
Suitability for SIFs	SIFs suit investors who understand complex strategies, can bear higher risk, accept lower liquidity and have a higher net worth, so suitability must be checked before sale.	5
Systematic and unsystematic risk	Systematic risk affects the whole market and cannot be diversified away, while unsystematic risk is specific to a company and can be diversified.	6
Systematic investment plan	A SIP invests a fixed amount at regular intervals, averaging cost across market ups and downs.	4
Systematic transfer plan	A STP moves a fixed amount at regular intervals from one scheme to another.	4
Systematic withdrawal plan	A SWP lets an investor take a fixed amount at regular intervals by redeeming units.	4
T-bill futures	A T-bill future is based on a short-term treasury bill and can be used to hedge short-term rates.	11
Taxation depends on portfolio	How a fund is taxed depends on the nature of its underlying portfolio, so distributors must check the scheme's tax treatment from its documents before advising.	3
Theta	Theta shows the loss of option value as time passes, hurting option buyers.	8
Three-tier structure	A mutual fund has a sponsor, a trust with trustees and an asset management company, with a custodian holding the securities.	1
Total expense ratio	TER is the annual cost of running a scheme as a percentage of assets, charged to the scheme and reflected in NAV.	3
Trading a view on rates	A trader expecting yields to fall buys interest rate futures and one expecting yields to rise sells them.	12
Types of derivatives	The main types are forwards, futures, options and swaps.	6
Underlying	The underlying is the asset, rate or index from which the derivative gets its value.	6
Unit holders and units	Investors own units of a scheme in proportion to their money invested, and share its gains, losses and expenses.	1
Vega	Vega measures the sensitivity of an option's price to changes in volatility, and higher volatility increases option prices.	8
Who uses IRDs	Banks, mutual funds, insurers and corporates use interest rate derivatives to manage rate risk.	11
Writer's risk	The option seller earns the premium but can face large or unlimited loss, so must keep margin.	8
Yield to maturity	Yield to maturity is the return from holding a bond to maturity, with all coupons reinvested at the same rate.	10

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Learn the SIF strategy names and their minimum or maximum limits.
- [ ] Revise the ₹10 lakh rule, who is exempt and what a passive breach means.
- [ ] Re-read futures pricing, margins and mark-to-market.
- [ ] Redo option payoffs, breakeven and moneyness until instant.
- [ ] Revise duration, PV01 and how bond holders hedge with interest rate futures.
- [ ] Take Mock 5 timed, in one 3-hour sitting.

Exam-day tips

- Negative marking is 0.1 per wrong answer, so guess only after removing at least two options.
- Derivatives carry 82 of 150 marks. Do not treat them as an add-on.
- For SIF rules, learn the numbers exactly: 10 lakh, 25%, 80%, 65%.
- For payoff questions, draw the profit line before reading the options.
- Remember that bond prices and yields move in opposite directions.
- Read 'NOT correct' questions slowly.

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