UpperCrust
THE WEALTH COMPANY

NISM CERTIFICATION · COMPLETE STUDY GUIDE

NISM Series XII

Securities Markets Foundation

The entry-level certification on how Indian securities markets work, from shares and IPOs to funds, derivatives and financial planning.

100 QUESTIONS · 120 MINUTES · PASS 60% · 7 UNITS

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ABOUT THIS GUIDE

Everything you need, in one place.

NISM Series XII is the foundation certification on the Indian securities market. It is taken by students, new joiners at brokers, banks and fund houses, and by anyone who wants a solid base before specialised NISM exams. This guide follows the seven official chapters.

100	120 min	60%	None
QUESTIONS	DURATION	TO PASS	NEGATIVE MARKING

Who should take this exam

College students, job seekers, trainee dealers and operations staff, relationship managers and anyone who wants a complete grounding in securities markets before taking a specialist NISM exam.

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.

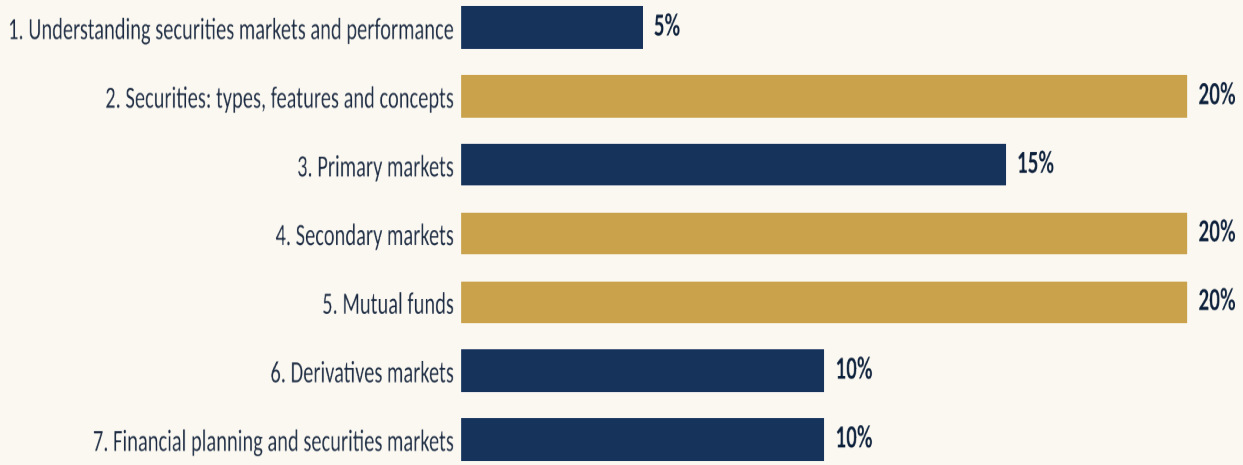
> **Keep this in mind**
>
> NISM revises its syllabus and workbook from time to time, and rules change by SEBI circular. This guide follows the official unit structure and weightage. Check the latest NISM workbook for any changes before your exam date.

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	None. Attempt every question.
Certificate validity	Three years; renew through NISM
Where it leads	A foundation for NISM-Series V-A, VIII, X-A and other certifications

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

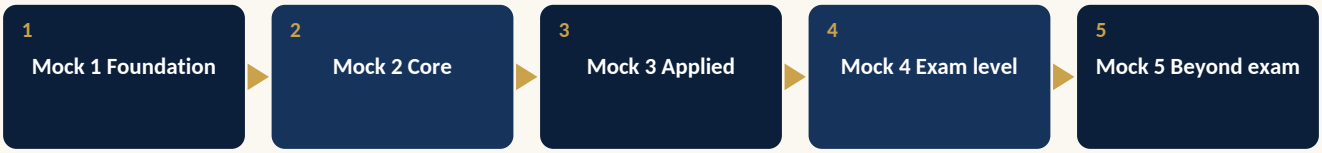
Time follows marks.

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. Understanding securities markets and performance	5	5%	1
2. Securities: types, features and concepts	20	20%	3
3. Primary markets	15	15%	2
4. Secondary markets	20	20%	3
5. Mutual funds	20	20%	3
6. Derivatives markets	10	10%	1
7. Financial planning and securities markets	10	10%	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 · 5% OF THE EXAM

Understanding securities markets and performance

Securities markets move savings of households into the investments of companies and governments. This chapter explains why markets exist, who takes part, and who keeps them honest.

What the exam looks for

- Primary versus secondary market.
- Money market versus capital market.
- Roles of SEBI, RBI and other regulators.

How savings reach businesses



Concept cards

01

Securities market

The securities market is where securities such as shares, bonds and units are issued and traded, channelling savings into productive investment.

EXAMPLE A company raises money by selling shares to the public, and investors later trade those shares.

WATCH OUT Not true: the securities market deals only in physical goods.

02

Primary market

The primary market is where new securities are issued for the first time and the issuer receives the money.

EXAMPLE A company launches an IPO and receives funds from investors.

WATCH OUT Not true: investors trade with each other in the primary market.

03

Secondary market

The secondary market is where existing securities are bought and sold among investors, usually on a stock exchange, providing liquidity.

EXAMPLE An investor sells shares she bought last year to another investor on an exchange.

WATCH OUT Not true: the issuing company receives the money when shares trade in the secondary market.

04

Money market

The money market deals in short-term debt instruments with a maturity of up to one year, such as treasury bills and commercial paper.

EXAMPLE A company raises funds for 90 days by issuing a short-term instrument.

WATCH OUT Not true: the money market deals in securities of 10 years or more.

05

Capital market

The capital market deals in long-term securities such as equity shares and bonds with maturities beyond one year.

EXAMPLE A company issues 10-year bonds to fund a new factory.

WATCH OUT Not true: the capital market deals only in securities of less than one year.

06

SEBI

The Securities and Exchange Board of India regulates the securities market, protects investors and promotes market development.

EXAMPLE A broker that violates trading rules is penalised by the market regulator.

WATCH OUT Not true: sEBI sets the repo rate.

07

Market participants

Participants include issuers, investors, brokers, depositories, clearing corporations, merchant bankers, mutual funds and regulators.

EXAMPLE An investor buys through a broker, with units held at a depository and trades settled by a clearing corporation.

WATCH OUT Not true: the only participants in the securities market are investors and issuers.

08

Financial intermediation

Financial intermediaries connect savers and borrowers and add value through pooling, risk management and information.

EXAMPLE A bank takes deposits from savers and lends to borrowers.

WATCH OUT Not true: intermediaries add no value to the financial system.

09

Market efficiency

An efficient market reflects available information in prices quickly, making it hard to consistently earn abnormal returns.

EXAMPLE Share prices adjust within seconds of a company announcing results.

WATCH OUT Not true: in an efficient market prices never move.

10

Market performance indicators

Indices, market capitalisation, turnover and the number of investors are used to assess how a market is performing.

EXAMPLE An analyst reviews the Sensex and daily turnover to judge market activity.

WATCH OUT Not true: market performance is measured only by the price of one share.

Unit recap · one line each

Securities market · Primary market · Secondary market · Money market · Capital market · SEBI · Market participants · Financial intermediation · Market efficiency · Market performance indicators

UNIT 2 · 20% OF THE EXAM

Securities: types, features and concepts

Equity, preference shares, bonds, government securities and money market instruments all have different rights and risks. This is the biggest topic and most questions are definition or comparison based.

What the exam looks for

- Equity versus preference shares.
- Bonds, debentures, G-secs, T-bills, CP and CD.
- Corporate actions: dividend, bonus, split, rights, buyback.
- Credit ratings and key valuation ratios.

Equity versus preference shares

	Equity share	Preference share
Ownership	Residual owner of the company	Priority over equity for dividend and capital
Dividend	Variable, not assured	Fixed rate, usually
Voting	Yes	Generally no
On winding up	Paid last	Paid before equity

Concept cards

01

Equity share

An equity share represents ownership in a company. Holders are residual owners who vote, receive dividends when declared, and share in the profits and losses.

EXAMPLE An investor buying shares in a listed company becomes a part-owner.

WATCH OUT Not true: equity shareholders are guaranteed a fixed dividend.

02

Preference share

A preference share carries a preferential right to a fixed dividend and to repayment of capital ahead of equity holders on winding up, usually with no voting rights.

EXAMPLE A holder is paid a fixed rate of dividend before any dividend goes to equity holders.

WATCH OUT Not true: preference shareholders always have full voting rights.

03

Face value

Face value is the nominal value of a security stated on the certificate; dividends are declared as a percentage of it.

EXAMPLE A share has a face value of ₹10 while its market price is ₹450.

WATCH OUT Not true: face value is the price at which the share trades in the market.

04

Market capitalisation

Market capitalisation equals the share price multiplied by the number of shares outstanding, and shows the market value of a company's equity.

EXAMPLE A company with 10 crore shares priced at ₹200 is valued at ₹2,000 crore.

WATCH OUT Not true: market capitalisation equals the company's total debt.

05

Dividend

A dividend is a distribution of part of a company's profits to its shareholders, declared by the board and approved by shareholders.

EXAMPLE A company pays ₹5 per share to every holder on the record date.

WATCH OUT Not true: a company must pay a dividend every year.

06

Bonus shares

Bonus shares are free additional shares given to existing shareholders in a ratio from the company's reserves; the share price adjusts and total value is unchanged.

EXAMPLE A holder with 100 shares receives 100 more in a 1:1 bonus, while the price roughly halves.

WATCH OUT Not true: bonus shares increase the investor's wealth immediately.

07

Stock split

A stock split divides each share into more shares of lower face value, increasing the number of shares while leaving market capitalisation unchanged.

EXAMPLE A ₹10 face value share is split into two shares of ₹5 each.

WATCH OUT Not true: a stock split increases the company's market capitalisation.

08

Rights issue

A rights issue offers existing shareholders the right to buy additional shares in proportion to their holding, usually at a discount.

EXAMPLE A company offers current holders one new share for every four held at a set price.

WATCH OUT Not true: a rights issue is open to the general public.

09

Buyback

In a buyback, a company repurchases its own shares from shareholders, reducing the number of shares outstanding.

EXAMPLE A company buys back shares through a tender offer, and the share count falls.

WATCH OUT Not true: a buyback increases the number of shares outstanding.

10

Bond

A bond is a debt instrument in which the issuer promises to pay periodic interest (coupon) and repay the principal at maturity.

EXAMPLE An investor lends to a company and receives interest every six months and principal at the end.

WATCH OUT Not true: a bond makes the holder an owner of the company.

11

Debenture

A debenture is a long-term debt instrument issued by a company, which can be secured or unsecured and may be convertible into shares.

EXAMPLE A company raises money by issuing a convertible debt instrument.

WATCH OUT Not true: a debenture is an equity instrument.

12

Government security (G-sec)

A G-sec is a debt instrument issued by the central or a state government, considered to have negligible credit risk.

EXAMPLE The central government borrows by issuing a 10-year security.

WATCH OUT Not true: g-secs carry the highest credit risk in the market.

13

Treasury bill

A treasury bill is a short-term government money-market instrument issued at a discount and redeemed at face value, with tenors of 91, 182 and 364 days.

EXAMPLE The government issues a 91-day instrument at ₹98 that is redeemed at ₹100.

WATCH OUT Not true: treasury bills pay periodic coupons.

14

Commercial paper

Commercial paper is an unsecured, short-term money-market instrument issued by companies at a discount to meet working-capital needs.

EXAMPLE A highly rated company raises funds for three months without collateral.

WATCH OUT Not true: commercial paper is a long-term secured bond.

15

Certificate of deposit

A certificate of deposit is a negotiable money-market instrument issued by banks and financial institutions against funds deposited for a fixed period.

EXAMPLE A bank issues a negotiable paper against a large deposit for six months.

WATCH OUT Not true: a certificate of deposit is issued by the government.

16

Coupon rate

The coupon rate is the fixed percentage of face value that a bond pays as interest each year.

EXAMPLE A bond of ₹1,000 face value with a 8% coupon pays ₹80 a year.

WATCH OUT Not true: the coupon rate changes with the bond's market price.

17

Yield

Yield is the return an investor earns on a security, shown as a percentage of the price paid. It moves inversely to bond prices.

EXAMPLE When a bond's price rises, the yield for a new buyer falls.

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

18

Credit rating

A credit rating is an independent agency's opinion on the issuer's ability to repay debt on time. Higher ratings mean lower risk.

EXAMPLE An issuer rated AAA is seen as safer than one rated BBB.

WATCH OUT Not true: a credit rating guarantees that the issuer will not default.

19

Convertible security

A convertible security can be converted into equity shares at a specified ratio and time, at the holder's or issuer's option.

EXAMPLE A debenture holder exchanges the debenture for shares as per pre-set terms.

WATCH OUT Not true: a convertible security can never be converted into shares.

20

Depository receipt

A depository receipt represents shares of a company held by a depository in another country, such as ADRs and GDRs, and allows foreign trading of the underlying shares.

EXAMPLE An Indian company's shares are traded abroad through receipts issued against them.

WATCH OUT Not true: a depository receipt is issued only for bonds.

21

Price-to-earnings ratio

The P/E ratio is the market price per share divided by earnings per share. It shows how much investors pay for each rupee of earnings.

EXAMPLE A share priced at ₹200 with EPS of ₹10 has a ratio of 20.

WATCH OUT Not true: p/E is the share price divided by its face value.

22

Earnings per share

EPS is a company's profit after tax divided by the number of shares outstanding.

EXAMPLE A company with ₹100 crore profit and 10 crore shares has an EPS of ₹10.

WATCH OUT Not true: ePS is the dividend paid per share.

23

REIT and InvIT

REITs and InvITs are trusts that pool money to invest in income-generating real estate and infrastructure and distribute most income to unit holders.

EXAMPLE An investor buys units of a trust that owns rented office buildings.

WATCH OUT Not true: rEITs invest only in shares of listed companies.

24

Warrants

A warrant gives the holder the right to buy a company's shares at a fixed price within a specified period.

EXAMPLE An investor holds a right to buy shares at ₹100 for the next three years.

WATCH OUT Not true: a warrant obliges the holder to buy shares.

25

Gilt versus corporate bond

Government securities carry negligible credit risk, while corporate bonds carry credit risk and pay a higher yield for it.

EXAMPLE A saver compares a government bond with a corporate bond offering a higher rate.

WATCH OUT Not true: corporate bonds are safer than government securities.

Unit recap · one line each

Equity share · Preference share · Face value · Market capitalisation · Dividend · Bonus shares · Stock split · Rights issue · Buyback · Bond · Debenture · Government security (G-sec) · Treasury bill · Commercial paper · Certificate of deposit · Coupon rate · Yield · Credit rating · Convertible security · Depository receipt · Price-to-earnings ratio · Earnings per share · REIT and InvIT · Warrants · Gilt versus corporate bond

UNIT 3 · 15% OF THE EXAM

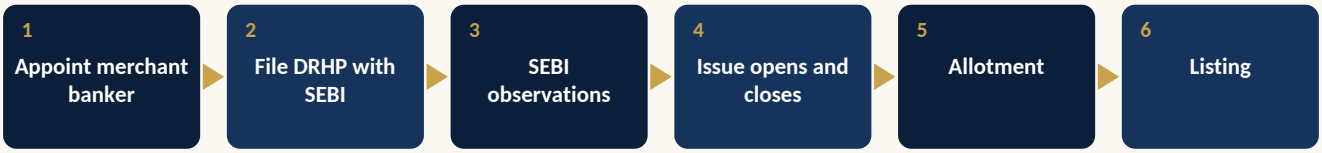
Primary markets

How companies raise money from the public: IPOs, FPOs, rights, QIPs and private placements. The mechanics of book building, categories of investors, and listing are tested closely.

What the exam looks for

- IPO process and documents.
- Book building, price band and cut-off price.
- Investor categories and reservation.
- Other routes: rights, QIP, preferential, OFS.

IPO journey



₹2 lakh	3 days	10%	90%
RETAIL LIMIT	LISTING AFTER CLOSE	MAX CAP ON BAND	MIN SUBSCRIPTION

Concept cards

01

Initial Public Offer (IPO)

An IPO is the first offer of shares by an unlisted company to the public, after which the company's shares are listed on an exchange.

EXAMPLE A private company sells shares to the public for the first time.

WATCH OUT Not true: an IPO is the sale of already listed shares between investors.

02

Follow-on Public Offer (FPO)

An FPO is an offer of additional shares to the public by a company that is already listed.

EXAMPLE A listed company raises more capital by offering new shares to the public.

WATCH OUT Not true: an FPO is the first listing of a company.

03

Draft Red Herring Prospectus (DRHP)

The DRHP is the draft offer document filed with SEBI for observations before an IPO, without final price details.

EXAMPLE A company files its draft offer document through a merchant banker before launching its issue.

WATCH OUT Not true: the DRHP is the final document circulated after listing.

04

Book building

In book building, the price is discovered through bids within a price band, and the issue price is fixed after the bidding closes based on demand.

EXAMPLE Investors bid within a price band and the final price is decided after the issue closes.

WATCH OUT Not true: in book building the price is fixed by the regulator.

05

Price band

The price band is the range between the floor and the cap price within which investors can bid in a book-built issue. The cap should not exceed 120% of the floor.

EXAMPLE An IPO sets a range of ₹200 to ₹210 for bids.

WATCH OUT Not true: investors can bid at any price above the floor with no cap.

06

Cut-off price

Retail investors can bid at the cut-off price, which means they accept whatever final price is decided within the band.

EXAMPLE A retail investor chooses to accept the final price fixed by the issuer.

WATCH OUT Not true: the cut-off price is the lowest price in the band.

07

Anchor investors

Anchor investors are qualified institutional investors who are allotted shares before the issue opens, subject to a lock-in, to build confidence.

EXAMPLE Institutions are allotted a portion a day before the IPO opens.

WATCH OUT Not true: anchor investors are retail individuals.

08

Retail individual investor

A retail individual investor is one who bids for shares worth up to ₹2 lakh in an issue.

EXAMPLE A person applies for ₹1.5 lakh worth of shares in an IPO.

WATCH OUT Not true: a retail investor can apply for any amount in the retail quota.

09

Qualified institutional buyer

QIBs are institutions such as mutual funds, banks, insurers and foreign portfolio investors that are considered financially sophisticated.

EXAMPLE A mutual fund bids in the institutional category of an IPO.

WATCH OUT Not true: qIBs are individuals applying for ₹1 lakh.

10

Minimum subscription

An issue must receive at least 90% subscription of the issue size; otherwise application money is refunded.

EXAMPLE An IPO that gets only half the required subscription fails and money is returned.

WATCH OUT Not true: an IPO can proceed with 10% subscription.

11

Allotment and listing timeline

Shares are allotted and listed within three working days of the closure of the issue, and unsuccessful applicants are refunded.

EXAMPLE The issue closes on Monday and shares list within a few working days.

WATCH OUT Not true: listing takes place a month after closing.

12

ASBA

Application Supported by Blocked Amount means the application money stays blocked in the investor's bank account until allotment, and is debited only for allotted shares.

EXAMPLE An investor's funds are blocked, not transferred, while applying to an IPO.

WATCH OUT Not true: aSBA debits the full amount immediately and refunds later.

13

Merchant banker

A merchant banker, also called the book running lead manager, manages the issue process, prepares offer documents and ensures regulatory compliance.

EXAMPLE A SEBI-registered firm manages the whole IPO process for a company.

WATCH OUT Not true: a merchant banker buys the shares as a retail investor.

14

Underwriter

An underwriter agrees to buy the unsubscribed portion of an issue, giving the issuer certainty of raising funds.

EXAMPLE A firm promises to take up the shares not bought by the public.

WATCH OUT Not true: an underwriter guarantees profit to investors.

15

Registrar to the issue

The registrar to an issue processes applications, finalises allotment, issues refunds and maintains the shareholder records.

EXAMPLE An agency handles the allotment and refund process for an IPO.

WATCH OUT Not true: the registrar fixes the issue price.

16

Offer for Sale (OFS)

In an OFS, existing shareholders such as promoters sell their shares to the public through the exchange, and the company receives no money.

EXAMPLE A promoter sells part of his stake through a stock exchange window.

WATCH OUT Not true: an OFS brings new capital into the company.

17

Qualified Institutions Placement (QIP)

A QIP is a route for listed companies to raise capital by issuing shares or convertibles only to qualified institutional buyers.

EXAMPLE A listed company issues new shares to institutions at a price near the market.

WATCH OUT Not true: a QIP is open to retail investors.

18

Preferential allotment

A preferential allotment is the issue of shares to a select group of investors at a negotiated price, subject to regulatory pricing rules.

EXAMPLE A company issues shares to a chosen strategic investor.

WATCH OUT Not true: a preferential allotment is offered to all shareholders pro rata.

19

Private placement

In a private placement, securities are offered to a limited number of identified investors rather than the general public.

EXAMPLE A company raises debt from a handful of institutions.

WATCH OUT Not true: a private placement is a public issue.

20

Promoter lock-in

Promoters' minimum contribution of 20% of the post-issue capital is locked in for 18 months after listing, to show their commitment.

EXAMPLE Promoters cannot sell their minimum holding for a period after the listing.

WATCH OUT Not true: promoters can sell all their shares on listing day.

21

SME platform

SME platforms on exchanges allow small and medium enterprises to list with simpler rules but with larger minimum application sizes and higher risk.

EXAMPLE A small company raises capital on a dedicated exchange segment.

WATCH OUT Not true: sME platform issues are the same as main-board IPOs.

22

Red Herring Prospectus

The RHP is the offer document filed with the registrar before the issue opens; it contains issue details but the final price may not be fixed.

EXAMPLE A company files a document with the registrar before the issue opens.

WATCH OUT Not true: the RHP is filed after the allotment.

Unit recap · one line each

Initial Public Offer (IPO) · Follow-on Public Offer (FPO) · Draft Red Herring Prospectus (DRHP) · Book building · Price band · Cut-off price · Anchor investors · Retail individual investor · Qualified institutional buyer · Minimum subscription · Allotment and listing timeline · ASBA · Merchant banker · Underwriter · Registrar to the issue · Offer for Sale (OFS) · Qualified Institutions Placement (QIP) · Preferential allotment · Private placement · Promoter lock-in · SME platform · Red Herring Prospectus

UNIT 4 · 20% OF THE EXAM

Secondary markets

Where shares trade every day. This chapter covers exchanges, brokers, orders, indices, settlement, the depository system and the safeguards that protect the market.

What the exam looks for

- Stock exchanges, trading hours and settlement.
- Order types and price bands.
- Depositories and demat.
- Indices and circuit breakers.

Life of a trade

1 Investor places order → 2 Broker enters it → 3 Exchange matches → 4 Clearing corporation settles → 5 Depository moves shares

Concept cards

01

Stock exchange

A stock exchange is a regulated marketplace where securities are listed and traded, such as the BSE and the NSE.

EXAMPLE Buyers and sellers trade listed shares on a regulated electronic platform.

WATCH OUT Not true: a stock exchange sets the company's profit.

02

Trading hours

Equity trading on Indian exchanges runs from 9:15 am to 3:30 pm on business days, with a pre-open session from 9:00 am to 9:15 am.

EXAMPLE An investor places an order at 9:20 am during the regular session.

WATCH OUT Not true: equity markets trade 24 hours a day.

03

Settlement cycle

Equity trades are settled on a T+1 basis, which means securities and funds are exchanged one working day after the trade.

EXAMPLE A share bought on Monday is delivered to the buyer's account on Tuesday.

WATCH OUT Not true: equity trades settle on T+5.

04

Stockbroker

A stockbroker is a SEBI-registered member of an exchange who executes trades for clients and earns brokerage.

EXAMPLE An investor places her order through a registered intermediary who is an exchange member.

WATCH OUT Not true: investors can trade directly on the exchange without a member.

05

Demat account

A demat account holds securities in electronic form and is opened with a depository participant.

EXAMPLE An investor holds her shares electronically rather than as paper certificates.

WATCH OUT Not true: a demat account holds only physical share certificates.

06

Depository

A depository holds securities in electronic form and enables transfer of ownership through book entries. India has two: NSDL and CDSL.

EXAMPLE A institution keeps electronic records of who owns which shares.

WATCH OUT Not true: india has five depositories.

07

Depository participant (DP)

A DP is an agent of the depository, such as a bank or broker, through which investors open demat accounts and deal with the depository.

EXAMPLE An investor opens a demat account through her bank, which acts as the link to the depository.

WATCH OUT Not true: a DP is the stock exchange itself.

08

Clearing corporation

A clearing corporation acts as the counterparty to every trade, guarantees settlement and manages risk, ensuring that trades are completed.

EXAMPLE The entity that guarantees that both sides of a trade will be honoured settles the trade.

WATCH OUT Not true: a clearing corporation sets share prices.

09

Market order

A market order is an instruction to buy or sell immediately at the best available price in the market.

EXAMPLE An investor wants to buy at once and accepts the prevailing price.

WATCH OUT Not true: a market order fixes the price in advance.

10

Limit order

A limit order is an instruction to buy or sell at a specified price or better; it may not be executed if the market does not reach that price.

EXAMPLE An investor will buy only at ₹100 or lower.

WATCH OUT Not true: a limit order is always executed immediately.

11

Stop-loss order

A stop-loss order becomes active when the price reaches a trigger level and is used to limit losses on a position.

EXAMPLE A holder places an order to sell if the price falls to ₹90.

WATCH OUT Not true: a stop-loss order guarantees profit.

12

Circuit filter

A circuit filter is a price band that limits how much a stock's price can move in a day, to curb excessive volatility.

EXAMPLE A stock cannot rise more than 10% in a day because of its price band.

WATCH OUT Not true: circuit filters stop trading for the whole year.

13

Index circuit breaker

Index-based circuit breakers halt trading across the market when the index moves by 10%, 15% or 20% within a day.

EXAMPLE The market is halted when the benchmark index falls 10%.

WATCH OUT Not true: index circuit breakers apply only to single stocks.

14

Sensex

The Sensex is the benchmark index of the BSE, comprising 30 large and actively traded stocks, calculated on a free-float market-cap basis.

EXAMPLE An index of 30 leading companies on the Bombay exchange.

WATCH OUT Not true: the Sensex has 50 stocks.

15

Nifty 50

The Nifty 50 is the benchmark index of the NSE, made of 50 large companies and calculated on a free-float market-cap basis.

EXAMPLE An index of 50 leading companies on the National exchange.

WATCH OUT Not true: the Nifty 50 tracks the debt market.

16

Free-float market capitalisation

Free-float market cap counts only the shares available for public trading, excluding promoter and locked-in holdings.

EXAMPLE An index weights a company by shares that the public can actually trade.

WATCH OUT Not true: free-float market cap includes all shares, including promoters'.

17

Bid and ask

The bid is the highest price a buyer is willing to pay, and the ask is the lowest price a seller will accept; the gap is the spread.

EXAMPLE A stock shows buyers at ₹99.90 and sellers at ₹100.10.

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

18

Liquidity in markets

A liquid market allows securities to be bought and sold quickly with little effect on price, shown by tight spreads and high volumes.

EXAMPLE A heavily traded stock can be sold in seconds at a small spread.

WATCH OUT Not true: a liquid stock is hard to sell.

19

Short selling

Short selling means selling a security you do not own, planning to buy it back later at a lower price; deliveries are managed through securities lending and borrowing.

EXAMPLE A trader sells first, expecting the price to fall, and buys back later.

WATCH OUT Not true: short selling profits when the price rises.

20

Securities Transaction Tax

STT is a tax levied on transactions in listed securities on the exchange, such as on the value of delivery-based sale and purchase.

EXAMPLE A small tax is charged on each trade executed on the exchange.

WATCH OUT Not true: sTT is a tax on listing a company.

21

Margin trading

Margin trading means buying securities with borrowed funds, with the investor putting up only a part of the value as margin.

EXAMPLE An investor buys shares worth ₹1 lakh by depositing ₹25,000 and borrowing the rest.

WATCH OUT Not true: margin trading removes risk of loss.

22

Investor Protection Fund

Exchanges maintain funds to compensate investors in case of defaults by members, within limits set by the regulator.

EXAMPLE An investor is compensated from an exchange fund when a broker defaults.

WATCH OUT Not true: the fund guarantees profit on trades.

23

Surveillance

Exchanges monitor trading to detect price manipulation, insider trading and unusual activity, and use measures like surveillance frameworks.

EXAMPLE An exchange flags a stock whose price rises abnormally on low volumes.

WATCH OUT Not true: exchanges do not monitor trades.

24

Insider trading

Insider trading is dealing in securities based on unpublished price-sensitive information, and it is prohibited by SEBI.

EXAMPLE A director sells shares just before bad results are announced publicly.

WATCH OUT Not true: insider trading is legal if profits are small.

25

Call auction

In a call auction, orders are collected over a time window and matched at a single price, as in the pre-open session.

EXAMPLE Orders gather between 9:00 and 9:08 am and the opening price is discovered together.

WATCH OUT Not true: a call auction matches each order continuously one by one.

Unit recap · one line each

Stock exchange · Trading hours · Settlement cycle · Stockbroker · Demat account · Depository · Depository participant (DP) · Clearing corporation · Market order · Limit order · Stop-loss order · Circuit filter · Index circuit breaker · Sensex · Nifty 50 · Free-float market capitalisation · Bid and ask · Liquidity in markets · Short selling · Securities Transaction Tax · Margin trading · Investor Protection Fund · Surveillance · Insider trading · Call auction

UNIT 5 · 20% OF THE EXAM

Mutual funds

Mutual funds pool money from many investors. This chapter covers structure, NAV, scheme types, costs, SIP and what to read before investing.

What the exam looks for

- Structure of a mutual fund and its NAV.
- Scheme types: equity, debt, hybrid, index, ETF.
- SIP, expense ratio, exit load and riskometer.
- How to choose a fund.

Mutual fund structure



FORMULA · NAV

NAV = (Value of investments + other assets − liabilities) ÷ units outstanding

Concept cards

01

Mutual fund

A mutual fund pools money from many investors and invests it in securities through professional managers, and each investor owns units in proportion.

EXAMPLE A group of investors puts money together, and a team invests it for them.

WATCH OUT Not true: a mutual fund guarantees returns.

02

NAV

The Net Asset Value is the per-unit value of a mutual fund scheme, calculated as total assets less liabilities divided by the units outstanding.

EXAMPLE A scheme with ₹500 crore net assets and 10 crore units has a value of ₹50 per unit.

WATCH OUT Not true: nAV is the price paid for a share on the exchange.

03

Asset Management Company

The AMC manages the mutual fund's schemes and investments and is appointed by the trustees.

EXAMPLE A company runs the fund's portfolios and employs the fund managers.

WATCH OUT Not true: the AMC owns the securities of the fund.

04

Open-ended fund

An open-ended fund allows investors to buy and sell units at NAV on any business day, with no fixed maturity.

EXAMPLE An investor redeems on any working day at the day's NAV.

WATCH OUT Not true: an open-ended fund can be redeemed only at maturity.

05

Closed-ended fund

A closed-ended fund has a fixed maturity and units are bought during the offer period and redeemed at maturity, or traded on an exchange.

EXAMPLE A scheme with a three-year term takes money only at launch.

WATCH OUT Not true: closed-ended funds allow daily fresh purchases.

06

Equity fund

An equity fund invests mainly in shares and aims for long-term capital growth, with higher volatility.

EXAMPLE A fund holds mostly shares to build wealth over many years.

WATCH OUT Not true: an equity fund invests mainly in government bonds.

07

Debt fund

A debt fund invests in fixed-income securities such as bonds, treasury bills and money-market instruments, aiming for stable income.

EXAMPLE A fund lends to governments and companies and earns interest.

WATCH OUT Not true: a debt fund invests mostly in equity shares.

08

Hybrid fund

A hybrid fund invests in a mix of equity and debt to balance growth and stability.

EXAMPLE A scheme keeps 65% in equity and the rest in debt.

WATCH OUT Not true: a hybrid fund invests only in gold.

09

Index fund

An index fund passively replicates a market index such as the Nifty 50, holding its stocks in the same weights, with low cost.

EXAMPLE A scheme tracks the Nifty 50 without trying to beat it.

WATCH OUT Not true: an index fund tries to outperform the index through stock picking.

10

Exchange traded fund (ETF)

An ETF is a fund whose units trade on a stock exchange like a share and typically tracks an index or commodity.

EXAMPLE An investor buys units of a fund through her demat account during market hours.

WATCH OUT Not true: an ETF can only be bought directly from the AMC at NAV.

11

Liquid fund

A liquid fund invests in debt and money-market securities maturing within 91 days, for parking short-term surplus.

EXAMPLE A company parks idle cash for a few weeks in a low-risk fund.

WATCH OUT Not true: a liquid fund invests for 10 years in equity.

12

ELSS

An Equity Linked Savings Scheme is an equity fund with a three-year lock-in that qualifies for a tax deduction under the old tax regime.

EXAMPLE An investor locks funds for three years to claim a deduction.

WATCH OUT Not true: eLSS has a one-year lock-in.

13

SIP

A Systematic Investment Plan invests a fixed amount at regular intervals, building discipline and averaging the cost of purchase.

EXAMPLE An investor puts ₹5,000 into a fund on the 5th of every month.

WATCH OUT Not true: a SIP guarantees profit.

14

Rupee cost averaging

With a fixed amount invested regularly, more units are bought when NAV is low and fewer when it is high, reducing the average cost.

EXAMPLE A SIP buys more units when prices fall.

WATCH OUT Not true: rupee cost averaging removes market risk.

15

Expense ratio

The expense ratio is the annual percentage of a scheme's assets charged for managing it. It is built into the NAV.

EXAMPLE A fund with a 1% expense ratio retains ₹1 of every ₹100 each year for costs.

WATCH OUT Not true: the expense ratio is a one-time charge when investing.

16

Exit load

Exit load is a fee charged when units are redeemed within a specified period, and it goes into the scheme.

EXAMPLE An investor redeems after 6 months and 1% is deducted.

WATCH OUT Not true: exit load is charged on all purchases.

17

Direct plan

A direct plan is bought directly from the AMC without a distributor, so it has a lower expense ratio than a regular plan.

EXAMPLE An investor buys on the fund house's website with no commission.

WATCH OUT Not true: a direct plan has the highest expense ratio.

18

Riskometer

The riskometer is a gauge on each scheme showing its risk level on six levels from low to very high.

EXAMPLE A scheme's cover shows a dial reading very high.

WATCH OUT Not true: the riskometer shows past returns.

19

Growth and IDCW options

In the growth option, gains stay invested and reflect in NAV. In the IDCW option, the fund may pay out part of the gains periodically, reducing NAV.

EXAMPLE An investor who wants regular cash payouts picks the income distribution option.

WATCH OUT Not true: iDCW is a guaranteed dividend.

20

KYC for mutual funds

Investors must complete KYC with PAN and address proof before investing in mutual funds, and KYC is done once for the whole market.

EXAMPLE A new investor completes identity verification before her first purchase.

WATCH OUT Not true: kYC is not required for small investments.

21

Past performance

Past performance does not guarantee future returns; investors should look at consistency, risk and costs rather than a single year's number.

EXAMPLE A fund topped the chart last year but may not repeat.

WATCH OUT Not true: the best performer last year will stay best.

22

Fund manager

The fund manager is the person responsible for the investment decisions of a scheme, within its stated objective and asset allocation.

EXAMPLE A professional decides which securities the scheme buys.

WATCH OUT Not true: the fund manager guarantees returns.

23

Portfolio disclosure

Mutual funds publish portfolios and factsheets regularly so that investors can see their holdings.

EXAMPLE An investor checks a scheme's top ten holdings in the monthly factsheet.

WATCH OUT Not true: portfolios are secret.

24

SEBI scheme categories

SEBI defines scheme categories and prevents AMCs from creating overlapping schemes with the same name and features, to make comparison easy.

EXAMPLE A fund house cannot offer two identical large-cap funds.

WATCH OUT Not true: aMCs can define their own categories freely.

25

Tax on equity funds

Equity-oriented fund gains are taxed as short-term if held up to 12 months and long-term beyond that, at rates set by law.

EXAMPLE An investor sells units after 18 months and the gain is long-term.

WATCH OUT Not true: equity fund gains are tax free in all cases.

Unit recap · one line each

Mutual fund · NAV · Asset Management Company · Open-ended fund · Closed-ended fund · Equity fund · Debt fund · Hybrid fund · Index fund · Exchange traded fund (ETF) · Liquid fund · ELSS · SIP · Rupee cost averaging · Expense ratio · Exit load · Direct plan · Riskometer · Growth and IDCW options · KYC for mutual funds · Past performance · Fund manager · Portfolio disclosure · SEBI scheme categories · Tax on equity funds

UNIT 6 · 10% OF THE EXAM

Derivatives markets

Futures and options in simple terms: what they are, why people use them and the key vocabulary.

What the exam looks for

- Futures versus options.
- Hedging, speculation, arbitrage.
- Lot size, margin and expiry.

Futures versus options

	Futures	Options
Obligation	Both sides must perform	Buyer has a right; seller has an obligation
Upfront payment	Margin	Premium (buyer)
Loss for buyer	Unlimited either way	Limited to premium

Concept cards

01

Derivative

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

EXAMPLE A contract whose value depends on the price of the Nifty 50.

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

02

Futures contract

A futures contract is an agreement to buy or sell an underlying at a fixed price on a future date, traded on an exchange with standard terms.

EXAMPLE A trader agrees today to buy an index lot at a set price at month-end.

WATCH OUT Not true: a futures contract is an option with no obligation.

03

Option contract

An option gives the buyer the right, but not the obligation, to buy or sell the underlying at a fixed price on or before expiry, in return for a premium.

EXAMPLE An investor pays a fee to keep the right to buy a share at ₹100.

WATCH OUT Not true: an option obliges the buyer to complete the trade.

04

Call option

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

EXAMPLE An investor expects prices to rise and buys the right to buy at ₹500.

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

05

Put option

A put option gives its buyer the right to sell the underlying at the strike price, and is used for protection or for gains when prices fall.

EXAMPLE An investor holding a share buys the right to sell it at ₹90.

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

06

Strike price

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

EXAMPLE An option allows the holder to buy at ₹2,500.

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

07

Premium

The premium is the price paid by the option buyer to the seller for the right granted.

EXAMPLE The buyer pays ₹20 per unit for an option.

WATCH OUT Not true: the premium is returned to the buyer at expiry.

08

Hedging

Hedging uses derivatives to reduce the risk of adverse price moves in an existing position.

EXAMPLE A shareholder takes a position that offsets a possible fall in his holdings.

WATCH OUT Not true: hedging is aimed at maximising speculative profit.

09

Speculation

Speculation is taking a view on price direction and positions to profit from it, accepting the risk of loss.

EXAMPLE A trader buys index futures expecting a rise over the next week.

WATCH OUT Not true: speculation is risk-free.

10

Arbitrage

Arbitrage involves buying and selling related instruments at the same time to profit from price differences, with little risk.

EXAMPLE A trader buys a share in the cash market and sells its future at a higher price.

WATCH OUT Not true: arbitrage is a bet on market direction.

11

Lot size

The lot size is the fixed number of units in one derivatives contract, set by the exchange. Trading is in multiples of lots.

EXAMPLE An index future trades in minimum quantities of 75 units.

WATCH OUT Not true: investors can trade any number of units in a futures contract.

12

Expiry

Expiry is the date on which a derivatives contract ceases to exist and is settled.

EXAMPLE An options contract expires on a date fixed by the exchange.

WATCH OUT Not true: derivative contracts have no end date.

13

Margin in derivatives

Margin is the money a trader deposits with the broker as security for performing a futures or option-selling obligation.

EXAMPLE A futures trader deposits a fraction of the contract value as security.

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

14

Mark-to-market

Mark-to-market is the daily adjustment of futures positions to the day's settlement price, with gains and losses settled in cash.

EXAMPLE A futures trader's account is credited or debited at the end of every day.

WATCH OUT Not true: mark-to-market happens only at expiry.

Unit recap · one line each

Derivative · Futures contract · Option contract · Call option · Put option · Strike price · Premium · Hedging · Speculation · Arbitrage · Lot size · Expiry · Margin in derivatives · Mark-to-market

UNIT 7 · 10% OF THE EXAM

Financial planning and securities markets

Markets are a means to meet goals. This chapter links securities to planning: goals, risk profile, asset allocation, tax, insurance and avoiding frauds.

What the exam looks for

- Financial planning steps and life stages.
- Risk profile and asset allocation.
- Time value of money and inflation.
- Investor rights, grievance routes and frauds.

Planning cycle



Concept cards

01

Financial planning

Financial planning is the process of setting goals and arranging income, savings, investments, insurance and tax to meet them.

EXAMPLE A family plans funds for a house, education and retirement.

WATCH OUT Not true: financial planning means only buying shares.

02

Financial goal

A financial goal is a specific need with an amount and a time frame, such as a child's education in 12 years.

EXAMPLE A couple wants ₹30 lakh for education in ten years.

WATCH OUT Not true: goals need no amount or deadline.

03

Risk profile

A risk profile combines a person's ability and willingness to take risk, guiding the choice of investments.

EXAMPLE An investor who cannot sleep after a small loss has a low willingness to take risk.

WATCH OUT Not true: all investors have the same risk profile.

04

Asset allocation

Asset allocation divides investments among asset classes like equity, debt and gold, according to goals, horizon and risk profile.

EXAMPLE A saver holds 60% equity, 30% debt and 10% gold.

WATCH OUT Not true: asset allocation means putting everything into one stock.

05

Time value of money

A rupee today is worth more than a rupee tomorrow because it can be invested to earn a return.

EXAMPLE ₹1 lakh invested today grows, so it is worth more than ₹1 lakh in five years.

WATCH OUT Not true: money has the same value at any time.

06

Compounding

Compounding means earning returns on both the original amount and the returns accumulated earlier, which accelerates growth over long periods.

EXAMPLE Reinvested gains themselves earn further gains.

WATCH OUT Not true: compounding means earning returns only on the original amount.

07

Inflation

Inflation is the sustained rise in the general price level, reducing the purchasing power of money.

EXAMPLE A basket of goods costing ₹100 last year costs ₹106 now.

WATCH OUT Not true: inflation raises the value of cash.

08

Emergency fund

An emergency fund is a reserve of liquid funds covering three to six months of expenses for unexpected needs.

EXAMPLE A family keeps six months of expenses in a savings account.

WATCH OUT Not true: an emergency fund should be invested in small-cap stocks.

09

Insurance and investment

Term insurance gives protection against loss of life; it should be separated from investment, which aims at building wealth.

EXAMPLE A person buys a term plan for cover and invests separately for growth.

WATCH OUT Not true: a mutual fund gives life cover.

10

Life-cycle stages

Different stages of life, such as starting a career, family and retirement, change goals, income and the right mix of assets.

EXAMPLE A 25-year-old can usually hold more equity than a 60-year-old.

WATCH OUT Not true: life stage has no bearing on investments.

11

Diversification

Diversification spreads money across assets and securities to reduce the impact of any one loss.

EXAMPLE An investor holds many companies across sectors instead of one.

WATCH OUT Not true: diversification guarantees no loss.

12

Investor grievance redressal

Investors can complain first to the intermediary, then to the exchange or SEBI's SCORES platform, and use the online dispute resolution route.

EXAMPLE A client with an unresolved complaint files it on the regulator's portal.

WATCH OUT Not true: investors have no route for complaints.

13

Ponzi scheme

A Ponzi scheme pays earlier investors with the money of newer ones and promises unusually high, assured returns, and it collapses when new money dries up.

EXAMPLE A scheme promises 4% a month and pays old investors from new deposits.

WATCH OUT Not true: a scheme promising very high assured returns is safe.

14

Red flags in advice

Promises of guaranteed returns, pressure to invest quickly and unregistered advisers are warning signs of fraud.

EXAMPLE A caller promises double returns in three months and asks for urgent payment.

WATCH OUT Not true: registered advisers promise assured returns.

15

Registered intermediary

Investors should deal only with SEBI-registered brokers, advisers and distributors, whose registration can be checked on the regulator's site.

EXAMPLE An investor checks an adviser's registration number before engaging.

WATCH OUT Not true: registration of intermediaries is unnecessary.

16

Tax on investments

Tax treatment differs across securities and holding periods, so after-tax returns matter in planning.

EXAMPLE Two investments with the same gain leave different amounts after tax.

WATCH OUT Not true: all gains are taxed in the same way.

Unit recap · one line each

Financial planning · Financial goal · Risk profile · Asset allocation · Time value of money · Compounding · Inflation · Emergency fund · Insurance and investment · Life-cycle stages · Diversification · Investor grievance redressal · Ponzi scheme · Red flags in advice · Registered intermediary · Tax on investments

QUICK REFERENCE

Numbers and formulas.

Key timings and numbers

Item	Detail
Equity trading hours	9:15 am to 3:30 pm on business days
Pre-open session	9:00 am to 9:15 am
Settlement cycle	T+1 for equity
IPO listing	Within 3 working days of closure (T+3)
IPO retail limit	Application up to ₹2 lakh
Index circuit breakers	10%, 15%, 20% moves
Sensex	30 stocks, BSE
Nifty 50	50 stocks, NSE

GLOSSARY

Every term, A to Z.

Term	Meaning	Unit
Allotment and listing timeline	Shares are allotted and listed within three working days of the closure of the issue, and unsuccessful applicants are refunded.	3
Anchor investors	Anchor investors are qualified institutional investors who are allotted shares before the issue opens, subject to a lock-in, to build confidence.	3
Arbitrage	Arbitrage involves buying and selling related instruments at the same time to profit from price differences, with little risk.	6
ASBA	Application Supported by Blocked Amount means the application money stays blocked in the investor's bank account until allotment, and is debited only for allotted shares.	3
Asset allocation	Asset allocation divides investments among asset classes like equity, debt and gold, according to goals, horizon and risk profile.	7
Asset Management Company	The AMC manages the mutual fund's schemes and investments and is appointed by the trustees.	5
Bid and ask	The bid is the highest price a buyer is willing to pay, and the ask is the lowest price a seller will accept; the gap is the spread.	4
Bond	A bond is a debt instrument in which the issuer promises to pay periodic interest (coupon) and repay the principal at maturity.	2
Bonus shares	Bonus shares are free additional shares given to existing shareholders in a ratio from the company's reserves; the share price adjusts and total value is unchanged.	2
Book building	In book building, the price is discovered through bids within a price band, and the issue price is fixed after the bidding closes based on demand.	3
Buyback	In a buyback, a company repurchases its own shares from shareholders, reducing the number of shares outstanding.	2
Call auction	In a call auction, orders are collected over a time window and matched at a single price, as in the pre-open session.	4
Call option	A call option gives its buyer the right to buy the underlying at the strike price.	6
Capital market	The capital market deals in long-term securities such as equity shares and bonds with maturities beyond one year.	1
Certificate of deposit	A certificate of deposit is a negotiable money-market instrument issued by banks and financial institutions against funds deposited for a fixed period.	2
Circuit filter	A circuit filter is a price band that limits how much a stock's price can move in a day, to curb excessive volatility.	4
Clearing corporation	A clearing corporation acts as the counterparty to every trade, guarantees settlement and manages risk, ensuring that trades are completed.	4
Closed-ended fund	A closed-ended fund has a fixed maturity and units are bought during the offer period and redeemed at maturity, or traded on an exchange.	5
Commercial paper	Commercial paper is an unsecured, short-term money-market instrument issued by companies at a discount to meet working-capital needs.	2
Compounding	Compounding means earning returns on both the original amount and the returns accumulated earlier, which accelerates growth over long periods.	7

Term	Meaning	Unit
Convertible security	A convertible security can be converted into equity shares at a specified ratio and time, at the holder's or issuer's option.	2
Coupon rate	The coupon rate is the fixed percentage of face value that a bond pays as interest each year.	2
Credit rating	A credit rating is an independent agency's opinion on the issuer's ability to repay debt on time. Higher ratings mean lower risk.	2
Cut-off price	Retail investors can bid at the cut-off price, which means they accept whatever final price is decided within the band.	3
Debenture	A debenture is a long-term debt instrument issued by a company, which can be secured or unsecured and may be convertible into shares.	2
Debt fund	A debt fund invests in fixed-income securities such as bonds, treasury bills and money-market instruments, aiming for stable income.	5
Demat account	A demat account holds securities in electronic form and is opened with a depository participant.	4
Depository	A depository holds securities in electronic form and enables transfer of ownership through book entries. India has two: NSDL and CDSL.	4
Depository participant (DP)	A DP is an agent of the depository, such as a bank or broker, through which investors open demat accounts and deal with the depository.	4
Depository receipt	A depository receipt represents shares of a company held by a depository in another country, such as ADRs and GDRs, and allows foreign trading of the underlying shares.	2
Derivative	A derivative is a contract whose value is derived from an underlying asset such as a share, index, currency or commodity.	6
Direct plan	A direct plan is bought directly from the AMC without a distributor, so it has a lower expense ratio than a regular plan.	5
Diversification	Diversification spreads money across assets and securities to reduce the impact of any one loss.	7
Dividend	A dividend is a distribution of part of a company's profits to its shareholders, declared by the board and approved by shareholders.	2
Draft Red Herring Prospectus (DRHP)	The DRHP is the draft offer document filed with SEBI for observations before an IPO, without final price details.	3
Earnings per share	EPS is a company's profit after tax divided by the number of shares outstanding.	2
ELSS	An Equity Linked Savings Scheme is an equity fund with a three-year lock-in that qualifies for a tax deduction under the old tax regime.	5
Emergency fund	An emergency fund is a reserve of liquid funds covering three to six months of expenses for unexpected needs.	7
Equity fund	An equity fund invests mainly in shares and aims for long-term capital growth, with higher volatility.	5
Equity share	An equity share represents ownership in a company. Holders are residual owners who vote, receive dividends when declared, and share in the profits and losses.	2
Exchange traded fund (ETF)	An ETF is a fund whose units trade on a stock exchange like a share and typically tracks an index or commodity.	5
Exit load	Exit load is a fee charged when units are redeemed within a specified period, and it goes into the scheme.	5

Term	Meaning	Unit
Expense ratio	The expense ratio is the annual percentage of a scheme's assets charged for managing it. It is built into the NAV.	5
Expiry	Expiry is the date on which a derivatives contract ceases to exist and is settled.	6
Face value	Face value is the nominal value of a security stated on the certificate; dividends are declared as a percentage of it.	2
Financial goal	A financial goal is a specific need with an amount and a time frame, such as a child's education in 12 years.	7
Financial intermediation	Financial intermediaries connect savers and borrowers and add value through pooling, risk management and information.	1
Financial planning	Financial planning is the process of setting goals and arranging income, savings, investments, insurance and tax to meet them.	7
Follow-on Public Offer (FPO)	An FPO is an offer of additional shares to the public by a company that is already listed.	3
Free-float market capitalisation	Free-float market cap counts only the shares available for public trading, excluding promoter and locked-in holdings.	4
Fund manager	The fund manager is the person responsible for the investment decisions of a scheme, within its stated objective and asset allocation.	5
Futures contract	A futures contract is an agreement to buy or sell an underlying at a fixed price on a future date, traded on an exchange with standard terms.	6
Gilt versus corporate bond	Government securities carry negligible credit risk, while corporate bonds carry credit risk and pay a higher yield for it.	2
Government security (G-sec)	A G-sec is a debt instrument issued by the central or a state government, considered to have negligible credit risk.	2
Growth and IDCW options	In the growth option, gains stay invested and reflect in NAV. In the IDCW option, the fund may pay out part of the gains periodically, reducing NAV.	5
Hedging	Hedging uses derivatives to reduce the risk of adverse price moves in an existing position.	6
Hybrid fund	A hybrid fund invests in a mix of equity and debt to balance growth and stability.	5
Index circuit breaker	Index-based circuit breakers halt trading across the market when the index moves by 10%, 15% or 20% within a day.	4
Index fund	An index fund passively replicates a market index such as the Nifty 50, holding its stocks in the same weights, with low cost.	5
Inflation	Inflation is the sustained rise in the general price level, reducing the purchasing power of money.	7
Initial Public Offer (IPO)	An IPO is the first offer of shares by an unlisted company to the public, after which the company's shares are listed on an exchange.	3
Insider trading	Insider trading is dealing in securities based on unpublished price-sensitive information, and it is prohibited by SEBI.	4
Insurance and investment	Term insurance gives protection against loss of life; it should be separated from investment, which aims at building wealth.	7
Investor grievance redressal	Investors can complain first to the intermediary, then to the exchange or SEBI's SCORES platform, and use the online dispute resolution route.	7
Investor Protection Fund	Exchanges maintain funds to compensate investors in case of defaults by members, within limits set by the regulator.	4

Term	Meaning	Unit
KYC for mutual funds	Investors must complete KYC with PAN and address proof before investing in mutual funds, and KYC is done once for the whole market.	5
Life-cycle stages	Different stages of life, such as starting a career, family and retirement, change goals, income and the right mix of assets.	7
Limit order	A limit order is an instruction to buy or sell at a specified price or better; it may not be executed if the market does not reach that price.	4
Liquid fund	A liquid fund invests in debt and money-market securities maturing within 91 days, for parking short-term surplus.	5
Liquidity in markets	A liquid market allows securities to be bought and sold quickly with little effect on price, shown by tight spreads and high volumes.	4
Lot size	The lot size is the fixed number of units in one derivatives contract, set by the exchange. Trading is in multiples of lots.	6
Margin in derivatives	Margin is the money a trader deposits with the broker as security for performing a futures or option-selling obligation.	6
Margin trading	Margin trading means buying securities with borrowed funds, with the investor putting up only a part of the value as margin.	4
Mark-to-market	Mark-to-market is the daily adjustment of futures positions to the day's settlement price, with gains and losses settled in cash.	6
Market capitalisation	Market capitalisation equals the share price multiplied by the number of shares outstanding, and shows the market value of a company's equity.	2
Market efficiency	An efficient market reflects available information in prices quickly, making it hard to consistently earn abnormal returns.	1
Market order	A market order is an instruction to buy or sell immediately at the best available price in the market.	4
Market participants	Participants include issuers, investors, brokers, depositories, clearing corporations, merchant bankers, mutual funds and regulators.	1
Market performance indicators	Indices, market capitalisation, turnover and the number of investors are used to assess how a market is performing.	1
Merchant banker	A merchant banker, also called the book running lead manager, manages the issue process, prepares offer documents and ensures regulatory compliance.	3
Minimum subscription	An issue must receive at least 90% subscription of the issue size; otherwise application money is refunded.	3
Money market	The money market deals in short-term debt instruments with a maturity of up to one year, such as treasury bills and commercial paper.	1
Mutual fund	A mutual fund pools money from many investors and invests it in securities through professional managers, and each investor owns units in proportion.	5
NAV	The Net Asset Value is the per-unit value of a mutual fund scheme, calculated as total assets less liabilities divided by the units outstanding.	5
Nifty 50	The Nifty 50 is the benchmark index of the NSE, made of 50 large companies and calculated on a free-float market-cap basis.	4
Offer for Sale (OFS)	In an OFS, existing shareholders such as promoters sell their shares to the public through the exchange, and the company receives no money.	3

Term	Meaning	Unit
Open-ended fund	An open-ended fund allows investors to buy and sell units at NAV on any business day, with no fixed maturity.	5
Option contract	An option gives the buyer the right, but not the obligation, to buy or sell the underlying at a fixed price on or before expiry, in return for a premium.	6
Past performance	Past performance does not guarantee future returns; investors should look at consistency, risk and costs rather than a single year's number.	5
Ponzi scheme	A Ponzi scheme pays earlier investors with the money of newer ones and promises unusually high, assured returns, and it collapses when new money dries up.	7
Portfolio disclosure	Mutual funds publish portfolios and factsheets regularly so that investors can see their holdings.	5
Preference share	A preference share carries a preferential right to a fixed dividend and to repayment of capital ahead of equity holders on winding up, usually with no voting rights.	2
Preferential allotment	A preferential allotment is the issue of shares to a select group of investors at a negotiated price, subject to regulatory pricing rules.	3
Premium	The premium is the price paid by the option buyer to the seller for the right granted.	6
Price band	The price band is the range between the floor and the cap price within which investors can bid in a book-built issue. The cap should not exceed 120% of the floor.	3
Price-to-earnings ratio	The P/E ratio is the market price per share divided by earnings per share. It shows how much investors pay for each rupee of earnings.	2
Primary market	The primary market is where new securities are issued for the first time and the issuer receives the money.	1
Private placement	In a private placement, securities are offered to a limited number of identified investors rather than the general public.	3
Promoter lock-in	Promoters' minimum contribution of 20% of the post-issue capital is locked in for 18 months after listing, to show their commitment.	3
Put option	A put option gives its buyer the right to sell the underlying at the strike price, and is used for protection or for gains when prices fall.	6
Qualified institutional buyer	QIBs are institutions such as mutual funds, banks, insurers and foreign portfolio investors that are considered financially sophisticated.	3
Qualified Institutions Placement (QIP)	A QIP is a route for listed companies to raise capital by issuing shares or convertibles only to qualified institutional buyers.	3
Red flags in advice	Promises of guaranteed returns, pressure to invest quickly and unregistered advisers are warning signs of fraud.	7
Red Herring Prospectus	The RHP is the offer document filed with the registrar before the issue opens; it contains issue details but the final price may not be fixed.	3
Registered intermediary	Investors should deal only with SEBI-registered brokers, advisers and distributors, whose registration can be checked on the regulator's site.	7
Registrar to the issue	The registrar to an issue processes applications, finalises allotment, issues refunds and maintains the shareholder records.	3
REIT and InvIT	REITs and InvITs are trusts that pool money to invest in income-generating real estate and infrastructure and distribute most income to unit holders.	2
Retail individual investor	A retail individual investor is one who bids for shares worth up to ₹2 lakh in an issue.	3

Term	Meaning	Unit
Rights issue	A rights issue offers existing shareholders the right to buy additional shares in proportion to their holding, usually at a discount.	2
Risk profile	A risk profile combines a person's ability and willingness to take risk, guiding the choice of investments.	7
Riskometer	The riskometer is a gauge on each scheme showing its risk level on six levels from low to very high.	5
Rupee cost averaging	With a fixed amount invested regularly, more units are bought when NAV is low and fewer when it is high, reducing the average cost.	5
SEBI	The Securities and Exchange Board of India regulates the securities market, protects investors and promotes market development.	1
SEBI scheme categories	SEBI defines scheme categories and prevents AMCs from creating overlapping schemes with the same name and features, to make comparison easy.	5
Secondary market	The secondary market is where existing securities are bought and sold among investors, usually on a stock exchange, providing liquidity.	1
Securities market	The securities market is where securities such as shares, bonds and units are issued and traded, channelling savings into productive investment.	1
Securities Transaction Tax	STT is a tax levied on transactions in listed securities on the exchange, such as on the value of delivery-based sale and purchase.	4
Sensex	The Sensex is the benchmark index of the BSE, comprising 30 large and actively traded stocks, calculated on a free-float market-cap basis.	4
Settlement cycle	Equity trades are settled on a T+1 basis, which means securities and funds are exchanged one working day after the trade.	4
Short selling	Short selling means selling a security you do not own, planning to buy it back later at a lower price; deliveries are managed through securities lending and borrowing.	4
SIP	A Systematic Investment Plan invests a fixed amount at regular intervals, building discipline and averaging the cost of purchase.	5
SME platform	SME platforms on exchanges allow small and medium enterprises to list with simpler rules but with larger minimum application sizes and higher risk.	3
Speculation	Speculation is taking a view on price direction and positions to profit from it, accepting the risk of loss.	6
Stock exchange	A stock exchange is a regulated marketplace where securities are listed and traded, such as the BSE and the NSE.	4
Stock split	A stock split divides each share into more shares of lower face value, increasing the number of shares while leaving market capitalisation unchanged.	2
Stockbroker	A stockbroker is a SEBI-registered member of an exchange who executes trades for clients and earns brokerage.	4
Stop-loss order	A stop-loss order becomes active when the price reaches a trigger level and is used to limit losses on a position.	4
Strike price	The strike price is the fixed price at which the option holder can buy or sell the underlying.	6
Surveillance	Exchanges monitor trading to detect price manipulation, insider trading and unusual activity, and use measures like surveillance frameworks.	4
Tax on equity funds	Equity-oriented fund gains are taxed as short-term if held up to 12 months and long-term beyond that, at rates set by law.	5

Term	Meaning	Unit
Tax on investments	Tax treatment differs across securities and holding periods, so after-tax returns matter in planning.	7
Time value of money	A rupee today is worth more than a rupee tomorrow because it can be invested to earn a return.	7
Trading hours	Equity trading on Indian exchanges runs from 9:15 am to 3:30 pm on business days, with a pre-open session from 9:00 am to 9:15 am.	4
Treasury bill	A treasury bill is a short-term government money-market instrument issued at a discount and redeemed at face value, with tenors of 91, 182 and 364 days.	2
Underwriter	An underwriter agrees to buy the unsubscribed portion of an issue, giving the issuer certainty of raising funds.	3
Warrants	A warrant gives the holder the right to buy a company's shares at a fixed price within a specified period.	2
Yield	Yield is the return an investor earns on a security, shown as a percentage of the price paid. It moves inversely to bond prices.	2

FINAL STRETCH

The last seven days.

Revision checklist

- [ ] Re-read Chapters 2, 4 and 5; together they carry 60% of the marks.
- [ ] Redo every wrong answer from Mocks 1 to 4.
- [ ] Learn the IPO reservation split and the trading-hour timings.
- [ ] Revise the difference between each security type in one table.
- [ ] Take Mock 5 in one two-hour sitting.

Exam-day tips

- There is no negative marking, so never leave a question blank.
- Learn definitions precisely; foundation exams test exact wording.
- Eliminate two options first, then choose.
- Timings and percentages are favourite exam questions. Memorise them.
- Keep an eye on the clock: about a minute per question leaves 20 minutes to review.

Disclaimer

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