



CONTENTS

	<i>Page</i>
<i>Foreword</i>	<i>I-3</i>
<i>Acknowledgement</i>	<i>I-5</i>
<i>About NISM Certifications</i>	<i>I-7</i>
<i>About the NISM-Series-I: Currency Derivatives Certification Examination</i>	<i>I-9</i>

CHAPTER 1

INTRODUCTION TO CURRENCY MARKETS

1.1	Brief History of Foreign Exchange Markets	1
1.2	Major Currencies and Currency Pairs	4
1.3	Basics of Currency Markets and Peculiarities in India	11
1.4	Exchange Rate Arithmetic - Cross Rate	23
1.5	Impact of Economic Factors on Currency Prices	25
1.6	Economic Indicators	27

CHAPTER 2

FOREIGN EXCHANGE DERIVATIVES

2.1	Derivatives - Definition	31
2.2	Key Economic Functions of Derivatives	33
2.3	Derivative Products	35
2.4	Growth Drivers of Derivatives	40
2.5	Market Participants in Currency Derivatives Market	41
2.6	Exchange-Traded Derivatives v. OTC Derivatives	42

	<i>Page</i>
2.7 Rationale for Introducing Exchange Traded Currency Derivatives in India	45

CHAPTER 3

EXCHANGE TRADED CURRENCY FUTURES

3.1 Currency Futures - Definition	47
3.2 Pay Off Charts of Futures Contract	51
3.3 Contract Specification of Exchange Traded Currency Futures Contracts	55
3.4 Contract Value	58
3.5 Advantages and Limitations of Future Contracts in Comparison to Forward	59
3.6 Interest Rate Parity and Pricing of Currency Futures	62

CHAPTER 4

EXCHANGE TRADED CURRENCY OPTIONS

4.1 Basics of Options	67
4.2 Difference between Futures and Options	69
4.3 Style of Options	70
4.4 Moneyness of an Option	71
4.5 Basics of Option Pricing and Options Greeks	72
4.6 Option Pricing Methodology	79
4.7 Implied Volatility (IV)	83
4.8 Pay off Diagrams for Options	84
4.9 Contract Specification of Exchange Traded Currency Options	94
4.10 Comparison of Exchange Traded Currency Option and OTC Currency Option	97

CHAPTER 5**STRATEGIES USING EXCHANGE
TRADED CURRENCY DERIVATIVES**

5.1	Market Participants	99
5.2	Hedging Through Exchange Traded Currency Derivatives	103
5.3	Option Trading Strategies	109
5.4	Use of Currency Derivatives by Speculators	130
5.5	Use of Currency Derivatives by Arbitragers	132
5.6	Trading Spread Using ETCD	135
5.7	Limitation of Exchange Traded Currency Derivatives for Hedgers	136

CHAPTER 6**TRADING MECHANISM IN EXCHANGE
TRADED CURRENCY DERIVATIVES**

6.1	List of Entities in Trading System	137
6.2	Exchange Trading System	140
6.3	Order Management	149
6.4	Risk Management and Order Routing	157
6.5	Price Limit Circuit Filter	161
6.6	Trading Cost	162

CHAPTER 7**CLEARING, SETTLEMENT AND RISK
MANAGEMENT IN EXCHANGE TRADED
CURRENCY DERIVATIVES**

7.1	Clearing and Settlement Mechanism	165
7.2	List of Entities in Clearing and Settlement of ETCD	166
7.3	Interoperability of Clearing Corporation	169

	<i>Page</i>
7.4 Clearing Mechanism	171
7.5 Determination of Settlement Obligation	172
7.6 Position Limits	175
7.7 Settlement	179
7.8 Fund Settlement	183
7.9 Risk Management	184
7.10 Margin Collection by Clearing Corporation	195
7.11 Core Settlement Guarantee Fund	202

CHAPTER 8

REGULATORY FRAMEWORK FOR EXCHANGE TRADED CURRENCY DERIVATIVES

8.1 Securities Contracts (Regulation) Act, 1956 [SC(R)A]	208
8.2 RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives	210
8.3 Foreign Exchange Management Act, 1999	212
8.4 SEBI Regulation and Guideline	213
8.5 RBI Regulation and Guideline	215
8.6 Regulatory Guideline on Participation of Various Entities in ETCD	218
8.7 Eligibility Criteria for Members	223

CHAPTER 9

ACCOUNTING AND TAXATION

9.1 Accounting Guideline and Disclosure Requirements	231
9.2 Taxation of Exchange Traded Currency Derivatives	244

CHAPTER 10**CODE OF CONDUCT AND INVESTOR
PROTECTION MEASURE**

10.1	SEBI's Code of Conduct for Brokers	247
10.2	Investor Grievance	250
10.3	Investor Protection Fund	262
10.4	Arbitration	263
10.5	Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/Stock Broker and Depository Participant	268
10.6	Risk Disclosure to Client and KYC	270
Appendix A: Sample Questions		280