Study Notes for
NISM Series I : Currency Derivatives Certification Examination

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Examination Details

Total Questions	100 X 1 Marks
Total Marks	100
Type	Multiple Choice
Pass Score	60% = 60 marks
Duration	2 Hours
Negative marks	-0.25

Chapterwise Weightages

Chapter no	Chapter name	Marks
1	Introduction to Currency Markets	10
2	Foreign Exchange Derivatives	5
3	Exchange Traded Currency Futures	20
4	Exchange Traded Currency Options	20
5	Strategies using Exchange Traded Currency Derivatives	10
6	Trading Mechanism in Exchange Traded Currency Derivatives	10
7	Clearing, Settlement and Risk Management in ETCD	10
8	Regulatory Framework for Exchange Traded Currency Derivatives	5
9	Accounting and Taxation of ETCD	5
10	Codes of Conduct and Investor Protection Measures	5

NISM-Series-I: Currency Derivatives Certification Examination

Chapter 1: Introduction to Currency Markets

Evolution of Foreign Exchange Markets: Currency markets evolved from barter systems to metal coins, gold standards, Bretton Woods system, and finally to fiat currencies and floating exchange rates.

Barter System Limitations: Non-divisibility, transportation costs, and valuation difficulties led to the invention of money as a common medium of exchange.

Gold Standard: Countries valued currencies against gold, with central banks holding gold reserves. E.g., if 1 unit of gold = INR 10,000 and USD 500, then 1 USD = INR 20.

Bretton Woods System: From 1944-1971, all currencies pegged to USD, and USD pegged to gold. Created IMF and World Bank; collapsed in 1973.

Fiat Money: Currency not backed by physical commodity but by government order; e.g., USD and INR today.

Clean Float vs Managed Float: Clean float is purely market-determined; managed float (dirty float) includes central bank interventions.

Major Currencies: USD, EUR, JPY, GBP, CHF, AUD, CAD.

Most Traded Currency Pairs: EUR/USD, USD/JPY, GBP/USD, AUD/USD, USD/CAD, USD/CNY, USD/CHF.

Minor and Exotic Pairs: Minor pairs don't involve USD; exotics combine major currency with developing country's currency.

US Dollar Role: Dominant as investment, reserve, transaction, invoice, intervention, and vehicle currency, simplifying global trade.

Vehicle Currency Benefit: Reduces number of exchange rates needed; e.g., 10 currencies need 45 pairs, but using USD as vehicle needs only 9.

Euro: Official currency of 20 EU countries; second most traded globally.

Japanese Yen: Third most traded; used for carry trades; highly liquid.

Pound Sterling: Fourth most traded; known as 'cable'; significant reserve currency.

Swiss Franc: Safe-haven currency; often appreciates during global uncertainty.

Indian Rupee: Managed float; RBI intervenes to reduce volatility, not to fix rates.

International Currency Markets: Include banks, corporations, central banks, hedge funds, investors; daily turnover ~USD 7.5 trillion.

OTC Market vs Exchange: Most forex is OTC; derivatives also traded on exchanges like NSE, BSE, MSEI in India.

Currency Pair Quotation: First currency is base currency, second is quotation currency; price reflects value of base currency in terms of quotation currency.

Direct and Indirect Quotes: Direct quote: foreign currency as base; indirect quote: domestic currency as base.

Two-Way Quotes: Bid price (buy) and ask/offer price (sell); spread indicates liquidity. E.g., USDINR quoted as 75.0550/75.0600.

Appreciation and Depreciation: Base currency appreciates when it buys more of the quotation currency.

Market Timing in India: Forex market active 9 am–5 pm IST; spot date roll over at midnight.

Net Overnight Open Position Limit (NOOPL): Limits set by RBI to manage exchange rate risk; generally ≤25% of total capital.

Card Rates: Banks publish daily rates for retail; adjusted intra-day during volatility.

FX-Retail Platform: Introduced by CCIL in 2019 to ensure transparency for retail customers.

FBIL Reference Rates: Published daily at 13:30 IST for USD/INR, GBP/INR, EUR/INR, JPY/INR; based on actual transactions.

Settlement and Value Dates: Spot transactions settle in two business days; cash (same day); tom (next day); forward contracts settle after spot date.

Forward Contracts: Fix exchange rate today for transaction in the future; used for hedging.

Cross Rates: Derived when direct rates aren't available; e.g., EURINR = EURUSD × USDINR.

Exchange Rate Arithmetic: Use multiplication/division of underlying rates to compute cross rates; keep track of bid/offer sides.

Price Discovery: Driven by global events, demand-supply, economic indicators, and interbank market activity.

Economic Factors Impact: Include inflation, GDP growth, trade deficit, crude oil prices, global risk appetite, etc.

GDP Impact: Higher-than-expected GDP growth usually strengthens currency.

Industrial Production (IIP): Measures industrial sector output; higher IIP may strengthen currency.

Consumer Price Index (CPI): Indicates inflation; effect depends on central bank response.

Real Interest Rate: Higher real rates attract foreign inflows, supporting currency strength.

Trade and Current Account Deficit: Widening deficits generally weaken domestic currency.

Non-Farm Payrolls (NFP): Key US employment data; higher numbers strengthen USD.

Retail Sales Data: Indicates consumer demand; higher-than-expected strengthens currency.

Central Bank Actions: Interest rate changes, interventions, and policy statements impact currency values.

Spot vs Forward Market: Spot for immediate settlement; forwards used for hedging future needs.

Indian Market Peculiarity: Managed float with active RBI intervention; NDF market also influences price discovery.

Impact of Global Events: Domestic currency moves in response to global geopolitical, economic data, and risk appetite.

Interbank vs Merchant Market: Interbank: banks trade large volumes; merchant: corporates and retail customers.

Market Makers: Banks quoting two-way prices; provide liquidity and stability.

FBIL Forward Premia: Daily benchmark forward rates published by FBIL for hedging purposes.

Settlement Process: Physical delivery in OTC; net settlement in futures.

OTC vs Exchange Volume: OTC still dominant globally; exchange volumes rising.

Use of Technology: Real-time trading platforms enhance transparency and price discovery.

Managed Float Rationale: To reduce volatility, maintain competitiveness, and avoid speculative attacks.

Role of RBI: Stabilize INR, manage reserves, set exposure limits for banks.

Demand-Supply Mismatch: Significant short-term driver; e.g., large FDI inflows can strengthen INR temporarily.

Important Formulae:

Cross Rate:EUR/INR = EUR/USD × USD/INR

Vehicle Currency Rate Calculation:n(n−1)/2 (number of currency pairs without vehicle currency)

Real Interest Rate: Real Interest Rate = Nominal Interest Rate − Inflation Rate

Forward Rate (simplified): Forward = Spot × (1 + domestic interest rate) / (1 + foreign interest rate)

Spread: Spread = Ask Price − Bid Price

Chapter 2 : Foreign Exchange Derivatives

Meaning of Derivatives: Derivatives are financial instruments whose value is derived from an underlying asset.

Underlying Asset: The underlying is independent; the derivative depends on it and cannot exist without it.

Accounting Standards Criteria: Value linked to underlying, settlement on a future date, no full cash outlay on trade date; net settlement (FAS 133).

Leverage: Derivatives allow buying/selling underlying assets without full upfront payment.

Classification: Derivatives cover interest rate, credit, equity, forex, and commodity asset classes.

Generic Products: Forwards, futures, swaps, and options in each asset class.

Historical Emergence: Initially used for commodity price hedging; financial derivatives became prominent post-1970.

Market Growth: By the 1990s, financial derivatives accounted for two-thirds of total derivative transactions.

Risk Management Approaches: Speculation (taking risk), hedging (locking in return), insurance (eliminating negative return with options), and diversification (reducing risk per unit return).

Hedging Risk Exposure: Contracts offset losses in underlying assets.

Price Discovery: Derivative prices help determine expected future spot prices.

Market Efficiency: Derivatives help align underlying asset and derivative prices, preventing arbitrage.

Access to New Markets: Derivatives enable access to assets/markets otherwise unavailable.

Price Stability: Central banks use derivatives to stabilize currency.

Speculation: Allows traders to take calculated risks for potential profit.

Risk Shifting: Moves speculative trades from unregulated to regulated markets, enhancing financial stability.

Types of Risks: Counterparty, price, leverage, liquidity, legal/regulatory, and operational risks.

Derivative Products in Forex: Forwards, futures, options, and swaps.

Foreign Exchange Forward: OTC contract to exchange currencies at an agreed rate on a future date.

Futures: Standardized exchange-traded forward contracts with margins and clearing corporation guarantee.

Options: Right but not obligation to buy/sell underlying at agreed price before or on a date.

Call and Put Options: Call gives right to buy; put gives right to sell.

Swaps: Agreements to exchange cash flows or returns based on underlying assets.

Interest Rate Swap: Exchange of fixed to floating or floating to floating interest payments.

Foreign Exchange Swap: Exchange of currencies on one date and reverse exchange on a future date.

Currency Swap: Exchange of interest payments and principal in different currencies over time.

Market Segments: OTC derivatives (customized, private contracts) and exchange-traded derivatives (standardized, transparent).

Clearing Corporation: Acts as central counterparty to guarantee trades and manage settlement.

Novation: Clearing corporation becomes the buyer to every seller and seller to every buyer.

Margining and Mark-to-Market: Processes to manage risk and protect clearing corporations.

Standardization: Exchange contracts have pre-defined lot size and settlement date.

Customization: OTC contracts can match specific needs of counterparties.

Hedgers: Use derivatives to manage currency risk from exchange rate movements.

Speculators: Trade based on expected price movements; benefit from leverage and low transaction costs.

Arbitrageurs: Exploit price differences across markets to make risk-free profit.

Legal Framework: Governed by FEMA, RBI, SEBI, IRDAI, PFRDA, etc.

Exchange-Traded Advantages: Transparency, elimination of counterparty risk, low cost, and price discovery.

Exchange-Traded Limitations: Standardization may lead to imperfect hedge; operational issues from daily margining.

Market Evolution: OTC and exchange markets increasingly overlap; OTC uses electronic trading and clearing.

Growth Drivers: Increased volatility, market integration, technology, advanced risk tools, product innovation.

Currency Derivatives Importance: Significant share in global derivatives market by notional amount.

Market Statistics: Forex contracts worth USD 120,250 billion outstanding (June 2023, BIS).

Participants in India: Both residents and non-residents can enter forex derivatives under regulations.

Purpose in India: Hedge against unexpected exchange rate movements impacting trade and investment.

Currency Futures Introduction: Promote price discovery, hedging, risk management, and economic stability.

Cross-Currency Products: Introduced to hedge exposures in currencies other than INR.

Financial Crisis 2008: Highlighted systemic risk from OTC markets; led to push for exchange-traded derivatives.

OTC Clearing in India: CCIL provides trade guarantee for USD-INR forwards and swaps.

Standard and Exotic Products: Vanilla are standardized; exotic are customized.

Credit Default Swaps (CDS): Protect against credit events like defaults.

Innovation Impact: Better risk-return combinations, lower transaction costs, higher returns.

Hedging Tools in India: Forwards, futures, swaps, and options widely used.

Derivatives and Economic Growth: By reducing risk, derivatives encourage trade, investment, and output growth.

Important Formulae:

Futures Price (Interest Rate Parity): $F = S \times [(1 + r_d) / (1 + r_f)]^T$

Black-Scholes Call Option Price:
$C = S \times N(d1) - K \times e^{(-rT)} \times N(d2)$
$d1 = [\ln(S/K) + (r + \sigma^2/2)T] / (\sigma\sqrt{T})$
$d2 = d1 - \sigma\sqrt{T}$

Swap Payment (Fixed): Payment = Notional × Fixed Rate × (Days/360)

Option Payoff (Call): Max(S - K, 0)

Option Payoff (Put): Max(K - S, 0)

Forward Rate Agreement (FRA): Payoff = Notional × (Reference Rate - FRA Rate) × (Days/360)

Currency Swap Initial Exchange: Notional × Spot Rate

MTM Gain/Loss: (Current Price - Previous Price) × Contract Size

Hedging Ratio: Hedge Ratio = Value of Hedge / Exposure

Chapter 3: Exchange Traded Currency Futures

Meaning of Currency Futures:
Currency futures are standardized contracts traded on an exchange to buy/sell one currency against another at a specified future date and price.

Rationale for Currency Futures in India:
To enhance transparency, reduce counterparty risk, and provide hedging tools for corporates and investors.

Futures vs. Forward Contracts:
Futures are standardized, exchange-traded, and settled via clearing corporations, while forwards are OTC, customizable, and subject to counterparty risk.

Interest Rate Parity:
Ensures no arbitrage opportunity by linking spot and futures prices with domestic and foreign interest rates.

Futures Contract Features:
Exchange decides contract terms except price; includes expiry date, lot size, margins, and centralized trading.

Introduction in India:
NSE launched USD-INR futures in 2008; later EUR-INR, GBP-INR, JPY-INR; from 2018, cross-currency futures (EUR-USD, GBP-USD, USD-JPY).

Underlying Asset:
The exchange rate between currency pairs, e.g., USD-INR.

Spot Price:
Current market price of the currency pair.

Futures Price:
Current price of the futures contract, converges with spot price on expiry.

Quotation:
For USDINR, INR per USD; for JPYINR, INR per 100 JPY.

Contract Cycle:
Weekly, monthly, and quarterly; near, mid, and far-month contracts; can extend up to a year.

Expiry Date:
Two working days before last business day of expiry month at 12:30 PM.

Tick Size:
Minimum price movement, e.g., INR 0.0025 for USDINR futures.

Lot Size:
For USDINR, 1000 USD; for JPYINR, 100,000 JPY.

Contract Value:
Futures price × lot size.

Trading Hours:
9:00 a.m. to 5:00 p.m. for INR contracts; up to 7:30 p.m. for cross currency; expiry day ends at 12:30 p.m.

Base Price:
Theoretical price initially; later, previous day's daily settlement price.

Price Band:
Operating range ±3% or ±5% of base price; relaxed in steps.

Mark to Market (MTM):
Daily settlement of gains/losses based on daily settlement price.

Daily Settlement Price (DSP):
Weighted average price in last 30 minutes of trading.

Final Settlement Price (FSP):
Derived from spot market rates on expiry.

Final Settlement:
Currently cash-settled in INR; no physical delivery.

Open Interest:
Total outstanding contracts; equals number of long and short positions.

Positions:
Long (buy), short (sell), and open positions tracked until settled.

Payoff Charts:
Graph showing profit/loss vs. underlying price at expiry.

Long Futures Payoff:
Profit if price increases; loss if price decreases; linear.

Short Futures Payoff:
Profit if price decreases; loss if price increases; linear.

Contract Specifications (INR Contracts):
E.g., USDINR lot size = 1000 USD; tick size = INR 0.0025.

Contract Specifications (Cross Currency):
E.g., EURUSD lot size = 1000 EUR; tick size = USD 0.0001.

Settlement Cycle:
Daily MTM: T+1; final settlement: T+2.

Contract Value Calculation:
E.g., USDINR: trade price × 1000.

Advantages of Futures:
Eliminate counterparty risk, high liquidity, price transparency, standardized, accessible to all.

Limitations of Futures:
May not perfectly hedge, standardized lot sizes, need for mark-to-market margins.

Advantages of Forwards:
Customizable, perfect hedge, delivery-based settlement.

Limitations of Forwards:
Counterparty risk, low liquidity, less transparency.

Interest Rate Parity Formula:
F/S = (1+RINR) / (1+RUSD); ensures no arbitrage.

Premium & Discount:
Currency with higher interest rate trades at forward discount; lower interest rate at forward premium.

Theoretical Futures Price:
F = S × e^(r - rf) × t.

Example:
Spot USDINR = 83; INR rate = 7%; USD rate = 5%; 6-month futures price ≈ 83.8097.

Concept of Cross Currency Futures:
Contracts like EURUSD, GBPUSD, USDJPY; traded in INR.

Settlement Method:
Cash settled.

Trading Cycle:
11 weekly + 12 monthly (INR contracts); 12 monthly (cross currency).

Expiry:
Weekly: Friday; monthly: two working days before month-end.

Lot Sizes Differ:
E.g., JPYINR = 100,000 JPY; USDJPY = 1000 USD.

Impact of Interest Rates:
Higher USD rate lowers USDINR forward price; higher INR rate increases it.

Futures Market Regulation:
By SEBI and RBI; clearing corporation guarantees settlement.

Price Discovery:
By open trading; not by negotiation.

Final Settlement Price Cross Currency:
Derived using FBIL reference rates.

Cash Settlement:
No delivery; only profit/loss paid.

Mark to Market Margins:
Collected daily; reduces risk of large losses.

Open/Close Position:
Opening = increase exposure; closing = reduce exposure.

Chapter 4: Exchange Traded Currency Options

Options as Financial Instruments: Options allow unlimited profit potential while capping losses to the premium paid. The buyer gains a right, but not an obligation, to buy (call) or sell (put) the underlying asset at a specified price.

Call and Put Options: A call option gives the buyer the right to buy; a put option gives the right to sell.

Strike Price: The fixed price at which the underlying can be bought or sold.

Expiration Date: The date when the option contract ceases to exist.

Time to Maturity: Difference between the trade date and expiration date.

Option Buyer and Seller: Buyer pays premium and has rights; seller receives premium and bears the obligation.

Option Premium: The price paid by the buyer to acquire the option.

Underlying Asset: The asset being bought or sold (e.g., currency).

Exercise of Options: To exercise is to put into effect the right to buy/sell.

Difference from Futures: Futures oblige both parties; options obligate only the seller, while the buyer has a right but no obligation.

Styles of Options:

- **European Options:** Exercised only on expiration date.
- **American Options:** Can be exercised any time before or on expiration.

Moneyness of Options:

- **In the Money (ITM):** Exercise leads to positive cash flow.
- **Out of the Money (OTM):** Exercise leads to negative cash flow.
- **At the Money (ATM):** Spot price equals strike price; zero cash flow.

Intrinsic Value: Amount by which the option is ITM (call: S−X; put: X−S).

Time Value: Difference between option premium and intrinsic value; higher when longer time to expiry.

Determinants of Option Premium: Spot price, strike price, volatility, time to expiry, interest rates.

Impact of Spot Price: Increase raises call premium, lowers put premium.

Impact of Strike Price: Higher strike price lowers call premium, raises put premium.

Volatility: Higher volatility increases both call and put premiums.

Time to Expiry: Longer time increases premiums due to higher uncertainty.

Interest Rates: Increase raises call premium, lowers put premium.

Option Greeks:

- **Delta:** Sensitivity of premium to price change of underlying.
- **Gamma:** Rate of change of delta.
- **Theta:** Sensitivity to time decay.
- **Vega:** Sensitivity to volatility.
- **Rho:** Sensitivity to interest rate changes.

Put-Call Parity: Relationship between European call and put prices:
C + PV(X) = P + S

Option Pricing Models:

- **Binomial Model:** Uses price trees; suitable for European & American options.
- **Black-Scholes Model:** Calculates theoretical price; quick but assumes continuous hedging.

Black-Scholes Formula (for European options):
C = SN(d1) – Xe^(-rt)N(d2)

Black (1976) Model: Uses forward prices instead of spot; suited for futures options.

Implied Volatility (IV): Market's forecast of volatility; derived from option prices.

Payoff Diagrams:

- **Long Call:** Limited loss (premium), unlimited profit.
- **Short Call:** Limited gain (premium), unlimited loss.
- **Long Put:** Limited loss (premium), profit if price drops.
- **Short Put:** Limited gain (premium), loss if price falls sharply.

Break-Even Point:

- Call: Strike price + premium.
- Put: Strike price − premium.

Square-Off: Option positions can be closed before expiry to realize gain/loss.

Contract Specifications (INR pairs):

- Underlying: USDINR, EURINR, GBPINR, JPYINR.
- Lot size: 1000 USD/Euro/Pound; 100,000 Yen.
- Quotation: INR.
- Style: European.
- Expiry: Two working days before month-end; Fridays for weekly options.

Contract Specifications (Cross currency):

- Underlying: EURUSD, GBPUSD, USDJPY.
- Lot size: 1000 of quote currency.
- Quotation: USD or JPY.
- Expiry: Two working days before month-end.

Trading Hours: INR pairs: 9:00 a.m.–5:00 p.m.; cross currency: 9:00 a.m.–7:30 p.m.

Settlement: Cash settled based on FBIL reference rate.

Advantages of Exchange-Traded Options: Standardization, price transparency, counterparty risk elimination, liquidity.

OTC vs Exchange-Traded: OTC is customized; exchange-traded is standardized. OTC has lower liquidity; exchange-traded offers better transparency and clearing guarantees.

Option Strategies: Use combinations to manage risk/reward .

Implied Volatility Role: Higher IV increases option premiums; reflects market expectations.

Effect of Dividends: Lowers call premium, raises put premium; adjustments made in Black-Scholes.

Risk Profiles: Options offer asymmetric payoffs; futures are symmetric.

Clearing Corporation: Guarantees settlement; lowers counterparty risk.

Final Settlement: T+2 basis after expiry.

Underlying in Options: Must be well-defined and liquid for fair price discovery.

Role of SEBI & RBI: Regulate currency derivatives for fair and orderly markets.

Exchanges in India: Provide platforms for trading standardized currency options.

Option Expiry: Weekly or monthly; specific schedule per contract.

Operational Guidelines: Strike intervals, no. of strikes, and price bands set by exchanges.

Cash Settlement: No physical delivery; profit/loss settled in cash.

Effect of Time Decay: Time value declines over life; disadvantage to option buyers.

Effect of Volatility Change: Higher volatility increases premiums; benefits option holders.

Market Participants: Hedgers, speculators, arbitrageurs.

Price Discovery: Based on demand/supply; not fixed by SEBI or RBI.

Lot Size: Defined per contract for standardization.

Margin Requirements: Applicable to sellers to cover potential losses.

Liquidity: High in standardized contracts; lower in OTC.

Price Bands: Based on delta and volatility; adjusted daily.

Use in Hedging: Protects against adverse currency moves.

Cash vs Physical Settlement: Exchange-traded are cash settled; OTC may be delivery-based.

Important Formulae:

Delta = Change in option premium / Change in price of underlying
Gamma = Change in delta / Change in price of underlying
Theta = Change in option premium / Change in time to expiry
Vega = Change in option premium / Change in volatility
Rho = Change in option premium / Change in interest rate

Put-Call Parity: $C + PV(X) = P + S$

Black-Scholes Call Price:
$C = SN(d1) – Xe^{(-rt)}N(d2)$

$d1 = [\ln(S/X) + (r+\sigma^2/2)t] / (\sigma\sqrt{t})$
$d2 = d1 – \sigma\sqrt{t}$

Black-Scholes Put Price:
$P = Xe^{(-rt)}N(-d2) – SN(-d1)$

Break-Even for Call: Strike price + premium
Break-Even for Put: Strike price – premium

Chapter 5: Strategies Using Exchange Traded Currency Derivatives

Market Participants:
Hedgers, speculators and arbitragers are the main participants in ETCD markets.

Hedgers:
Hedgers protect themselves from price movements in foreign currency by using ETCD to reduce currency risk.

Exposure Sources:
Hedgers' exposure comes from import/export, foreign investments or other FX-linked activities.

Objective of Hedging:
Hedgers aim to reduce future cash flow volatility by locking currency rates.

Example of Hedging:
An exporter shipping to Europe sells EURINR futures or buys EURINR put options to protect against EUR depreciation.

Speculators:
Speculators take on FX price risk without real exposure, aiming to profit from price movement.

Speculators' Role:
They provide liquidity and act as counterparties to hedgers.

Example of Speculation:
A trader may buy EURINR futures if expecting EUR to appreciate against INR.

Arbitragers:
Arbitragers exploit price differences between spot and derivative markets for risk-free profit.

Arbitrage Process:
They lock in profit by executing opposite transactions in different markets.

Example of Arbitrage:
Buying in cash market and selling futures if futures trade at a premium.

Risks for Arbitragers:
Execution delay, illiquidity and settlement mismatches can create naked positions.

Hedging Parameters:
To hedge, decide on: derivative contract, hedge type (long/short) and contract month.

Contract Selection:
Choose the contract based on currency pair exposure (e.g., USDINR or EURINR).

Type of Hedge:
Long hedge for paying foreign currency; short hedge for receiving foreign currency.

Hedging Timing:
Select contract month so expiry is just after expected receipt or payment date.

Hedging Example - Export:
Exporter receiving EUR sells EURINR futures or buys EURINR put options.

Hedging Example - Import:
Importer paying USD buys USDINR futures or USDINR call options.

Combined Hedge Impact:
Effective rate = impact of spot price change plus futures payoff.

Partial Hedge Example:
An importer hedging half exposure adjusts payoff calculation accordingly.

Other Hedging Purposes:
Hedging applies to education payments, foreign loans, travel, medical, or investing abroad.

Hedging Gold Investments:
Investors may short USDINR futures to offset USDINR risk in gold ETFs.

Foreign Investments:
Investors can hedge offshore equity returns using currency derivatives.

Residual Risk Hedge:
Companies with both imports and exports can hedge net FX exposure.

Multiple Transactions:
For EURUSD exposure, use EURINR and USDINR futures if direct EURUSD contract is illiquid.

Education Payments Example:
Future FX risk for education fees can be hedged using futures matching payment timing.

Option Strategies:
Option spreads combine calls/puts with different strikes and/or maturities for tailored payoff.

Vertical Spread:
Same expiry, different strikes — can be bullish or bearish using calls or puts.

Horizontal Spread:
Same strike, different expiry dates — time value strategy.

Diagonal Spread:
Different strikes and expiry — combines vertical and horizontal.

Long Straddle:
Buy call and put at same strike to profit from high volatility.

Short Straddle:
Sell call and put at same strike to profit from low volatility.

Long Strangle:
Buy OTM call and put with different strikes to profit from sharp moves.

Short Strangle:
Sell OTM call and put — profit if prices stay within range.

Butterfly Spread:
Combines bull and bear spreads — neutral strategy with limited profit/loss.

Hedging with Puts:
Protects against currency depreciation for exporters.

Contingent Cash Flow:
Options suit cases where cash flow is uncertain (e.g., bids, agriculture).

Bear Put Spread:
Buy higher strike put, sell lower strike put to hedge with lower premium.

Hedging with Calls:
Protects importers from currency appreciation risk.

Bull Call Spread:
Buy ATM/ITM call, sell OTM call to lower premium cost.

Speculators' Use:
Speculators take directional positions using futures or options.

Cross Rate Speculation:
Speculators can combine currency pairs using cross rate relationships.

Premium Arbitrage:
Arbitragers exploit price differences between forwards and futures.

Triangular Arbitrage:
Exploit misaligned cross rates between three currencies.

Calendar Spread:
Trade same contract with different expiry to profit from spread movement.

Calendar Spread Drivers:
Interest rate differentials, liquidity and monetary policy affect spread movement.

Spread Order Facility:
Spread orders help manage execution risk when trading calendar spreads.

Regulations:
Hedging and trading must comply with FEMA, RBI and SEBI guidelines.

ETCD Limitations:
Standardised contracts may not perfectly match exposures — basis risk remains.

Contract Size Issue:
Standard lot sizes can cause over/under-hedging.

Cash Settlement Risk:
Timing mismatches between ETCD and actual transactions can create small losses.

Long-Term Hedging:
Long-dated exposures are difficult to hedge as ETCD tenors are shorter.

Important Formulae:

Effective Hedge Price:
Effective Price = Spot Rate ± Hedge Payoff

Calendar Spread Profit:
Spread Gain = (New Spread – Initial Spread) × Lot Size

Chapter 6: Trading Mechanism in Exchange Traded Currency Derivatives

Entities in the Trading System: Stock Exchanges, Clearing Corporations, Trading Members, Authorized Persons, Clearing Members, and Investors are the key entities enabling Exchange Traded Currency Derivatives.

Stock Exchanges: Provide a nationwide trading platform for various securities, set rules and regulations, ensure investor protection, and monitor compliance.

Clearing Corporations: Handle clearing, settlement, and risk management, providing settlement guarantees for trades executed on the Exchange.

Trading Member: Acts as an intermediary between the investor and the Exchange; must be registered and certified to access the trading system.

Authorized Person: Appointed by a trading member to provide clients access to the trading platform as an agent.

Clearing Members: Facilitate clearing and settlement; include Professional Clearing Members, Trading Cum Clearing Members, and Self Clearing Members.

Investor / Client: Trades through a trading member, must have a unique client code (UCC) linked to PAN, and can place orders through various channels like internet or phone.

Exchange Trading System: Fully automated, screen-based, order-driven system ensuring transparency and nationwide access.

Features of Exchange Trading System: Real-time order and price information, anonymous order matching on price-time priority, connected to clearing, surveillance, and data systems.

Trader Workstation (TWS): Terminal for trading members to access the Exchange system using unique IDs; displays own trades and market data.

Order Placement: Orders accepted by brokers undergo risk checks and are placed through multiple channels including DMA, ALGO, and STWT.

Order Routing: Orders are entered, verified, time-stamped, and routed to the Exchange where matching happens based on market depth.

Internet / Phone Orders: Clients can place orders via dedicated numbers or websites; brokers must verify client identity using secure methods.

Order Book: Shows unmatched buy/sell orders with price levels and quantities; enhances market transparency.

Spread Order Book: Allows execution of calendar spreads to trade the price difference between contracts of different maturities.

Calendar Spread: Simultaneous buy/sell of same contracts with different expiry dates to manage risk and margin requirements.

Order Matching Rule: Continuous price-time priority; best buy price is the highest bid and best sell price is the lowest ask; active orders match passive orders.

Passive and Active Orders: Unmatched orders are passive; new incoming orders that match existing ones are active.

Order Management: Covers entry, modification, cancellation, and matching of orders with defined price, time, and quantity conditions.

Price Condition Orders: Include Market Orders (buy/sell at best price), Limit Orders (buy/sell at specified price), and Stop Orders (activated by trigger price).

Market Order: Executes at the best available price; can be without protection or with protection to limit execution range.

Limit Order: Specifies desired price; executes only if market reaches that price or better.

Stop Order: Becomes active only when the market hits a specified trigger price.

Time Conditions: DAY (valid for the day), IOC (Immediate or Cancel), GTC (Good Till Cancelled), GTD (Good Till Date), and COL (Cancel on Logout).

Quantity Conditions: Disclosed Quantity, Minimum Fill, and All or None define how much of the order is shown or must be filled.

Proprietary Trading: Trading members can trade on their own account; requires Exchange approval for multiple proprietary terminals.

Order Modification: Allowed for unexecuted or partially executed orders; some changes may affect order priority.

Trade Execution: Matching of orders results in trades; confirmed by the Exchange with details like time and quantity.

Trade Modification: Limited to fields like client code; strict timelines and conditions apply.

Trade Annulment: Possible within 30 minutes of execution under specific conditions; may incur fees.

Risk Management: Brokers perform risk checks like order limits, client exposure, and margin requirements before sending orders to the Exchange.

Types of Risks: Operational (process failures), Market (price fluctuations), and Credit (client defaults).

Pre-Order Checks: Include price range, quantity freeze, value limits, UCC/PAN verification.

Pre-Trade Checks: Include trade execution range, self-trade prevention, market price protection, and emergency kill switches.

IRRA Platform: Allows investors to close positions/cancel orders during broker system disruptions; for retail investors only.

Technical Glitch Reporting: Brokers must report incidents to Exchanges and SEBI promptly and submit root cause analyses.

Business Continuity: For interoperable segments, correlated contracts can be traded on alternative exchanges to hedge positions.

Surveillance: Exchanges monitor positions, prices, and volumes in real-time to prevent market abuse.

Price Limit Circuit Filter: Currency futures and options have operating ranges (+/- 3% or 5% of base price); dynamic relaxation applies if trends break limits.

Currency Futures Price Band: No daily limits, but operating ranges exist to prevent erroneous orders.

Currency Options Price Band: Based on delta and underlying price; minimum ranges apply.

Trading Costs: Include statutory levies (GST, stamp duty), regulatory charges (SEBI fees, transaction fees), and brokerage fees.

Brokerage Cap: Max brokerage for futures is 2.5% of contract value; for options, 2.5% of premium or Rs.100 per lot, whichever is higher.

Commission Models: May include slab-wise, scrip-wise, or volume-based schemes; vary by broker type.

SEBI Turnover Fees: Rs.10 per crore for currency derivatives; annual fees apply for clearing members.

Stamp Duty: Uniform across India; collected by Exchanges and remitted to States based on buyer's domicile.

Important Formulae

Cross Rate: EUR/INR = EUR/USD × USD/INR

Spread Contract Execution:

First Leg = Reference Price

Second Leg = Reference Price ± Price Difference (Spread)

Chapter 7: Clearing, Settlement and Risk Management in Exchange

Clearing Corporation's Role: The Clearing Corporation registered with SEBI handles clearing and settlement of trades in Exchange-Traded Currency Derivatives (ETCD).

Legal Counterparty: It acts as a legal counterparty through novation, guaranteeing settlement.

Clearing Mechanism: Involves determining open positions and obligations of clearing members.

Netting: Multilateral netting is done to arrive at net settlement obligations.

Settlement Phases: Pay-In (members bring in funds/securities) and Pay-Out (members receive funds/securities).

Daily Settlement: Daily mark-to-market settlement is done on T+1; final settlement on T+2.

Clearing Corporation Functions: Clearing, settlement, margin collection, risk management.

Entities in Clearing: Clearing Corporation, Clearing Members, Clearing Banks, Depositories, Depository Participants.

Clearing Members Types: Professional Clearing Member (PCM), Trading Cum Clearing Member (TCM), Trading Cum Self-Clearing Member (SCM).

PCM Role: PCMs only clear and settle, no trading rights.

TCM Role: Can trade and clear their own and others' trades.

SCM Role: Can trade and clear only their own trades.

Clearing Banks: Handle funds transfer for pay-in/pay-out as per instructions from Clearing Corporation.

Depository Role: Maintains securities in electronic form and facilitates pledges for margin.

Interoperability: Enables clearing members to choose their preferred Clearing Corporation for multi-exchange trades.

Peer-to-Peer Links: Required between Clearing Corporations for interoperability.

Benefits of Interoperability: Better capital use, lower costs, reduced complexity.

Risk Management for Interoperability: Collateral must cover inter-CC exposures.

Margin Exchange: Margins and financial resources are shared bilaterally.

Open Position Computation: TMs declare 'Pro/Cli' positions which are summed up to arrive at CM's total position.

Proprietary vs Client Positions: Netting applies at individual client level but not across clients.

Settlement of Admitted Deals: Clearing members are liable for trades they undertake to settle.

Custodial Participants: Require unique codes; trades must be confirmed by clearing members.

Settlement Obligations: Computed via mark-to-market, premium settlement, exercise settlement.

Daily Mark-to-Market: Futures contracts marked to market daily at settlement price.

Final Settlement: Futures and options contracts settled at final settlement price.

Premium Settlement: Option premiums settled daily in cash.

Position Limits: Regulated to avoid excessive open positions.

Client Level Limits: E.g., USDINR – Higher of 6% OI or USD 20 million for retail clients.

Member Level Limits: Higher for banks and institutions; e.g., USDINR – Higher of 15% OI or USD 100 million.

Single INR Limit: Consolidated limit for all FCY-INR pairs.

Monitoring Limits: Exchanges monitor and share position limits daily.

Violation Actions: Members exceeding limits face restrictions and penalties.

Risk Management Framework: Includes margins, liquid assets, pre-trade controls, real-time monitoring.

Initial Margin: Computed upfront for all open positions.

SPAN System: Used to calculate initial margin using VaR approach.

Price Scan Range: Varies by currency pair, e.g., USDINR – 1.5%.

Volatility Scan Range: Fixed at 25% of annualized EWMA volatility.

Extreme Loss Margin (ELM): Additional margin to cover unexpected losses.

Calendar Spread Charges: Lower margins for offsetting positions in different expiry months.

Liquid Net Worth: Liquid assets minus margins payable must meet minimum requirements.

Risk Reduction Mode: Triggered when 90% of collateral is utilized; restricts trading.

Core Settlement Guarantee Fund: Covers obligations in case of default by a clearing member.

Fund Contributors: CCs, Exchanges, and clearing members contribute to the Core SGF.

Default Waterfall: Defines order of using member funds, insurance, SGF in case of default.

Client Collateral Protection: Mandatory margin pledging system via depositories.

No Title Transfer: Collateral must be pledged, not transferred.

Segregation: Client-level reporting of collateral and margins.

Margin Payment: Collected upfront, adjusted real-time against liquid assets.

Settlement of Client Funds: Brokers must return unused client funds on a periodic basis.

Cyber Security Framework: Brokers and DPs must maintain robust cyber security to protect data integrity.

Key Formulae:

Futures Price (Interest Rate Parity): $F = S \times [(1 + rd) / (1 + rf)]^T$

Black-Scholes Call Option: $C = S \times N(d1) - K \times e^{(-rT)} \times N(d2)$

d1 in Black-Scholes: $d1 = [\ln(S/K) + (r + \sigma^2/2)T] / (\sigma\sqrt{T})$

d2 in Black-Scholes: $d2 = d1 - \sigma\sqrt{T}$

Chapter 8: Regulatory Framework for Exchange Traded Currency Derivatives

Role of RBI and SEBI:
Exchange Traded Currency Derivatives (ETCD) are jointly regulated by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI).

Operational Rules:
Exchanges and Clearing Corporations set operational rules within statutory guidelines provided by RBI and SEBI.

FEMA 1999:
RBI derives regulatory powers from the Foreign Exchange Management Act, 1999 to govern foreign exchange and derivatives.

Reserve Bank of India Act, 1934:
Authorizes RBI to manage foreign exchange and derivatives transactions.

Securities Contract (Regulation) Act, 1956:
SEBI regulates all exchange-traded contracts under this Act.

Bye-laws:
Operational rules for trading, clearing, settlement, and risk management are framed under Exchange bye-laws.

Primary Regulatory Role:
RBI oversees all activities in the forex market, while SEBI focuses on exchange-traded derivatives.

Definition of Securities:
Includes shares, stocks, bonds, debentures, derivatives, units of collective investment schemes, government securities, electronic gold receipts, and other instruments declared by the Government.

Definition of Derivatives:
Securities derived from debt, shares, loans, commodities, or contracts based on price indices.

Legality of Derivatives:
Section 18A of the SC(R)A ensures exchange-traded derivative contracts are legal if traded and settled on recognized exchanges.

RBI-SEBI Standing Technical Committee:
Formed to coordinate regulatory roles for currency and interest rate futures.

Committee Recommendations:
Recommended norms for product design, risk management, surveillance, and membership criteria.

Initial Product:
USD-INR currency futures were recommended as the first product.

Risk Management Measures:
Margining, mark-to-market, surveillance, and position limits are part of the regulatory framework.

Separate Segment:
Currency futures must be traded on a separate segment with separate membership, trading platform, and clearing corporation.

Net Worth Criteria for Exchange:
Exchange must have a minimum net worth of Rs. 100 crores.

Net Worth for Members:
Trading members need Rs. 1 crore net worth; clearing members require Rs. 10 crores.

Foreign Exchange Management Act (FEMA):
Replaced FERA to facilitate external payments and orderly forex market development.

Scope of FEMA:
Covers holding, realization, repatriation, and dealings in foreign exchange and securities.

Applicability:
Applies to all branches, offices, and agencies owned or controlled by persons resident in India, even if located abroad.

Authorised Persons:
RBI regulates authorised dealers, issues directions, and inspects books.

SEBI Act, 1992:
Establishes SEBI to protect investors, develop and regulate the securities market.

SEBI's Powers:
Regulates stock exchanges, brokers, self-regulatory organizations, and prohibits fraudulent practices.

SEBI's Role in ETCD:
SEBI issues guidelines for trading, clearing, settlement, surveillance, and investor protection.

Approval of Exchange:
Exchanges must get SEBI's approval to set up a currency derivatives segment.

Separate Membership:
Membership in the currency derivatives segment is distinct from other segments.

Banks as Members:
Banks can become ETCD members if they meet RBI and SEBI's eligibility norms.

Certification Requirements:
Approved users and sales personnel must hold relevant certifications.

Contract Specifications:
SEBI sets rules on trading hours, contract size, cycle, price bands, and expiry.

Position Limits:
Limits for trading members, institutional and non-institutional clients are defined.

Surveillance Systems:
Guidelines for surveillance to ensure market integrity.

Clearing Corporations' Role:
Must get SEBI approval for clearing and settlement of currency derivatives.

Full Novation:
Clearing corporations interpose themselves between both legs of each trade.

Interoperability:
Permitted between clearing corporations for currency derivatives.

Risk Management:
Includes margining, settlement cycles, and separate Core Settlement Guarantee Funds.

Currency Futures Directions, 2008:
RBI's guidelines on currency futures' eligibility, contract features, participants, and risk management.

Currency Options Directions, 2010:
RBI's rules for exchange-traded currency options.

Foreign Exchange Management Regulations, 2000:
Define hedging, derivative contracts, and remittance norms.

Master Directions:
Cover risk management, interbank dealings, and participation guidelines.

FEDAI:
A self-regulatory body that supports banks in forex dealings and coordinates with RBI.

Participation Rules:
All investors, residents, and non-residents may participate in ETCD within regulatory limits.

AD Category I Banks:
Eligible to be trading and clearing members if they meet net worth, CRAR, and NPA norms.

Position Limits for Banks:
Synthetic USD-INR positions must stay within exchange-defined limits.

Residents:
May take ETCD positions up to USD 100 million without proving underlying exposure.

FPIs:
Allowed similar limits as residents, with daily reporting to custodians.

NBFCs:
May participate for hedging underlying forex exposure if size norms are met.

Primary Dealers:
Allowed as clients or members, only for proprietary trading.

RBI Intervention:
RBI may intervene in ETCD to manage excessive market volatility.

Membership Criteria:
Separate membership norms apply for stock brokers, clearing members, and trading members.

Base Minimum Capital:
Ranges from Rs. 10 lakhs to Rs. 50 lakhs based on activity type.

Eligibility for Entities:
Individuals, partnerships, LLPs, companies, and banks must meet specific educational, experience, and structural criteria.

Authorized Person:
Acts as an agent of the stock broker to provide trading access; must meet SEBI norms.

Key Formulae

Option Delta Hedge:
Δ = Option Price / Underlying Price

Position Limit Check:
Position Limit = Min (Exchange Prescribed %, Absolute USD Limit)

Margin Requirement:
Initial Margin = Contract Size × Price × Margin %

Chapter 9 : Accounting and Taxation

Accounting Guideline and Disclosure Requirements: Similar to other exchange-traded derivatives, accounting, valuation, and capital requirements for exchange-traded currency derivatives must comply with applicable accounting standards and valuation methods prescribed by ICAI or other relevant regulators.

ICAI Guidance Notes (Revised 2021): Banking, NBFCs, housing finance companies, and insurance entities must follow regulator-prescribed accounting treatment for derivative contracts. If no specific treatment exists, ICAI's guidance applies.

Recognition of Derivatives: All derivative contracts must be recognised on the balance sheet and measured at fair value.

Fair Value Measurement: Fair value means the 'exit price' — the amount paid to transfer a liability or received to transfer an asset, factoring in credit risk and collateral.

No Hedge Accounting: If hedge accounting is not used, derivatives must be measured at fair value with changes recognised in profit and loss.

Using Hedge Accounting: Entities may apply hedge accounting if they can identify risk management objectives, hedged risks, measurement methods, and document all aspects at inception and ongoing.

Partial Hedge Accounting: Entities can apply hedge accounting for some contracts and fair value accounting for others.

Disclosure Requirements: Entities must disclose accounting policies, risk management objectives, hedging activities, fair value measurement methods, and the impact on profit/loss and equity.

Types of Hedge Accounting: There are three recognised types: fair value hedge, cash flow hedge, and net investment hedge.

Fair Value Hedge: Used to hedge risk of fair value change in assets, liabilities, or unrecognised firm commitments.

Cash Flow Hedge: Used to hedge risk of variability in cash flows from existing assets/liabilities or forecast transactions. Effective hedge gains/losses are recognised in equity.

Net Investment Hedge: Used by investors to hedge net assets in foreign operations. Foreign exchange gains/losses are recognised in equity; ineffective portions are recognised in profit/loss.

Presentation in Financial Statements: Derivative assets/liabilities are presented as current/non-current based on purpose — trading derivatives are current; hedges follow the classification of the hedged item.

No Netting Off: Netting of assets and liabilities is not permitted except for basis adjustments under cash flow hedges.

Hedge Effectiveness: Entities must assess hedge effectiveness and ineffectiveness. Methods may include critical terms match, dollar offset, or regression analysis.

Accounting Standard (AS) 30: Defines financial instruments, including derivatives, as contracts whose value changes with specified variables, requires minimal initial investment, and settles at a future date.

Applicability of AS 30: Exchange-traded derivatives meet AS 30 conditions.

Taxation of Exchange Traded Currency Derivatives: Profits or losses from trading in exchange-traded derivatives are taxable under 'Profits and Gains from Business or Profession'.

Speculative vs. Non-Speculative: Derivative transactions are non-speculative if carried out on a recognised stock exchange for hedging.

Business Income Treatment: Gains/losses from exchange-traded currency derivatives are treated as normal business income and taxed at applicable rates.

FPI Treatment: Securities held by Foreign Portfolio Investors (FPIs) are always treated as capital assets. Gains from derivatives are taxed as capital gains.

Short-Term Capital Gains: If FPI-held derivatives are held under 12 months, gains/losses are short-term capital gains/losses.

Turnover Computation: Turnover for exchange-traded derivatives includes total favourable and unfavourable differences, premiums received on options sales, and differences on reverse trades.

Importance of Turnover: Turnover determines tax audit applicability and eligibility for presumptive taxation under Section 44AD.

Presumptive Taxation: Under Section 44AD, taxpayers with turnover up to ₹2 crores (₹3 crores if 95% receipts are digital) can declare profits at 6% of turnover.

Tax Audit Limit: Tax audit is mandatory if turnover exceeds ₹2 crores (or ₹3 crores with 95% digital receipts).

Advance Tax: Taxpayers under presumptive taxation can pay 100% advance tax by 15th March.

Set-off and Carry Forward: Business losses from exchange-traded derivatives can be set off against any business income but not against salary income.

Carry Forward Period: Unabsorbed business losses can be carried forward for up to 8 assessment years.

Due Date Requirement: Losses can only be carried forward if the return is filed on or before the due date.

Speculative Transaction Exclusion: Section 43(5) excludes eligible derivatives from the definition of speculative transactions if traded on a recognised stock exchange.

Tax Deductibility: Administrative expenses related to derivatives trading are deductible.

Disclosure of Foreign Assets: Entities must disclose all foreign exchange assets, liabilities, and contingent liabilities, both hedged and unhedged.

Hedge Documentation: Entities must document risk management objectives, hedged risks, and hedge effectiveness at inception and each reporting period.

Effectiveness Measurement: Ineffective portions of hedges must be recognised in profit and loss immediately.

Derivative Classification: Trading derivatives are classified as current; hedges follow the classification of the hedged item or settlement dates.

No Partial Settlements: Derivatives with periodic/multiple settlements should not be split into current/non-current parts.

Gross Reporting: Derivative assets and liabilities must be reported gross (no netting), except under cash flow hedge adjustments.

Foreign Exchange Translation: Net investment hedges protect investors from currency translation risk on foreign operations.

Equity Recognition: Effective gains/losses from net investment hedges are recognised directly in equity.

Profit/Loss on Disposal: Gains/losses are recognised in profit/loss upon disposal of the foreign operation.

Risk Management Disclosure: Entities must explain how they manage risks and why they use derivatives for hedging.

Chapter 10: Code of Conduct and Investor Protection Measures

Code of Conduct for Brokers:

1. Brokers must maintain integrity, promptitude, and fairness in all business conduct.

2. They must act with due skill, care, and diligence.
3. Brokers must avoid manipulative, fraudulent, or deceptive transactions.
4. They must not create a false market or harm investor interests.
5. Compliance with statutory requirements is mandatory.

Duty towards Investors:

6. Brokers must faithfully execute client orders at the best market price.
7. They must not refuse small investors due to low business volume.
8. Prompt information on execution or non-execution of orders must be provided.
9. Prompt payment for securities sold and delivery of purchased securities is mandatory.
10. Contract notes must be issued without delay in the prescribed format.
11. Brokers must maintain client confidentiality.
12. They must not induce transactions just for brokerage.
13. Brokers must not furnish false/misleading quotations or advice.
14. They must not deal with clients who defaulted elsewhere.
15. Brokers must disclose if acting as principal or agent.
16. They must avoid conflicts of interest and not prioritize their gain over clients' interests.
17. Recommendations must be suitable for clients' financial situations.
18. Investment advice in public media must disclose personal and family interests.
19. Brokers must employ adequately trained staff to serve clients competently.

Duty towards Other Brokers:

20. Brokers must cooperate in comparing unmatched transactions.
21. Bad delivery documents must not be knowingly delivered.
22. Full cooperation is required to protect clients' rights to dividends, bonuses, etc.
23. Transactions must be settled promptly with other brokers.
24. Advertising without exchange permission is prohibited.
25. Unfair means to induce clients from other brokers is forbidden.
26. False statements in returns to SEBI or the exchange must be avoided.

Investor Grievance Mechanism:

27. Investors should first approach the intermediary or company for grievance redressal.
28. If unsatisfied, they can approach the stock exchange or SEBI.
29. Stock exchanges and SEBI handle grievances independently.

Online Dispute Resolution (ODR):

30. SEBI mandates a common ODR portal for disputes in the securities market.
31. The portal uses online conciliation and arbitration.
32. Disputes with brokers, depositories, registrars, advisors, etc., are covered.
33. Both retail and institutional clients may use ODR or independent institutions.
34. MIIs must empanel approved ODR institutions and follow SEBI guidelines.
35. MIIs operate a shared ODR portal integrated with SEBI's SCORES.
36. Market participants must enroll and cooperate with the portal.

Dispute Resolution Process:

37. Investors must first try direct resolution; if unsatisfied, they escalate to ODR.
38. Market participants can also initiate ODR after a 15-day notice to investors.
39. The ODR portal allows document uploads and status tracking.
40. A round-robin system allocates disputes to ODR institutions.

Conciliation Process:

41. A neutral conciliator tries to resolve disputes within 21 days.
42. If conciliation fails, online arbitration may follow.
43. For market participants to initiate arbitration, they must deposit the claim amount.

Arbitration:

44. Arbitration must conclude with an award within 30 days.
45. Disputes above ₹30 lakh require a three-member tribunal.
46. Awards must be complied with within 15 days unless legally challenged.
47. Challenges must be backed by a full deposit of the award amount.

Investor Protection Fund (IPF):

48. Exchanges must maintain an IPF to compensate legitimate non-speculative claims.
49. Funding comes from listing fees, penalties, transaction charges, and interest earned.
50. IPF payouts are subject to per-investor compensation limits and strict guidelines.

IMPORTANT NOTE :

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

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All the Best ☺

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