



CONTENTS

	Page
<i>Foreword</i>	I-3
<i>Acknowledgement</i>	I-5
<i>About NISM Certifications</i>	I-7
<i>About the NISM-Series-IV: Interest Rate Derivatives Certification Examination</i>	I-9
<i>Syllabus Outline with Weightages</i>	I-17

CHAPTER 1

INTRODUCTION TO INTEREST RATE, INTEREST RATE INSTRUMENTS AND FIXED INCOME MARKET

1.1	Understanding the Interest Rate Concept	1
1.2	Fixed Income Securities	5
1.3	Type of Fixed Income Securities	7
1.4	Equity Securities v/s Debt Securities	17
1.5	Concept of risk-free interest rate	19
1.6	Term Structure of Interest Rates	21
1.7	Conversion of Rate into Amount	27
1.8	Accrued Interest	32
1.9	Spot Rate (Zero Rate) and Holding Period Return	35
1.10	Coupon, Current Yield and Yield-To-Maturity	37
1.11	Determining Cash Flow, Yield and Price of Bonds	42
1.12	Risk Measures	54

	Page
1.13 Role of the Debt Market	67
1.14 Primary and Secondary Debt Market in India	70

CHAPTER 2

INTEREST RATE DERIVATIVES

2.1 Derivatives: Definition and Economic Role	87
2.2 Products in Derivatives Market	91
2.3 Growth Drivers of Derivatives	96
2.4 Market Participants in Interest Rate Derivatives Market	98
2.5 Underlying of Interest Rate Derivatives	100
2.6 OTC versus Exchange-Traded Derivatives	103

CHAPTER 3

EXCHANGE TRADED INTEREST RATE FUTURES

3.1 Interest Rate Futures	108
3.2 Pay off Charts for Futures Contract	112
3.3 Contract Specification of Exchange Traded Interest Rate Futures	116
3.4 Lot Size, Tick Size and Change in Contract Value for each Tick change	123
3.5 Rationale for Introducing Exchange Traded Interest Rate Derivatives in India	125
3.6 Advantages and Limitations of Future Contracts in Comparison to FRA	126
3.7 Interest rate futures price computation	129

CHAPTER 4

EXCHANGE TRADED INTEREST RATE OPTIONS

4.1 Basics of Options	137
4.2 Difference between futures and options	139
4.3 Style of options	140
4.4 Moneyness of an option	140
4.5 Basics of Option Pricing and Option Greeks	141

	Page	
4.6	Option pricing methodology	149
4.7	Implied Volatility (IV)	152
4.8	Pay off Diagrams for Options	153
4.9	Contract Specification of Exchange Traded Interest Rate Options	163
4.10	Comparison of Exchange Traded IRO and OTC IRO	164

CHAPTER 5

STRATEGIES USING EXCHANGE TRADED INTEREST RATE DERIVATIVES

5.1	Market participants	169
5.2	Hedging through Exchange Traded Interest Rate Derivatives	172
5.3	Option Trading Strategies	179
5.4	Use of Interest Rate Derivatives for Speculative Transaction	201
5.5	Use of Interest Rate Derivatives by Arbitragers	203
5.6	Trading spreads using ETIRD	207
5.7	Limitation of Interest Rate Derivatives for Hedgers	208

CHAPTER 6

TRADING MECHANISM IN EXCHANGE TRADED INTEREST RATE DERIVATIVES

6.1	List of Entities in the Trading System	212
6.2	Exchange Trading System	216
6.3	Order Management	225
6.4	Risk Management and Order Routing	234
6.5	Price Limit Circuit Filter	242
6.6	Trading Costs	243

CHAPTER 7

CLEARING, SETTLEMENT AND RISK MANAGEMENT IN EXCHANGE TRADED INTEREST RATE DERIVATIVES

7.1	Clearing and Settlement Mechanism	248
-----	-----------------------------------	-----

	Page
7.2 List of Entities in Clearing and Settlement of ETIRD	249
7.3 Interoperability among Clearing Corporations	252
7.4 Clearing Mechanism	253
7.5 Determination of Settlement Obligations	255
7.6 Position Limits	257
7.7 Settlement	260
7.8 Funds Settlement	265
7.9 Delivery Under Physical Settlement	267
7.10 Risk Management	271
7.11 Margin Collection by Clearing Corporation	283
7.12 Core Settlement Guarantee Fund	293
7.13 Cyber Security & Cyber Resilience Framework (CSCRF) for Stock Brokers/Depository Participants	298

CHAPTER 8

REGULATORY FRAMEWORK FOR EXCHANGE TRADED INTEREST RATE DERIVATIVES

8.1 Securities Contracts (Regulation) Act, 1956 [SC(R)A]	302
8.2 RBI-SEBI Standing Technical Committee on Exchange Traded Currency and Interest Rate Derivatives	304
8.3 RBI guideline on Exchange Traded Interest Rate Derivatives	305
8.4 SEBI regulation and guideline	308
8.5 Regulatory guideline on participation of various entities in ETIRD	310
8.6 Role of FIMMDA in Fixed Income and Derivatives Markets in India	314
8.7 Eligibility Criteria for Members	315

CHAPTER 9

ACCOUNTING AND TAXATION

9.1 Accounting Guideline and Disclosure Requirements	325
9.2 Taxation of Exchange Traded Interest Rate Derivatives	331

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

10.1	SEBI's Code of Conduct for Brokers	<i>337</i>
10.2	Investor Grievance Redressal Mechanism	<i>340</i>
10.3	Online Resolution of Disputes in the Indian Securities Market	<i>346</i>
10.4	Investor Protection Fund	<i>359</i>
10.5	Execution of Power of Attorney (PoA) by the Client in favour of the Stock Broker/Stock Broker and Depository Participant	<i>361</i>
10.6	Execution of 'Demat Debit and Pledge Instruction' (DDPI) for transfer of securities towards deliveries/settlement obligations and pledging/re-pledging of securities	<i>363</i>
10.7	Risk Disclosure to Client and KYC	<i>364</i>