



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-IV : Interest Rate Derivatives Certification Examination</i>	<i>I-9</i>

CHAPTER 1

FIXED-INCOME AND DEBT SECURITIES - INTRODUCTION

1.1	Financial Markets: Overview	<i>1</i>
1.2	Debt/Fixed-Income Securities: Introduction	<i>3</i>
1.3	Debt/Fixed-Income Securities: Classification	<i>5</i>
1.4	Fixed-income versus Fixed-return	<i>13</i>
1.5	Debt versus Equity	<i>15</i>
1.6	Relative Size of Debt and Equity Markets Globally	<i>16</i>
1.7	Relative Size of Debt and Equity Markets in India	<i>17</i>
1.8	Primary and Secondary Market for Debt Securities in India	<i>17</i>

CHAPTER 2

INTEREST RATE - INTRODUCTION

2.1	Interest Rate: Concept	23
2.2	Risk-Free Rate versus Risky Rate	24
2.3	Nominal vs. Real Interest Rate	24
2.4	Term Structure of Rates: Shapes	25
2.5	Term Structure of Rates: Shifts	27
2.6	Conversion of Rate into Amount	29
2.7	Accrued Interest	32

CHAPTER 3

RETURN AND RISK MEASURES FOR DEBT SECURITIES

3.1	Return Measure: Spot Rate	37
3.2	Coupon, Current Yield and Yield-To-Maturity	39
3.3	Spot Rate, Bond Price and YTM	40
3.4	Risk Measures	43

CHAPTER 4

INTEREST RATE DERIVATIVES

4.1	Derivatives: Definition and Economic Role	51
4.2	Interest Rate Derivatives	55
4.3	OTC versus Exchange-traded Derivatives	57
4.4	Derivatives Market in India	58

CHAPTER 5**CONTRACT SPECIFICATION FOR INTEREST RATE
DERIVATIVES**

5.1	Underlying	66
5.2	Contract Amount (or Market Lot)	70
5.3	Contract Months, Expiry/Last Trading Day and Settlement Day	71
5.4	Price Quotation, Tick Size and Trading Hours	72
5.5	Daily Settlement Price (DSP)	72
5.6	Final Settlement Price (FSP)	73
5.7	Delivery under physical settlement	74

CHAPTER 6**TRADING, CLEARING, SETTLEMENT
AND RISK MANAGEMENT**

6.1	Operational Guidelines of Exchanges	81
6.2	Order Types and Execution	85
6.3	Spread Orders	87
6.4	Margining and Mark-To-Market	87
6.5	Clearing and Settlement	94
6.6	Procedure for Delivery	96

CHAPTER 7**REGULATIONS AND COMPLIANCE**

7.1	Role of Various Regulators	103
7.2	Restrictions on Resident and Non-Resident Investors	108
7.3	Limits on Open Interest	108
7.4	Regulatory Reporting	110

	<i>PAGE</i>
7.5 Role of FIMMDA in Fixed Income and Derivatives Markets in India	<i>111</i>
7.6 Accounting	<i>112</i>

CHAPTER 8

TRADING AND HEDGING

8.1 Trading Strategies	<i>117</i>
8.2 Hedging Strategies	<i>119</i>
8.3 Basis Risk, Yield Curve Spread Risk and Market Liquidity Risk	<i>122</i>