



DIPLOMA EXAMINATION IN COMMODITY DERIVATIVES FOR BANKERS

Rules & Syllabus 2015

OBJECTIVE

Commodity Derivative segment is one of the sectors in Indian economy where demand for manpower is outpacing supply. Financial Institution, NBFCs, Intermediary homes and bankers have started showing interest in the commodity market and have started playing a prominent role. However, these institutions are facing shortage of personnel trained in commodity futures. This diploma course will give necessary knowledge in commodity derivatives.

ELIGIBILITY

The applicant should be graduate from a recognized university.

SUBJECT OF EXAMINATION

1. Commodity Derivatives - Theory
2. Economic Theory with reference to Commodity Markets
3. Commodity derivatives trading, Futures and Options strategies

EXAMINATION FEES / REGISTRATION FEES

| | For Members | For Non-Members |
|-------------------------|-------------|-----------------|
| First two attempts | ₹4,000/- * | ₹6,500/- * |
| Subsequent each attempt | ₹2,000/- * | ₹2,000/- * |

* Plus Service Tax as applicable (Reg. No. AAATT3309DSD002)

MEDIUM OF EXAMINATION

Examination will be conducted in English only.

PATTERN OF EXAMINATION

- (i) Each Question Paper will contain approximately 100 objective type multiple choice questions carrying 100 marks including questions based on case study / case lets. The Institute may, however, vary the number of questions to be asked for a subject. There will NOT be negative marking for wrong answers.
- (ii) Questions for the examination will be asked for : (a) Knowledge testing (b) Conceptual grasp (c) Analytical / logical exposition (d) Problem solving (e) Case analysis
- (iii) Examination will be held in **Online Mode** only.

DURATION OF EXAMINATION

The duration of the examination will be of two hours.

PERIODICITY AND EXAMINATION CENTRES

- (i) The examination will be conducted normally twice a year in June and December on a Sundays.
- (ii) Examinations **will be conducted on three consecutive Sundays** (one paper on each Sunday)

PASSING CRITERIA

- (i) Pass : Minimum marks for pass in every subject - 50 out of 100 marks.
- (ii) **Candidate securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of examination in a single attempt will also be declared as having completed the Examination.**
- (iii) Candidates will be allowed to retain credits for the subject/s they have passed in a attempt till the expiry of the time limit for passing the examination as mentioned bellow :

TIME LIMIT FOR PASSING THE EXAMINATION

- (i) Candidates will be required to pass the examination within a time limit of 2 years (i.e. 4 consecutive attempts). Initially a candidate will have to pay examination fee for 1st block of one year i.e. for two attempts. In case a candidate is not able to pass examination within the 1st block of one year, candidate should necessarily submit the examination application form for subsequent attempt, without any gap on payment of requisite examination fee. If they do not submit the examination form immediately after exhausting the first block, the examination conducted will be counted as attempt for the purpose of time limit for passing.
- (ii) Candidates not able to pass examination within the stipulated time period of two years are required to re-enroll themselves afresh by submitting a fresh Examination Application Form. Such candidates will not be granted credit/s for subject/s passed, if any, earlier.
- (iii) Attempts will be counted from the date of application irrespective of whether a candidate appears at any examination or otherwise.

“CLASS OF PASS” CRITERIA

- (i) The Institute will consider the **FIRST PHYSICAL ATTEMPT** of the candidate at the examination as first attempt for awarding class. In other words, the candidate should not have attempted any of the subject/s pertaining to the concerned examination any time in the past and has to pass all the subjects as per the passing criteria and secure prescribed marks for awarding class. Candidate re-enrolling for the examination after exhausting all permissible attempts as per the time limit rule will not be considered for awarding class.

(ii) First Class : 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT.

(iii) First Class with Distinction : 70% or more marks in aggregate and 60 or more marks in each subject in the FIRST PHYSICAL ATTEMPT.

PROCEDURE FOR APPLYING FOR EXAMINATION

Application for examination should be made online from the Institute's website www.iibf.org.in. No physical form will be accepted by the Institute with effect from 1st January, 2013.

PROOF OF IDENTITY

Non-members applying for Institute's exams / courses are required to submit a copy of any one of the following documents along with Examination Application Form. Forms without the same shall be liable to be rejected.

- 1) Photo i/card issued by Employer or
- 2) PAN Card or
- 3) Driving License or
- 4) Election Voter's i/card or
- 5) Passport or
- 6) Aadhar Card

STUDY MATERIAL

The Institute has developed a courseware to cover the syllabus. Candidates are advised to make full use of the courseware and also the updates put on the IIBF website from time to time. However, as banking and finance fields are dynamic, rules and regulations witness rapid changes. Hence, candidates should keep themselves updated on latest developments by going through Master Circulars issued by RBI, visiting the websites of organizations like RBI, SEBI, BIS etc.

The Institute has published books to facilitate study and they will be available at outlets / showrooms / distributors of M/s. Macmillan Publishers India Ltd. The price of each book and detailed list of outlet is mentioned below.

Candidates who purchase books directly from outlets of publishers will be offered a discount of 20% on the cost price of the book. Candidates desirous of purchasing books by post will not be offered any discount. However the postage will be borne by publishers. Candidates would be required to send their indent to publishers' outlet along with a Demand Draft for the cost of books as mentioned overleaf. The Demand Draft should be drawn in favor of M/s. Macmillan Publishers India Ltd. **(No cheques will be accepted)**. **Candidates are requested not to send any request for the purchase of books to the Institute's Zonal Offices / Corporate Office.**

| Name of the Book | Price |
|-----------------------|--------|
| Commodity Derivatives | ₹365/- |

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SYLLABUS

The details of the prescribed syllabus which is indicative are furnished below. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject. Candidates appearing for the Examination should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subjects of the said examination although those topics may not have been specifically included in the syllabus. The Institute also reserves to itself the right to vary the syllabus / rules / fee structure from time to time. Any alterations made will be notified from time to time. Further, questions based on current developments in banking and finance may be asked.

Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by the Institute.

SYLLABUS

PAPER - I : COMMODITY DERIVATIVES-THEORY

1. Introduction of Derivatives : Derivatives definition, types of derivatives, products, participants and functions, exchange traded vs. OTC derivatives.
2. Commodity Derivatives : How commodity derivatives differ from financial derivatives, warehousing, quantity of underlying assets, global commodities exchange, commodities exchange in India, commodities permitted for trading, Kabra committee report, commodity specific issues - cropping and growth patterns, Global domestic demand-supply dynamics, price trends and factors that influence prices
3. Instrument available for trading : Types of instruments (futures and options), basics, payoffs
4. Pricing commodity derivatives : Investment assets vs. consumption assets, The cost of carry model - pricing futures contracts on investment commodities, pricing futures contracts on consumption commodities, The futures basics
5. Concept of basis using Commodity derivatives markets - Hedging, Speculation, Arbitrage
6. Exchange membership, Rules, regulations, bye laws
7. Commodities to be traded : Types of commodities: Bullion (silver and Gold), Agricultural commodities - fundamental of particular commodity
8. Trading : basic concepts such as margins, circuit filters - delivery norms - contract specifications, trading system, and entities in the trading system, trader workstation, order types and conditions, exposure limits.
9. Clearing, settlement and Risk Management : calendar and settlement schedule, position determination, settlement mechanism, daily mark to market settlement, settlement price - daily settlement price, final settlement price, Margining - Initial margin, Daily mark to Market margin, open interest limits, second line of defence, NSCCL span. Final Settlement : Cash settlement, physical settlement (warehousing) Exception handling : funds shortages, Delivery shortages
10. Regulatory Framework : Forward market commission - Rules governing Commodity Derivatives Exchange, Rules Governing Intermediaries, Investor Grievances, Arbitration Rules - Essential commodities Act - VAT - Forward Contract Regulation Act.
11. Accounting and Taxation Issue

PAPER - II : Economic Theory

1. Micro and macro economics - Agricultural economics : Nature and scope - consumer behaviour and theories - utility - indifference curve - revealed preference theory - elasticity of demand - theory of production and costs - theory of firm - profit maximization and duality - Dynamic demand and supply function.
2. Commodity Supply and Demand an understanding of the supply and demand factors underpinning agricultural, metals, and energy futures and option contracts (e.g. soybeans, corn, hogs, coffee and cattle, copper, gold and aluminum, crude oil and heating oil).
3. Business cycles and Interest rates - Effects of business cycles and fluctuations in interest rates on the behavior of commodity markets and their futures and options products. Examples of unique behavior with regard to products such as coffee and wheat will be discussed.

4. Market infrastructure Operational aspects of transaction settlement, delivery and fulfillment of commodity derivatives guarantees. The importance of the transaction cycle and the complexities of storing and delivering physical commodities will be examined. In addition, important legislation with reference to regulatory organizations I
5. Market Structure - factor market - perfect competition - monopoly monopolistic competition - oligopoly - general equilibrium analysis - income distribution - social choice theory - Public goods - welfare economics.
6. Agricultural marketing : concepts - market functions - structure - marketing efficiency regulated market, co-operative marketing - Warehousing and commodity boards - future markets.
7. Agricultural input markets - Commission on agricultural costs and prices - methods of agricultural price fixing - price support programs - agricultural supply and demand models - agricultural subsidies - time series analysis of agricultural prices - commodity G models - spatial equilibrium of agricultural market.
8. Optimisation of farm resource use - factor - factor, factor- product and product - product relationships - forms of production functions - production in dynamic setting policy impact on production - cost concepts - types of risk - estimation of risk - management response to risk - risk programming.
9. Scope and gains from international Trade - Terms of trade comparative costs - trade policy - tariffs and quotas for agricultural commodities - effects of monopoly, cartels and price discrimination - state trading in agricultural commodities - case for free - multilateral Trade.

PAPER - III : COMMODITY DERIVATIVES TRADING, FUTURES AND OPTIONS STRATEGIES

Futures Trading Strategies

Futures strategies. Various types of time spreads are analyzed - e.g. simple calendar spread, butterfly and condor. The student learns to price, execute and risk manage future strategies. The risks and p / l behind each strategy are thoroughly investigated. An understanding of the concepts of cash and carry and reverse cash and carry (otherwise known as backwardation and contango) are a pre-requisite for this section of the course. Students are also given a refresher on intra-commodity futures spreads -e.g. crack spread, C crush spread.

Volatility

Discussion of option strategies, reviews on volatility. The aim is to provide students with the knowledge with which to analyze volatility and implement / change trading decisions based on their expectations of volatility. The importance of curve management is also stressed.

Basic Options strategies

Option strategies. Basic option strategies are analyzed : straddle, strangle, call / put bull / bear spread, and conversion/reversal. The students learn to price, execute, and risk manage these option strategies. The risks and p / l behind each strategy are thoroughly investigated.

Complex options strategies

More complex option strategies : box, time spread, put / call backspread, butterfly, ladder and condor. The class aims to cement the students' understanding of the theoretical and numerical aspects of trading strategies. Armed with the previous weeks' numerical and theoretical knowledge, students are able to begin to use the tools required to execute and risk manage strategies based upon their trading / investment decisions

TRADING

● Electronic commodities markets

Reviews on electronically traded commodities markets, focusing on the more practical aspects of the business, including: exchanges, products, software vendors, clearing and delivery. Students are also made aware of the physical or underlying markets which may in some instances be traded electronically either through a principal to principal model or a central counter party. Introduced to OTC markets.

● Trading simulation

Interact with the available electronic trading software and implement the theory and trading strategies. These strategies will be implemented from a market maker's perspective on the Web Portal of the Institute.

● Trading day

Aim to replicate a trading day on a commodity futures and options exchange on a simulated model in the Web portal. The session would utilize whatever fully integrated simulated / real time technology is available in the trading laboratory. Students will effectively trade in a simulated exchange environment using the skills taught throughout the course.

COURSES OF IIBF

A. Flagship Courses (for Members*)

- ☞ JAIB
- ☞ CAIB
- ☞ Diploma in Banking & Finance (Only for Non-Members)

B. Specialised Diploma Courses (for Members* and Non-Members**)

- ☞ Diploma in Treasury, Investment and Risk Management
- ☞ Diploma in Banking Technology
- ☞ Diploma in International Banking and Finance
- ☞ Advanced Diploma in Urban Co-operative Banking
- ☞ Diploma in Commodity Derivatives for Bankers
- ☞ Advanced Wealth Management Course
- ☞ Diploma in Home Loan Advising

C. Certificate Courses (for Members* and Non-Members**)

- ☞ Certificate in Trade Finance
- ☞ Certified Information System Banker
- ☞ Certificate in Anti-Money Laundering / Know Your Customer
- ☞ Certificate in Quantitative Methods for Bankers
- ☞ Certificate in Credit Cards for Bankers
- ☞ Certificate Examination in Banking Oriented Paper in Hindi
- ☞ Certificate Examination in SME Finance for Bankers
- ☞ Certificate Examination in Customer Service & Banking Codes and Standards
- ☞ Certificate Examination in CAIB - Elective Subjects
- ☞ Certificate Examination in Basics of Banking / Credit Card Operations / Functions of Banks for employees of IT Companies
- ☞ Certificate Course for Business Correspondents / Business Facilitators
- ☞ Certificate Examination for Debt Recovery Agents
- ☞ Certificate Examination in IT Security
- ☞ Certificate Examination in Rural Banking Operations for RRB Staff
- ☞ Certificate Examination in Prevention of Cyber Crimes and Fraud Management
- ☞ Certificate Examination in Foreign Exchange Facilities for Individuals
- ☞ Certificate Examination in Microfinance

D. Specialised Blended Certificate Courses

- ☞ Certified Bank Trainer
- ☞ Certified Banking Compliance Professional
- ☞ Certified Credit Officer
- ☞ Certified Treasury Dealer
- ☞ Project Finance Management with IFMR, Chennai

E. Management Courses

- ☞ Advanced Management Program
- ☞ CAIB linked MBA with IGNOU.

Educational support :

- ☞ Publishing specific courseware for each paper / examination and Workbooks etc.
- ☞ Classroom learning through Accredited Institutions, Video Classes, e-learning through Portal, Contact Classes or Campus Training - Model Questions and subject updates on the net

Other activities :

- ☞ Research, Seminars, Conferences, Lectures, etc.
- ☞ Publications of books, Daily e-newsletter, monthly newsletter and quarterly journal
- ☞ Training & Consultancy and Financial Education

* Members are employees of Banks and Financial Institutions who have enrolled as members of IIBF.

** Non-Members are eligible candidates for each course / examination without IIBF Membership.

The Rules & Syllabus and other information pertaining to the examinations are available with Institute's Offices at Mumbai, Chennai, New Delhi, Kolkata and also at such other centers / offices as may be notified from time to time. The same is also available at our website www.iibf.org.in.

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