



## DIPLOMA EXAMINATION IN COMMODITY DERIVATIVES FOR BANKERS

### Rules & Syllabus 2017

#### 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

Particulars	For Members	For Non-Members
Subsequent two 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 o 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

Institute has discontinued this examination. No new candidate/s for this examination will be enrolled effective from May 2017.

- For Candidates already enrolled for this examination, Institute will conduct the examinations.
- Candidates already enrolled will be permitted to attempt examinations till their permissible number of attempts (4) are over.
- The last Examination will be held in July 2018. (this will enable all candidates who are currently enrolled for examination to avail permissible 4 attempts)

## 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/-

## 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.

## IMPORTANT RULES / INFORMATION FOR CANDIDATES

### 1. ADMIT LETTER OF EXAMINATIONS :

- a. Admit letter to all eligible candidates will be emailed to the candidates in their email id registered with the Institute, 10 days before the examination date.
- b. Admit letter of all eligible candidates will be hosted on Institute's website [www.iibf.org.in](http://www.iibf.org.in) under the menu 'Exam Related', 1 week before the examination date.
- c. For downloading and printing of admit letter from the above mentioned website, candidates will have to enter the following:
  - i. Membership or registration number as **login id**
  - ii. **Edit profile password.**
  - iii. If candidates do not remember their Edit profile password, they have to click on the 'Forgot password / Get Password' button after entering the Membership or Registration number. On clicking fresh edit profile password will be sent to their registered email id.
- d. Candidates are required to **produce printed copy of admit letter** along with Membership identity card or any other valid photo ID

card (Aadhaar card / Employer's card / PAN Card / Driving License / Election voter's card / Passport etc.) at the examination venue.

- e. In the absence of printed copy of Admit Letter and Photo Identity Card, candidates will be denied permission to write Examination.**

## **2. Mobile Phones**

- a. Mobile phones and other electronic / smart gadgets (except calculator as permissible) are not allowed in the examination hall. It is clarified that mere possession of mobile phone and other electronic / smart gadgets in the examination hall whether in switch off mode or silent mode shall also be deemed to be resorting to adoption of unfair means in the examination.

## **3. Use of calculator**

- a. Candidates will be allowed to use battery operated portable calculator in the examination. The calculator can be of any type up to 6 functions, 12 digits.
- b. Attempt to use any other type of calculator not complying with the specifications indicated above or having more features than mentioned above shall tantamount to use of unfair means. Scientific calculator is not allowed.

## **4. Other Rules / Information**

- a. Candidates should ensure that they sign the Attendance Sheet.
- b. Candidates are advised to reach the Examination Venue at least 30 minutes before commencement of the examination.
- c. No candidate will be permitted to enter the Examination Venue / hall after expiry of 15 minutes and to leave the hall in the first 30 minutes from the scheduled commencement of the examination.
- d. Candidates would be able to login to the system only with the password mentioned in this Admit Letter. This password should not be disclosed to others. Keep it safe to avoid the possible misuse.
- e. If the examination could not commence on scheduled time or there is delay due to Failure of power, Technical snag of whatsoever nature or for any such reason having bearing upon the conduct of examination; candidates have to :-
- Wait till resumption of power supply / solving of technical snag.
  - Take-up the examination at other venue arranged by the examination conducting authority.



- iii. Follow instructions given by the examination conducting authority.
- f. Candidates are required to strictly follow all the instructions given by the examination conducting authority during the examination and adhere to Rules of the examination.
- g. Violation of any of the Rules / Instructions, misuse of the Admit Letter will be considered to be an act of serious misconduct and the Institute will take action as per the Rules of the examination, which will also be reported to the employer of the candidate.

#### **5. Rules, Penalties for Misconduct / Unfair Practices :**

- a. Communication of any sort between candidates or with outsiders is not permitted and complete silence should be maintained during the examination.
- b. Copying answers from other candidates / other printed / Electronic material or permitting others to copy or consultation of any kind will attract the rules relating to unfair practices in the examination.
- c. No candidate shall impersonate others or allow others to impersonate himself / herself at the examination.
- d. No candidate shall misbehave / argue with the Examination Conducting Authorities at the centre.
- e. Candidates have to compulsory return any papers given including that given for rough work to invigilator.
- f. Candidates should not possess and / or use books, notes, periodicals, etc. in the examination hall at the time of examination / or use mathematical tables, slide rules, stencils etc. during the examination.

If any candidate violates any of the above rules, it will be considered to be an act of misconduct and he/she will be liable for punishment.

**PLEASE REFER INSTITUTE'S WEBSITE UNDER THE MENU "EXAM RELATED" FOR DETAILS OF DEBARMENT PERIOD FOR UNFAIR PRACTICES ADOPTED BY CANDIDATES DURING CONDUCT OF INSTITUTE'S EXAMINATIONS.**

#### **6. Result Advice / Consolidated Marksheet / Final Certificate**

- a. Result Advice of candidates will be hosted on Institute's website on declaration of result, which can be downloaded by the candidates.
- b. Consolidated mark sheet for candidates completing examination having more than one subject, will be available on the Institute's website after the declaration of results. Candidates can download

the same after entering login credentials using their membership number and edit profile password.

- c. Final certificates will be sent by speed post within 2 months after the declaration of result.

### **CONTACT DETAILS :**

Register your queries through website [www.iibf.org.in](http://www.iibf.org.in) > Members / Candidates Support

Services (Help)

or

Email all your queries to [care@iibf.org.in](mailto:care@iibf.org.in)

### **Member Support Service Office :**

Indian Institute of Banking & Finance

191-F, Maker Towers, 19th Floor,

Cuffe Parade, Mumbai - 400 005

Tel. : 022-2218 3302 / 2218 5134

### **For training / contact classes related queries contact :**

Leadership Centre

Indian Institute of Banking & Finance

Kohinoor City, Commercial-II, Tower-I, 3rd Floor,

Kirol Road, Off L.B.S.Marg, Kurla West, Mumbai 400 070.

Tel. : 022 25039746 / 9604 / 9907

E-mail : [training@iibf.org.in](mailto:training@iibf.org.in)

### **PROFESSIONAL DEVELOPMENT CENTRES :**

<b>South Zone</b>	<b>North Zone</b>	<b>East Zone</b>
Indian Institute of Banking & Finance No. 94, Jawaharlal Nehru Road, (100 Feet Road), Opp. Hotel Ambica Empire, Vadapalani, Chennai – 600 026. Tel. : 044-2472 2990 / 2472 7961 E-mail : <a href="mailto:iibfsz@iibf.org.in">iibfsz@iibf.org.in</a>	Indian Institute of Banking & Finance 102-113, Vikrant Towers, 1st Floor, 4 Rajendra Place, New Delhi – 110 008. Tel. : 011-2575 2191 / 92 E-mail : <a href="mailto:iibfnz@iibf.org.in">iibfnz@iibf.org.in</a>	Indian Institute of Banking & Finance Hindusthan Building (Annexe), 7th Floor, 4, C. R. Avenue, Kolkatta – 700 072. Tel. : 033-2212 4992 E-mail : <a href="mailto:iibfez@iibf.org.in">iibfez@iibf.org.in</a>

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