NISM-Series-V-D

Mutual Fund – Specialized Investment Fund Distributors

Practice Worksheets

6 worksheets covering all 22 chapters across 3 modules · 56 practice questions with a full answer key

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Worksheet 1 — Investment Landscape, Fund Concept & Legal/Regulatory Framework (Ch. 1–4, 19 marks)

Concept recap

This worksheet covers the foundational chapters: the investment landscape (asset classes, risk types, behavioural biases), what a mutual fund is and how schemes are categorised, the trust-based legal structure (Sponsor, Trustees, AMC, Custodian, RTA), and the regulatory framework (SEBI, Advertisement Code, mis-selling).

Risk profiling weighs need, ability, and willingness to take risk. SEBI's five scheme categories each carry hard percentage rules. At least two-thirds of Trustees must be independent. SEBI's Advertisement Code restricts celebrity endorsement to industry-level campaigns only.

Key numbers & formulas

Item	Value / Formula
Independent Trustees required	At least two-thirds
Large Cap Fund minimum equity in large-caps	80%
Change-in-AMC-control exit window	At least 30 days, no exit load
AMFI's role	Industry body, not a regulator

Practice questions

1. Risk profiling assesses an investor's need, ability, and:

A. Nationality
B. Willingness to take risk
C. Favourite AMC
D. Bank branch

2. A mutual fund in India is legally structured as a:

A. Company
B. Trust
C. Partnership
D. Sole proprietorship

3. What fraction of the Board of Trustees must be independent?

A. 50%
B. One-third
C. Two-thirds
D. 100%

4. Which regulator has direct authority over mutual funds?

A. RBI
B. SEBI
C. IRDAI
D. PFRDA

5. Celebrity endorsement of mutual funds is permitted:

A. For any individual scheme freely
B. Only at the industry level for category awareness
C. Only for NFOs
D. Never

6. Concealing material risks of a scheme from a client is:

A. Sound suitability practice
B. Mis-selling

C. Standard practice
D. Enhanced protection

7. AMFI's role in the mutual fund structure is:

A. A regulator with enforcement power
B. An industry association, not a regulator
C. A government ministry
D. A stock exchange

8. A change in AMC control requires an exit option at prevailing NAV for at least:

A. 15 days
B. 30 days
C. 45 days
D. 60 days

Answer key

1-B 2-B 3-C 4-B 5-B 6-B 7-B 8-B

Worksheet 2 — Scheme Information, Distribution, NAV/TER & Taxation (Ch. 5–8, 19 marks)

Concept recap

The SID covers scheme-specific details; the SAI covers fund-wide statutory information; the KIM (summarising both) must accompany every application. Distributors need an ARN (or operate under an institution's ARN via an EUIN) and are paid only through trail commission.

NAV = Net Assets ÷ Outstanding Units. Entry loads are banned; exit loads are credited back to the scheme. Equity LTCG is taxed at 12.5% (Rs. 1.25 lakh exempt); debt gains are taxed at the slab rate regardless of holding period.

Key numbers & formulas

Item	Value / Formula
NAV formula	Net Assets ÷ Outstanding Units
Entry load	Banned; sale price = NAV
Equity LTCG rate / exemption	12.5% / Rs. 1.25 lakh per year
Debt fund gains (STCG & LTCG)	Taxed at the investor's slab rate
ELSS lock-in	3 years

Practice questions

1. The KIM must accompany:

A. Only NFO applications
B. Every application form, at all times
C. Only redemptions
D. Only institutional applications

2. An EUIN identifies:

A. An individual distributor's own ARN
B. An employee of an institutional distributor, under its ARN
C. A SEBI registration
D. A custodian's license

3. NAV is calculated as:

A. Net Assets × Units
B. Net Assets ÷ Units
C. Unit Capital × Face Value
D. TER ÷ AUM

4. Entry loads are currently:

A. Permitted up to 1%
B. Banned entirely
C. Permitted for institutions only
D. Charged on SIPs only

5. Exit loads, when charged, are credited:

A. To the AMC
B. Back into the scheme
C. To the distributor
D. To SEBI

6. Equity-oriented fund LTCG is taxed at:

A. 10%, no exemption
B. 12.5%, Rs. 1.25 lakh exempt

C. 20%, no exemption
D. 15%, Rs. 2 lakh exempt

7. Debt fund STCG and LTCG are both taxed at:

A. A flat 10%
B. The investor's slab rate, regardless of holding period
C. A flat 20%
D. 0% always

8. The ELSS lock-in period is:

A. 1 year
B. 3 years
C. 5 years
D. 10 years

Answer key

1-B 2-B 3-B 4-B 5-B 6-B 7-B 8-B

Worksheet 3 — Investor Services, Performance & Scheme Selection (Ch. 9–12, 30 marks)

Concept recap

The heaviest block in Module 1. Investor services covers KYC, nomination (up to 10, or opt-out), transmission, systematic transactions, and grievance redress (21-day window). Sharpe and Treynor ratios combine return and risk; schemes benchmark to TRI (since 2018), not PRI.

Scheme selection means matching suitability to the client, never selecting purely on past performance — the core-and-satellite approach separates long-term holdings from tactical bets.

Key numbers & formulas

Item	Value / Formula
Max nominees per folio	10
Grievance redressal window	21 calendar days
TRI benchmarking since	February 2018
Sharpe Ratio	(Return − Risk-free) ÷ Standard Deviation
Recommended equity fund track record	At least 5 years

Practice questions

1. Maximum nominees allowed per folio:

A. 3
B. 5
C. 8
D. 10

2. Within how many days must an AMC redress a grievance?

A. 7
B. 15
C. 21
D. 30

3. Partial redemption is processed on which basis?

A. LIFO
B. FIFO
C. Random
D. Highest-cost-first

4. Schemes must benchmark to TRI (not PRI) since:

A. April 2017
B. February 2018
C. January 2020
D. July 2024

5. The Sharpe Ratio is:

A. (Return−Rf)÷Beta
B. (Return−Rf)÷Standard Deviation
C. Return÷Rf
D. (Return−Rf)÷Variance

6. A fund with Beta 1.2, if the market rises 10%, would move about:

A. 8%
B. 10%
C. 12%

D. Down 12%

7. In core-and-satellite investing, the satellite is used for:

A. Long-term core holdings
B. Tactical, short-term bets
C. Emergency funds
D. Retirement savings only

8. A sound scheme selection practice is to:

A. Select on recent past performance alone
B. Assess suitability to the client's needs and risk profile
C. Pick the highest-commission scheme
D. Ignore stated asset allocation

9. Among Multi Cap, Large & Mid Cap, and Small Cap, which is riskiest?

A. Multi Cap
B. Large & Mid Cap
C. Small Cap
D. All identical

10. Recommended minimum track record before selecting an equity fund:

A. 5 years
B. 6 months
C. 1 year
D. No minimum

Answer key

1-D 2-C 3-B 4-B 5-B 6-C 7-B 8-B 9-C 10-A

Worksheet 4 — Basics of Derivatives, the Index & Forwards/Futures (Ch. 13–15, 30 marks)

Concept recap

A derivative's value derives from an underlying asset. Hedgers reduce risk; speculators take directional bets; arbitrageurs exploit price gaps. Free-float market cap weighting (used by Nifty 50, Sensex) weights by publicly tradeable shares only.

Forwards are customised OTC agreements; futures are their standardised, exchange-traded, daily-margined cousins. Contract value = futures price × lot size. On expiry, cash and futures prices converge (price discovery).

Key numbers & formulas

Item	Value / Formula
Hedger	Reduces existing risk exposure
Speculator	Takes directional bets for profit
Free-float weighting	By publicly tradeable shares, not total shares
Futures contract value	Futures price × lot size
Futures pricing model	Cost-of-carry: Spot + financing cost − dividend yield

Practice questions

1. A derivative's value is:

A. Independent of any asset
B. Derived from an underlying asset
C. Always equal to the underlying
D. Fixed permanently

2. A trader reducing existing risk via derivatives is a:

A. Speculator
B. Hedger
C. Arbitrageur only
D. Regulator

3. Arbitrage involves:

A. New directional risk
B. Exploiting price discrepancies for near risk-free profit
C. Avoiding derivatives
D. Cash market only

4. A free-float index weights constituents by:

A. Total shares outstanding
B. Shares available for public trading
C. Equal weight
D. Price per share only

5. A forward contract is:

A. Standardised and exchange-traded
B. Customised, OTC, bilateral
C. Always centrally cleared
D. Always cash-settled only

6. Futures contract value equals:

A. Futures price alone
B. Futures price × lot size

C. Spot price × lot size always
D. Strike price × lot size

7. On expiry, cash and futures prices are expected to:

A. Diverge permanently
B. Converge
C. Become unrelated
D. Differ by the full carry cost

8. The cost-of-carry model prices futures as:

A. Spot minus financing cost always
B. Spot plus net cost of carry
C. A fixed government rate
D. Always equal to spot

9. Open interest refers to:

A. Total outstanding contracts not yet settled
B. An option's intrinsic value
C. The bid-ask spread
D. Trading hours

10. Using index futures to protect an equity portfolio against decline is:

A. Speculation
B. Hedging
C. Pure arbitrage
D. Illegal

Answer key

1-B 2-B 3-B 4-B 5-B 6-B 7-B 8-B 9-A 10-B

Worksheet 5 — Options & Equity F&O Strategies (Ch. 16–17, 22 marks)

Concept recap

A call is the right to buy; a put is the right to sell, at the strike price. Premium = intrinsic value + time value. Delta measures premium sensitivity to the underlying; Gamma measures change in Delta; Theta measures time decay; Vega measures sensitivity to implied volatility.

Put-call parity ties a call, put, and underlying together — violations create arbitrage. Delta-hedging builds a position momentarily insensitive to small underlying moves.

Key numbers & formulas

Item	Value / Formula
Call option	Right to buy at the strike price
Put option	Right to sell at the strike price
Delta	Premium change per unit move in underlying
Theta	Time decay sensitivity
Put-call parity violation	Creates a risk-free arbitrage opportunity

Practice questions

1. A call option gives the holder:

A. The obligation to sell
B. The right, not obligation, to buy at strike
C. The obligation to buy regardless
D. No rights

2. An option's premium consists of:

A. Intrinsic and time value
B. Only intrinsic value
C. Only time value
D. Strike minus spot always

3. Delta measures:

A. Premium change per unit move in underlying
B. Time decay
C. Sensitivity to volatility
D. The strike price

4. Delta for a call buyer is:

A. Negative
B. Positive
C. Always zero
D. Always exactly 1

5. Theta measures sensitivity to:

A. Volatility changes
B. Time decay
C. Underlying price only
D. Interest rates only

6. Vega measures sensitivity to:

A. Time decay
B. Implied volatility changes
C. Strike price

D. Lot size

7. Put-call parity ties together:

A. A call, a put, and the underlying's price
B. Two unrelated calls
C. Only futures
D. Only the risk-free rate

8. If put-call parity is violated, this creates:

A. Guaranteed loss
B. Risk-free arbitrage opportunity
C. A regulatory penalty
D. Contract cancellation

9. Delta-hedging constructs a position that is:

A. Permanently risk-free
B. Momentarily insensitive to small underlying moves
C. Guaranteed to profit from volatility
D. Only possible with futures

10. A covered call involves:

A. Buying a call with no stock position
B. Selling a call while holding the underlying stock
C. Selling a put with no position
D. Buying a call and put together

Answer key

1-B 2-A 3-A 4-B 5-B 6-B 7-A 8-B 9-B 10-B

Worksheet 6 — Interest Rate & Fixed Income Markets, IRD and Strategies (Ch. 18–22, 30 marks)

Concept recap

The yield curve plots yields across maturities. Spot (zero) rates apply to zero-coupon instruments; accrued interest builds up since the last coupon. IRF contracts trade on GOI securities (4-8, 8-11, 11-15 year buckets), with a lot of notional Rs. 2 lakh (2,000 bonds), tick size Rs. 0.0025, cash-settled, expiring the last Thursday of the month.

IRO are options on IRF, using the same Greeks framework as equity options. IRD strategies apply futures/options to hedging a bond portfolio, speculation, arbitrage, and spread trading — with basis risk as a key limitation.

Key numbers & formulas

Item	Value / Formula
IRF lot size	Notional Rs. 2 lakh (2,000 bonds)
IRF tick size	Rs. 0.0025
IRF expiry day	Last Thursday of the month
IRF settlement	Cash-settled
IRF underlying maturity buckets	4–8, 8–11, 11–15 years

Practice questions

1. The term structure of interest rates refers to:

A. Stock prices over time
B. Yields across different maturities
C. Currency rates
D. Commodity trends

2. Accrued interest refers to:

A. Interest already fully paid
B. Interest built up since the last coupon, owed to the seller
C. A late penalty
D. Interest on equity

3. OTC derivatives, compared to exchange-traded ones, are:

A. Standardised and cleared
B. Customised, bilateral, without central clearing
C. Identical
D. Banned in India

4. IRF lot size on a GOI security equals notional bonds of:

A. Rs. 50,000
B. Rs. 2 lakh (2,000 bonds)
C. Rs. 10 lakh
D. Rs. 1 crore

5. The tick size for IRF is:

A. Rs. 0.01
B. Rs. 0.0025
C. Rs. 1.00
D. Rs. 0.10

6. IRF contracts on GOI securities are settled:

A. Through physical delivery
B. In cash

C. Partly cash, partly bond
D. Never settled

7. The expiry day for IRF is typically:

A. First Monday
B. Last Thursday
C. 15th of the month
D. Random

8. A bond portfolio manager expecting rates to RISE would hedge by:

A. Buying more long-duration bonds
B. Selling (shorting) interest rate futures
C. Buying interest rate futures
D. Doing nothing

9. 'Basis risk' in IRF hedging refers to:

A. Imperfect match between the futures' underlying and the actual bond held
B. Currency risk
C. Equity market risk
D. A risk unique to options

10. IRO Greeks (Delta, Gamma, Theta, Vega):

A. Don't apply to interest rate options
B. Apply the same conceptual way as equity options
C. Only Delta applies
D. Only apply to currency options

Answer key

1-B 2-B 3-B 4-B 5-B 6-B 7-B 8-B 9-A 10-B