



# COMMODITY BROKERS CERTIFICATION

Study and Reference Guide (Outline)

## OBJECTIVE OF THE EXAMINATION

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This course design aims to cover fundamentals necessary for operating commodity futures brokerage operations in Pakistan. It is divided in six parts and starts with introduction to futures markets, their background, basic functions and terminology in the first two chapters. Second part of the course covers regulatory framework, setup of Pakistan Mercantile Exchange, its operations and risks associated with futures trading. The primary focus of the course is to instil a working knowledge of the regulatory environment for commodity futures trading in the country as lack of this understanding of this area is seen as a primary cause of investor grievances.

### *TARGET AUDIENCE*

The primary audience of this course are commodity futures brokers. All staff working at commodity brokerages must take this course to better prepare themselves for client advisory and trade execution services. In addition to brokers, this course is also recommended for futures traders, asset managers, bankers, regulators, academia and anyone else interested in learning and participating in commodity futures trading.

### *SYLLABUS STRUCTURE*

The curriculum is divided into elements and these are broken down into a series of learning objectives. Each learning objective begins with one of the following prefixes: ***know***, ***understand***, ***be able to calculate*** and ***be able to apply***. These words indicate the different levels of skill to be tested. Learning objectives prefixed:

- ***know*** require the candidate to recall information such as facts, rules and principles
- ***understand*** require the candidate to demonstrate comprehension of an issue, fact, rule or principle

- ***be able to calculate*** require the candidate to be able to use formulae to perform calculations
- ***be able to apply*** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle

## EXAMINATION SPECIFICATION

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Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

<b>Examination Specification</b>		
<b>100 multiple choice questions</b>		
<b>Element number</b>	<b>Element</b>	<b>Questions</b>
1	<b>Introduction to Commodity Futures Markets</b>	<b>20</b>
2	<b>Mechanics and Fundamentals of Futures Markets</b>	<b>15</b>
3	<b>Pakistan Mercantile Exchange</b>	<b>15</b>
4	<b>Regulatory Framework for Futures Trading in Pakistan</b>	<b>20</b>
5	<b>Trading Commodity Futures at PMEX</b>	<b>10</b>
6	<b>Risks Associated with Futures Trading</b>	<b>20</b>
	<b>Total</b>	<b>100</b>

### *ASSESSMENT STRUCTURE*

- This will be a 150 minutes examination of 100 multiple choice questions. All questions will carry equal marks.
- There will be no negative marking on any wrong answer.

## ◇ SUMMARY OF THE SYLLABUS ◇

## **ELEMENT 1:**

### **Introduction to Commodity Futures Markets**

- Commodity Markets
- Spot and Futures Markets
- Definition of a Futures Contract
- Features of a Futures Contract
- Futures and Forwards
- Relationship between Spot and Futures Prices
- Convergence and Basis
- Futures Exchanges
- History of Futures Exchanges
- Types of Futures

## **ELEMENT 2:**

### **Mechanics and Fundamentals of Futures Markets**

- Benefits of Futures Trading
- Types of Participants
- Examples of Hedging
- Profit and Loss Profile in Futures Trading
- Basics of Futures Pricing

## **ELEMENT 3:**

### **Pakistan Mercantile Exchange**

- Setup
- Key Features
- Regulations
- Products
- Contract Specifications
- Circulars
- Membership
- Becoming an Active Broker
- Trading, Clearing & Settlement



## **ELEMENT 4:**

### **Regulatory Framework for Futures Trading in Pakistan**

- Regulatory Environment for Derivatives Trading
- Futures Market Act, 2016
- SECP
- PMEX General Regulations
- Responsibilities of Brokers
- Risk Disclosure Document
- Broker System Audits
- Fines and Penalties
- Investor Complaints
- Securities and Future Advisers (Licensing & Operations) Regulations, 2017

## **ELEMENT 5:**

### **Trading Commodity Futures at PMEX**

- PMEX Systems
- System Login and Security
- Trading Conventions
- Order Durations
- Basic Order Types
- Advanced Order Types
- Margining
- Auto Liquidation

## **ELEMENT 6:**

### **Risks Associated with Futures Trading**

- Leverage
- Slippage
- Trading Strategy
- Basis and Correlation Risk
- Liquidity Risk
- Settlement and Delivery Risk
- Operational Risk
- System Risk