

# RETAIL OFF-EXCHANGE FOREX EXAMINATION

## SERIES 34

The following is a general listing of the major subject areas covered by the examination and does not represent an exhaustive list of the actual test questions.

### A. Definitions and Terminology

- American terms, European terms
- Base currency, quote currency, terms currency, secondary currency
- Bid/ask spread
- Collateral, security deposit, margin
- Counterparty, dealer: Futures Commission Merchant, Retail Foreign Exchange Dealer, other regulated entities listed in the Commodity Exchange Act
- Cross rates
- Currency crosses
- Currency pairs
- Direct quotes, indirect quotes
- Exchange rate
- Exotic options: barrier, double barrier, knock in, knock out, compound options
- Forward points
- Forward rate, bid forward rate
- Interest rate differential
- Interest rate parity
- Mark-ups, mark-downs
- PIPs
- Rollovers
- Spot rate, spot price
- Tom-next and spot-next
- Trade date and settlement date
- Swaps

### B. Forex Trading Calculations

- Cross rate transactions
- Effects of leverage calculations
- Netting of positions
- Open trade variation
- Profit & loss calculations
- Pip values, price after pips
- Option and exotic option profit & loss calculations
- Return on collateral, security deposit, margin
- Transaction costs

### C. Risks Associated with Forex Trading

- Country or sovereign risk
- Credit risk
- Exchange rate risk
- Interest rate risk
- Liquidity risk

- Market risk
- Operational risk
- Settlement risk, Herstatt risk

### D. Forex Market - Concepts, Theories, Economic Factors and Indicators, Participants

- Balance of payments
- Balance of trade
- Bank for International Settlements (BIS)
- Capital account and current account
- Central bank activities, intervention, sterilized intervention
- Clearing House Interbank Payment System (CHIPS)
- Discount rate
- Economic indicators: employment, consumer spending, income, industrial and inflation indicators
- Elasticity of exchange rates
- Exchange rate intervention
- Exchange rate volatility
- Federal Reserve Board, Fedwire
- Fiscal policy
- Fisher effect
- Foreign investment indicators
- Gross national product, gross domestic product
- Inflation
- Interbank funds transfer and settlement systems
- International Fisher effect
- International Monetary Fund
- Portfolio balance
- Role of central banks
- Theory of elasticities
- Theory of purchasing power parity
- World Trade Organization

## Series 34 (continued)

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### **E. Forex Regulatory Requirements**

- CFTC final rules effective October 18, 2010
  - Close out of offsetting positions
  - Disclosure of profitable vs. non-profitable accounts
  - Prohibition of guarantees against loss
  - Registration requirements
  - Re-quoting
  - Security deposits
  - Specific authorization for trades
- CFTC jurisdiction and jurisdictional limitations
- Conflicts of interest
- Disclosures to customers
- Jurisdictional & regulatory framework
- Know your customer
- NFA Interpretive Notice Regarding Forex Transactions
- NFA Interpretive Notice Compliance Rule 2-36(e): Supervision of the Use of Electronic Trading Systems
- NFA Notice to Members: Supervision of Forex Promotional Materials
- NFA membership and associate membership requirements
- Promotional material & solicitation
- Registration requirements
- Reports to customers, confirmations, monthly summaries
- Security deposit rules (pre and post October 18, 2010)
- Security of customer funds, no segregation