

FTSE BURSA MALAYSIA KLCI FUTURES (FKLI)



BURSA MALAYSIA DERIVATIVES



BURSA MALAYSIA



CME Group

TABLE OF CONTENTS

Chapter 1: FKLI

What is FKLI?	Page 2
Benefits of FKLI	Page 2

Chapter 2: Trading FKLI

Examples of Trading Scenarios	Page 3
Orders – Order Types	Page 4
Orders – Validity Conditions	Page 5
Trading – Order Execution Conditions	Page 5
Trading Strategies	Page 6
Foreign Currency Deposit	Page 7

Chapter 3: About Bursa Malaysia

Company Profile	Page 8
What We Offer	Page 9

WHAT IS FKLI?

FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) Futures contract or better known as FKLI provides an equivalent exposure to the underlying FBM KLCI constituents. The FKLI is a cash settled contract and is actively used by both the institutional and retail investors in their respective trading portfolios. This is one of the equity derivatives products by Bursa Malaysia Derivatives Berhad (BMD), a wholly-owned subsidiary of Bursa Malaysia Berhad.

BENEFITS OF FKLI

■ **Prudent capital management**

An insurance company or fund manager with a portfolio of stocks will sell the FKLI as a hedge to protect itself against a potential decline in the equity portfolio value.

■ **Maximise volatility trading**

Traders may use the FKLI to gain leveraged exposure arising from price volatility in the FBM KLCI prices.

■ **Lower cost of entry**

An institution, which is in a tight cash flow situation and is unable to obtain the physical stocks now, may buy the FKLI as a temporary substitute for holding stocks until it has the available funds. The FKLI position would be liquidated later once the stocks are acquired. This method entails a cheaper entry (via only initial margin deposits) with similar exposure to the value of the underlying stocks but WITHOUT the expenditure of an outright purchase.

■ **Ability to short sell**

Trading the FKLI allows you to sell first and purchase later to close out your trading positions.

EXAMPLES OF Trading Scenarios

SCENARIO 1 – Hedging

A position established in one market in an attempt to offset exposure to price fluctuations in the opposite position in another market with the goal of minimising one's exposure to unwanted risk.

Fund managers are perpetually with stocks in hand, therefore their risk exposure to the market would be enhanced in declining markets. A fund manager expects that in two months time, the share prices will appreciate. However, he is worried that unforeseen events may cause prices to decline prior to the time he would sell his stocks. He chooses to trade on BMD and hedges his position by selling the forward FKLI contract. In doing so, he has effectively agreed to lock-in his future selling price today for a contract that will expire in two months time.

SCENARIO 2 – Arbitraging

When derivatives are trading above or below their theoretical “fair value”, it is possible to undertake arbitrage strategies by buying or selling the derivatives and simultaneously selling or purchasing the underlying stock(s).

The fund manager realises that the correlation prices of the cash market and the FKLI market has deviated from its usual spreads, and that the FKLI is trading at a premium to the cash market. It decides to sell FKLI and buy the underlying shares in the equity market to arbitrage. The position will be liquidated later once the spread of the prices between both markets returns to its fair value.

SCENARIO 3 – Trading

Observation of trading patterns and post data on reactions to market announcements provide an estimate on possible bullish or bearish trends.

The fund manager expects a spike up in prices in anticipation of an increase in buying activities by foreign funds based on the positive economic data of the country. It naturally will increase its exposure and may purchase stocks and FKLI simultaneously to maximise its 'buy / long' portfolio position.

ORDERS

Order Types

Limit Order

- A limit order is an order which stipulates a price. Buy limit orders shall be matched at the stipulated price or lower and sell limit orders shall be matched at the stipulated price or higher.

Market Order

- A market order is an order that is entered with no price stipulation. It will be matched at the best available opposite price to the fullest extent immediately upon its entry.

Market On Opening Order

- Order can only be entered in the Pre-Opening phase
- To be executed at the auction price

Stop Order (Stop Loss and Stop Limit)

- Stop Loss – becomes market order once triggered
- Stop Limit – becomes limit order once triggered

Market-To-Limit Order

- An order with no price stipulation
- A buy market-to-limit order shall be matched immediately at the lowest sell price
- A sell market-to-limit order shall be matched immediately at the highest buy price
- Thereafter, any remaining unexecuted quantity of the order shall be converted into a limit order at the matched price

ORDERS

Validity Conditions

Good For Day

- Valid for the trading day

Good Till Date

- Valid until a specified date

Good Till Cancel

- Valid until the order is cancelled

Session

- Valid for the trading session

TRADING

Order Execution Conditions

Fill and Kill

- Unmatched portion of the order shall be automatically cancelled by the system

Minimum Quantity

- A specified minimum quantity of the order shall be executed immediately upon entry of the order, failing which the whole quantity of the order shall be cancelled

TRADING STRATEGIES

A strategy is a combination of a number of buy and/or sell orders of similar or different contracts created within the framework of a single order.

Exchange Defined Strategies (EDS)

- Strategies pre-defined by the Exchange and readily tradable
- The EDS defined in the trading system are Calendar Spread
- Calendar Spread EDS are defined for all the FKLI contract months
- Six Calendar Spread EDS are available at any one time for FKLI products

User Defined Strategies (UDS)

- A trader may define his own strategy other than those pre-defined by the Exchange
- The UDS will be broadcasted to the market for interested parties to trade

FOREIGN CURRENCY DEPOSIT (for Initial Margin only)

- Australian Dollar (AUD)
- British Pound (GBP)
- Euro (EUR)
- Japanese Yen (JPY)
- Singapore Dollar (SGD)
- US Dollar (USD)

Note:

1. Please note that all currency deposits for Initial Margin are subjected to hair cut rates as determined by Bursa Malaysia Derivatives Clearing from time to time.
2. Variation Margins are to be paid in Ringgit Malaysia (RM).

COMPANY PROFILE

Bursa Malaysia Berhad is an exchange holding company under Section 15 of the Capital Markets and Services Act 2007. The fully integrated exchange offers equities, derivatives, bonds as well as Islamic services and operates an international financial exchange in Labuan.

BURSA MALAYSIA DERIVATIVES BERHAD (BMD) is a wholly-owned subsidiary of Bursa Malaysia Berhad which provides, operates and maintains a futures and options exchange. Bursa Malaysia Derivatives Berhad operates the most liquid and successful crude palm oil futures (FCPO) contract in the world.

In the last quarter of 2009, BMD entered into a partnership with CME Group which led to an acquisition of an equity interest in Bursa Malaysia Derivatives Berhad. The partnership included the licensing of the settlement prices of the FCPO to CME and the trading of BMD's product offerings through the CME Globex® electronic trading platform.

WHAT WE OFFER

Equity Derivatives

- Futures on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FKLI)
- Options on the FTSE Bursa Malaysia Kuala Lumpur Composite Index (OKLI)
- Single Stock Futures (SSF)

Financial Derivatives

- 3-Month Kuala Lumpur Inter-Bank Offer Rate (KLIBOR) Futures (FKB3)
- 3-Year Malaysian Government Securities Futures (FMG3)
- 5-Year Malaysian Government Securities Futures (FMG5)
- 10-Year Malaysian Government Securities Futures (FMGA)

Commodity Derivatives

- Crude Palm Oil Futures (FCPO)
- Crude Palm Kernel Oil Futures (FPKO)
- USD Crude Palm Oil Futures (FUPO)



DISCLAIMER

This brochure has been provided for general information purposes only. The information contained does not constitute legal, financial, investment, fund raising and/or listing advice and neither does it make any recommendation or endorsement regarding the services mentioned herein. Although care has been taken to ensure the accuracy of the information within this brochure, Bursa Malaysia Group and Bursa Malaysia Derivatives do not warrant or represent, expressly or impliedly as to the accuracy or completeness of the information herein. All applicable laws, regulations and current Bursa Malaysia Group and Bursa Malaysia Derivatives rules should be referred to in conjunction with this brochure. Bursa Malaysia Group and Bursa Malaysia Derivatives do not accept any liability for any investment, fund raising and/or listing decisions made on the basis of this information. You are advised to seek independent advice prior to listing and/or fund raising and/or investing.

BURSA MALAYSIA DERIVATIVES BERHAD

(A subsidiary of Bursa Malaysia Berhad)

2nd Floor Exchange Square

Bukit Kewangan

50200 Kuala Lumpur

Malaysia

Tel : +(603) 2034 7000

Fax : +(603) 2026 3584

Email : futures@bursamalaysia.com