

## History of Futures Markets

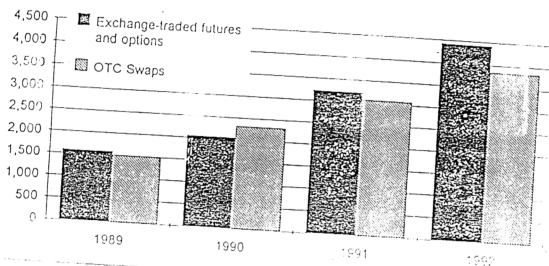
Country	Market	Start Date	Country	Market	Start Date
Australia	SFE	1992	Japan	OSA	1987
Hong Kong	HKFE	1976	Ireland	IFOX	1988
England	LIFFE	1982	Japan	TIFFE	1989
New Zealand	NZFOE	1984	Spain	MEFF	1990
Singapore	SIMEX	1984	Germany	DTB	1990
Japan	TYO	1985	Netherlands	FTA	1990
France	MATIF	1986	Belgium	BELFOX	1990
Denmark	FUTOP	1986	Norway	NOS	1990
Sweden	OM	1987	Austria	OTOB	1991
Switzerland	SOFFEX	1987	Brazil	BM&F	1991
England	LME	1987	Italy	MIF	1992

## Most Popular Futures Contracts 1993

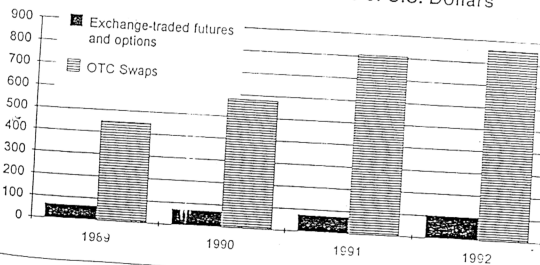
<u>Volume</u>		<u>% of Futures</u>
CBOT	T-Bond	56
CME	3-mo. Eurodollar	55
MATIF(France)	Notional Bond	66
NYMEX	Crude Oil	54
TIFFE(Japan)	3-Mo Euroyen	99
LIFFE(U.K.)	3-Mo. Euromark	26
LIFFE(U.K.)	Bund	25
BM&F(Brazil)	Short- Term Interest Rates	48
CBOT	T-Note	11
TSE(Japan)	JGB	86

## Growth in Worldwide Derivatives

### INTEREST RATE DERIVATIVES -- Worldwide Notional Contract Amounts in Billions of U.S. Dollars

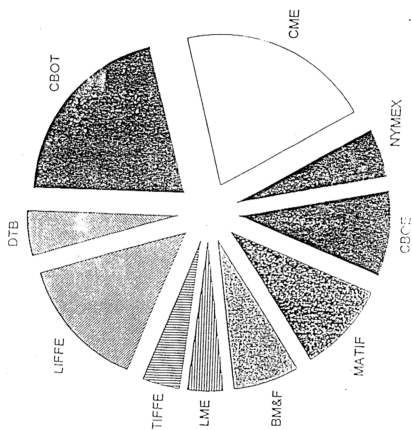


### CURRENCY DERIVATIVES -- Worldwide Notional Contract Amounts in Billions of U.S. Dollars



Source: GAO Report: Financial Derivatives (May 1994) p. 187

VOLUME ON TOP TEN FUTURES AND OPTIONS  
EXCHANGES -- Jan.- July 1994

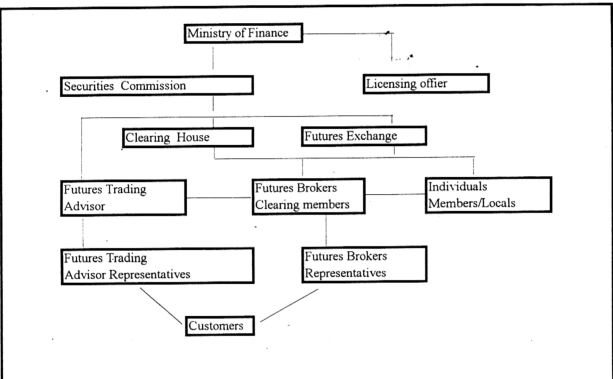




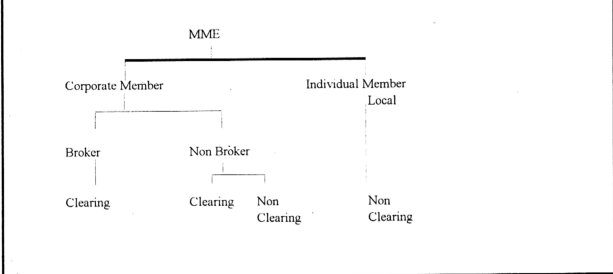
### Open Outcry or Screen-Based Trading

<u>Open Outcry</u>			<u>Screen -Based</u>		
All U.S. Exchanges					
SFE	Australia	1972	NZFOE	New Zealand	1984
HKFE	Hong Kong	1976	TYO	Japan	1985
LIFFE	England	1982	FUTOP	Denmark	1986
SIMEX	Singapore	1984	SOFFEX	Switzerland	1987
MATIF	France	1986	OSE	Japan	1987
FTA	Netherlands	1990	TIFFE	Japan	1989
BM&F	Brazil	1991	Montreal	Canada	1989
			MEFF	Spain	1990
			DTB	Germany	1990
			BELFOX	Belgium	1990
			OTOB	Austria	1991
			MIF	Italy	1992

# The market framework of the futures and options industry in Malaysia



## MME Membership/Clearing Structure



## 100 COMPONENTS OF THE KLCI

(w.e.f. 4th December 1995)

## FINANCIAL

Affin Holdings Bhd  
 AMMB Holdings Bhd  
 Commerce Asset Holdings Bhd  
 Datuk Keramat Holdings Bhd  
 DCB Holdings Bhd  
 Hong Leong Bank Bhd  
 John Hancock Life Insurance (M) Bhd

Malayan Banking Bhd  
 Malaysian Assurance Alliance Bhd  
 Malaysian Industrial Development Finance Bhd  
 MBF Capital Bhd  
 Rashid Hussain Bhd  
 Public Bank Bhd  
 TA Enterprise Bhd

## INDUSTRIAL

Amsteel Corporation Bhd  
 Aokam Perdana Bhd  
 Aluminium Company of Malaysia Bhd  
 Chemical Company of Malaysia Bhd  
 Diversified Resources Bhd  
 Grand United Holdings Bhd  
 Hexza Corporation Bhd  
 Hicom Holdings Bhd  
 HUME Industries (M) Bhd  
 Kedah Cement Holdings Bhd  
 Kian Joo Can Factory Bhd

Kim Hin Industry Bhd  
 Leader Universal Holdings Bhd  
 Malayan Cement Bhd  
 Malayan United Industries Bhd  
 Malayan Oxygen Bhd  
 Nylex (M) Bhd  
 Petronas Gas Bhd  
 Palmco Holdings Bhd  
 Shell Refining CO (F.O.M) Bhd  
 Sitt Tat Bhd  
 Westmont Bhd

Arab-Malaysian Development Bhd  
 Bandar Raya Developments Bhd  
 Country Heights Holdings Bhd  
 Daiman Development Bhd  
 Hong Leong Properties Bhd  
 IGB Corporation Bhd  
 IOI Properties Bhd  
 Tan & Tan Developments Bhd

Kuala Lumpur Industries Holdings Bhd  
 Land & General Bhd  
 Larut Consolidated Bhd  
 Metroplex Bhd  
 Pelangi Bhd  
 Selangor Dredging Bhd  
 Selangor Properties Bhd

Berjaya Industrial Bhd  
 Cold Storage (M) Bhd  
 DNP Holdings Bhd  
 Guinness-Anchor Bhd  
 Hong Leong Industries Bhd  
 Jaya Tiasa Holdings Bhd  
 Leong Hup Holdings Bhd  
 Nestle (M) Bhd

Perlis Plantations Bhd  
 Perusahaan Otomobil Nasional Bhd  
 Rothmans of Pall Mall (M) Bhd  
 Tan Chong Motor Holdings Bhd  
 Tradewinds (M) Bhd  
 UMW Holdings Bhd  
 Yeo Hiap Seng (M) Bhd

Boustead Holdings Bhd  
 The East Asiatic Co (M) Bhd  
 Genting Bhd  
 George Kent (M) Bhd  
 InchcapeTimuran Bhd  
 Kelang Container Terminal Bhd  
 Kumpulan Emas Bhd  
 Magnum Corporation Bhd  
 Malaysian Airline System Bhd

Faber Group Bhd

#### CONSTRUCTION

Gamuda Bhd  
 IJM Corporation Bhd  
 Nam Fatt Bhd  
 Pilecon Engineering Bhd

Golden Hope Plantations Bhd  
 Kuala Lumpur Kepong Bhd  
 Kulim (M) Bhd

Malaysia Mining Corporation Bhd

Malaysian International Shipping Corp Bhd  
 The New Straits Times Press (M) Bhd  
 Sime Darby Bhd  
 Sistem Televisyen Malaysia Bhd  
 Tanjong PLC  
 Telekom Malaysia Bhd  
 Tenaga Nasional Bhd  
 Time Engineering Bhd  
 Uniphone Telecommunications Bhd

Shangri-La Hotels (M) Bhd

Promet Bhd  
 Sungai Way Holdings Bhd  
 United Engineers (M) Bhd

Guthrie Ropel Bhd  
 Lingui Developments Bhd

Golden Plus Holdings Bhd

## Summary of The FKLI Contract Specifications

<b>Contract Code</b>	FKLI
<b>Underlying Security</b>	Kuala Lumpur Composite Index
<b>Contract Size</b>	Kuala Lumpur Composite Index multiplied by RM100.00
<b>Minimum Price Fluctuation</b>	0.1 index point valued at RM10.00
<b>Daily Price Limits</b>	<p>In the first trading session of the day (from 0930 hours to 1245 hours), there shall be a Price Limit for the respective contract months of 15% (or a percentage as determined by the Exchange from time to time) in either direction from the same day's first trading session's last traded price.</p> <p>There shall be no price limit on the last trading day of the expiring contract month.</p> <p><i>Matched trades which exceeds the price limits are not valid.</i></p>
<b>Contract Months</b>	Spot month, the next month, and the next two calendar quarterly months. The calendar quarterly months are March, June, September and December.
<b>Trading Hours</b>	Malaysia 0930 hours to 1245 hours and 1430 hours to 1715 hours.
<b>Last Trading Day and Maturity Date</b>	The last business day of the contract month.
<b>Final Settlement Day</b>	by 9030 hours on the day following the Final Trading Day
<b>Final Settlement</b>	Cash Settlement Value shall be the average value.
<b>Final Settlement Value</b>	The Final Settlement Value shall be the average value, rounded upwards, of the Kuala Lumpur Composite Index (taken at

every minute or at such other intervals as may be determined from time to time) for the last half hour of trading on the Kuala Lumpur Stock Exchange on the Final Trading Day excepting the highest and lowest values.

**Margins**

Variation Settlement based on daily marked-to-market valuation and Risk Based Margining (MDCH uses the Theoretical Intermarket Margin System, TIMS)

**Minimum Initial Deposit**

7.5% of the Contract Value, rounded to the nearest RM100. (Only applicable to Brokers Clients, Payable by Clients to Trading Member)

## Summary Of The 3-Month KLIBOR Futures Contract Specifications

<b>Contract Unit</b>	Ringgit Interbank time deposit in the Kuala Lumpur wholesale money market having a principal value of RM1,000,000 with a three-month maturity.
<b>Contract months</b>	Mach, June, September, December quarterly months and up to three years out.
<b>Price Quotation</b>	Bids and offers shall be in terms of an index, 100.00 minus the annual percentage yield to 2 decimal places for a 360-day year, for example, a deposit rate of 8.00% shall be quoted as 92.00
<b>Minimum Price Fluctuation (tick)</b>	.01% (1basis point), equivalent to RM25.00 (RM1,000,000*3/12*0.01%) per contract
<b>Daily Price Limit</b>	None. (Will be periodically reviewed in light of market volatility.)
<b>Trading Hours</b>	9.00a.m. -12.30 p.m., 2.30p.m. - 4.30p.m. Malaysian time
<b>Last Trading Day</b>	Futures trading shall terminate at 11.00 am on the third Wednesday of the contract month or on the first business day immediately following the third Wednesday of the contract month if the third Wednesday of the contract month is not a business day.
<b>Settlement</b>	<p>Mandatory cash settlement on the Last Trading Day. All positions at the close of trading in the contract month shall be settled by the Clearing House at the cash settlement rate.</p> <p>On the Last Trading Day, the Clearing House will obtain the cash settlement rate from the Reuters reference page "KLIA". This rate is derived by getting quotes from 20 major participants I the KLIBOR</p>

interbank market on what they perceive to be the level at which the 3-month KLIBOR is current trading. The 5 highest and 5 lowest quotes arithmetic mean and the settlement rate. On this day, Bank Negara Malaysia will ensure that all the rates on the screed are updated by 11.00 a.m.

### **Minimum Margins**

Initial margin -RM1,000 per contract.

Maintenance margin -RM750 per contract

In the case of individual speculators, the Exchange may decide to maintain margins at levels higher than those proposed above (say, 1 ½ time as much) while for hedgers and spreaders, the margins could be reduced as they have offsetting positions and therefore less risk.

### **Speculative Position Limit**

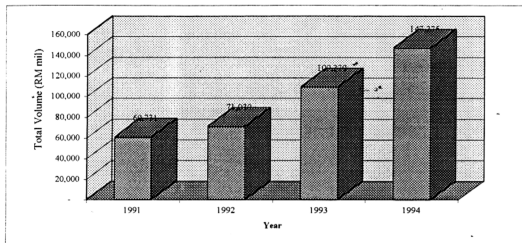
The maximum number of net long or net short positions which a client of a Member or a Member may hold or control in any one contract month shall be specified by the Exchange, and in all contract months combined shall be the specified amount, pursuant to Section 55 of the Futures Industry Act of 1993.

Where a member has transactions or positions which are bona fide hedging transactions positions, as defined in Section 55 of the Futures Industry Act of 1993, it shall be incumbent upon each member whenever so required by the General Manager to furnish satisfactory evidence to him that all hedging positions are bona fide hedging positions.



## Total Annual Volume of Ringgit Money Market Instruments

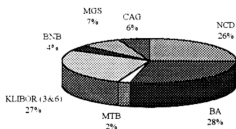
Appendix I



Source : Malaysia Monetary Exchange

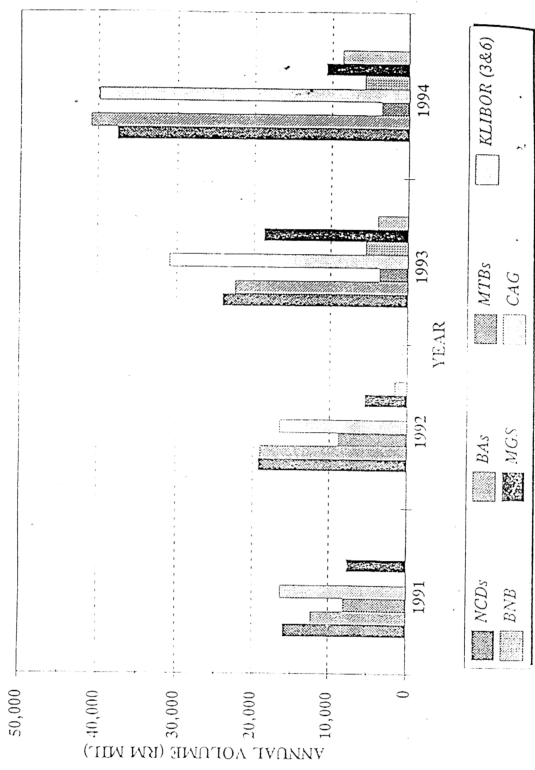
### Composition of 1994 Annual Volume in Money Market Instruments

Money Market Instru.	RM' mil	Money Market Instru.	RM' mil
NCD	37,628	NCD	37,628
BA	40,978	BA	40,978
MTB	3,565	MTB	3,565
KLIBOR (3&6)	39,568	KLIBOR (3&6)	805,104
BNB	5,672	BNB	5,672
MGS	10,853	MGS	10,853
CAG	8,636	CAG	8,636
<b>Total Volume</b>	<b>146,900</b>	<b>Total Volume</b>	<b>912,436</b>

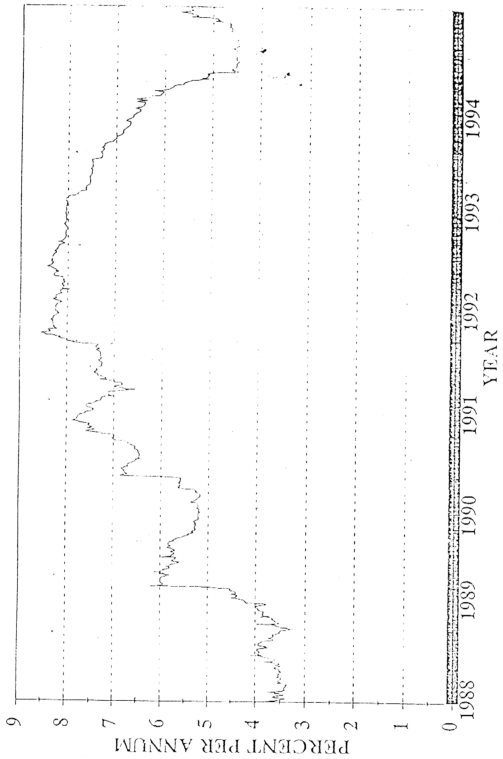


Source : Malaysia Monetary Exchange

ANNUAL VOLUME OF RINGGIT  
MONEY MARKET INSTRUMENTS



3 - MONTH KLIBOR RATE  
1988 - 1994



## **SURVEY ON USES OF FINANCIAL FUTURES IN MALAYSIA**

**UNIVERSITY OF MALAYA  
MASTER OF BUSINESS ADMINISTRATION**

You are requested to tick "✓" in the appropriate box "□" or state as per instruction in each section of the questionnaire.

Please complete the questionnaire in the following manner :-

Non-users of Financial Futures

Section A, B & G

Users of the Financial Futures

Section A, C, D,E,F &G

Please return the completed questionnaire using the attached self-addressed stamped envelope or you could return by fax, using **fax No. 03-2011448** at the earliest instant, **before 20<sup>th</sup> January 1997** to :-

**Lee Woon Hwa, EBC 9428  
c/o Dr Leong Kai Hin  
Faculty of Economics & Administration  
University Malaya  
50603 Kuala Lumpur.  
Tel : 03-450 2829  
Fax : 03-201 1448**

Please Tick "✓" in the relevant boxes "☐". You may tick in more than one box in some of the questions.

## Section A: BACKGROUND INFORMATION

*The information in this section is purely for analytical purposes.*

### 1. Company Size

#### Group Turnover

- ☐ < RM 10million
- ☐ RM10mil - RM100 mil
- ☐ RM101mil - RM500 mil
- ☐ More than RM500 mil

#### Paid-up Capital

- ☐ < RM 25million
- ☐ RM25mil - RM50 mil
- ☐ RM51mil - RM100 mil
- ☐ More than RM100 mil

#### Number of Employees

- ☐ < 100
- ☐ 100 - 999
- ☐ 1,000 - 5,000
- ☐ More than 5,000

### 2. Company Sector and Control

Please state your Organization's main area of business:-

- |  |   |
|--|---|
| <input type="checkbox"/> Chemicals/Gas & Oil | <input type="checkbox"/> Financial Institution        |
| <input type="checkbox"/> Electronics         | <input type="checkbox"/> Investment Holdings          |
| <input type="checkbox"/> Automobiles         | <input type="checkbox"/> Trading                      |
| <input type="checkbox"/> Construction        | <input type="checkbox"/> Others (please specify)_____ |

6. Who is responsible for risk control in your organization :-

**Investment Portfolio**

☐ Treasurer
 ☐ Finance Director/CFO
 ☐ Group/Chief Accountant  
☐ Accountant
 ☐ Finance Manager
 ☐ Others (Please specify) \_\_\_\_\_

**Interest Rate**

☐ Treasurer
 ☐ Finance Director/CFO
 ☐ Group/Chief Accountant  
☐ Accountant
 ☐ Finance Manager
 ☐ Others (Please specify) \_\_\_\_\_

**Foreign Exchange :**

☐ Treasurer
 ☐ Finance Director/CFO
 ☐ Group/Chief Accountant  
☐ Accountant
 ☐ Finance Manager
 ☐ Others (Please specify) \_\_\_\_\_

7. Please indicate your opinion on the usefulness of the following Futures Instrument to your company's business management . (1 Most useful, 5 Least useful)

	1	2	3	4	5
KLSE Composite Index Futures					
KLIBOR Interest Rate Futures					
Currency Futures					

8. In your opinion, which is the most effective way to increase level of confidence and competency in using Futures as a hedging Tools ?

☐ Seminars/Training
 ☐ Financial Periodicals
 ☐ News Paper  
☐ Campaign by Political Leaders
 ☐ Others (Please specify) \_\_\_\_\_

9. Are you aware of any Bank Negara Malaysia regulations and guidelines on the Derivatives Market in Malaysia.

☐ No
 ☐ Yes

If yes, please comment.

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11. Please indicate how significant the following financial events are for your company. (1 very important, 5 very unimportant)

Events	1	2	3	4	5
KLSE share prices fluctuation					
Interest rates fluctuation					
Exchange rates fluctuation					
Others (please specify) _____					

12. Do you foresee your company to participate in the Financial Futures in near term ?

☐ Yes

☐ No

If no, please state reason(s)

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*Thank you for answering this survey, please return to me in the reply paid envelope provided. If you wish to obtain the results of this survey, please provide your mailing address at the back page.*

20. Do you think the internal control established in your Company sufficient ?

☐ Yes

☐ No

If no, what are the additional control needed ?

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21. How did you find out about the uses of the Futures Market ?

☐ Financial Adviser

☐ Auditors

☐ Bankers

☐ Professional literature

☐ Others (please specify) \_\_\_\_\_

22. How are Futures transaction being carried out in your organization ?

☐ Centrally by group treasury

☐ By individual subsidiaries/branches at a local level

23. Have you always transacted Futures with the same broker?

☐ Yes

☐ No

24. Do you have any master agreement in place ?

☐ Yes

☐ No (Please go to question 26)

25. If yes, do you fully understand the Agreement ?

☐ Yes

☐ No

26. How do you monitor Futures performance ?

	Always	Sometimes	Never
Do you set targets			
If yes, do you meet these targets			
Do you mark your Futures to market			
Do you use any external benchmarking			



## Section D: STOCK INDEX FUTURES

Answer this section only if your company/group has used Stock Index Futures, otherwise please go to **QUESTION 39**.

28. Does your company invest in shares ?  
☐ Yes ☐ No (please go to question 33)
29. What is the value of the above equity investment ?  
☐ Nil ☐ < RM1mil ☐ RM1 mil - RM10 mil  
☐ RM10mil - RM50 ☐ RM51mil - RM100mil ☐ > RM100 mil
30. What is the average duration of these shareholdings ?:  
☐ < One Year ☐ 1 - 5 years ☐ > 5 years
31. What proportion of the above investments are quoted on the KLSE ?  
☐ < 10% ☐ 10% - 30%  
☐ 31% - 50% ☐ 51% - 100%
32. Approximately how many counters are these quoted investments made-up of ?  
☐ <10 counters ☐ 10 counters - 20 counters  
☐ 20 - 40 counters ☐ > 40 counters
33. The approximate Value of Futures contract transacted for this year.  
☐ < RM 10 mil ☐ RM10 mil - RM50mil  
☐ RM51mil - RM100mil ☐ > RM100mil
34. Which method(s) do you use to manage your portfolio risk  
☐ Diversification ☐ Stock Index Futures  
☐ Invest in negatively correlated shares ☐ Do nothing
35. Approximate amount of gain made or loss prevented by hedging in relation to the above transactions .  
☐ < RM10K ☐ RM10K - RM 100 K  
☐ RM101K - RM500K ☐ > RM 500K

## Section E: INTEREST RATE FUTURES

Answer this section only if your company/group has used interest rate Futures, otherwise please go to QUESTION 50.

40. What proportion of your interest rate Futures were done in conjunction with an issue of debt? (if none, please go to Question 44).

☐ 100%      ☐ 99%-50%      ☐ 49%-1%      ☐ None

41. The interest rate of these debt issues are :-

☐ Fixed      ☐ Floating      ☐ Some of each

42. Roughly what percentage of these debt issues were for the following terms :-

1-2 years      3-5 years      6-10 years      over 10 years  
\_\_\_\_\_ %      \_\_\_\_\_ %      \_\_\_\_\_ %      \_\_\_\_\_ %

43. What percentage of these debt issues were pegged to the following rates:-

KLIBOR      Base Lending Rate      SIBOR      Others(please specify) \_\_\_\_\_  
\_\_\_\_\_ %      \_\_\_\_\_ %      \_\_\_\_\_ %      \_\_\_\_\_ %

44. The approximate Value of Futures contract transacted for this year.

☐ < RM 10 mil      ☐ RM 10mil -RM50mil  
☐ RM51mil-RM100mil      ☐ > RM100mil

45. Approximate amount of gain made or loss prevented by hedging in relation to the above transactions .

☐ < RM10K      ☐ RM10K - RM 100 K  
☐ RM101K - RM500K      ☐ > RM 500K

46. How efficient is the Futures as a tool for your interest rate hedging ?

☐ 100% of expectation      ☐ 90% -70%      ☐ 69% - 50%  
☐ 49% - 30 %      ☐ Below 30%

50. Do you agree with the following reasons for not transacting interest rate Futures. (1 strongly agree, 5 strongly disagree).

	1	2	3	4	5
Lack of expertise or knowledge					
Not exposed to interest rate risk					
Not hedge against interest rate movements					
The costs outweigh the benefits					
Difficult to explain the concept of hedging to the Management.					
The accounting treatment of profit and Loss arising from the Futures transaction attract queries from Management and Shareholders.					
No additional tax benefit/incentive.					
Government and Bank Negara Intervention.					
No clear policy is established in most Companies for these transactions.					
It is prohibited by most Companies' policy					
Lack of understanding by management when incurring opportunity losses for purpose of hedging .					
It is done overseas at Head-office /Holding Company level.					
Others (Please specify) _____					

**PLEASE GO TO SECTION E**

57. Do you agree with the following reasons for not transacting Currency Futures.  
(1 strongly agree, 5 strongly disagree).

	1	2	3	4	5
We are not exposed to foreign exchange movements					
We use other derivative products (caps, floors, collars, FRAs etc.)					
We can use Forward contract to hedge efficiently.					
We do not hedge against exchange rate movements.					
The costs outweigh the benefits					
Difficult to explain the concept of hedging to the Management.					
The accounting treatment of profit and Loss arising from the Futures transaction attract queries from Management and Shareholders.					
Government and Bank Negara Intervention.					
No additional tax benefit / incentive.					
No clear policy is established in the Company for these transactions.					
It is prohibited by the Company's policy					
Others (Please specify) _____					

58. Do you think it is necessary to have the Currency Futures in Malaysia ?

☐ Yes

☐ No

Please state reason

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