

ABSTRACT

The changing landscape of interest rate liberalisation, securitisation and reforms in the Malaysian financial markets have made it conducive for the trading in financial futures and options. As the sophistication of risk management instruments has increased, the scope of corporate risk management policy has become much broader.

This development would add more breadth and introduce a new dimension into the financial system. The availability of a cost-effective hedging vehicle in the form of futures and options would enable the efficient transfer and distribution of financial risks in the economy. These instruments provide great flexibility in structuring a risk management strategy for the firm. But to realise their potential requires a detailed understanding of the instruments and their uses.

The Malaysian government is aiming to achieve an industrialised economy by the year 2020. The process towards industrialisation will lead to an upsurge in the demand for capital and lead to a need for risk management facilities. In Malaysia, the development of the financial futures and options market is within the jurisdiction of the Security Commission. Kuala Lumpur Options & Financial Futures Exchange ("KLOFFE") and the Malaysia Monetary Exchange (MME) were set up for the purpose of providing the investors some risk management facilities.

This project paper attempts to firstly understand the key features and uses of Financial Futures. Secondly, to review the potential and key success factor for the Financial Futures contract in Malaysia. The success of this market would depend on several pre-requisites; a well developed and highly liquid underlying cash market and the existence of a sufficient number of market players (speculators and hedgers) with diverging views. Thirdly, to provide evidence on one, the factors that are holding back financial institutions and corporations from using the Financial Futures in Malaysia; two, to gauge the readiness of corporations in participating in the Financial Futures and three, to measure the needs and demands in order to increase competency of Corporations in this field of financial services.