

Introduction to Kuala Lumpur Composite Index Futures (FKLI)



Indices

- 1. General Introduction of Kuala Lumpur Index Futures**
- 2. Contract Specification**
- 3. Features and Functionalities:**
 - 3.1. Trading Phrases and Market Timing**
 - 3.2. Matching Mechanism and order types**
- 4. Instrument States**
- 5. Appendixes**



The Kuala Lumpur Stock Exchange Composite Index is a broad-based capitalisation weighted index of 100 stocks designed to measure the performance of the Kuala Lumpur Stock Exchange.

- ❖ The objectives of the KLCI :
 - a) To provide a performance benchmark for the Malaysian equity market.
 - b) To reflect performance of listed companies that are representative of the major sectors as in the Malaysian economy.
 - c) To reflect the growth and development in Malaysian corporate and economic sector.

- ❖ Index components are subjected to stringent requirements.
 For e.g. Index constituents suspended for more than 3 calendar months will be excluded and only eligible for inclusion after 6 calendar months from the date of suspension uplifted.

For more on KLCI Index Rules, please visit
http://www.klse.com.my/website/bm/market_information/index-components-guide.html



IKQ8 ↑ 1059.00 -9.00 1058.50/1059.00 14x10 Index DES											
											Futures Contract Description
Notes											
The Kuala Lumpur Composite Index Future. To access the underlying index, type KLCI <Index> <GO>.											
View All Notes											
Contract Specifications						Trading Hours					
Name KL COMPOSITE INDX Aug08						Exchange 08:45-12:45 Local 08:45-12:45					
26) Ticker IKQ8 Index						14:30-17:15 14:30-17:15					
27) Exchange MDE-Malaysia Derivatives Ex.											
Underlying KLCI Index											
Contract Size 50 MYR x index											
Value of 1.0 pt MYR 50											
Tick Size 0.50											
Tick Value MYR 25											
28) Price 1,059.00 points											
Contract Value MYR 52,950 @ 14:34:42											
Margin Limits						Related Dates					
Speculator 4,600 Hedger						Cash Settled					
Secondary						First Trade Tue Jul 1, 2008					
						Last Trade Fri Aug 29, 2008					
						Valuation Date Fri Aug 29, 2008					
						Price Range					
						Up Limit n.a. Life High 1,200.00					
						Down Limit n.a. Life Low 1,046.50					
Cycle Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec											
1) Future 3) Spread 4) Generic											
Australia 61 2 9777 8600 Brazil 11 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 3204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P. H159-1399-0 21-Aug-08 14:35:07											



KLCI Contract Specifications

Underlying Instrument	Kuala Lumpur Composite Index Futures (FKLCI)
Contract Size	KLCI multiplied by RM50
Minimum Price Fluctuation	0.5 index point valued at RM25
Daily price limits	20% per trading session for the respective contract months except the spot month contract. There shall be no price limits for the spot month contract. There will be no price limit for the second month contract for the final five Business Days before expiration.
Contract Months	Spot month, the next month and the next two calendar quarterly months. The calendar quarterly months are March, June, September and December.
Trading hours	First trading session: Malaysian 8:45 a.m. to 12:45 p.m. Second trading session: Malaysian 2:30 p.m. to 5:15 p.m.
Final Trading Day	The last Business Day of the contract month.
Final Settlement	Cash Settlement based on the Final Settlement Value.
Final Settlement Value	The Final Settlement Value shall be the average value, rounded to the nearest 0.5 of an index point (values of 0.25 or 0.75 and above being rounded upwards) of the KLCI for the last half hour of trading on the Exchange on the Final Trading Day excepting the highest and lowest value.
Speculative Position Limit	10,000 contracts, net gross open position .



About KLCI....

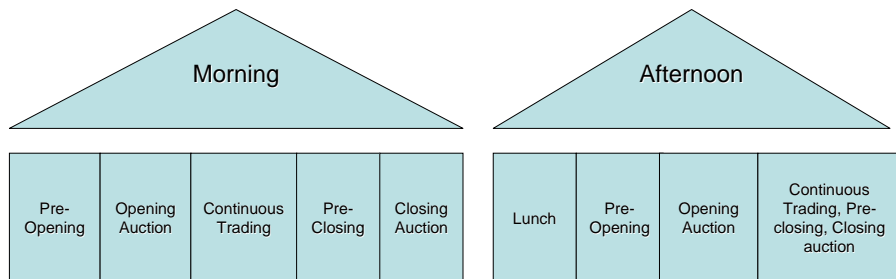
- ❖ The contract value is the price of the KLCI x RM50
e.g. the price of the Dec 2007 futures contract is 1059.0

$$\begin{aligned} \text{The contract value} &= \text{RM50} \times 1059.00 \\ &= \text{RM52,950} \end{aligned}$$

- ❖ Likewise, in trading KLCI is similar to trading other futures contract. You need to pay the initial margin amount. All open positions are mark-to-market daily. Losses and gains are posted to each member's clearing a/c



Trading Phases & Market Timing



Market Timing

Trading Phases	(FKLCI)
Pre Opening	8.15 am
Opening Auction	8.45 am
Continuous Trading	8.45 am
Pre Closing	12.40 pm
Closing Auction	12.45 pm
Lunch	
Pre Opening	2.00 pm
Opening Auction	2.30 pm
Continuous Trading	2.30 pm
Pre Closing	5.10 pm
Closing Auction	5.15 pm

Pre-Opening

8.15 am – 8.45 am

2.00 pm – 2.30 pm

- ❖ Orders can be entered, modified, or deleted.
- ❖ The system broadcasts a dynamically calculated price known as Theoretical Opening Price *(TOP)
- ❖ Information is broadcasted to the market based on orders & quotes in the order book.

Opening Auction

8.45 am , 2.30 pm

- ❖ No orders/quotes can be entered or changed.
- ❖ Opening Price and contract volume matched are disseminated.
- ❖ Opening price is the last TOP calculated before matching.
- ❖ If no matching occurs in the opening auction phase, the price of the first trade executed in the main trading session is designated as the Opening Price.

Continuous Trading

8.45 am – 12.45 pm

2.30 pm – 5.15 pm

- ❖ Orders can be entered, changed and deleted.
- ❖ Trading takes place in a continuous basis.
- ❖ Each incoming order is checked immediately for possible execution.
- ❖ Unexecuted portion of an order is added to the order book, subject to validity and execution condition.
- ❖ Matching will be based on Price and Time priority.

Pre Closing

12.40 pm, 5.10 pm

- ❖ Same as Pre Opening.
- ❖ All orders entered will be auto updated into the order book w/o giving rise to trades.
- ❖ TOP is calculated and disseminated to all market participants.

Closing Auction

12.45 pm, 5.15 pm

- ❖ Same as Opening Auction.
- ❖ Closing Price is determined at this phase.
- ❖ In the event no execution of trades takes place in this phase, the last price traded during the “Continuous Trading” phase will be used as the closing price.

Matching Mechanism & Order Types

Matching Mechanism

- Basic Matching Mechanism

Price

- The higher the bid price, the better the chance it will be matched by a seller (Best Bid)
- The lower the ask price, the better the chance it will be matched by a buyer (Best Ask)

Time

- If there are multiple orders with the same price, the time at which the order was entered will become a factor in determining which order has matching priority, thus the first in first out (FIFO) rule applies.


❖ Note 1: The above matching priority applies to both Futures & Options

❖ Note 2: During continuous trading, the orders in the order book are executed according to price/time priority. Market orders shall have priority over limit orders

Order Types


- Market on Opening (MOO)
- Stop Limit Order
- Limit Order
- Combination Order Purchase and/ or sale of 2 or more different options series/futures contracts with the same underlying.
- Stop/Stop loss order

Page Index **DES**


 **KUALA LUMPUR COMP INDEX** Page 3/ 5

Index Members			Index Members		
1	AFFIN HLDGS	(AHB MK)	21	HAP SENG CONS	(HAP MK)
2	AIRASIA BHD	(AIRA MK)	22	HONG LEONG BANK	(HLBK MK)
3	ALLIANCE FIN	(AFG MK)	23	IGB CORP BHD	(IGB MK)
4	AMMB HLDG BHD	(AMM MK)	24	IJM CORP BHD	(IJM MK)
5	ANN JOO RESOURCE	(AJR MK)	25	IOI CORP BHD	(IOI MK)
6	ASTRO ALL ASIA N	(ASTR MK)	26	KENCANA PETROL	(KEPB MK)
7	BANDAR RAYA DEVS	(BRD MK)	27	KFC HLDGS MALAYS	(KFC MK)
8	BERJAYA SPORTS	(BST MK)	28	KINSTEEL BHD	(KSB MK)
9	BOUSTEAD HLDGS	(BOUS MK)	29	KLCC PROPERTY	(KLCC MK)
10	BRIT AMER TOBACC	(ROTH MK)	30	KNM GROUP BHD	(KNMG MK)
11	BUMIPUTRA-COMMER	(BCHB MK)	31	KUALA LUMPUR KEP	(KLK MK)
12	BURSA MALAYSIA	(BURSA MK)	32	KULIM MALAYSIA	(KUL MK)
13	CARLSBERG BREWRY	(CAB MK)	33	KUMPULAN PERANGS	(KUPS MK)
14	DIALOG GROUP BHD	(DLG MK)	34	KURNIA ASIA BHD	(KUAB MK)
15	DIGI.COM BHD	(DIGI MK)	35	LAFARGE MALAYAN	(LMC MK)
16	DRB-HICOM BHD	(DRB MK)	36	LANDMARKS BERHAD	(LMK MK)
17	EON CAPITAL BHD	(EON MK)	37	LINGKARAN TRANS	(LTG MK)
18	GAMUDA BHD	(GAM MK)	38	LINGUI DEV BHD	(LING MK)
19	GENTING BHD	(GENT MK)	39	LION DIVERSIFIED	(LDHB MK)
20	GUOCOLAND MALAYS	(GUOL MK)	40	LION INDUSTRIES	(LLB MK)

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2) MALAYAN BANKING	(MAY)	(MK)	22) PETRONAS GAS BHD	(PTG)	(MK)
3) MALAYSIA AIRPORT	(MAHB)	(MK)	23) PLUS EXPRESSWAYS	(PLUS)	(MK)
4) MALAYSIAN AIRLIN	(MAS)	(MK)	24) POS MALAYSIA BER	(POSM)	(MK)
5) MALAYSIAN BULK	(MBC)	(MK)	25) PPB GROUP BERHAD	(PEP)	(MK)
6) MALAYSIAN PAC IN	(MPI)	(MK)	26) PROTON HOLDINGS	(PROH)	(MK)
7) MALAYSIAN RES CO	(MRC)	(MK)	27) PUBLIC BANK BHD	(PBK)	(MK)
8) MEDIA PRIMA BHD	(MPR)	(MK)	28) PUNCAK NIA HLD B	(PNH)	(MK)
9) MISC BHD	(MISC)	(MK)	29) RHB CAPITAL BHD	(RHBC)	(MK)
10) MK LAND HLDGS	(MKL)	(MK)	30) SAPURACREST PETR	(SCRES)	(MK)
11) MMC CORP BHD	(MMC)	(MK)	31) SARAWAK ENERGY	(SRWE)	(MK)
12) MTD INFRAPERDANA	(MIB)	(MK)	32) SCOMI GROUP BHD	(SGB)	(MK)
13) MUHIBBAH ENGR	(MUHI)	(MK)	33) SELANGOR PROPS	(SPR)	(MK)
14) MULPHA INTL BHD	(MIT)	(MK)	34) SHELL REFINING	(SHELL)	(MK)
15) MULTI-PURPOSE	(MPU)	(MK)	35) SIME DARBY	(SIME)	(MK)
16) ORIENTAL HOLDING	(ORH)	(MK)	36) SP SETIA BHD	(SPSB)	(MK)
17) OSK HOLDINGS BHD	(OSK)	(MK)	37) STAR PUBLICATION	(STAR)	(MK)
18) PADIBERAS NAS BH	(PNL)	(MK)	38) SUNRISE BHD	(SUN)	(MK)
19) PELIKAN INTERNAT	(PELI)	(MK)	39) SUNWAY CITY BHD	(SCITY)	(MK)
20) PETRA PERDANA	(PETR)	(MK)	40) SURIA CAPITAL	(SURIA)	(MK)

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2) TA ENTERPRISE	(TAE)	(MK)			
3) TAN CHONG MOTOR	(TCM)	(MK)			
4) TANJONG PLC	(TJN)	(MK)			
5) TELEKOM MALAYSIA	(T)	(MK)			
6) TENAGA NASIONAL	(TNB)	(MK)			
7) TITAN CHEMICALS	(TTNP)	(MK)			
8) TM INTERNATIONAL	(TI)	(MK)			
9) TOP GLOVE CORP B	(TOPG)	(MK)			
10) TRADEWINDS PLANT	(TWPB)	(MK)			
11) UCHI TECH BHD	(UCHI)	(MK)			
12) UEM WORLD BHD	(UEM)	(MK)			
13) UMW HLDG BHD	(UMWH)	(MK)			
14) UNISEM (M) BHD	(UNI)	(MK)			
15) WAH SEONG CORP	(WSC)	(MK)			
16) WCT BHD	(WCT)	(MK)			
17) WTK HLDGS BHD	(WTKH)	(MK)			
18) YNH PROPERTY BHD	(YNHB)	(MK)			
19) YTL CORP BHD	(YTL)	(MK)			
20) ZELAN BHD	(ZELN)	(MK)			

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APPENDIX 1 PRINCIPLES OF TOP CALCULATION

The Theoretical Opening Price (TOP) is calculated on a real time basis in the Pre Opening Phase. The TOP is the theoretical price at which an instrument would trade if it opens at the moment the price is calculated.

In calculating the TOP :

- ❖ All order types are taken into consideration i.e.
 - Limit Orders
 - Market on Opening Orders
 - FAK_Market Orders
 - Stop Limit Orders
 - Stop Orders
- ❖ The total quantity of the order is taken into account
- ❖ Each time an order is created, modified or cancelled, the processing of TOP calculation is triggered
- ❖ Price of order entries must be inside (including) the static price thresholds. However, brought forward orders from previous days (GTC & GTD) that are outside the static price thresholds are also included in the TOP calculation.

4 BASIC RULES IN CALCULATING TOP

- ❖ Rule 1 : Maximization of matching quantity at the selected price.
- ❖ Rule 2 : Minimization of non-matching quantity.
- ❖ Rule 3 : When several prices are used with respect to Rule 1 & Rule 2, and
 - (a) there is an imbalance of unfilled quantity that is on the buy side, then the TOP used is the highest price.
 - (b) When several prices are used with respect to Rule 1 & Rule 2, and there is an imbalance of unfilled quantity that is on the sell side, then the TOP used is the lowest price.
- ❖ Rule 4 : Closest price to the reference price i.e the previous day's settlement price.



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