SINGLE STOCK FUTURES (SSFs)

Frequently Asked Questions (FAQs)

1. **What are SSFs?**
2. **Which stocks are available for SSF trading?**
3. **How do SSFs work?**
4. **How will I benefit from trading SSFs?**
5. **What are the risks of trading SSFs?**
6. **What should I be aware of when trading SSFs?**
7. **How are SSFs different from the KL Composite Index Futures (FKLI)?**
8. **How are SSFs different from stocks?**
9. **How can I start trading SSFs?**
10. **Must I hold any individual stocks before I can trade the SSF?**
11. **What SSF contract months are available for trading?**
12. **What is margining and how does it work?**
13. **What are the margin requirements for SSFs?**
14. **How do I keep track of my SSF portfolio?**
15. **Will there be a difference between the price for the SSF and its underlying stock?**
16. **What happens to my SSF positions when there is a corporate event?**
17. **What happens when the underlying stock pays dividend?**
18. **What happens to my SSF positions when there is a corporate take-over?**
19. **What happens when the underlying stock is suspended?**

1. **What are SSFs?**

SSFs are futures on selected individual stocks listed on Bursa Malaysia, and have the following features:

- Standardised contract
  SSFs have standard contract specifications as determined by Bursa Malaysia

- Exchange traded
  SSFs are traded and cleared on Bursa Malaysia

- Standard quantity of a specific underlying asset
  Each SSF is equivalent to 1,000 shares of the underlying asset

- Expiry on a predetermined future date
  SSFs expire on the last business day of the contract month, and are cash settled

When you buy or sell a SSF contract, it is equivalent to buying or selling 1,000 underlying shares at an agreed price now, for delivery or final settlement at a future date when the contract matures. You may close out your bought (long) or sold (short) contract at any time before expiry with an offsetting trade.

2. Which stocks are available for SSF trading?

SSFs on the following Bursa Malaysia blue-chip stocks are available for trading from 28 April 2006:

1. BURSA MALAYSIA BHD
2. AIRASIA BHD
3. AMMB HOLDINGS BHD
4. BERJAYA SPORTS TOTO BHD
5. GENTING BHD
6. IOI CORPORATION BHD
7. MAXIS COMMUNICATIONS BHD
8. RHB CAPITAL BHD
9. SCOMI GROUP BHD
10. TELEKOM MALAYSIA BHD

3. How do SSFs work?

This is an explanation of the mechanics of a June 2006 SSF on Genting Bhd, which has the reference FGEN JUN06:

- The letters "GEN" indicate that the underlying shares are in Genting Bhd
- The letter "F" indicates that this is a futures product, specifically, a SSF
- JUN06 indicates that the contract expires on the last business day of June 2006, which is Friday, 30 June 2006.

Assume that the FGEN JUN06 price is currently trading at RM22.80. You believe that it will rise over the short term and decide to buy 1 FGEN JUN06 contract, which is equivalent to 1,000 Genting Bhd shares. If your futures broker sets an Initial Margin (a form of collateral) of RM3,250 per contract, this amount will be debited from your trading account and deposited in trust with the broker.

Let us assume that the FGEN JUN06 contract rises steadily upwards and reaches RM24.80. You now believe that it has peaked and decide to close out the position. You will then sell 1 FGEN Jun06 contract to close your outstanding long position. The Initial Margin is then refunded along with the difference in the value of the underlying shares, which is 1,000 shares x (RM24.80 – RM22.80) = RM2,000.

Your capital has now increased to RM5,250 from RM3,250 , a return of 60% during a period in which the share price only increased by 8.8%.

Note: This example does not take transaction costs into account

4. How will I benefit from trading SSFs?

- Profit from both bull or bear markets
  You can sell short SSFs quickly, with less hassle than with borrowing shares and no up-tick rule to worry about. A short sale with SSFs is more efficient, and a short squeeze is less likely.

- Leverage/Gearing
  The Initial Margin is between 10% and 25% of the underlying share value, which frees up cash, and enables you to invest the difference or make use of the funds for other

purposes. Initial Margin may be posted in the form of RM cash, selected foreign currencies, approved stocks and letters of credit/bank guarantee.

- Transaction cost savings
  The transaction cost for each SSF bought or sold will be approximately RM30 – RM45, which is generally lower than stock transaction fees. In addition, SSFs are cash settled, so it has none of the costs associated with transacting and delivering the actual shares.

- Enhanced trading strategies
  - Hedging
    When experiencing periods of volatility in the share market, the need to hedge your risk exposure is increased. SSFs enable you to leave your original stock position in place while neutralising the risk of the position and allowing for continued dividends.

  - Spread Trading/Pair Trading
    SSFs allow trading in "pairs" of stocks when the belief is one will outperform the other. This strategy involves holding both long and short positions in related stocks to exploit the positive developments at one company against the negative or neutral developments of another company. This strategy enables you to profit in both up or down markets.

  - Leveraged Trading
    SSFs enable you to initiate outright directional trades in lieu of trading the underlying stock. The use of leverage will magnify the effect of a given change in price.

  - Company-Specific Trading
    SSFs can be used to initiate positions tied to a specific company that are neutral to changes in the overall market. This is done by spread trading the SSFs against the Kuala Lumpur Composite Index Futures (FKLI). Bullish corporate events can be exploited by selling FKLI and buying SSF, whilst negative corporate events can be exploited by buying FKLI and selling SSF. In reverse, you can also remove the effect of a single stock from a broader index – for instance, turning the Kuala Lumpur Composite Index ("KLCI") 100 stocks into the KLCI 99. A hedge ratio is used to determine the proper weighting to achieve a neutral spread between a stock SSF and an index future.

5. What are the risks of trading SSFs?

Leverage magnifies the effect of a price change and may also result in significant losses if the market moves against your SSF positions. An adverse price move may lead to a margin call, requiring an investor to send more money. If you do not maintain your margin balances, your SSF positions may be closed out at a loss.

When opening a futures trading account, you must read and understand the Risk Disclosure Document provided by your futures broker.

6. What are the things to note when trading SSFs?

- Monitor your positions
  Trading SSFs can be risky, so you need to check your positions regularly as part of your risk management strategy.

- Margin calls
  Apart from collecting Initial Margin as a form of collateral, your broker will also 'mark-to-market' or revalue your SSF portfolio at the end of each business day based on settlement prices determined by Bursa Malaysia. If your position generates a loss, you will be asked to replenish your account within a stipulated time. Failure to do so may result in forced liquidation of your positions. Conversely, if your position results in a profit, you may be allowed to withdraw excess funds from your trading account. The concept of margin calls is further explained in **Q.12** "**What is margining and how does it work?"**.

- Effect of certain corporate events
  When corporate events such as bonus or rights issues, and stock splits in the underlying stock occur, all open positions will be adjusted to the new reference price but the contract size will be retained at 1,000 shares per contract. Any resulting odd lots will be cash settled.

- Stop-loss triggers
  You may place stop-loss instructions with your broker, if you be unable to actively monitor your positions.

7. How are SSFs different from the KL Composite Index Futures (FKLI)?

SSFs are futures contracts based on individual stocks listed on Bursa Malaysia, and thus track the movements of the individual underlying stock. The FKLI is based on the Kuala Lumpur Composite Index, and thus tracks the movements of the underlying basket of 100 Bursa Malaysia blue-chip stocks.

8. How are SSFs different from stocks?

Features	Stocks	SSFs
Investment Capital	100% of market value unless margin trading facilities are available.	Required to lodge Initial Margin, which is about 10% - 25% of market value, with daily adjustment of profits and losses in your trading account.
Minimum Price Movement	Below RM1.00 1/2 sen RM1.00 up to RM2.99 1 sen RM3.00 up to RM4.98 2 sen RM5.00 up to RM9.95 5 sen RM10.00 up to RM24.90 10 sen RM25.00 up to RM99.75 25 sen RM100.00 and above 50 sen	0.02 point valued at RM20.00 per contract
Life Span	No expiry date	All open positions expire on contract maturity date and are cash settled against the final settlement price

9. How can I start trading SSFs?

You will be required to open a futures trading account with a futures broker, and will also need to deposit cash or collateral with your broker before you can start trading.

10. Must I hold any individual stocks before I can trade the SSF?

No, you do not need to own any individual stocks in order to trade SSFs. You would also not be required to deliver or receive any shares upon expiry of an SSF contract, which will be cash settled.

11. What SSF contract months are available for trading?

For each of the individual stocks, SSFs for spot month, the next month and the next two calendar quarterly months are available for trading. The calendar quarterly months are March, June, September and December. This means that at any one time and for each of the underlying stocks, there are 4 SSF contracts listed for trading. For example, in May 2006, the 4 contract months for AirAsia Bhd SSFs (contract code “FAIR”) are FAIR MAY06, FAIR JUN06, FAIR SEP06 and FAIR DEC06 contracts. When the FAIR MAY06 contract expires on the last business day of May 2006, the FAIR JUN06 contract becomes the spot month contract on the next day, and a new next month contract FAIR JUL06 will be listed for trading.

12. What is margining and how does it work?

The term “margin” refers to two levels of minimum margin - Initial and Maintenance Margins. Initial Margin is a deposit required when you initiate a position, whilst Maintenance Margin is the minimum level you need in your trading account to continue holding your futures positions.

Before you can start trading, your broker will collect Initial Margin, which is form of collateral or performance bond that is returned to you once you have closed out all your open positions (net of transaction fees, losses and/or any amounts owing to your broker). Generally, the Initial Margin determined by Bursa Malaysia is between 10% and 25% of the underlying contract value, but your broker may require more than the minimum margins set by the Exchange to reduce the frequency of margin calls. Initial Margin may be posted in the form of RM cash, selected foreign currencies, approved stocks and letters of credit/bank guarantee. The Initial Margin determined by Bursa will be changed periodically depending on market conditions.

Your broker will also ‘mark-to-market’ or revalue your SSF portfolio at the end of each business day based on settlement prices determined by Bursa Malaysia, and your account will be credited (profit) or debited (loss) accordingly. If your position generates a loss that is greater than the Maintenance Margin level, you will be asked to top up your trading account within a stipulated time, failure of which may result in forced liquidation of your positions. On the other hand, if your position results in a profit, you may be allowed to withdraw excess funds up to the Maintenance Margin level from your trading account.

An example:

Date/Activities		**Sett. Price of ABC Bhd SSF JUN06 (RM)**	**Account Balance (RM)**	**Explanation**
Day 1	You deposit RM1,000 in your trading account		1,000	Margin required for each lot of ABC Bhd June 2006 SSF (“FABC JUN06”) contract: Initial Margin: RM100 Maintenance Margin: RM80
Day 2	You buy 10 FABC JUN06 contracts @ RM2.00	2.20	1,000 + 2,000 = 3,000	A profit of RM2,000 is credited to the account. *(RM2.20-RM2.00) x 1,000 x 10 = RM2,000*
Day 3	Price of FABC JUN06 drops	2.02	3,000 - 1,800 = 1,200	A loss of RM1,800 is debited from the account. *(RM2.02-RM2.20) x 1,000 x 10 = - RM1,800*

Date/Activities		Sett. Price of ABC Bhd SSF JUN06 (RM)	Account Balance (RM)	Explanation
Day 4	Price of FABC JUN06 drops further	1.96	1,200 - 600 = 600	A further loss of RM600 is debited from the account. *(RM1.96-RM2.02) x 1,000 x 10 = -RM600* A margin call is issued as the account balance is now less than the maintenance margin requirement *(RM80 x 10 = RM800)* You have the following choices: (1) Top up the margin account to the Initial Margin level of RM1,000 (RM100 per contract), or (2) Reduce the number of open positions to 6 contracts.
Day 5	You chose to top up your account and maintain your positions. Price of FABC JUN06 improves slightly	1.98	600 + 400 + 200 = 1,200	You deposit RM400 to restore your minimum Initial Margin level. At the end of the trading day, a profit of RM200 is credited to the account. *(RM1.98-RM1.96) x 1,000 x 10 = RM200*
Day 6	Price of FABC JUN06 rises sharply. You decide to close out your position by selling all 10 contracts at 2.20		1,200 + 2,200 = 3,400	A profit of RM2,200 was credited to the account. *(RM2.20-RM1.98) x 1,000 x 10 = RM2,200* Net Profit = RM3,400 – (RM1,000 + RM400) = RM2,000

Note: This example does not take transaction costs into account

13. What are the margin requirements for SSFs?

The minimum Initial Margins for SSF levied by the clearing house (as of March 2006) are tabulated below. Please note that Initial Margins are subject to regular review, and may be changed at the discretion of the clearing house. Brokers may require a higher Initial Margin deposit, depending on their risk management policies.

Name	Outright Margin (RM)	Spot Month Spread (RM)	Back Month Spread (RM)
AIRASIA BHD	350	110	70
AMMB HOLDINGS BHD	550	170	120
BERJAYA SPORTS TOTO BHD	950	280	200
BURSA MALAYSIA BHD	1200	350	250
GENTING BHD	4750	1450	950
IOI CORPORATION BHD	2650	800	550
MAXIS COMMUNICATIONS BHD	1750	500	350
RHB CAPITAL BHD	500	150	100
SCOMI GROUP BHD	250	80	50
TELEKOM MALAYSIA BHD	1850	550	350

Outright Margin
Outright Margin is levied on futures positions which have no accompanying risk-reducing positions.

Spread Margin
Lower margin rates are levied on futures positions that have accompanying risk-reducing positions. Spot Month Spread Margins are applicable for spread positions that include the spot month contract, whilst Back Month Spread Margins are applicable for spread positions that do not include the spot month contract.

14. How do I keep track of my SSF portfolio?

Your futures broker will provide regular statements to you on your trading activity and open positions. Price updates for each SSF will be available from major price vendors, whilst settlement prices and trading volume may be obtained from newspapers. You will also be able to obtain this information from your broker.

15. Will there be a difference between the price for the SSF and its underlying stock?

The price of the SSF and its underlying stock will be closely correlated and this convergence increases towards the expiry of the SSF contract. This is because upon expiry, the SSF will be cash settled based on the weighted average price of the underlying stock traded for the morning and afternoon trading session on Bursa Malaysia on the Final Trading Day.

Although SSF and stock prices generally move in the same direction, there will be instances where there may be temporary distortions in the prices. This presents an opportunity for arbitrageurs to make a simultaneous purchase from the lower priced market, and sale in the higher priced market, to profit from the inconsistencies in prices. The presence of such inter-market trading activities ensures convergence of the 2 markets.

16. What happens to my SSF positions when there is a corporate event?

When corporate events such as bonus or rights issues, and stock splits in the underlying stock occur, open positions will be adjusted according to the following rules:

- Rule 1
  For a bonus issue, rights issue or stock split where the resulting number of shares held is increased after the corporate event, SSF open positions are increased (any resulting odd lot are cash-settled) and price reduced according to the adjustment factor. The standardised contract size of 1,000 shares is maintained. Please refer to Examples 1, 2, 3 & 5 for illustration of calculations.

- Rule 2
  For a reconstruction exercise where existing shares are consolidated into fewer units of shares per lot with a higher share price, the positions will remain unchanged with the contract size remaining at 1,000 units of shares per contract. This scenario is illustrated in Example 4.

As the minimum price fluctuation for SSFs are two ticks (0.02), the price adjustment resulting from corporate events is rounded to the nearest tick of 0.02. In the event the adjusted price is equidistant between two minimum price fluctuations, the adjusted price is rounded up to the higher decimal point.

After the market closes on 'ex-date minus 1' i.e. 1 day before the capital adjustment on the underlying share takes place, the usual end-of-day settlement process will be done. In addition, an extra procedure is performed, where open positions affected by the capital adjustment are adjusted using one of the above rules depending on the form of capital adjustment involved. The price of the resulting adjusted open positions is calculated based on the effect of the ratio of the Capital Adjustment on the end-of-day Settlement Price.

17. What happens when the underlying stock pays dividend?

Usually, there will not be any adjustments made for ordinary dividends. However, adjustments may be made in certain cases, for example, in the case of special dividends.

18. What happens to my SSF positions when there is a corporate take-over?

When there is a take-over or merger and acquisition, which results in the de-listing of the underlying stock, the SSF contract will also be de-listed or cease to trade.

19. What happens when the underlying stock is suspended?

SSF contracts will be suspended for trading when the underlying stock is suspended.

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Please contact your futures broker or Bursa Malaysia Derivatives Berhad concerning current contract specifications.

Examples of SSF Adjustments for Corporate Events

Example 1: Stock Split

A stock split of 1 to 2 was declared for the underlying stock of "FABC".

The adjustment factor (R) = N_0/N_n = ½ or 0.5.

Before adjustment, an investor holds the following Open Positions (+ = long, - = short) with the Settlement Price for that day:

	Original Positions and Prices	**Settlement Prices Before Adjustment**
a)	+1 FABC Apr06 @10.00	9.82
b)	+2 FABC May06 @10.50	9.78
c)	-3 FABC Jun06 @10.80	10.54
d)	-4 FABC Sep06 @10.74	10.36

The following mark-to-market is posted before adjustment:

a)	(9.82 – 10.00) X 1 X 1000	= RM 180 DR
b)	(9.78 – 10.50) X 2 X 1000	= RM1,440 DR
c)	(10.80 – 10.54) X 3 X 1000	= RM 780 CR
d)	(10.74 – 10.36) X 4 X 1000	= RM1,520 CR
	Total mark-to-market	RM 680 CR

Prices of the Open Positions of the respective contract months are adjusted as follows (all resulting prices rounded to the nearest multiple of 0.02):

Apr06	9.82 X 0.5	= 4.92
May06	9.78 X 0.5	= 4.90
Jun06	10.54 X 0.5	= 5.28
Sep06	10.36 X 0.5	= 5.18

After adjustment, Open Positions as at the Start-of-day on ex-date are:

a)	+1 x 2 = +2 FABC Apr06 @4.92
b)	+2 x 2 = +4 FABC May06 @4.90
c)	-3 x 2 = -6 FABC Jun06 @5.28
d)	-4 x 2 = -8 FABC Jul06 @5.18

Open Position multiplier of 2 is the inverse of the adjustment factor (1/0.5) that has been rounded down to the nearest whole number.

Example 2: Bonus Issue

A bonus issue of 1 share for every 3 shares held was declared for the underlying stock of "FDEF".

The adjustment factor (R) = N_0/N_n = ¾ or 0.75.

Before adjustment, an investor holds the following Open Positions (+ = long, - = short) with the Settlement Price for that day:

	Original Positions and Prices	**Settlement Prices Before Adjustment**
a)	+1 FDEF Apr06 @10.00	9.82
b)	+3 FDEF May06 @10.50	9.78
c)	-4 FDEF Jun06 @10.80	10.54
d)	-6 FDEF Sep06 @10.74	10.36

The following mark-to-market is posted before adjustment:

a)	(9.82 – 10.00) X 1 X 1000	= RM 180 DR
b)	(9.78 – 10.50) X 3 X 1000	= RM2,160 DR
c)	(10.80 – 10.54) X 4 X 1000	= RM1,040 CR
d)	(10.74 – 10.36) X 6 X 1000	= RM2,280 CR
	Total mark-to-market	RM 980 CR

Prices of the Open Positions of the respective contract months are adjusted as follows (all resulting prices rounded to the nearest multiple of 0.02)

Apr06	9.82 X 0.75	= 7.36
May06	9.78 X 0.75	= 7.34
Jun06	10.54 X 0.75	= 7.90
Sep06	10.36 X 0.75	= 7.78

After adjustment, Open Positions as at the Start-of-day on ex-date are:

a) +1 x 1 = +1 FDEF Apr06 @7.36
b) +3 x 1 = +3 FDEF May06 @7.34
c) -4 x 1 = - 4 FDEF Jun06 @7.90
d) -6 x 1 = - 6 FDEF Sep06 @7.78

Open Position multiplier of 1 is the inverse of the adjustment factor (1/0.75 = 1.33) that has been rounded down to the nearest whole number.

Notes:
All additional odd lots arising from corporate event adjustment will not be taken into account and margin requirement will be reduced to reflect the reduction in odd lots open position. Hence, there is no increase of open positions in this Example.

Example 3: Bonus Issue

A bonus issue of 3 shares for every 2 shares held was declared for the underlying stock of "FGHI".

The adjustment factor (R) = N_0/N_n = 2/5 or 0.4.

Before adjustment, an investor holds the following Open Positions (+ = long, - = short) with the Settlement Price for that day:

	Original Positions and Prices	**Settlement Prices Before Adjustment**
a)	+1 FGHI Apr06 @10.00	9.82
b)	+3 FGHI May06 @10.50	9.78
c)	-4 FGHI Jun06 @10.80	10.54
d)	-6 FGHI Sep06 @10.74	10.36

The following mark-to-market is posted:

a)	(9.82 – 10.00) X 1 X 1000	= RM 180 DR
b)	(9.78 – 10.50) X 3 X 1000	= RM2,160 DR
c)	(10.80 – 10.54) X 4 X 1000	= RM1,040 CR
d)	(10.74 – 10.36) X 6 X 1000	= RM2,280 CR
	Total mark-to-market	RM 980 CR

Prices of the Open Positions of the respective contract months are adjusted as follows (all resulting prices rounded to the nearest multiple of 0.02)

Apr06	9.82 X 0.4	= 3.92
May06	9.78 X 0.4	= 3.92
Jun06	10.54 X 0.4	= 4.22
Sep06	10.36 X 0.4	= 4.14

After adjustment, Open Positions as at the Start-of-day on ex-date are:

a)	+1 x 2 = +2 FGHI Apr06 @3.92
b)	+3 x 2 = +6 FGHI May06 @3.92
c)	-4 x 2 = -8 FGHI Jun06 @4.22
d)	-6 x 2 = -12 FGHI Sep06 @4.14

Open Position multiplier of 2 is the inverse of the adjustment factor (1/0.4 = 2.50) that has been rounded down to the nearest whole number.

Notes:
All additional odd lots arising from corporate event adjustment will not be taken into account and margin requirement will be reduced to reflect the reduction in odd lots open position. Hence, the increase of open positions relates to full lot increases only.

Example 4: Consolidation Exercise

A consolidation exercise where every 3 shares held is converted into 2 shares was declared for the underlying stock of "FJKL".

The adjustment factor (R) = N_0/N_n = 3/2 or 1.5.

Before adjustment, an investor holds the following Open Positions (+ = long, - = short) with the Settlement Price for that day:

	Original Positions and Prices	**Settlement Prices Before Adjustment**
a)	+1 FJKL Apr06 @10.00	9.82
b)	+3 FJKL May06 @10.50	9.78
c)	-4 FJKL Jun06 @10.80	10.54
d)	-6 FJKL Sep06 @10.74	10.36

The following mark-to-market is posted:

a)	(9.82 – 10.00) X 1 X 1000	= RM 180 DR
b)	(9.78 – 10.50) X 3 X 1000	= RM2,160 DR
c)	(10.80 – 10.54) X 4 X 1000	= RM1,040 CR
d)	(10.74 – 10.36) X 6 X 1000	= RM2,280 CR
	Total mark-to-market	RM 980 CR

Prices of the Open Positions of the respective contract months are adjusted as follows (all resulting prices rounded to the nearest multiple of 0.02)

Apr06	9.82 X 1.5	= 14.74
May06	9.78 X 1.5	= 14.68
Jun06	10.54 X 1.5	= 15.82
Sep06	10.36 X 1.5	= 15.54

After adjustment, Open Positions as at the Start-of-day on ex-date are:

a)	+1 x 1 = +1 FJKL Apr06 @14.74
b)	+3 x 1 = +3 FJKL May06 @14.68
c)	-4 x 1 = -4 FJKL Jun06 @15.82
d)	-6 x 1 = -6 FJKL Sep06 @15.54

Open Position multiplier of 1 is the inverse of the adjustment factor (1/1.5 = 0.66) that has been rounded up to the nearest whole number (no. of lots remains unchanged and "lot size/contract unit" stays at 1,000 units of shares per lot):

Notes:
All resulting reduction of contract unit from 1,000 units due to the corporate event adjustment will be re-adjusted back to the standard lot size of 1,000 units. Margin requirement will be increased to reflect this re-adjustment.

Example 5: Rights Issue

A rights issue of 1 share for every 2 shares held was declared for the underlying stock of "FMNO".

Cum-rights stock price of MNO company is RM10.00.
New stock price for the rights issues is offered at RM4.00 per unit.

The adjustment factor (R) $= N_0/N_n \times (1-E/S_0) + E/S_0 = N_0/N_n$
$= 2/3 \times (1 - 4.00/10.00) + (4.00/10.00) = 0.80$

Before adjustment, an investor holds the following Open Positions (+ = long, - = short) with the Settlement Price for that day:

Original Positions and Prices		**Settlement Prices Before Adjustment**
a)	+2 FMNO May06 @10.50	10.80

The following mark-to-market is posted:

a) (10.80 – 10.50) X 2 X 1000 = RM600 CR

Price of the Open Position of the contract months is adjusted as follows (all resulting prices rounded to the nearest multiple of 0.02)

May06 10.80 X 0.80 = 8.64

After adjustment, Open Positions as at the Start-of-day on ex-date are:

b) +2 x 1 = +2 FMNO May06 @8.64

Open Position multiplier of 1 is the inverse of the adjustment factor (1/0.80 = 1.25) that has been rounded down to the nearest whole number.

Notes:
All additional odd lots arising from corporate event adjustment will not be taken into account and margin requirement will be reduced to reflect the reduction in odd lots open position. Hence, there is no increase of Open Positions in this Example.