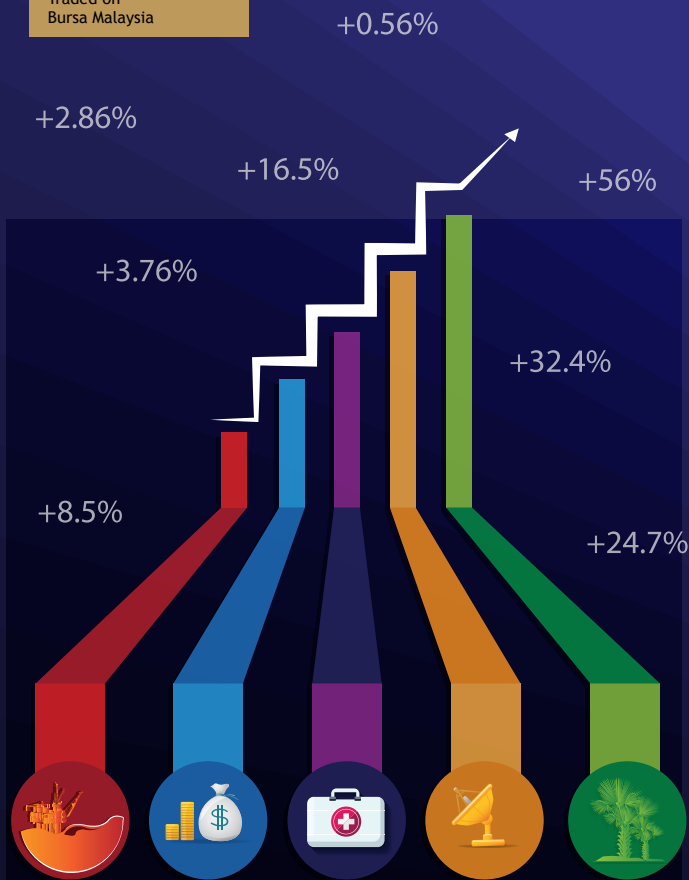


# The Equity Market Index Benchmark in Malaysia

## FKLI

FTSE Bursa Malaysia  
KLCI Futures

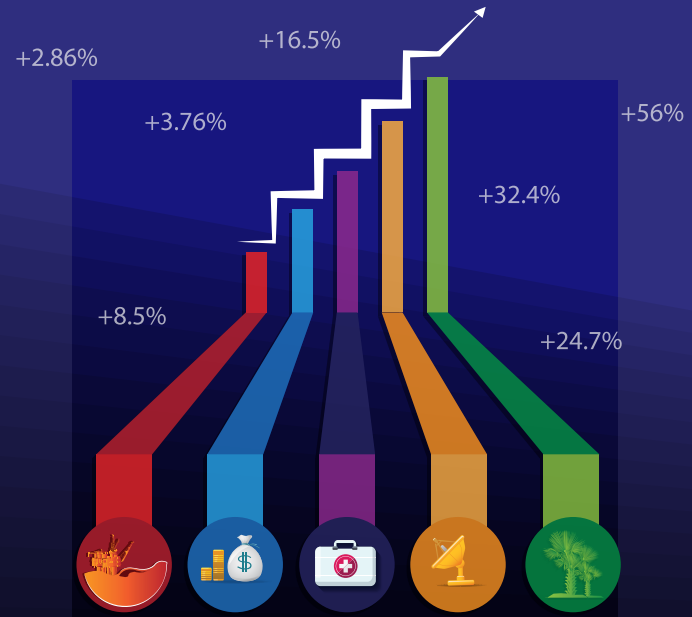
Traded on  
Bursa Malaysia



# WHAT IS FKLI?

FKLI is a Ringgit Malaysia (MYR) denominated FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) Futures Contract traded on Bursa Malaysia Derivatives (BMD) providing market participants exposure to the underlying FBM KLCI constituents.

It is actively used by both the institutional and retail investors in their respective trading portfolios.



## Features



### CONTRACT SIZE

FBM KLCI multiplied by MYR50.00



### SETTLEMENT METHOD

Cash settled



### MINIMUM PRICE FLUCTUATION

0.5 index point valued at MYR25.00

## What Is The Ticker Code For FKLI Contract?

- ▶ **CME Globex®**  
*BMD\FKLI\relevant Contract month code*  
Example: *BMD\FKLI\DEC20*
- ▶ **Bloomberg**  
*IKA Index CT <Go>*
- ▶ **Refinitiv**  
*<FKLI> + <Month Code> + <Year Code>*  
Example: *<FKLIc1> / <FKLIZO> DEC 2020 Contract*
- ▶ **ICE Data Services**  
*F: FKLI\MY*, where *M* is month code and *YY* is year number  
  
Example: *F: FKLI\Z20* for FTSE Bursa Malaysia KLCI Futures Dec-2020 Contract

# WHY TRADE FKLI?



## Global Access

FKLI is traded electronically on CME GLOBEX®, a global electronic trading platform. Accessing CME GLOBEX® is easy and allows individual and professional traders anywhere around the world to access all BMD products.



## Prudent Capital Management

An insurance company or fund manager with an equity portfolio may use FKLI as a hedging tool to protect the portfolio against a potential decline of the underlying stock index.



## Leveraged Trading

Market participants may use FKLI to gain leveraged exposure to the price volatility of the underlying FBM KLCI index.



## Lower Cost of Entry

In addressing an interim cash shortage, an institution may buy the FKLI as a temporary substitute for holding stocks and liquidate the futures position later once the physical stocks are acquired. This entails a cheaper entry (via initial margin) for similar exposure, minus the cost of an outright purchase.



## Ability to Short Sell

When there is a bearish market outlook, a trader can sell a FKLI Contract first to initiate a short position and buy back later at a lower price to close out the position and vice versa.



## Exposure to Constituents of FBM KLCI

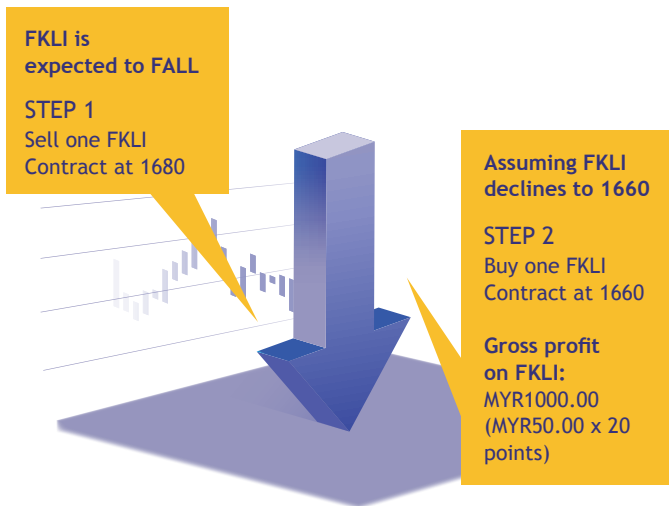
Gain exposure to the FBM KLCI comprising the 30 largest companies listed on the Bursa Malaysia Main Market with a single futures Contract.

## TRADING EXAMPLE (BEAR MARKET)

### SCENARIO:

On concerns of higher prices of consumer goods and an overall decline of economic conditions, Sofia views that the market will be on a decline. To make profit out of the bear market, she can use the FKLI Contract in the following manner:

Index Futures (FKLI) is traded at 1680



### Note:

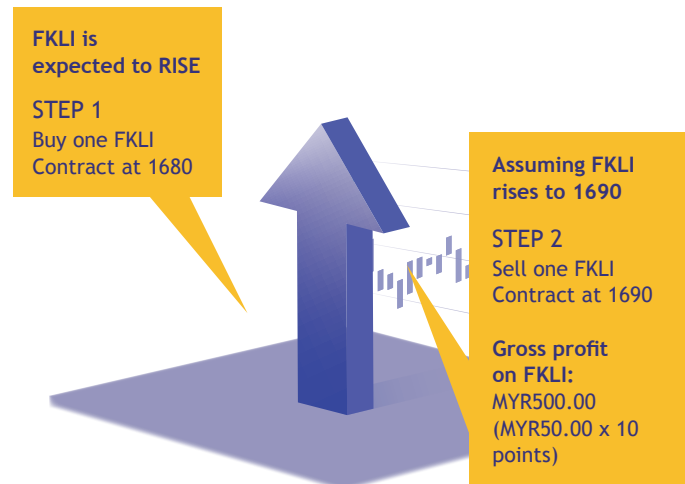
1. Initial Margin is to be deposited with a Futures Broker prior to trading.
2. Open position is subject to daily mark-to-market which may require additional margin to be deposited.
3. Transaction costs have been excluded in this example.

## TRADING EXAMPLE (BULL MARKET)

### SCENARIO:

Ryan has been watching the stock market very closely due to the upcoming General Elections. He foresees that the market will be on an uptrend after the election. To profit out of the bull market, he can use the FKLI Contract in the following manner:

Index Futures (FKLI) is traded at 1680



### Note:

1. Initial Margin is to be deposited with a Futures Broker prior to trading.
2. Open position is subject to daily mark-to-market which may require additional margin to be deposited.
3. Transaction costs have been excluded in this example.

## SCENARIO:

### 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 perpetually hold stocks in hand, therefore their risk exposure to the market would be increased in declining markets. A fund manager expects that in two months' time, the share price will appreciate. However, he/she is worried that unforeseen event may cause prices to decline prior to the time he/she would sell his/her stocks. He/She chooses to trade on BMD and hedge his/her position by selling the forward FKLI Contract. In doing so, he/she has effectively agreed to lock-in his/her future selling price today for a Contract that will expire on a specific future date.

### 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 reckons that the correlation prices of the underlying stock market and the FKLI market have deviated from their usual spreads, and that the FKLI is trading at a huge premium to the underlying market. He/She decides to sell FKLI and buy the underlying index constituents in the equity market to arbitrage. The position will be liquidated later once the spread of the prices between both markets return to its fair value.

#### 1. How can I start trading FKLI?

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.

#### 2. What are the margin requirements for FKLI?

Please refer to your preferred Futures Broker for the latest margin requirements or you may refer to our [https://www.bursamalaysia.com/trade/trading\\_resources/derivatives/circulars](https://www.bursamalaysia.com/trade/trading_resources/derivatives/circulars) (Change in Performance Margin Rate).

#### 3. Will there be a difference between the price of FKLI and FTSE Bursa Malaysia KLCI?

The price of the FKLI and its underlying index namely the FTSE Bursa Malaysia KLCI (FBM KLCI) will be closely correlated and will converge towards the expiry of the FKLI Contract. This is because upon expiry, the FKLI will be cash settled based on the Final Settlement Value, which is derived from the average value of FBM KLCI from 15:45:30 to 16:45:15 plus one value after 1700 hours on the Final Trading Day excepting the 3 highest and 3 lowest values. Please refer to the Contract specifications of FKLI for full details of Final Settlement Value calculation methodology.

Although FKLI price and FBM KLCI generally move in the same direction, there will be instances where there may be temporary distortions in the futures price and underlying index level. 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 intermarket trading activities ensures convergence of the 2 markets.

**4. Do I have to wait until the maturity of the Contract to realise my profit and loss?**

No. You may close out your position at any time of market hours prior to Contract maturity. If you have long one FKLI Contract, you will need to sell one FKLI Contract of the same Contract month to close out your position. By closing out your position, your profit or loss will be realised based on the difference of your entry and exit price of the same Contract.

**5. What are the Contract months available for trading?**

There are four Contract months available for trading, namely the spot month Contract, the next month Contract and the next two calendar quarterly month Contracts. For instance, in December 2020, the four Contracts available for trading will be the December 2020 spot month Contract, the January 2021 next month Contract and the March 2021 and June 2021 quarterly month Contracts.

**6. Must I hold all the stocks in FBM KLCI in order to trade FKLI?**

No, you do not need to own any stocks in FBM KLCI in order to trade FKLI. You would also not be required to deliver or receive any shares of the underlying index constituents upon expiry of a FKLI Contract, which will be cash settled.

Open a Futures Trading Account with one of the licensed Futures Brokers of Bursa Malaysia Derivatives to get started.

Please refer to our list of Trading Participants at [www.bursamalaysia.com](http://www.bursamalaysia.com)

For more information and latest updates:  
Visit Bursa Malaysia website



#### **Disclaimer**

This leaflet has been provided for general information purposes only. The information contained in this leaflet does not constitute financial or trading advice and does not make any recommendation regarding the product/s mentioned. Although care has been taken to ensure the accuracy of the information within this leaflet, Bursa Malaysia Berhad and its group of companies including Bursa Malaysia Derivatives Berhad (“Bursa Malaysia”) do not warrant or represent, expressly or impliedly as to the accuracy, completeness and/or currency of the information herein. Bursa Malaysia further does not warrant or guarantee the performance of any product/s referred to in this leaflet. All applicable laws, regulatory requirements and rules, including current Rules of Bursa Malaysia Derivatives and Rules of Bursa Malaysia Derivatives Clearing should be referred to in conjunction to this leaflet. Bursa Malaysia does not accept any liability for any claim howsoever arising, out of or in relation to this leaflet including but not limited to any financial or trading decisions made by the reader or any third party on the basis of this information. You are advised to seek independent advice prior to making financial or trading decisions.

#### **BURSA MALAYSIA BERHAD**

197601004668 (30632-P)

Exchange Square, Bukit Kewangan,  
50200 Kuala Lumpur, Malaysia

Tel: +(603) 20347000

Fax: +(603)2026 3584

Email: [futures@bursamalaysia.com](mailto:futures@bursamalaysia.com)