

APPENDIX XII

ISSUES WITH FUTURES CONTRACT DESIGN

Introduction

This appendix discusses the perceived short falls in the design of the current futures contracts

Issues

<u>Issue</u>	<u>Current position</u>	<u>International practice</u>
Existence of a Contract Specification	Non existent or unclear document which is not readily available.	A clear, unambiguous statement of the principal component of the contract and how items affecting the price settlement will be addressed
The contract specification - published on the Exchange Web-sites	No	Yes
What is it that is being traded?	<p>On KSE trading is undertaken, as on the ready market, that is similar quantities as if you are trading the shares themselves except that they are for a forward delivery date, being 30 days or less.</p> <p>That is it is the purchase and sale of shares for a deferred delivery date.</p>	<p>International practice is to trade the contract which has terms and conditions setting out what has to be delivered or acquired at a future date. Usually this is the number of shares which a contract provides for, normally, 1000 shares. The buyer of a contract will have to take delivery of the shares under the contract and pay the price he contracted to pay at the time of trade. The seller of the contract has the obligation to deliver to the buyer the number of shares sold at a forward date. There are also provisions for adjusting the delivery requirements to account for corporate actions such as share splits and rights issues.</p>
Contract Series Traded	Only the current and in the last week before expiry the next month's contracts are traded.	Usually the trading is on a quarterly cycle such as: February/May/August/November, four quarter months ahead.

Other provisions in the contract specifications	None	Issues covered include such issues of suspension of a share from trading, and conditions which may give rise to invoking 'force majeure' emergency provisions.
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A typical basic contract specification is shown below:

Qantas Airways Individual Share Futures	
Contract Unit	1,000 Qantas Airways Shares
Contract Months	February/May/August/November, four quarter months ahead.
Commodity Code	QN
Minimum Price Movement	1 cent, corresponding to A\$10.00 per contract, i.e. Contract Unit x 1 cent
Last Trading Day	As determined by the Exchange and set out in SFE Procedures, Determinations
Settlement Day	The business day following the Last Trading Day.
Trading Hours	9.50am – 4.00pm
Final Settlement	Physical delivery of 1,000 Shares. Delivery may only occur at the expiry of a contract.
Adjustment Methodology	No contract adjustments will be made for scheduled dividends. Adjustments will occur for all other capital reconstructions that are pro-rata events e.g. (share splits, bonus & rights issues etc.)
Last Modified	01/11/04

Some other issues that need to be addressed in the design of futures contracts and their risk management include the provision of contract limits, reportable client and house limits and the question of cash alternatives to physical settlement.