



Basic Guide to Index Futures

Welcome to Nirmal Bang's guide to Index Futures. This guide will help you understand what are index futures, which index futures can you trade in, how do you trade in Index Futures, what would be the advantages followed by FAQs

Before we understand Index Futures let us understand in principle what are Futures contracts.

A Futures contract is an agreement between the buyer and a seller for the purchase and sale of an asset at a specific price at a specific future date. The actual purchase or sale of the underlying asset does not take place until the contracted date of delivery. An important feature of the futures contract is that it created an obligation on both the parties to honour the contract.

A futures contract which is based on a set of underlying securities constituting an Index is called a 'Stock Index Futures'.

Advantages of trading in Index Futures

- An investor will be able to take a view of the entire market instead of individual securities when you have a general view of the direction in which the market may move in the near term
- Index based derivatives satisfy the hedging requirements of investors having reasonable sized portfolio irrespective of the composition of the individual securities in your portfolio
- Index Futures are settled in cash and therefore any problems related to bad delivery, forged, fake certificates, etc. can be avoided
- It is difficult to manipulate the index as it is constituent of multiple stocks; this adds to the attractiveness of trading in Index Futures
- Investors have to pay only a certain percentage of the value of the total contract as initial margin, hence investors can leverage by controlling the total value of the contract with relatively small amount of margin

Futures products that you can trade through us on the NSE

Product	S&P CNX NIFTY Futures	S&P CNX NIFTY Mini Futures #	CNXIT Futures	BANK NIFTY Futures	NIFTY MIDCAP 50 Futures	Individual Futures
Underlying Instrument	S&P CNX NIFTY Index	S&P CNX NIFTY Index	CNX IT Index	CNX Bank Index	NIFTY Midcap 50	Individual stocks (179 securities)
Trading Cycle	The contracts have a maximum of 3-month trading cycle - near month, the next month and the far month (three). After the expiry of the near month contract a new contract is introduced on the following trading day. The new contract will be introduced for three month duration. This way, at any point in time, there will be three contracts available for trading in the market i.e., one near month, one mid month and one far month duration respectively					
Expiry Day*	Last Thursday of the expiry month	Last Thursday of the expiry month	Last Thursday of the expiry month	Last Thursday of the expiry month	Last Thursday of the expiry month	Last Thursday of the expiry month
Contract Size	50	20	100	50	300	Different for each company**
Price steps	Rs.0.05	Rs.0.05	Rs.0.05	Rs.0.05	Rs.0.05	Rs.0.05
Price bands	+/- 10%	+/- 10%	+/- 10%	+/- 10%	+/- 10%	+/- 20%
Quantity freeze	15,000	15,000	15,000	15,000	15,000	Different for each company ***

- If the last Thursday is a trading holiday, the contracts expire on the previous trading day

** - The value of the futures contracts on individual securities may not be less than Rs.2 lakhs at the time of introduction for the first time at any exchange

*** - Value Rs.5 cr., Qty freeze is calculated for each underlying on the last trading day of each calendar month and is applicable through the next calendar month

- The trading specifications for Mini Future contracts on S&P CNX Nifty index are exactly as applicable to the future contracts on S&P CNX Nifty index. The value of future contracts on MINIFTY may not be less than Rs.1 lakh at the time of introduction

FAQs

■ **How does one trade in Nifty Futures or any other Index Futures on the NSE?**

Trading on the Nifty Futures is just like trading in any other security. The investor can take a view of the market and can take a position by buying or selling the index.

Futures/ Options contracts in both index as well as stocks can be bought and sold through the trading members of NSE. Nirmal Bang is a member on the NSE. We also provide the internet facility to trade in the futures and options market. You are required to open an account with us and complete the related formalities which include signing of member-constituent agreement, Know Your Client (KYC) form and risk disclosure document. We will then allot to you an unique client identification number. To begin trading, you must deposit cash and/or other collaterals as may be stipulated by us.

■ **What is the contract cycle for Futures products on the NSE?**

Futures contracts have a maximum of 3-month trading cycle - the near month (one), the next month (two) and the far month (three), except for the Long dated Options contracts. New contracts are introduced on the trading day following the expiry of the near month contracts. The new contracts are introduced for three month duration each. This way, at any point in time, there will be 3 contracts available for trading in the market (for each security) i.e., one near month, one mid month and one far month duration respectively. For example on January 26, 20XX there would be three month contracts i.e. Contracts expiring on January 31, 20XX; February 28, 20XX and March 27, 20XX. On expiration date i.e January 31, 20XX, new contracts having maturity of April 24, 20XX would be introduced for trading.

■ **Is there any Margin payable?**

Yes. Margins are computed and collected on-line, real time on a portfolio basis at the client level. Members are required to collect the margin upfront (initial margin) and are required to maintain a minimum level depending on index movements (maintenance margin).

■ **What is the Expiration Day**

It is the last day on which the contracts expire. Index Futures contracts expire on the last Thursday of the expiry month. If the last Thursday is a trading holiday, the contracts expire on the previous trading day.

■ **How are the contracts settled**

All the Index Futures contracts are settled in cash on a daily basis and at the expiry or exercise of the respective contracts as the case may be. Clients/Trading Members are not required to hold any stock of the underlying for dealing in the Futures / Options market.