As a leader in innovation, Nasdaq Dubai’s equity futures market provides investors with attractive opportunities.
Single Stock Futures

The capital markets in the UAE offer one of the most successful equity markets in the region, characterised by easy access to regional and international investors and benefiting from MSCI emerging market status. There is now an increasing appetite among investors for a wider suite of products to be introduced as well, to provide tools for diversification and risk management.

Nasdaq Dubai has taken a significant step towards meeting this demand by introducing Single Stock Futures on shares of prominent companies that are listed in the UAE. These include Emaar Properties, Aldar, Etisalat and other leading names.

These single stock futures provide unique hedging and investment opportunities. They can be traded by institutions or individuals through a broker, just like equities themselves.

Market participants include leading UAE brokers. Market making services are provided by a leading UAE financial institution to promote liquidity.

Nasdaq Dubai single stock futures are a commitment by two parties to buy or sell a specific equity at a future date (after 1, 2 or 3 months) at an agreed price.

This document explains the fundamentals of how to trade these instruments.

What are futures contracts?

Futures contracts are agreements between two parties to buy or sell an underlying asset (such as an equity) at a fixed price on a predetermined date, for example in 1 month’s time.

Futures are standardised contracts trading on exchanges and cleared through a centralised counterparty clearing mechanism.

Every year, tens of billions of dollars of equity futures change hands on exchanges around the world. Many of these are single stock futures.

Trading equities on regional markets versus single stock futures on Nasdaq Dubai:

<table>
<thead>
<tr>
<th>Equity</th>
<th>Single Stock Future on Nasdaq Dubai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gives ownership of a company</td>
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<tr>
<td>No leverage, i.e pay full value of shares to invest</td>
<td>Leverage, i.e pay only certain % of share value to invest</td>
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<tr>
<td>Cannot sell without buying (no short selling)</td>
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<td>Entitles owner to dividends and voting</td>
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<tr>
<td>Higher commission compared to futures</td>
<td>Lower commission compared to equities</td>
</tr>
</tbody>
</table>
The initial cash outlay to take a futures position is much less than the value of the contract. This magnifies the gains or losses that are made, compared to simply taking an equity position.

Final settlement of futures can take place in two ways: by physical delivery of an asset, or cash settlement.

Nasdaq Dubai equity futures contracts are all cash settled, which means the difference in the value of positions is settled in cash on a daily basis until expiration of the contract.

What you can trade

Nasdaq Dubai’s market is launching with futures on the shares of some of the leading companies trading on UAE stock exchanges.

<table>
<thead>
<tr>
<th>Underlying Shares</th>
<th>Contract Symbol</th>
<th>Contract Size (shares per contract)</th>
<th>Currency</th>
<th>Contract Expiry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aldar Properties</td>
<td>ALDAR</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>Arabtec Holding</td>
<td>ARTC</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>DP World</td>
<td>DPW</td>
<td>100</td>
<td>USD</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>Dubai Islamic Bank</td>
<td>DIB</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>Dubai Parks and Resorts</td>
<td>DBPARK</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>Emaar Properties</td>
<td>EMAAR</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
<tr>
<td>Emirates Telecommunications Group (Etisalat)</td>
<td>ETISLT</td>
<td>100</td>
<td>AED</td>
<td>1, 2 and 3 months</td>
</tr>
</tbody>
</table>

Futures are traded in the market continuously, in a similar way to stocks. A futures contract can be bought and sold at any time during its life. Futures contracts expire on the expiry date and settlement will be based on the underlying equity value on the last day of trading. At the end of each contract a new futures contract will be created, so participants can roll over to the new contract if they wish to maintain their positions.

In due course Nasdaq Dubai will add more companies from regional and international exchanges.

Who can trade

Futures are traded around the world by many different market participants including:

- Institutional Investors
- Individual investors
- Hedgers
- Arbitragers

Investors who want to take a market view on how equities will move might decide to trade single stock futures. They can also be used to hedge current exposure; and arbitragers can take advantage of price differences between futures and the underlying market.
## Contract Specifications

<table>
<thead>
<tr>
<th>Contract Specifications</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trading Platform</strong></td>
<td>X-Stream trading platform</td>
</tr>
<tr>
<td><strong>Contract Underlying</strong></td>
<td>Security traded on a UAE stock exchange and as approved by Nasdaq Dubai and published by way of notice</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>Same as trading currency of underlying security in primary market</td>
</tr>
<tr>
<td><strong>Contract Months</strong></td>
<td>1 month, 2 months and 3 months expiry</td>
</tr>
<tr>
<td><strong>Margin required by Exchange</strong></td>
<td>Ranges from 10% - 30% of notional value</td>
</tr>
<tr>
<td><strong>Minimum Price Movement (tick size)</strong></td>
<td>0.001</td>
</tr>
<tr>
<td><strong>Daily Price Limits</strong></td>
<td>15% up and 10% down from previous closing price</td>
</tr>
<tr>
<td><strong>Settlement Type</strong></td>
<td>Cash settled</td>
</tr>
<tr>
<td><strong>Expiration Settlement Price</strong></td>
<td>Last 30 minutes of volume weighted average price (VWAP) of the underlying security</td>
</tr>
<tr>
<td><strong>Last Trading Day / Maturity Day</strong></td>
<td>3rd Thursday of the expiry month. In the event of this not being a Business Day, the Last Trading Day shall normally be the Business Day prior to the 3rd Thursday.</td>
</tr>
<tr>
<td><strong>Settlement Day</strong></td>
<td>Business Day following the Maturity Day</td>
</tr>
<tr>
<td><strong>Listing of New Contract Month</strong></td>
<td>2nd Thursday of the expiry month i.e. Thursday prior to Maturity Day</td>
</tr>
<tr>
<td><strong>Trading Days</strong></td>
<td>Sunday to Thursday</td>
</tr>
<tr>
<td><strong>Trading Hours</strong></td>
<td>10:00 am - 2:00 pm</td>
</tr>
<tr>
<td><strong>Contract Size</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

## How futures are quoted and traded on exchange

Futures prices are usually quoted in the same way as equity prices quoted in the underlying cash market.

### Example:

<table>
<thead>
<tr>
<th>Contract</th>
<th>Bid</th>
<th>Bid quantity</th>
<th>Offer</th>
<th>Offer quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMAARJ16</td>
<td>AED 5.01</td>
<td>10000</td>
<td>AED 5.05</td>
<td>15000</td>
</tr>
</tbody>
</table>

This shows there is a willing buyer in the Emaar 1-Month contract for 10,000 contracts at AED 5.01 and there is a willing seller for 15,000 contracts at AED 5.05.

Note that 1 contract is equivalent to 100 shares, so buying 10,000 contracts will give exposure to 1,000,000 Emaar shares.
Futures prices change depending upon market factors that influence the investment judgment of buyers and sellers about the future price movement of a particular share.

**Daily price limits:**
Nasdaq Dubai establishes a daily price limit for trading futures contracts. These limits are stated in terms of the previous close. Once the futures price has increased by its daily limits, there can be no trade at a higher price on that trading day. Conversely, once a futures price has declined by its daily limit, there can be no trading at any lower price on that trading day.

Thus, if the daily limit for a particular stock is currently AED 0.5 up and down, and the previous day’s settlement was AED 5.00, there can be no trading during the current day at any price below AED 4.50 or above AED 5.50. The price is allowed to increase or decrease within this price band set each day.

**Long and short:**
Mr X buys 10,000 Emaar futures contracts at 5.05. He is said to have a **long position** in 10,000 futures contracts. Similarly, if Mr Y sells a futures contract at 5.05, he is said to have a **short position** in 10,000 futures contracts.

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**Margining**

Nasdaq Dubai sets a minimum margin requirement for each contract traded on exchange. It is based on the volatility of the underlying share. The exchange continuously monitors market conditions and risks and, as necessary, raises or reduces its margin requirements. Individual brokerage firms may require higher margin amounts from their customers than the exchange-set minimums.

There are two kinds of margin for futures:

**Initial margin**
This is paid by buyer and seller as a ‘deposit’ at the time of trading. Depending on the underlying equity, this typically varies between 20% and 30% (including margin charged by brokers) of the value of the contract. Initial margin is credited back to the account once a position is closed or expired.

**Example**

If the initial margin requirement is 20% on Emaar, then Mr X will have to pay AED 1,010,000 (20% x 10,000 contracts x 100 shares per contract x AED 5.05).

In other words, Mr X has taken exposure in Emaar shares worth AED 5,050,000 (10,000 contracts x 100 shares per contract x AED 5.05) by depositing margin of AED 1,010,000.

**Variation margin**
This is settled daily, based on profit or loss at current market prices. It is known as ‘mark to market’ valuation. A position that loses money is debited with variation margin and a position that gains money is credited with variation margin. This is not offset against the initial margin. The variation margin must be funded in cash by the investor on the same day as the call.
Example

If the price moves from AED 5.05 to 5.08, Mr X as the long position holder will gain AED 30,000 (1,000,000 X 0.03).

If the price moves from AED 5.05 to 5.08, Mr Y as the short position holder will lose AED 30,000 (1,000,000 X 0.03).

Similarly, the short position holder (Mr Y) will gain if the price of Emaar futures falls below AED 5.05.

Please note that the investor must maintain sufficient funds with their broker to cover margin requirements. Any shortfall in maintaining sufficient balance may trigger a close out of the investor’s position by the broker.
HOW TO Trade Equity Futures on Nasdaq Dubai
How to start trading equity futures on Nasdaq Dubai

You can open an account for futures trading with an approved Nasdaq Dubai Member (broker). They can then place orders for you in the same way as for stock trades.

The initial payment for the futures is the initial margin, which must be settled on the same day as the trade. Brokers are responsible for all payments of margins for their clients. If an investor fails to make margin payments to their broker within the specified time, remember that the broker may close the investor’s positions.

If you are new to equity futures, or want to improve your understanding, you can start with simulated trading to become familiar with the concepts, before you trade in real life. Contact Nasdaq Dubai on game.support@nasdaqdubai.com to open an account on the exchange’s simulated trading platform for single stock futures.

Recommended steps before trading futures

- Understand the products and the benefits and risks associated with trading them.
- Chose a broker that offers these products for trading on Nasdaq Dubai. A list of brokers is available on Nasdaq Dubai’s website. www.nasdaqdubai.com/futures
- Ensure your brokerage account is sufficiently funded to cover margin requirements.
- Pick the right maturity months to suit your trading. Nasdaq Dubai offers 1-, 2- and 3-month contracts.
- Understand the contract specifications.
- Liquidity is key in trading any products. Make sure you are trading within the liquidity available to avoid any potentially unwanted liquidity risks. Watch the daily volumes traded to monitor the liquidity.
- Check the bid and offer spread on the contract you are choosing to make sure you are not taken by surprise when you want to close out an open position.
- Futures are highly leveraged products. Make sure the leveraged exposure you are taking is within your risk limits.
- Monitor your stop losses to make sure that you are not holding a position when it has breached your loss level.
- Understand the margining on futures. Margins need to be posted frequently if the underlying is moving against you. Make sure you have sufficient cash to cover the margin requirement.
- Make sure you follow the expiry of the contracts and roll them over before expiry if you want to maintain the position. On expiry remember that futures on Nasdaq Dubai settle in cash against the closing price.
Key characteristics of Nasdaq Dubai single stock futures

- Contract size is typically 100 shares, where 1 contract is equivalent to 100 shares of the underlying stock.
- Settlement is through the exchange of cash between the party in loss and the party in profit at the end of the contract.
- Contract cycles or maturity of futures contracts on Nasdaq Dubai are for 1 Month, 2 Months and 3 Months. New contracts are introduced on the 2nd Thursday of each month. Current contracts expire on the 3rd Thursday of each month. The new contracts are introduced for a three-month duration.
- Exiting or closing a futures contract can take place at any time up to the expiry of the contract as long as there is a buyer or seller. There is no requirement to keep the futures till expiry.
- On expiry date the futures price will be calculated based on the stock closing price (weighted average of last 30 minutes of trading). Any profit or loss will be settled accordingly. All open futures will expire on this date and variation margins will be called or paid. Initial margins will be returned. Investors can ‘roll forward’ to the next contract period if they wish to keep the position open.

Benefits of trading equity futures on Nasdaq Dubai

Futures contracts are typically traded in order to hedge or to simply gain from price movements.

Futures contracts are used to hedge against price risk in the short and long term. Hedgers typically have an interest in the underlying stock and use future contracts to hedge their price risk while maintaining their holdings of the underlying stock and avoiding the need to sell or buy shares.

Futures contracts can also be used to profit from short or medium term price movements. Futures contracts are traded by a variety of market participants ranging from institutional and professional traders to individual traders. Each type of trader uses futures contracts to hedge or speculate based on their short term or longer term investing strategy and needs.

Leverage
This is a key feature of equity futures. The initial payment (called initial margin) that an investor must make is typically only between 20% and 30% of the value of the contract (including margin charged by brokers). This magnification of the effect of the capital, called leverage, can lead to significant gains (or losses). These gains (or losses) can be significantly larger than the amount invested. The concept of leverage is explained further in a later section.

Profit from share price declines as well as increases
Selling in advance (shorting) and buying back allows an investor to profit from a stock that is going down in price. Buying and then selling later allows an investor to profit from a stock that is going up.

Hedging
This allows portfolio managers and investors to hedge their existing market exposure, either increasing or decreasing their exposure to the volatility of the underlying equity or index. The concept of hedging is explained in detail later.
Trading and arbitrage
Investors can benefit from the out-performance of one stock price over another through pair trading, by going long on one stock and short on another stock through futures. There are also opportunities for arbitrage when futures and underlying stock prices diverge.

Cost effective
Futures fees can be lower than fees for trading equities.

Standardisation
Futures contracts are always in a standardised form.

Futures theoretical value
The future value of an underlying equity is unknown. Even the most sophisticated models cannot predict the future value of an asset accurately.

In theory, equity futures are priced based on an arbitrage model. This model assumes the underlying equity is bought at its current spot price and all the costs of keeping the equity until the expiry date (known as cost of carry) are added to the spot price. Since futures do not pay dividends, any dividends during this period should not be included. The formula for the theoretical value of futures is simplified as below.

\[ F = S \times (1 + r) - Dvd \]

- \( F \) = Futures price
- \( S \) = Underlying stock price
- \( r \) = Annualised interest rate
- \( Dvd \) = Expected dividend

Futures derive their value based on the spot price of the underlying equity. On expiry date, the future is valued at the underlying spot price at that time. As the expiry date nears, the value of the future and the underlying equity price start to converge.

Calculating the value of 3 Month Futures on Emaar Properties

<table>
<thead>
<tr>
<th>Emaar Current Stock Price</th>
<th>AED 6.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current rate of interest</td>
<td>5% per annum</td>
</tr>
</tbody>
</table>

No dividends during next three months

\[ F = S \times (1 + r) - Dvd \]

\[ F = 6.00 \times (1 + 5\% \times 3/12) - 0 \]

\[ F = 6.075 \]

This is the theoretical value of the futures price. In the real market on an exchange, futures prices depend on the supply and demand of market participants and their expectations about market prices.
Example of a trade cycle

Emaar 1-Month Futures

**DAY 1**

- Buyer sees price on screen and decides to buy Emaar Futures. Current offer is AED 5.64. Trade is executed for 1,000 futures. Both buyer and seller will pay Initial Margin to the exchange.

- For 1,000 futures @ AED 5.64, notional value = 1,000x100x5.64 = AED 564,000

- Initial Margin is 20%, so buyer pays AED 112,800 and seller pays AED 112,800, both to the Exchange.

**DAY 2**

- Closing price of Futures is AED 5.74 (gain of AED 0.10)

- Buyer receives 1,000x100x0.10 = AED 10,000 as Variation Margin; seller pays the same amount.

**DAY 3**

- Closing price of Futures is AED 5.40 (loss 5.74-5.40 = AED 0.34)

- Buyer Pays 1,000x100x0.24 = AED 24,000 as Variation Margin; seller receives the same amount.

*Any initial margins received are returned to buyer and seller.*
Are there any risks?

Yes, trading in futures carries risks for investors. It is recommended that investors seek advice before trading if they have limited experience. Some of the key risk factors for consideration are:

**Leverage**
Magnification of the effect of the capital can lead to significant losses, considerably more than the movement of the underlying asset.

**Close out**
Any open contracts are automatically closed on expiration day. Futures contracts must be closed out on or before a specific date.

**Margin calls**
Your broker may make exposure-based margin calls during the term of the future, which require immediate cash settlement. Any failure to meet a margin call may result in liquidation of your positions with or without your consent.

**Dividend uncertainty**
Holders of futures contracts do not receive any ordinary dividends paid by the company on underlying shares. Expected dividends declared and factored into futures prices are not certain and this may affect the profit or loss made by investors on their futures trading.

**Leverage**

The initial cash outlay to take a futures contract position amounts to just a small percentage of the value of the contract. Therefore if the underlying price moves in your favour, the percentage return you make from trading the futures contract will be significantly higher than the percentage movement in the underlying stock. If the share price moves adversely the losses on the futures trade will be magnified and greater in percentage terms than the decline in the underlying stock.

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**Buying Shares**

Pay AED 20,000
Exposure to 4,000 shares @ AED 5.00
valued at AED 20,000

Sell on open market @ AED 5.50
Receive cash of 5.50 x 4,000 = AED 22,000

PROFIT AED 2,000
Return = 10% (2,000/20,000)

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**Buying Single Stock Futures**

Pay AED 20,000 margin
Exposure to 40,000 shares @ AED 5.00
valued at AED 200,000. Margin 10% is AED 20,000

Three months later share price rises to AED 5.50

Difference between final price and spot price on 40,000 shares is paid to investors
(5.50-5.00)*40,000 = AED 20,000

PROFIT AED 20,000
Return = 100% (20,000/20,000)
Hedging

Hedgers seek to reduce risk by protecting an existing share portfolio against possible adverse price movements in the underlying market. Hedgers have a real interest in the underlying shares and use futures as a means of preserving their performance.

Example

It is January 1 and Company Y is trading at AED 6.50 per share. You own 1,000 shares of Company Y and believe that a short-term (three month) drop in price is likely. You decide to sell 10 March futures in Company Y (= 1,000 shares) which are currently trading at AED 6.80. If the stock does decline in price, you will incur a loss on your stock position. This loss, however, will be offset by a profit from a decrease in the price of your short future. On the other hand, if the price of the Company Y stock rises unexpectedly, any loss incurred from your short futures contract can be offset by the increase in value of your shares.

<table>
<thead>
<tr>
<th>SCENARIO 1</th>
<th>SCENARIO 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two months after you sell your March Company Y contract:</td>
<td>Two months after you sell your March Company Y contract:</td>
</tr>
<tr>
<td>Stock price at 5.9</td>
<td>Stock price at 7.0</td>
</tr>
<tr>
<td>You decide to close out the short futures contract for an available price of 6.2</td>
<td>You decide to close out the short futures contract for an available price of 7.3</td>
</tr>
<tr>
<td>The 0.6 per share unrealized loss on your stock (6.5 – 5.9) will be offset by a 0.6 profit (6.8 - 6.2) on your short future position</td>
<td>The 0.5 loss (7.3 purchase price – 6.8 sale price) you have incurred on the short future will be offset by a 0.5 profit per share (7.0 current price – 6.5) on your long stock position</td>
</tr>
</tbody>
</table>
Glossary

Single stock future
A contract between two parties to buy or sell a particular equity at a specific future date at a specified price. Single stock futures derive their value from the underlying equity. Tradable on an exchange.

Volume
For equities, volume means the total number of shares traded. For futures, volume means the total number of contracts (or lots) traded.

Forward
An over-the-counter contract that sets the price of a financial instrument or asset for future delivery. Not tradable on an exchange.

Open position
A position that is not yet closed or expired. An open position is subject to price changes in the market and its value can increase or decrease.

Spot market
The current price at which a particular security can be traded at a specified time and place. The spot price of a security is considered to be its current value.

Mark to market
Valuing an open position at current market prices.

Liquidity
The measure of how easily a security can be bought and sold quickly without affecting the price significantly. High liquidity implies there are many buyers and sellers at any time.

Margin call
A request by an exchange or broker to an investor to deposit additional money or securities so that the margin account is brought up to the minimum margin level.

Volatility
A measure of the movement of a security price during trading hours. It is commonly measured by the standard deviation. A more volatile security is considered higher risk.

Short position
Shorting is the selling of a security that is not owned by the seller. Shorting allows the seller to profit from a market that is going down. A short position is the opposite of a long position.

Long position
When a security is bought and held the buyer is said to have a long position.

Hedging
The reduction of exposure to a security through taking an opposite position. Hedging is carried out mainly to reduce the risk of exposure to the market or an asset.

Contract size
One Nasdaq Dubai Single Stock Futures lot or contract is equal to 100 shares. When you buy or sell, the units used are lots.

Tick size
The minimum upward or downward movement in the price of a security.
F.A.Q

**What are single stock futures?**
A single stock future (also known as an equity future) is a contract between two parties to buy or sell a particular stock at a specific future date (e.g., one month’s time) at a specified price.

The price of a single stock future is derived from the price of the underlying stock. Investors’ profit and loss is calculated based on the price movements of the futures contract.

**What are the benefits of single stock futures?**

**Hedging**
Investors with equities in their portfolio can use futures to reduce or limit the risk of a fall in the value of those equities. Example: If a share price falls, selling futures would offset the loss of value of the portfolio.

**Investment**
Investors can use single stock futures to take a view on which way a share price will move.

**Leveraged Trading**
Trading futures, whether for hedging or investment, requires less capital than is required to buy the same number of equities. This magnification of the effect of the capital is called leverage, or margin. Futures contracts are highly leveraged, which can lead to significant gains (or losses). These gains (or losses) can be larger than the amount invested.

**Profit Whether Stock Prices Rise Or Fall**
Futures can be sold without owning them and this enables investors to benefit from a falling market.

**Low commission**
Commission for trading futures is typically lower than commission for trading the underlying equity.

**How are single stock futures contracts different from equities?**
Key differences between trading equities and futures:

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How do I learn more about single stock futures?
Futures trading is very similar to stock trading, Nasdaq Dubai offers access to a trading simulation game that allows you trade with artificial money to better understand the practical aspects of futures trading. Visit https://stockgames.nasdaqdubai.com to register and start simulated trading.

Nasdaq Dubai’s website at http://futures.nasdaqdubai.com contains useful information including brochures and factsheets.

As an investor, how do I start trading?
You can trade stock futures through any approved Nasdaq Dubai broker. You will need to contact any of the below brokers if you are interested in trading futures:

<table>
<thead>
<tr>
<th>Broker</th>
<th>Tel</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al-Ramz</td>
<td>+971 2 611 8816</td>
<td><a href="mailto:osama.mohrat@alramz.ae">osama.mohrat@alramz.ae</a></td>
</tr>
<tr>
<td>Arqaam Capital</td>
<td>+971 4 507 1700</td>
<td><a href="mailto:vineet.gupta@arqaamcapital.com">vineet.gupta@arqaamcapital.com</a></td>
</tr>
<tr>
<td>EFG Hermes</td>
<td>+971 600 500 004</td>
<td><a href="mailto:efg-hermescallcenter@efg-hermes.com">efg-hermescallcenter@efg-hermes.com</a></td>
</tr>
<tr>
<td>Integrated Securities</td>
<td>+971 2 494 2749</td>
<td><a href="mailto:radi@integratedsecurities.ae">radi@integratedsecurities.ae</a></td>
</tr>
<tr>
<td>MenaCorp</td>
<td>+971 4 351 2810</td>
<td><a href="mailto:ralkhawaja@menacorpfinance.com">ralkhawaja@menacorpfinance.com</a></td>
</tr>
<tr>
<td>Mubasher Financial Services</td>
<td>+971 4 321 1167 (Ext: 246)</td>
<td><a href="mailto:mohammed.shairah@mubasher.net">mohammed.shairah@mubasher.net</a></td>
</tr>
</tbody>
</table>

Once you have access to trade derivatives through a broker, you can deposit margin and start trading. You can see a list of brokers at http://www.nasdaqdubai.com/members/list-of-members

What currencies are Nasdaq Dubai single stock futures traded in?
The futures are in the same currency as the underlying stocks. For example Emaar Properties futures trade in AED and DP World futures trade in USD.

What are the trading hours?
10.00 am to 2.00 pm Sunday to Thursday. These are the same hours that trading takes place on the underlying equities.

Are there any foreign ownership restrictions on trading futures?
No. There are no foreign ownership restrictions.

Do I receive dividends by holding futures?
No. If the underlying security pays a dividend during the life of a future, the investor in a futures contract is not entitled to any dividend.
What is short selling?
Short selling means selling something without owning it. Investors short sell futures in the belief that a security’s price will decline, at which point the futures contract can be closed by buying the shares at a lower price to make a profit.

Is short selling futures allowed on Nasdaq Dubai?
Yes short selling of futures contract is allowed on Nasdaq Dubai.

How does an investor, who has the underlying stock, use stock futures when he expects a short-term fall in the stock price?
The holder of the physical stock can sell a future to avoid making a loss without having to sell the share. Any loss caused by the fall in the price of the stock is offset by gains made on the stock futures position. This concept is known as hedging.

Example of Hedging:

Investor owns 1,000,000 shares of Company S. The current value of each share is AED 5.00, making the portfolio value AED 5,000,000.

The investor expects the share price to drop to AED 4.00 in a month, resulting in a portfolio value of AED 4,000,000. He decides to hedge his position using futures contracts on Company S.

The investor hedges by taking a short position on Company S futures for a value equivalent to AED 5,000,000.

With this hedging strategy, and given that futures are priced based on the underlying share price, the investor manages the risk of a portfolio value drop as follows:

**Scenario 1 : Company S share price drops to AED 4.00**
- Stock Portfolio Value: AED 4,000,000 (AED 1,000,000 Loss)
- Futures Short Position: Profit of AED 1,000,000
- Net Result: AED 0.00 (No or minimal loss)

**Scenario 2 : Company S share price rises to AED 6.00**
- Stock Portfolio Value: AED 6,000,000 (AED 1,000,000 gain)
- Futures Short Position: Loss of AED 1,000,000
- Net Result: AED 0.00 (No or minimal loss)
How can an investor benefit from a predicted change in share price?

An investor can benefit from a predicted rise in the price of a stock by taking a long position (Buying Futures).

Example:

Ali (an investor) expects that VZco stock price will rise over the next 2 months, from AED 1.10 to AED 1.30. He uses VZco Futures as follows:

- Ali enters a futures contract to take long exposure on 1,000,000 shares, valued at AED 1,100,000.
- He pays the initial margin of 20% (AED 220,000).
- VZco stock price rises AED 1.3.
- Position value rises to AED 1,300,000.
- Ali sells the futures contract at AED 1.3 and makes a profit AED 0.2 per share (totaling AED 200,000).

Futures trading offers the benefit of margin trading (leverage), meaning that an investor does not need to provide 100% of the investment amount; typically only 20%-30% of the amount is required to take a trading position.

Margin trading magnifies the profit of investors. However it also magnifies the investor’s losses if the market moves against the investor.

Benefiting from a predicted fall in the price of a stock:

An investor can benefit from a predicted fall in the price of a stock by taking a short position (Selling Futures).

Example:

John (an investor) expects that VZco stock price will fall over the next 2 months, from AED 2.10 to AED 1.90. He uses Futures as follows:

- John doesn’t own any existing shares of VZco, but since he is able to short sell on Nasdaq Dubai’s futures market, he decides to take a short exposure.
- John enters a futures contract to take a short exposure on 100,000 shares, valued at AED 210,000.
- He pays the initial margin of 20% (AED 42,500).
- VZco stock price falls to AED 1.90.
- Position value is now AED 190,000.
- John can close his position at AED 1.90 per share and make a profit of AED 20,000.
Futures trading offers the benefit of margin trading (leverage), meaning that an investor does not need to provide 100% of the investment amount. Typically only 20%-30% of the amount is required to take a trading position.

Margin trading magnifies the profit of investors. However, it also magnifies the investor’s losses if the market moves against the investor.

**What is margin?**
There are two kinds of margin for futures:

a. **Initial margin** - This is paid by the buyer and seller as a ‘deposit’ at the time of trading. Depending on the underlying equity, this typically varies between 20% and 30% of the value of the futures contract. Initial margin is credited back to the account once a position is closed or expired.

b. **Variation margin** - This is settled daily by buyer or seller, based on profit or loss at current market prices. It is known as ‘mark to market’ valuation. A position that loses money is debited with variation margin and a position that gains money is credited with variation margin. The variation margin must be funded in cash by the investor on the same day as the call.

**How is profit or loss by short selling calculated?**
An investor can sell Emaar Properties futures contracts trading at AED 5.00. If the share price falls to AED 4.80, the investor makes a profit of AED 0.20 per share. However if the share price rises to AED 5.20, the investor will make a loss of AED 0.20 per share. Note that there will be other costs involved such as brokerage commission in calculation of profit.

**What is a ‘short’ position and a ‘long’ position?**
Taking a long position means buying and holding a futures contract. When the price of the underlying stock rises, a long position holder will make profits and when the price of the underlying stock falls, they make losses. Traders with a bullish view take a long position.

Taking a short position means selling a futures contract without buying or owning it first. When the price of the underlying stock falls, short position holders will make profits and when the price rises they will make losses. Traders with a bearish view take short positions.

**What are the different contract months available for trading ?**
Currently Nasdaq Dubai creates futures contracts with 1, 2 and 3 months expiry.

New contracts are introduced on the 2nd Thursday of each month. Current contracts expire on the 3rd Thursday of each month.

**Example:**
If there are futures contracts expiring in Oct 2016, Nov 2016 and Dec 2016, a new contract month i.e Jan 2017, will be introduced on 2nd Thursday of Oct 2016. The Oct 2016 contract will expire on 3rd Thursday of Oct 2016, and then there will be 3 contracts available, i.e Nov 2016, Dec 2016 and Jan 2017.
What is the contract size of the futures?
Contract size means the number of underlying shares per futures contract. For Nasdaq Dubai futures this is 100 shares per contract.

What is meant by leveraged trading?
Leverage is the result of margin trading. Leverage means the ability to take on magnified exposure to an asset compared to the amount of investment. For example an investor might take exposure of AED 1,000,000 worth of Emaar Properties shares by depositing, say, AED 250,000 as initial margin. This is a margin of 25% and it means the investor takes 4X leverage on his invested amount. Any profit or loss made by the share price movement will be 4 times more than the invested amount of AED 250,000.

How much margin can brokers take from clients for a futures contract?
Nasdaq Dubai calculates margin on each security based on the volatility of the underlying stock. Depending on the underlying equity, this varies between 10% and 30% of the value of the futures contract. Brokers will add an extra buffer to manage their client’s exposure and daily movement in stock prices. Please contact your broker to understand your margin requirements.

How are commissions calculated on trading futures?
Commissions on trading futures contracts are calculated on the contract value. Nasdaq Dubai charges 5 basis points (i.e 0.05%) on the contract value of a trade. Brokerage commission will be additional.

Example:

If 500 futures contracts in Emaar Properties are traded at AED 7.00, then the contract value will be equal to 500 contracts X 100 X AED 7.00 = AED 350,000.

If total commission (exchange (0.05%) + brokerage (0.15%)) = 0.20%, then total commission will be equal to AED 350,000 X 0.20% = AED 700.

How much cash do I need to take a position of 1 million AED or USD?
This depends on the amount of initial margin required for the particular futures that you choose. If you need to pay initial margin of 20%, then only 200,000 AED or USD is required to take 1 million AED or USD worth of exposure to the underlying shares. You will then also be liable for variation margin, if required, during the life of the contract.

Can I sell futures without owning futures?
Yes. This is called taking a short position. If there is a buy price (bid) in the market, any investor who has a trading account can sell the futures contract. After taking a short position, they will make a profit if the price falls and they will make a loss if the price rises.

How is my profit or loss calculated?
The profit or loss depends on the difference between the price at which the position is opened and the price at which it is closed or expired.
Example:

An investor has a long position in Emaar Properties November futures at AED 7.30. If the investor closes their position by selling futures at AED 7.50, the profit would be AED 0.20 per share i.e 0.20 X 100 = AED 20 per contract.

If the investor closes their position by selling futures at, for example, AED 7.00, the loss would be AED 0.30 per share i.e 0.30 X 100 = AED 30 per contract.

If I am happy with my profit can I close my position before the contract expires?
Yes, any time during market hours a position can be closed out. If you see a price in the market to buy or sell your position, you can trade to close out.

What happens when my contract expires?
If your contract, i.e open position, is not closed out before its expiry date, then at expiry the futures are valued at the stock price as determined by Nasdaq Dubai.

Can I roll over my expiring position to a new contract?
Yes. Investors can roll over their futures position by closing their open position prior to expiry and entering into a new contract to maintain their position in futures.

How often do initial margin requirements change for each futures contract?
Nasdaq Dubai re-calculates its margin parameters at least on a weekly basis. If there is high volatility in a specific stock, then the margin requirement for futures contract on this stock may change, either up or down.

How do settlements take place in my cash account with my broker?
Your broker will calculate your daily profit and loss and any additional margin requirement on a daily and real-time basis. You will have to maintain sufficient funds in your margin account to cover this requirement. Any shortage in your margin account will have to be funded quickly to avoid a close out of your open position by your broker. Note your broker may close out your open position if sufficient cash is not available in your margin account with your broker.

What are the cash flows involved in trading futures?
The minimum margin as stated by your broker is required to open a position in a futures contract. This minimum margin serves as the starting point for a new futures position. It covers trading fees, initial margin as required by Nasdaq Dubai, and any buffer kept by the broker to cover any potential losses on your open position. Brokers may make further variation margin calls if your available margin falls below the required minimum amount as set by your broker.
How is the theoretical value of futures calculated?
In theory, equity futures are priced based on an arbitrage model. This model assumes the underlying equity is bought at its current spot price and all the costs of keeping the equity until the expiry date (known as cost of carry) are added to the spot price. Since futures do not pay dividends, any dividends during this period should not be included.

The formula for the theoretical value of futures is simplified as below:

\[ F = S \times (1 + r) - Dvd \]

- \( F \) = Futures price
- \( S \) = Underlying stock price
- \( r \) = Annualised interest rate
- \( Dvd \) = Expected dividend

Are there any risks in trading futures?
Yes, trading in futures carries risks for investors. It is recommended that investors seek advice before trading if they have limited experience. Some of the key risk factors for consideration are:

**Leverage** – Magnification of the effect of the capital can lead to significant losses, considerably more than the movement of the underlying asset.

**Close out** – Any open contracts are automatically closed on expiration day.

**Margin calls** – Your broker may make exposure-based margin calls during the term of the futures, which require immediate cash settlement. Any failure to meet a margin call may result in liquidation of your positions with or without your consent.

**Dividend uncertainty** – Holders of futures contracts do not receive any ordinary dividends paid by the company on underlying shares. Expected dividends declared and factored into futures prices are not certain and this may affect the profit or loss made by investors on their futures trading.
Quiz

1. Which contracts are traded on Nasdaq Dubai?
   A. Forward contracts
   B. Futures contracts on equities
   C. Future contracts on commodities

2. What is the key feature of equity futures contracts?
   A. They offer the same level of risk and return as equities
   B. They offer more risk and return opportunities than equities
   C. They offer fewer risk and return opportunities than equities

3. What are the contract expiration months on equity futures traded on Nasdaq Dubai?
   A. 1 month, 2 months and 3 months
   B. 1 month, 3 months and 6 months
   C. 1 month, 6 months and 9 months

4. The initial deposit required to trade equity futures contracts is called:
   A. Security deposit
   B. Collateral
   C. Initial margin

5. Variation margin means:
   A. Daily profit and loss incurred on open futures position
   B. Interest on open position
   C. Initial cash deposited to trade futures

6. If an investor fails to keep sufficient funds with their broker or fails to deposit cash within timelines specified, then:
   A. Broker will keep following up until cash is deposited
   B. Broker may close out the position
   C. Broker will do nothing
Quiz Contd..

7. If the equity price goes down, an investor with a long position in equity futures will:
   A. Make the same losses as a long position holder in equities with the same investment amount
   B. Make more losses than a long position holder in equities with the same investment amount

8. If an investor does not own any futures contract, can he sell a futures contract (short selling)?
   A. Yes
   B. No

9. If an investor holds a position in equity future contracts, will he be eligible for dividends paid by the underlying company?
   A. Yes
   B. No

10. What is the contract size of a single stock futures contract traded on Nasdaq Dubai?
    A. 10
    B. 1,000
    C. 100

Answers
1 - B, 2 - B, 3 - A, 4 - C, 5 - A, 6 - B, 7 - B, 8 - A, 9 - B, 10 - C
About Nasdaq Dubai

Nasdaq Dubai is the international financial exchange in the Middle East. It combines global best practice with easy access by investors in the region and around the world.

The exchange’s tradable securities include equities, Sukuk and conventional bonds, funds, and REITs.

As a leader in innovation, Nasdaq Dubai is now building an equity futures market to provide investors with exciting new opportunities.

Total capital raised with aggregate demand exceeding USD 140 billion, since 2006

Best Exchange of the Year Middle East award 2014 from the Global Investor

Global exchange brand in the heart of the Middle East

Largest IPO in the region at the time with DP World

Combined market capitalisation of 80 listings

Leading global exchange for Sukuk by value
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