5 Easy Steps

How is trading Futures different than trading Stocks?

Trading futures is very similar to trading stocks. To trade futures, investors can place an order with members (broker) of Thailand Futures Exchange (TFEX) who will then submit the order to TFEX where the order can be matched via an electronic trading system.

TFEX uses the same Price/Time priority rules as the equity market for order matching. Price/Time priority refers to how orders are prioritized for execution. Orders are first ranked according to their price; orders of the same price are then ranked depending on when they were entered.

Right after a trading transaction is matched and TFEX has confirmed the matching transactions with their members, the TCH, as the direct central counterparty (CCP), will become a buyer to every selling member and a seller to every buying member. Therefore, a member who has long or short futures has an obligation not to the party on the other side of the transaction, but to the clearinghouse, just as the clearinghouse has an obligation to the member.

As a CCP, TCH guarantees the performance of payment and securities delivery of any trading transactions on the SET, mai, BEX and TFEX. This reduces the risks stemming from clearing members who fail to meet their contractual obligations or 'credit risks'. TCH have in place a margining system that requires each broker to deposit margin with the TCH while investors are require to deposit margin with the brokers.

Futures price will generally change daily, the difference in the prior agreed-upon price and the daily futures price is settled daily. The exchange will draw money out of one party's margin account and put it into the other's so that each party has the appropriate daily loss or profit. If the margin account goes below a maintenance margin level, then a margin call is made and the account owner must replenish the margin account. This process is known as marking to market.

How to start trading futures?

1. Open a Futures account with members of Thailand Futures Exchange.

2. Deposit Initial Margin with brokers before trading. The amount of initial margin required may be different from each broker.

For option, the buyer of the option gains the right, but not the obligation, to engage in the transaction, while the seller (writer) incurs the corresponding *obligation* to fulfill the transaction if the buyer chooses to exercise the option. Therefore the buyers are not required to deposit the initial margin because the buyer has already paid for the premium of the options, thus there is no default risk. However, the sellers of the option are required to deposit the initial margin with the broker because he/she is obligated to fulfill such transaction and therefore has a default risk.

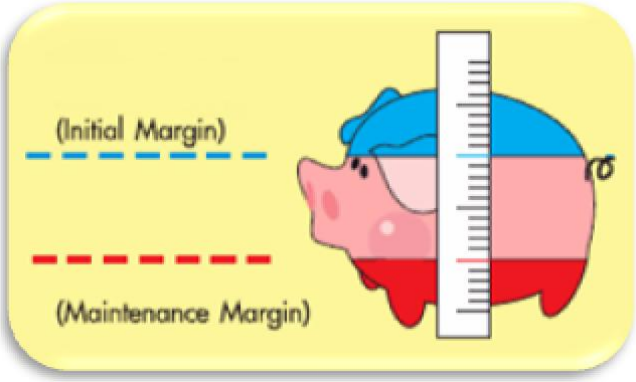
3. Place an order with a broker

When placing an order you must specify the following:

- To "buy" or "sell" what "instrument"
- What "series" or maturity do you want
- What is the "price" that you want
- How "many" contracts do you wish to buy/sell

4. Mark to Market

Marking to Market is also known as "Daily Settlement". This is a procedure conducted by the clearinghouse daily which determines the value for the asset covered by the futures contracts, known as the "Settlement Price", and then convert the paper gains and losses to actual gains and losses in the accounts of the parties involved. At the end of each trading day, the profit and loss is settled between the long and the short. If funds in the margin account drops below the "Maintenance Margin", broker will ask investors to replenish the funds back to the initial margin level. This process is known as "Margin Call".



For option, the buyers of the options do not need to deposit the initial margin so there is no marking to market for buyers. For sellers of the option, marking to market process is a little difference than that of futures. There will be no marking to market at the end of each day for sellers. Therefore, the margin account of the seller of the option will not change. However, if there is significant changes in the underlying asset prices that cause investor to have higher risk exposure, brokers will recalculate the initial and the maintenance margin level. If the new margin levels are higher than the current funds deposited in the margin account, then the sellers of the options are require to deposit more funds to match the new initial margin level.

5. Frequently check your position

When you have an open position in futures or options it is highly recommended that you frequently monitor your position for profit and loss. It is advise that you know your own risk tolerance level. You can decide to close your position at any time and do not have to wait for the contract to expire.