

# What are Cash-Settled Futures (CSF)?

Futures contract is an agreement between two parties to buy (long) or sell (short) the underlying shares, at a certain date in the future at a pre-determined price i.e. the futures price. There are two types of settlement: (i) Deliverable Futures Contract (DFC) & Cash-Settled Futures (CSF) Contract.

**Deliverable Futures Contract:** At expiry, buyer pays the entire contract amount and seller delivers the shares  
**Cash-Settled Futures Contract:** At expiry, only the difference between future price and final settlement price (closing price of underlying in Ready market) is settled in cash



## It is ideal for investors in several ways:

- **No Physical Delivery Hassle**

Sellers don't need to arrange delivery of shares, and buyers don't need to arrange the entire amount; settlement is purely based on the differential price.

- **Higher Liquidity & Flexibility**

It has been observed globally that the cash settled futures contracts often attract a broader set of participants, which improves liquidity and narrows bid-ask spread.

- **Reduced Settlement Risk**

It generally has a lower settlement risk as the contract is settled in cash.

- **Lower Costs**

Reduces cost in terms of custody fees as no physical delivery is required.

- **Daily Mark-to-Market (MtM) Settlement**

Unlike DFC, the MtM profit is fully distributed to the account holder by NCCPL on T+1.

- **Maximize Exposure Through Leverage**

CSF offers the opportunity to maximize exposure and profit using leverage.



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## Features & Description

### Contract Multiplier

500 shares for standardized contract (unless adjusted for corporate actions in the underlying stock)

### Listing Date

First trading day following the last Friday of each calendar month

### Listing Price

Theoretical price based on (i) underlying's close price (ii) KIBOR (iii) days to maturity and (iv) spread

### Maturities

Spot month & next two calendar months (30, 60, 90 days)

### Symbol

Stock Ticker-CExpiryMonth (ABC-CDEC) -  
**for standardized contracts**

Stock Ticker-CExpiryMonthNn (ABC-CDECN1,  
ABC-CDECN2, ABC-CDECNn...) -  
**for non-standardized contracts**

### Lot Size

1 contract

### Minimum Fluctuation

PKR 0.01

### Circuit Breaker

PKR 1 or 10%; whichever is higher

### Daily Settlement Price

VWAP in CSF market or the theoretical price (in case of no trade during the day)

### Expiration Date

Last Friday of the calendar month

### Final Settlement Price

Underlying's close price in Ready market

### Final Settlement

Cash settlement @ T+1

CSF Contract at PSX

# CSF Eligible Symbols\*

82 symbols (as on launch date) are qualifying the CSF eligibility criteria, set by the Exchange and approved by the SECP. Of these, 16 symbols highlighted in gold are unique i.e. they are not available under DFC contracts.

| SYMBOLS |        |        |         |       |
|---------|--------|--------|---------|-------|
| ACPL    | CSAP   | GGL    | NATF    | SEARL |
| AICL    | DGKC   | GHNI   | NBP     | SLGL  |
| AIRLINK | DOL    | GLAXO  | NETSOL  | SPEL  |
| AKBL    | EFERT  | GTYR   | NML     | TBL   |
| ANL     | ENGROH | GWLC   | OCTOPUS | TELE  |
| ATRL    | EPCL   | HBL    | OGDC    | THCCL |
| AVN     | EPQL   | HCAR   | PACE    | TOMCL |
| BAFL    | FABL   | HUBC   | PAEL    | TPLP  |
| BAHL    | FATIMA | IMAGE  | PIBTL   | TREET |
| BBFL    | FCCL   | KAPCO  | POL     | TRG   |
| BFAGRO  | FCEPL  | KEL    | POWER   | UBL   |
| BFBIO   | FCL    | LOADS  | PPL     | UNITY |
| BIPL    | FFC    | MCB    | PREMA   | WAVES |
| BNL     | FFL    | MEBL   | PRL     | ZAL   |
| BOP     | GAL    | MLCF   | PSO     |       |
| CENERGY | GATM   | MTL    | PTC     |       |
| CPHL    | GCIL   | MUGHAL | SAZEW   |       |

\*PSX will review and publish this list quarterly.



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# How is it Different From DFC?

| Deliverable Future Contract (DFC)                                                            | Cash Settled Future (CSF) Contract                                                                                                                                                         |
|----------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Physical delivery of underlying asset                                                        | Net cash settlement; difference between futures price and final settlement price                                                                                                           |
| Blank sale limit exists                                                                      | No limit exists for blank sale                                                                                                                                                             |
| Basic Deposit: PKR 1 million                                                                 | No basic deposit limit                                                                                                                                                                     |
| A certain percentage pf Mark-to-Market (MtM) profit is distributed – not 100%                | MtM Profit: 100% MtM profit is distributed at T+1                                                                                                                                          |
| Forced closure method for corporate action adjustment; contracts are broken down into A/B    | Ratio method for corporate action adjustment; contract multiplier and contract price are adjusted to ensure pre and post-corporate action exposure remains the same (excluding tax impact) |
| Generally, higher settlement risk because of the need to arrange physical delivery of shares | Generally, low settlement risk as no physical delivery is involved                                                                                                                         |

## The Edge Of **Cash-Settled Futures**



### Take Advantage of Both Bull and Bear Markets

CSF enable traders to benefit from both rising and falling markets. For instance, they can go long by purchasing CSF contract at a lower price in anticipation of a stock's upward movement, or take a short position by selling CSF contract when expecting a decline in the underlying stock price. Unlike DFC, there is no limit on short sale (blank sale).



### Portfolio Hedging & Risk Management

Investors can mitigate portfolio risk by taking opposite positions in the CSF market. For instance, those holding a stock may hedge against possible price decrease by taking a short position in the CSF contract on the same stock.



### Leverage Effect

Because the margin needed to hold a CSF position represents a certain percentage of the future contract's value, investors can engage in hedging or trading with a reduced capital requirement. This can magnify the profits; however, on the contrary losses can also increase. Also, the margin requirement in CSF is less than DFC and Ready market, and can be in the form securities also (max 50%).



### Daily Mark-to-Market (MtM) Settlement

Unlike DFC, the MtM profit is fully distributed to the account holder by NCCPL on T+1, while its collection occurs on T+0.



### Corporate Action Adjustment

Unlike DFC where contracts are spilt and a window is provided to move cum-price open positions to ex-price contracts, CSF contracts shall be adjusted by the Exchange using internationally accepted Ratio Methodology. This ensures investors' open positions remain unchanged, before and after corporate action adjustment, except for tax effects from bonus or dividends.

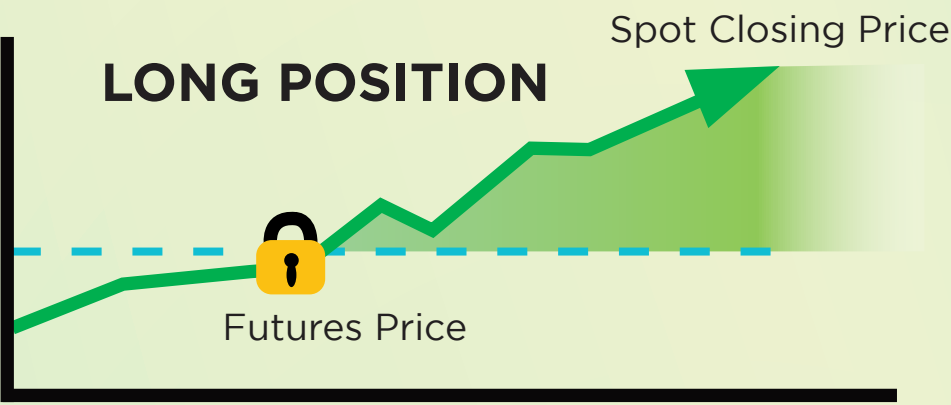


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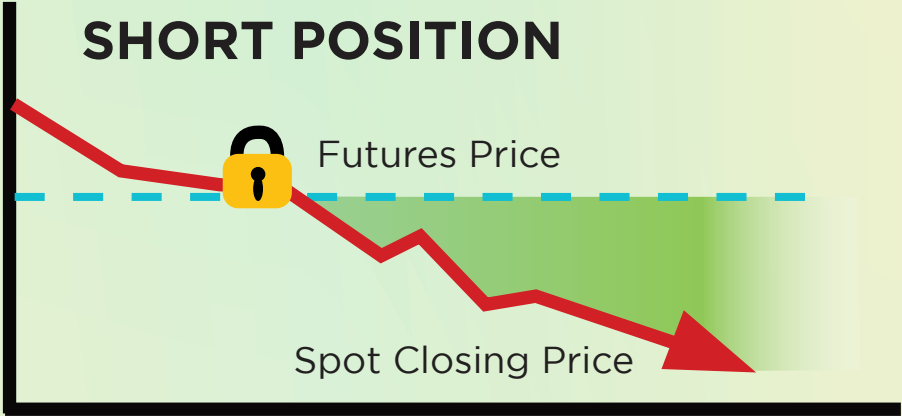


# Chance Of Earning Profit In Bull And Bear Market



“**LONG**” investors will profit if the spot price rises. This is because they have locked in a lower purchase price (futures price) compared to the higher spot market price.

“**SHORT**” investors will profit if the spot price falls. This is because they have locked in a higher selling price (futures price) compared to the lower spot market price.



## Chance Of Hedging Position Through CSF Contracts

Suppose an investor has 500 shares of ABC bought at a price of PKR 80. The market temporarily takes a hit due to some unforeseen circumstances and share price decreases to PKR 60. The investor can hedge his position by taking a short position in CSF Market to offset the loss in Ready market.



| Ready Market                                                                                                      | CSF Market                                                                         |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| ABC (Ready) = PKR 80<br>No. of shares bought = 500<br>Exposure = 80 x 500 =<br><b>PKR 40,000</b>                  | ABC-CDEC Price = PKR 81<br>No. of contracts short = 1<br>Contract Multiplier = 500 |
| After Price Decrease                                                                                              | After Price Decrease                                                               |
| ABC Price (Ready) = PKR 60<br>No. of shares bought = 500<br><b>Exposure = PKR 30,000</b><br><br><b>LOSS = 25%</b> | Total Gain = (81-60) x 500 x 1<br>= <b>10,500</b><br><br><b>GAIN = 26%</b>         |



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# Corporate Action Adjustment Methodology

In the event of a corporate action affecting the underlying stocks (dividend, rights or bonus issue), the contract multiplier, contract price, and free float of CSF contracts are adjusted to ensure that the investor’s exposure remains consistent before and after the adjustment (excluding tax implications). For DFC the impact of the corporate action was addressed by splitting the contracts into A and B series.

Example: ABC Company announces a dividend of 50%

| Before Adjustment of Corporate Action |            | After Adjustment of Corporate Action |               |
|---------------------------------------|------------|--------------------------------------|---------------|
| Cum-Price – CSF Contract              | Rs. 107.80 | Ex Price - CSF Contract              | Rs. 102.93    |
| Contract Multiplier                   | 500        | Adjusted Contract Multiplier         | 520           |
| Exposure                              | Rs. 53,900 | Exposure                             | Rs. 53,523.60 |

Notional Tax Filer Impact: PKR 377.27^  
Difference per contract: (Rs. 0.8748)\*

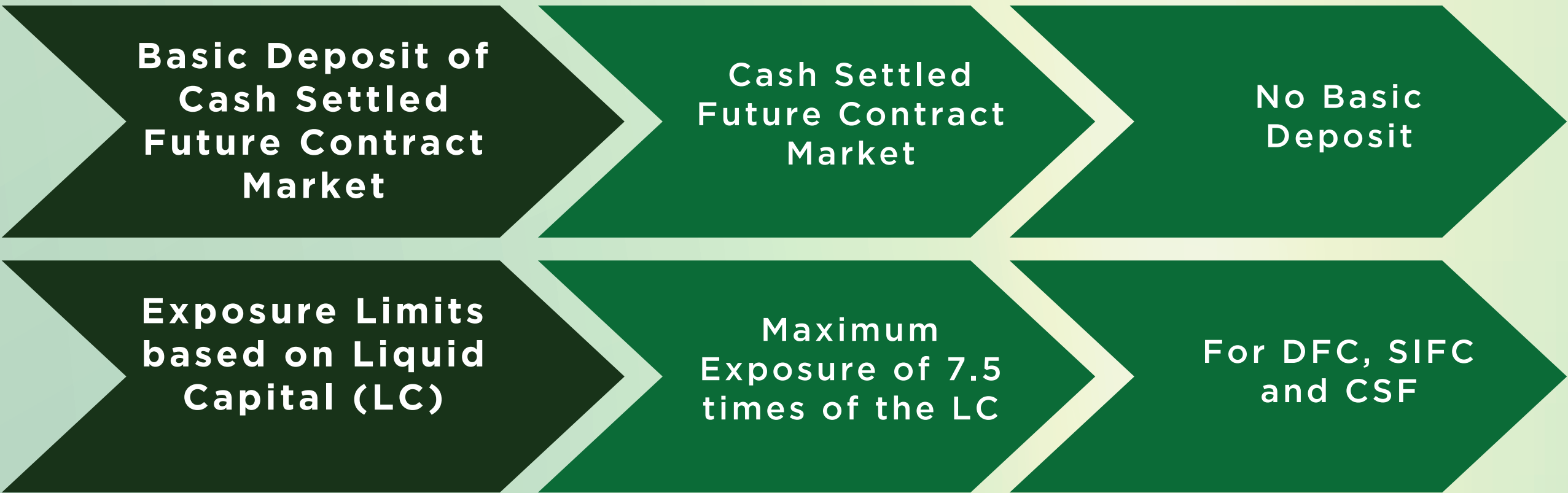
^Tax Rate = 15%

\*Any difference due to rounding-off impact shall be adjusted by NCCPL

## Exposure and Netting

- Cash Settled Futures Market shall be considered a separate market for the purpose of calculating Exposure of a Clearing Member and netting shall not be allowed with Ready or Deliverable Futures Contract Market.
- Netting shall only be allowed between buy and sell Positions in the same Security for the same client/Associated entity and its clients in the same contract period. Likewise buy and sell Positions in same Security in the same contract period for the proprietary trades of a Clearing Member can be netted against each other.

## Risk Management



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## Position Limits

| Position Limit | Cash Settled Future Contract Market                                                                                                                                  |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Market Wide    | 50% of Free-Float for each Security – Category A<br><br>40% of Free-Float for each Security – Category B<br><br>30% of Free-Float for each Security – Category C & D |
| Broker wide    | 10% of the above mentioned Market Wide Position limit for each Security.                                                                                             |
| Client wide    | 5% of the above mentioned Market Wide Position limit                                                                                                                 |

Client Position will be universal and determined on UIN basis

## Collateral Requirements

- **MARKET:** Cash-Settled Futures Market
- **EXPOSURE MARGINS:** Maximum 50% in cash, Near Cash Instruments and/or Bank Guarantee and 50% for securities eligible for trading in CSF, Near Cash Instrument, Cash & BG
- **MARK-TO-MARKET LOSSES:** Cash
- **SPECIAL MARGIN:** Not Applicable
- **CONCENTRATION MARGINS:** Cash, Near Cash Instruments and/or Bank Guarantee
- **LIQUIDITY MARGINS:** Not Applicable
- **ADDITIONAL MARGINS:** Minimum 50% in Cash, Near Cash Instruments and/or Bank Guarantee and 50% in securities eligible for trading in Cash Settled Future Market, Near Cash Instruments, Cash and/or Bank Guarantee

## Daily Settlement Price

- The scrip-wise outstanding Positions of the Clearing Members will be revalued at relevant daily settlement price
- Daily Settlement Price will be determined on the basis of closing price of underlying security in the Cash settled Future Contract Market.
- Mark-to-Market Losses shall be collected from Clearing Members in cash on T+0 settlement basis (by day-end on Trade Date).;
- Mark-to-Market Profits shall be disbursed to Clearing Members in cash on T+1 settlement basis.



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## Daily Settlement Price - Example

| Symbol   | Buy/Sell | Volume | Trade Price | Trade Value | Closing Price (CSF) | Closing Value | Profit/ (Loss) |
|----------|----------|--------|-------------|-------------|---------------------|---------------|----------------|
| XYZ-CDEC | Buy      | 500    | 100         | 50,000      | 99.5                | 49,750        | -250           |
| ABC-CDEC | Sell     | -500   | 200         | -100,000    | 199                 | -99,500       | 500            |

The Exposure will be revalued after collection of loss in the following manner;

| Symbol   | Buy/Sell | Volume | Trade Price | Trade Value | Closing Price (CSF) | Closing Value (CSF) | Profit/ (Loss) |
|----------|----------|--------|-------------|-------------|---------------------|---------------------|----------------|
| XYZ-CDEC | Buy      | 500    | 99.5        | 49,750      | 99.5                | 49,750              | -              |
| ABC-CAUG | Sell     | -500   | 199         | -99,500     | 199                 | -99,500             | -              |

## Final Settlement Price

- Final Settlement Price will be the closing price of underlying security in the Ready Market on the expiry date of Cash settled Future Contract Market.
- The Final Settlement price will be determined in the following manner;

| Symbol   | Trade | Volume | Trade Price | Trade Value | Closing Price (Ready) | Closing Value (Ready) | Profit/ (Loss) |
|----------|-------|--------|-------------|-------------|-----------------------|-----------------------|----------------|
| XYZ-CDEC | Buy   | 500    | 99.5        | 49,750      | 99.75                 | 49,875                | 125            |
| ABC-CDEC | Sell  | -500   | 199         | -99,500     | 200.5                 | -100,250              | -750           |

The Profit and Loss determined on the basis of Final settlement price will be collected and disbursed on T+1 basis.



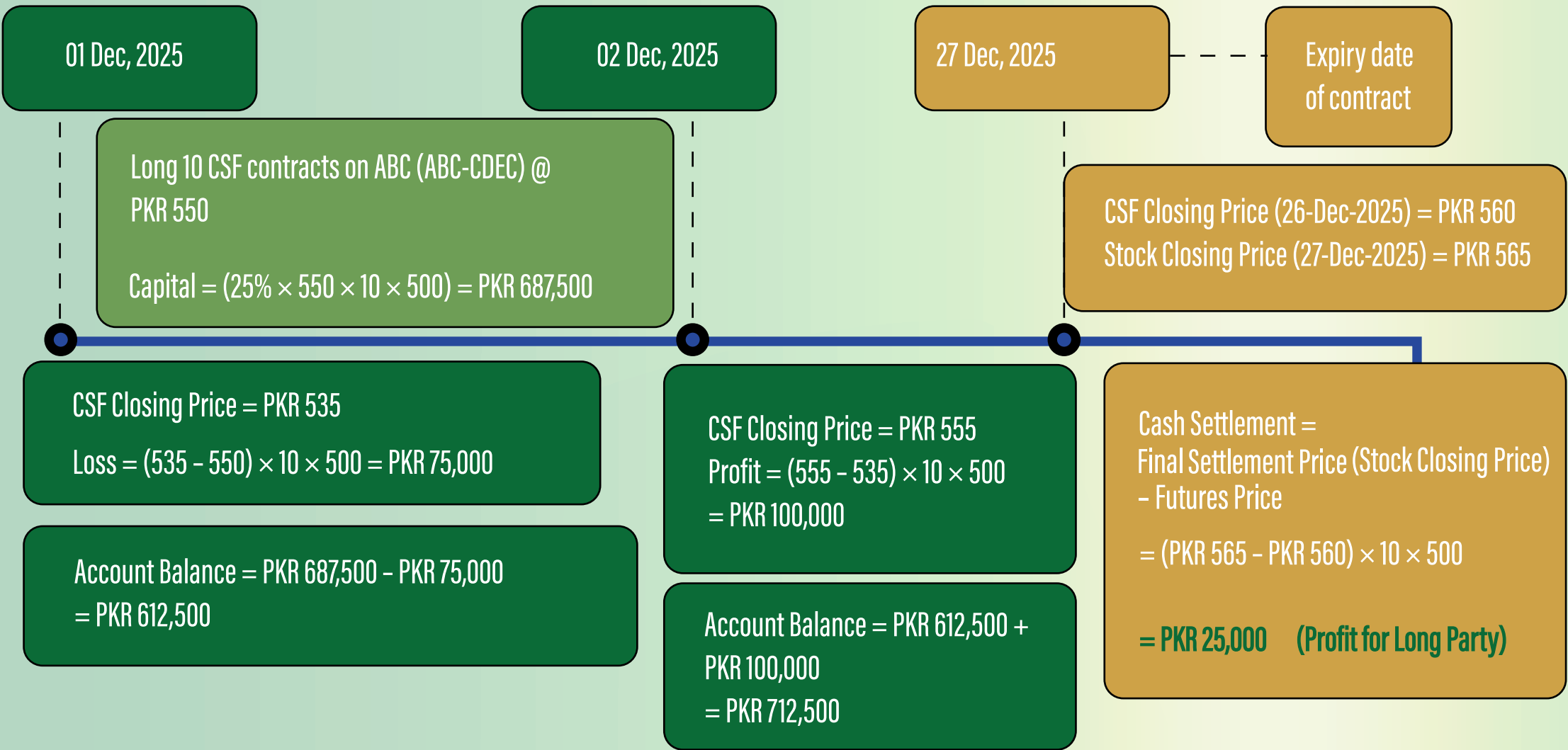
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# Mark-to-Market And Final Settlement

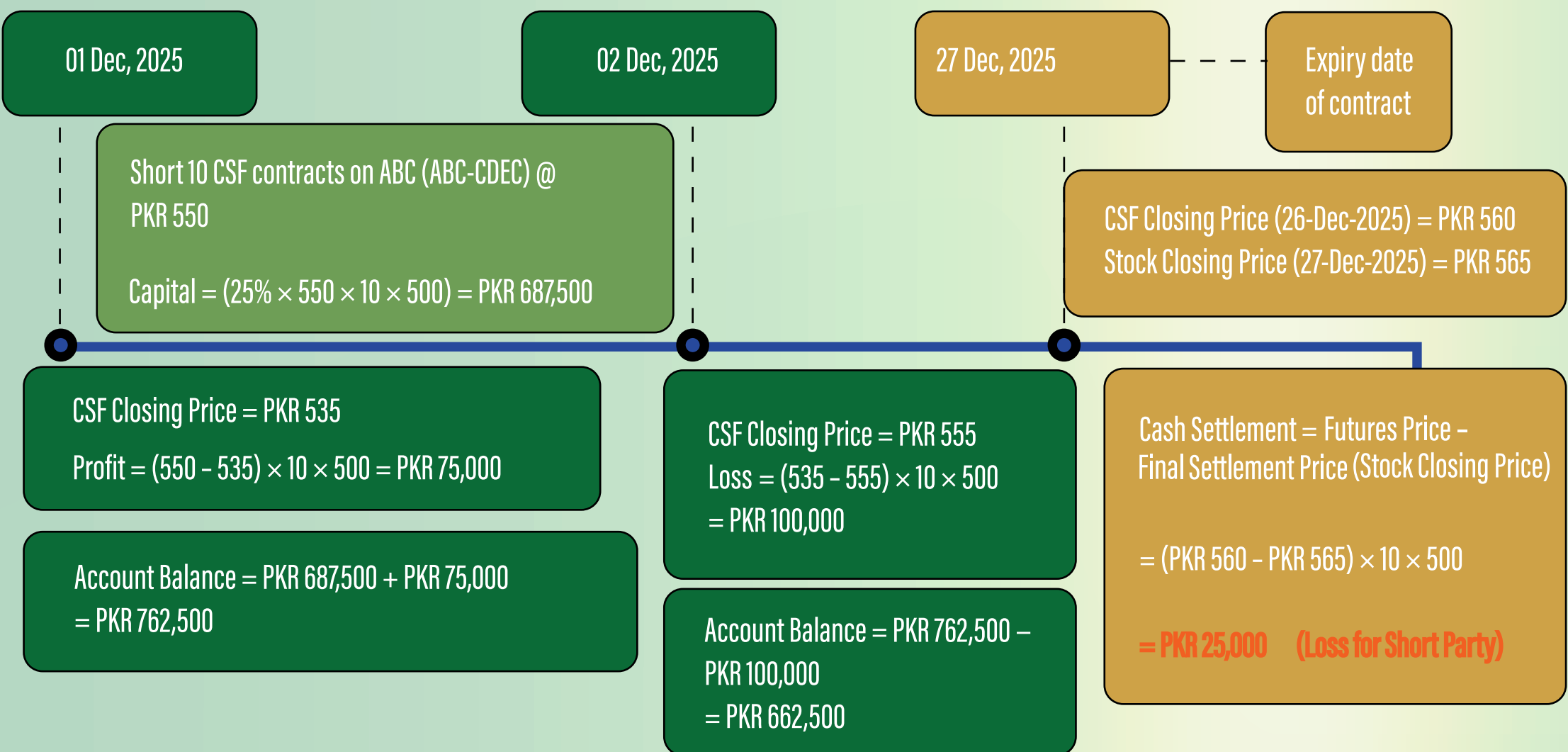
## For CSF Investors

In CSF transactions, the investor's profit/loss position is calculated using the Mark-to-Market (MtM) method at the end of trading hours and will increase the balance in the client's account at T+1 in case of profit, while in case of loss, MtM shall be collected at T+0. Unlike DFC, 100% of mark-to-market (MtM) profits are distributed.

### For CSF Long Party



### For CSF Short Party



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## Capital Gains Tax (CGT)

Following are the Key points for CGT computation

- CSF transactions will be considered as Market Base transactions.
- Transactions will be settled on daily basis with closing price of same Market.
- Profit loss/CGT will be computed on daily basis.
- And at the end of closing contract, same mechanism will be followed with ready market closing price.



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# FAQs

## 1. What are equity futures?

Equity futures are financial contracts in which two parties agree to purchase/sell the stocks at a predetermined price. This price is derived from, and directly linked to the value of the underlying stock.

## 2. Can you explain me the potential benefits of the CSF product?

- Allows to maximize exposure and gain with limited investment (contracts can be purchased/sold by paying margin amount)
- Allows to hedge a position in case of unfavorable price movement in the Ready market
- Daily Mark-to-Market, with 100% MtM profit distribution on T+1
- No hassle of physical settlement; lowers settlement risk
- No need to force mature the contract in case of corporate action adjustment, contract multiplier and contract price are adjusted to ensure exposure remains the same pre and post adjustment (excluding tax impact)

## 3. How can I differentiate between Equities, DFC and CSF contracts listed at PSX?

Equities, DFC, and CSF are distinguished individually:

- **Equity:** Assigned a unique symbol, e.g., OGDC.
- **DFC:** Denoted by the equity symbol followed by the expiry month, e.g., OGDC-DEC.
- **CSF:** Identified by the equity symbol, the letter “C,” and the expiry month (e.g., OGDC-CDEC). If adjusted for corporate actions, the contract symbol adds suffixes like N1, N2, N3, etc. (e.g., OGDC-CDECN1 after the first adjustment).

## 4. What is a contract multiplier?

The contract multiplier specifies the number of shares a single CSF contract represents. At PSX, contract multiplier for CSF is 500 shares, which means buying or selling 1 contract is equivalent to transacting 500 shares of the underlying stock (unless the contract is adjusted for corporate actions).

## 5. Do I need to own the CSF contract or its shares before executing a sell transaction?

Investors can sell or short immediately without first owning the CSF contract or its shares. Investor simply deposit fulfills margin requirement for both buy and sell transactions.



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## 6. Can I make a same-day CSF purchase and sale transaction?

CSF can be traded intraday and potentially generate capital gains from the difference in the CSF buying and selling price, just like stock trading.

## 7. Can I carry over my CSF position to the next day?

Investors can carry over their CSF positions to the next day until the CSF contract matures without any additional fees. When investors carry over their CSF position to the next day, the CSF transaction price will be marked to market at the end of each day, and the investor's account will be debited or credited with the resulting profit or loss.

## 8. What happens to my remaining CSF funds and contract positions when the CSF matures?

Investors' open CSF positions will expire upon maturity, and investors will automatically receive funds based on the profit and loss amount. The final day settlement shall be the difference between futures price and final settlement price.

## 9. What are the risks of CSF transaction?

CSF is a leveraged product that has the potential to generate higher profits compared to stock trading, but investors also risk incurring higher losses. If losses reach a certain value, investors may be subject to a margin call by the broker.



## 10. Can the CSF price and the underlying stock price differ?

The prices of CSF and its underlying stock may vary during intraday trading due to market mechanisms, but generally, the CSF price will follow the price movements of its underlying stock. At the expiry of the contract, the CSF price will be marked to market with the price of its underlying stock.

## 11. Are CSF holders entitled to dividends, bonus or rights when the underlying stock announces any such corporate action?

CSF contract price and contract multiplier are adjusted to ensure the contract holder's exposure remains the same, pre and post corporate action adjustment (excluding tax impact).

## 12. How are the contracts settled?

On the expiry day of the contract, all open positions are expired/closed and positions are settled for the profit and loss using the final settlement price on the expiry day, which will be the closing price of the underlying stock.



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**13. What happens if I don't close my position on the last trading day?**

On the last trading day, the clearing house will automatically close and settle your position at the final settlement price.

**14. What are the upper and lower limits for CSF contracts?**

These limits are PKR 1 or 10%, whichever is higher.

**15. What is the minimum and maximum lot size?**

The minimum lot size is 1 contract, while maximum lot size is 500,000 contracts.

**16. What are the trading hours for CSF market?**

The trading hours are the same as for Ready market. For more details, please visit <https://www.psx.com.pk/psx/exchange/general/trading-hours>

**17. Where can I find more information about CSF?**

Further information regarding CSF and other derivative products can be accessed through the PSX website at <https://www.psx.com.pk/psx/product-and-services/products/single-stock-cash-settled-future>.

For further questions, please contact us by email at [pd@psx.com.pk](mailto:pd@psx.com.pk)

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