

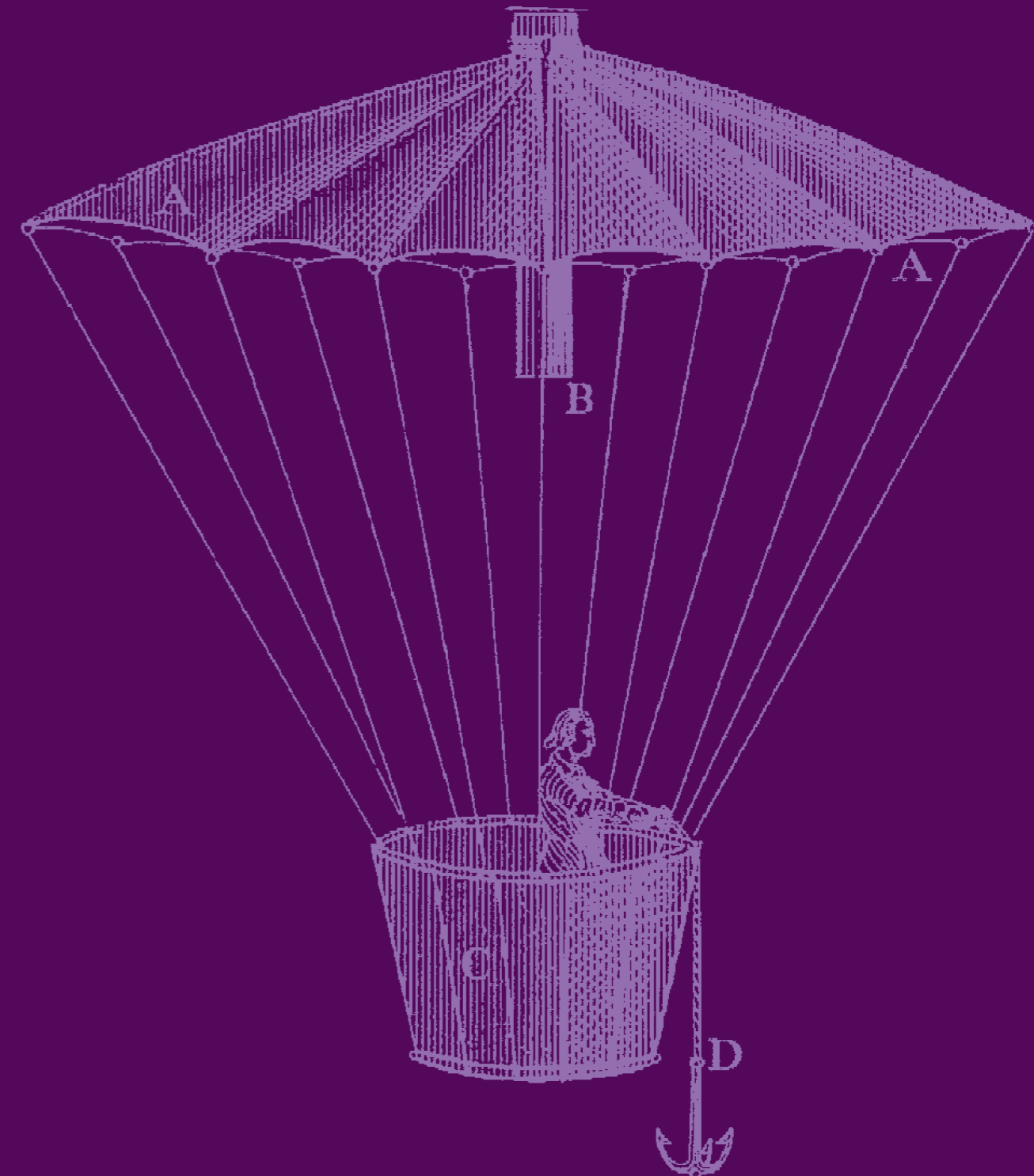
# FORTS

## Single Stock Futures on the RTS Derivatives Market

**FORTS (Futures and Options on RTS) Derivatives Market** is the leading Russian derivatives market with the total market share of over 98 % of traded contracts. FORTS is also one of the world's leaders in the single stock futures and options segment. Daily open interest in futures and options equals more than 1 million contracts, with daily trading volume exceeding 200 thousand contracts.

**The RTS Stock Exchange** is one of the leading Russian stock exchanges that lists the largest number of securities. The RTS Index is the benchmark of the Russian securities market. Over 300 stocks and bonds are admitted to trading on the Exchange. The indicative quotation systems of the exchange contain information on more than 750 stocks and 500 notes issued by Russian companies. RTS together with St. Petersburg Stock Exchange facilitates organized trading in "Gazprom" stock.

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**Futures on the common shares issued by Russian companies have been successfully trading on the RTS Derivatives Market (FORTS) for many years.** The product line of the market is expanding continuously. Companies issuing stocks that are used as underlying assets for the futures represent the most important industries of the Russian economy – oil, gas, energy, telecommunications, and metallurgy.

Single stock futures can be used to achieve different stock portfolio management goals. High price sensitivity of a single stock futures compared to the underlying asset provides an opportunity to fully hedge investment portfolios (hedging a possibility of an unfavorable price movement). Both small and large investors can successfully use single stock futures in their operations.

## Specifications of Single Stock Futures

### General Characteristics for all the Single Stock Futures:

|                               |   |
|-------------------------------|---|
| Settlement                    | By delivery   |
| Delivery Months               | March, June, September, December                              |
| Quotation                     | In rubles (RUR) per contract                                  |
| Minimum Price Movement (Tick) | RUR1 per contract   |
| Last Trading Day              | The last trading day preceding the 15th of the delivery month |
| Delivery Day                  | First working day following the last trading day              |
| Trading Hours                 | 10:30 a.m. – 6:45 p.m. Moscow time                            |

### Single Stock Futures Detailed Specifications:

| Underlying Asset<br>(it's RTS Ticker)   | RAO “UES<br>of Russia”<br>common shares<br>(EESR) | Gazprom<br>common shares<br>(GSPBEX) | LUKOIL<br>common shares<br>(LKOH)   | Rostelecom<br>common shares<br>(RTKM) | Surgutneftegas<br>common shares<br>(SNGS) | MMC Norilsk<br>Nickel common<br>shares (GMKN) |
|---|---|--------------------------------------|-------------------------------------|---------------------------------------|---|---|
| Contract Size   | 1 000 shares                                      | 100 shares                           | 10 shares                           | 100 shares                            | 1 000 shares                              | 10 shares                                     |
| Initial Margin Requirement <sup>1</sup>   | 15 %  | 15 %                                 | 15 %                                | 20 %                                  | 20 %                                      | 20 %  |
| Contract Code <sup>2</sup>  | EERU-<br><mm>.<yy>                                | GAZR-<br><mm>.<yy>                   | LKOH-<br><mm>.<yy>                  | RTKM-<br><mm>.<yy>                    | SNGR-<br><mm>.<yy>                        | GMKR-<br><mm>.<yy>                            |
| Short Contract Code (RTS Ticker) <sup>3</sup>                                       | ES<m><y>  | GZ<m><y>                             | LK<m><y>                            | RT<m><y>                              | SN<m><y>                                  | GM<m><y>                                      |
| Contract Code in Reuters <sup>3</sup>   | ES<m><y>:<br>RTS                                  | GZ<m><y>:<br>RTS                     | LK<m><y>:<br>RTS                    | RT<m><y>:<br>RTS                      | SN<m><y>:<br>RTS                          | GM<m><y>:<br>RTS                              |
| Contract Code in Bloomberg <sup>3</sup>   | EESR=<br><m><y> RU<br><EQUITY> <GO>               | GAZP=<br><m><y> RU<br><EQUITY> <GO>  | LKOH=<br><m><y> RU<br><EQUITY> <GO> | RTKM=<br><m><y> RU<br><EQUITY> <GO>   | SNGS=<br><m><y> RU<br><EQUITY> <GO>       | GMKN=<br><m><y> RU<br><EQUITY> <GO>           |
| <i>Exchange Fees, RUR per contract (including VAT charged to each counterparty)</i> |   |                                      |                                     |                                       |   |   |
| Transaction Registration Fee  | 0.5   | 0.5                                  | 0.5                                 | 0.5                                   | 1   | 1   |
| Scalping Transactions <sup>4</sup>  | 0.25  | 0.25                                 | 0.25                                | 0.25                                  | 0.5                                       | 0.5   |
| OTC Transaction Registration Fee  | 0.75  | 0.75                                 | 0.75                                | 0.75                                  | 1.5                                       | 1.5   |
| Settlement Fee  | 1   | 1                                    | 1                                   | 1                                     | 2   | 2   |

<sup>1</sup> Proportion of the contract value.

<sup>2</sup> <mm> – delivery month, <yy> – delivery year (all coded with digits).

<sup>3</sup> <m> – delivery month, <y> – delivery year. The following codes are used for the delivery months: March – H, June – M, September – U, December – Z. Delivery year is coded with one digit (for instance, 2005 – 5).

<sup>4</sup> Transactions resulting in position opening and closing during one trading session.

## New opportunities for portfolio managers using single stock futures:

- Opportunity to lower the stock portfolio risk.
- Opportunity to “sell short”, since buying and selling a single stock futures are symmetrical and simple transactions as opposed to short-selling the underlying asset.
- Ability to trade the underlying stocks on margin (the size of margin requirement on average equals 1 : 5 – 1 : 7).
- Cost reduction for transactions in the underlying asset:
  - lower transaction costs (no depositary fees),
  - free financial leverage (fees on the market are charged for a position opening and closing only, there is no fee to maintain an open position).
- Ability to create short-term synthetic bonds.
- Creation of different strategies using futures and options on futures.

## Single Stock Futures: possible strategies

| Strategy  | Description   |
|---|---|
| Hedging Stock Portfolio<br>From Negative Price Movement                     | To avoid losses from a price decrease holders of stock portfolios should sell the appropriate futures. As a result, potential losses on the spot market would be counterbalanced by profits on FORTS.   |
| Hedging Cash Inflow<br>From Price Increase                                  | Companies planning to invest in the stock market can hedge their risks arising from potential price increase by buying futures contracts.   |
| Short-Selling   | Single stock futures provide investors with an opportunity to capitalize on price decrease even if they do not actually have the securities in their portfolio.   |
| Margin Trading  | Single stock futures are an attractive instrument for speculative transactions. Investors counting on the spot market price increase have an opportunity to buy futures contracts. Buying futures implies depositing only a fraction of the underlying asset value (15–20 %) as an initial margin, so working on FORTS requires a significantly smaller investment.   |
| Buying/Selling<br>of the Short-Term Synthetic<br>Bonds (Repo Operations)    | By buying stocks and selling futures market participants can create a position similar to buying synthetic short-term bonds, with time to maturity equal time to expiration of the futures. This operation is similar to the reverse repo transaction where a participant loans money using securities as collateral.<br><br>From the other side, investors holding a stock portfolio can obtain a short-term loan by selling the underlying asset and buying the futures. The time for the loan equals the time to expiration of the appropriate futures. This operation is analogous to a regular repo transaction where a participant takes out credit using securities as collateral. |
| Calendar Spread   | Holding a number of single stock futures contracts allows participants to take advantage of changes in price spreads between the contracts. Having a calendar spread in a number of futures gives market participants a certain advantage in terms of the size of the initial margin to be deposited.   |
| Creation of Different Strategies<br>Using Futures and Options<br>on Futures | Combining futures and options on futures allows market participants to create strategies with different risk/return combinations.   |