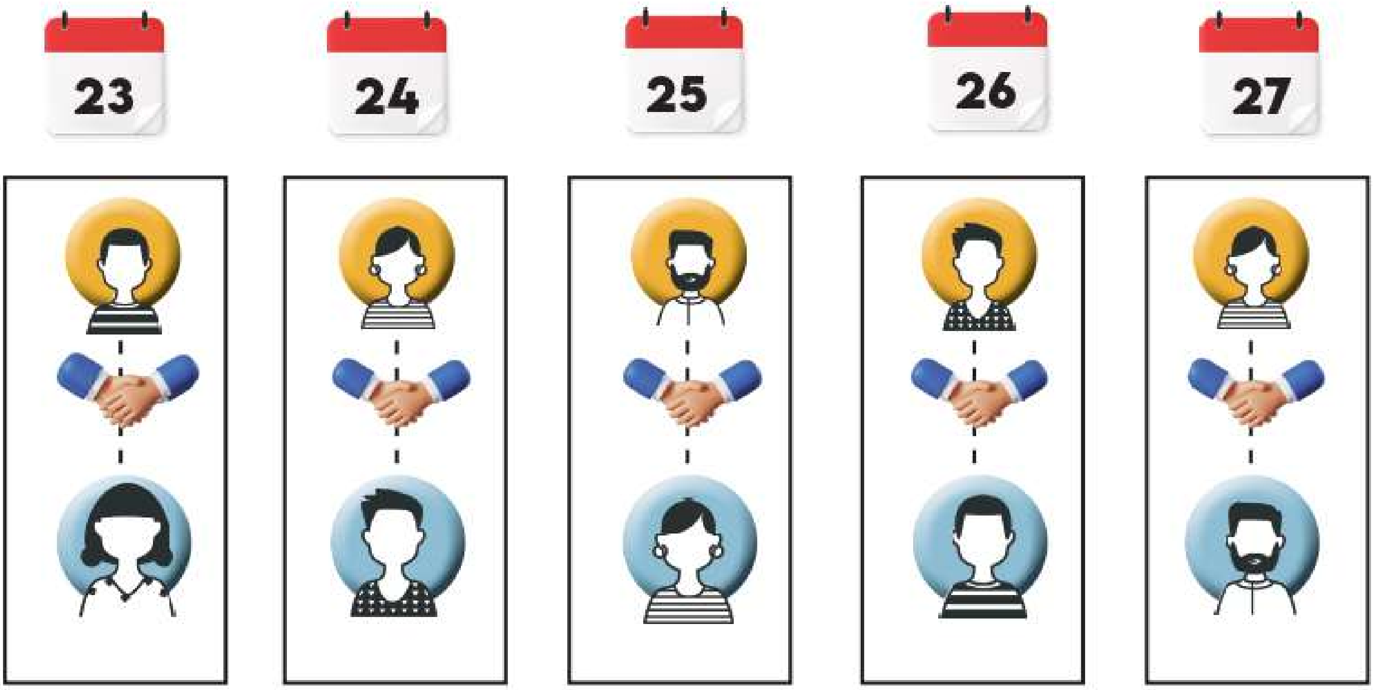
3.2 WHAT HAPPENS ON THE DATE OF SETTLEMENT?

One of the best features of a futures contract is that it is Marked to Market daily. Futures contracts account for daily price movements in the market..

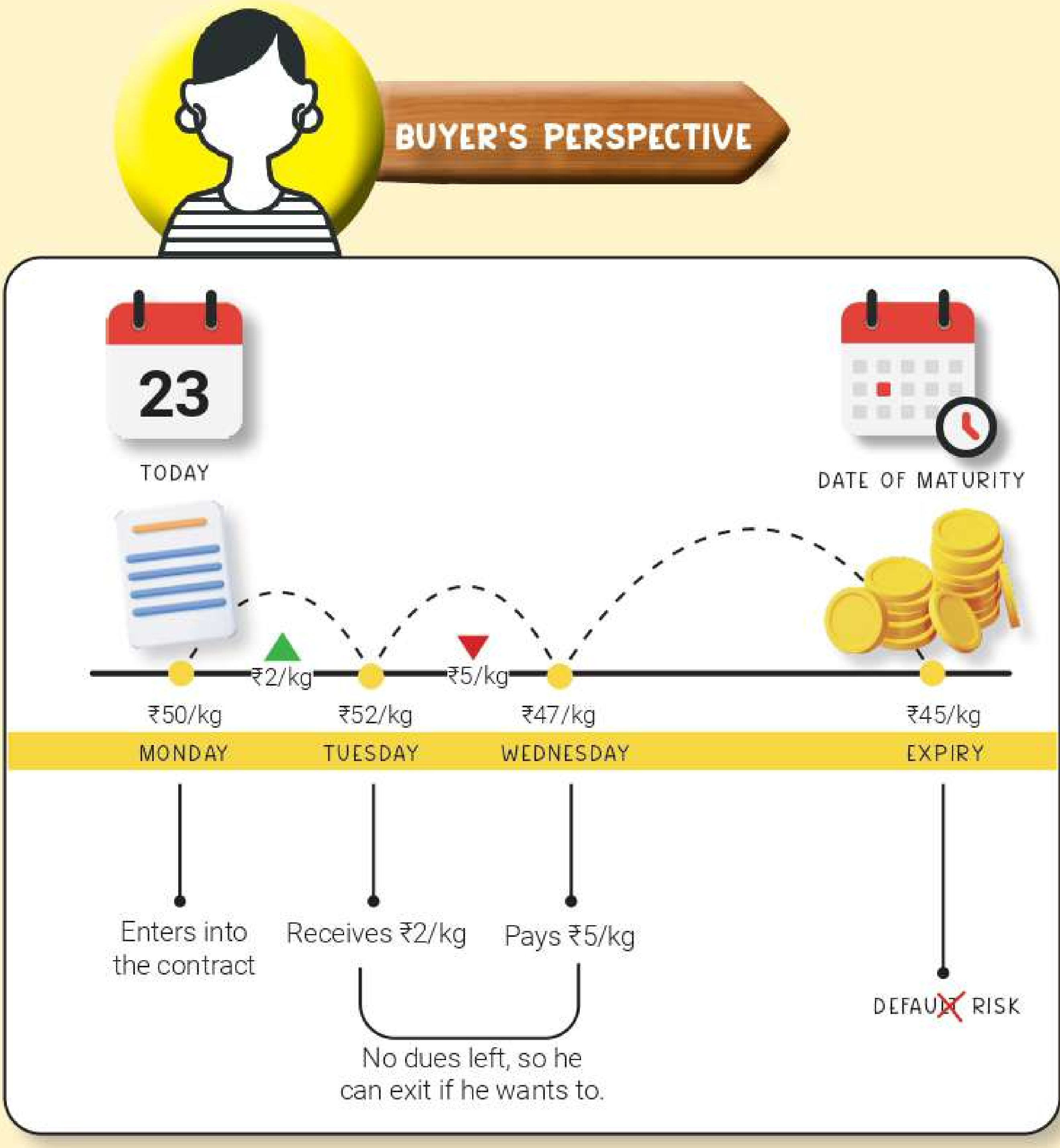
> "MARKED TO MARKET ON A DAILY BASIS MEANS THAT PROFITS AND LOSSES ARE SETTLED EVERY DAY. EVERY DAY PROFITS AND LOSSES ARE CALCULATED AND CAPITAL IS TRANSFERRED FROM MARGIN OF LOSS MAKING PARTY TO PROFIT MAKING PARTY."



The positions of both buyer and seller - are settled daily, allowing you to exit or liquidate at any point. This daily mark to market and exchange acting as counter-party ensures that there is no Counter-party risk in Future agreement. There is **NO RISK OF DEFAULT** involved. Also, the parties are required to maintain margin amount which protects the other party from the risk of default. The daily mark to market accounts for margin calls so if there is a default to occur the contract is simply squared off.

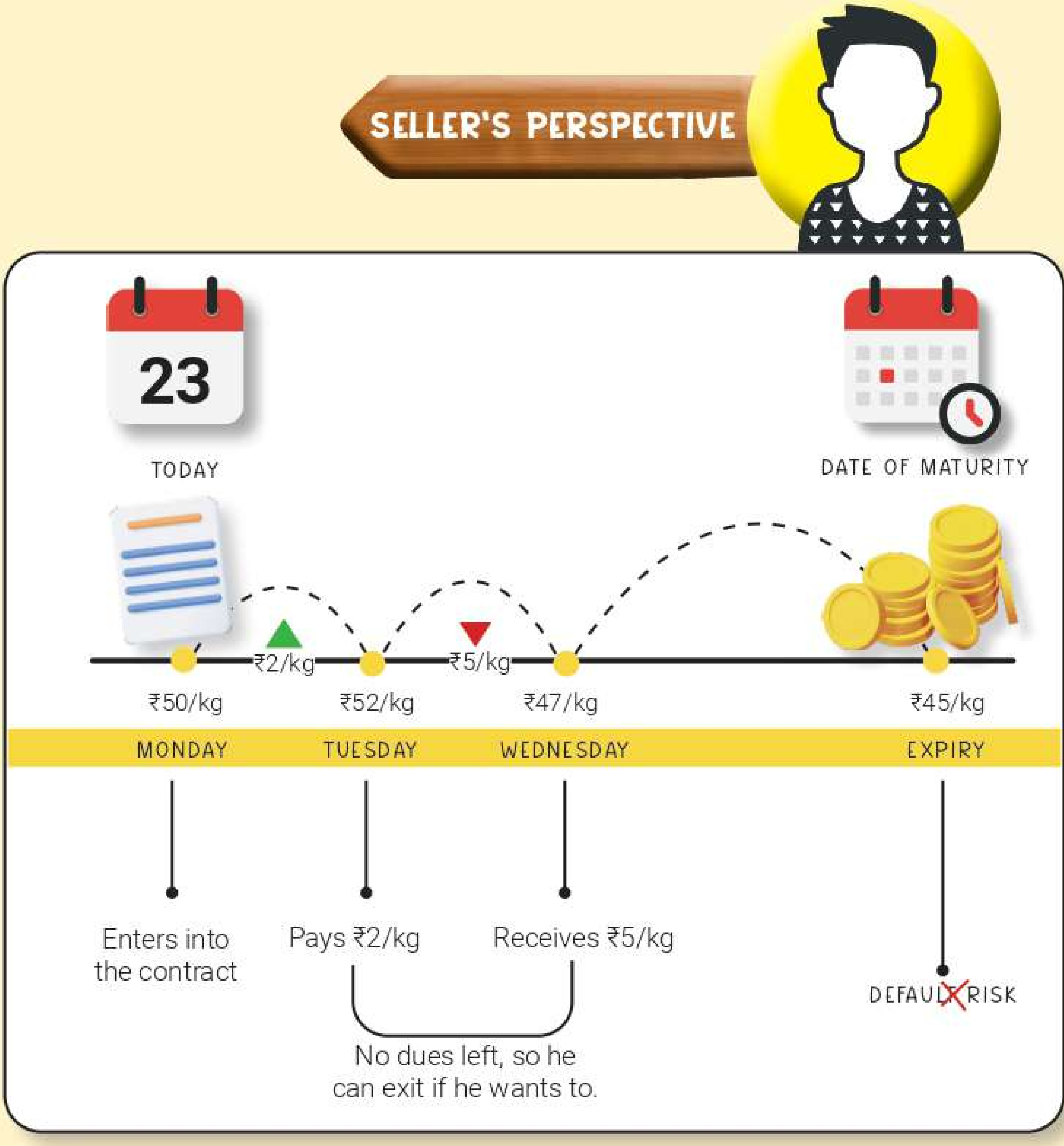
In a futures contract, **NO PHYSICAL TRANSFER** of assets is involved in the settlement. But you would need daily cash flows to meet the mark-to-market needs in case you are incurring losses.

- ☑ NO DEFAULT RISK
- ☑ EXIT ANYTIME
- ☑ CASH SETTLEMENT
- ☒ PHYSICAL TRANSFER



Say **the price of the underlying asset (say Wheat) rises by ₹2** - the buyer will get this ₹2/kg from the seller.

Now, **the next day the price falls by ₹5** - the buyer will pay this ₹5/kg to the seller.
A margin amount is maintained with the broker where profits are added and losses are deducted from. In case margin falls below a certain amount, the broker will require you to re-finance it else they will square off your position.



On the first day when **the price of the underlying asset (say Wheat) rises by ₹2**, the seller will pay this ₹2/kg to the buyer.

The **next day when the price falls by ₹5,** the seller will get this ₹5/kg from the buyer. Therefore, a futures contract can be bought or sold at any moment before expiry. The profits and losses are settled on daily basis as its marked to market daily.