

Top Biz News

Index futures get regulatory approval

By Li Xiang (China Daily)
Updated: 2010-01-09 07:45

The government on Friday gave the green light for stock index futures, margin trading and short selling in a milestone move that ends the one-way trade in the capital market.

An official with the China Securities Regulatory Commission (CSRC) said on Friday that the State Council has approved stock index futures, short selling and margin trading "in principle". The regulator said it would take three months to complete preparations for index futures.

The new tools would protect investors against losses and also help them to profit from any declines. Until now, Chinese investors could only profit from gains in equities.

Analysts said the announcements are unlikely to cause any sharp volatility in the A-share market next week as the rumors have already been factored in.

"The market is unlikely to see huge fluctuations next week as the introduction of new financial tools has been discussed for years," said Zhang Qi, an analyst with Haitong Securities.

Index futures are essentially agreements to buy or sell an index at a preset value on an agreed date. Investors can also borrow money to buy securities or borrow securities to sell under the business of margin trading and short selling.

Zhang said the move would be positive for blue-chips and heavyweight stocks as the contract would be initially based on China's CSI 300 Index that tracks the 300 biggest shares traded in Shanghai and Shenzhen.

"Index futures are expected to bolster the market value of blue-chips," he said.

Large listed securities firms such as CITIC Securities and Haitong Securities will also directly benefit from the new business and could see a surge in their revenues, Zhang said.

□

Related readings:

- ◆ [Index futures likely to debut in March](#)
- ◆ [Equities rise on rumors of stock index futures](#)
- ◆ [Chinese shares rise for third day on news of stock-index futures](#)
- ◆ [China to introduce index futures at 'appropriate' time: regulator](#)
- ◆ [Margin trading likely to start from next year, say analysts](#)

Analysts expect the new tools to improve liquidity by attracting more capital into the equity market as the government plans to cut back bank lending to 7.5 trillion yuan (\$1.1 trillion) in 2010 from last year's 9.21 trillion yuan.

China's securities regulator has been considering the introduction of index futures since 2006 when Shanghai set up the China Financial Futures Exchange to prepare for the running of the new mechanism. The plan had been held up till now along with the proposals for margin trading and short selling.

In 2007, CSRC chairman Shang Fulin said that the infrastructure and regulations needed for index futures

and margin trading are in place.

Institutional investors are expected to be the mainstay of the new business as the threshold is high for retail investors who are more vulnerable to potential risks, said analysts.