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# Margin requirements for index futures to be hiked

By Li Xiang (China Daily)
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Margin requirements for stock index futures may be hiked to 12 percent from 10 percent to control trading risks, a source close to the China Securities Regulatory Commission (CSRC) said yesterday.

The regulator will also significantly reduce the single-day maximum holding of futures contracts to 100 from 600 set previously during the trial period.

The move intends to manage the potential trading risks of the index futures, the newly approved financial tool with high leverage that allows investors to profit from declines in equity prices.

The margin requirement of a futures contract is the initial minimum amount of cash an investor must deposit in the broker's account and needs to maintain as collateral. If the balance of the account falls below the minimum level, the broker makes a margin call to the investors for the funds needed.

One major potential risk that index futures carries for investors is that they could lose their entire capital while also facing the risk of owing huge debts to the broker that makes the margin call.

The government had earlier lifted the margin requirement for index futures from 6 percent to 10 percent during the trial period.

Analysts said the 12 percent threshold for margin requirement is reasonable as it helps shield inexperienced investors against potential risks from the new financial instrument.

"It is a good thing that the regulator keeps the threshold high to limit the initial number of traders," said Liao Qing, an analyst with Sealand Securities.


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"I think the regulator would lower the margin requirement in the future when the market is familiar with the risks of the new financial tool as it gradually expands into more investors," Liao said.

CSRC has also stipulated that individual investors must have a minimum of 500,000 yuan to trade in stock index futures and also be experienced in futures trading and simulated trading of index futures.

Investors will also be required to complete a training course and pass a test before they are allowed to trade in index futures. But some analysts said the minimum capital requirement should be much higher than 500,000 yuan given the high risks in index futures that allows investors to bet on price declines.

"A short position is much more risky than a long position. You lose 100 percent if the stock price drops from 1 yuan to 0 yuan. But the rise could be infinite," said Li Daxiao, head of the research institute with Yingda Securities. He said investors would require high level of risk tolerance and adequate capital to trade in the new instrument.

Meanwhile, the Shanghai-based China Financial Futures Exchange has got approval to launch the country's first stock index futures.