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Regulator ironing out nitty-gritties

By Li Xiang (China Daily)
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China will soon clarify the rules and regulations on qualified foreign institutional investors (QFIIs) trading stock index futures in China, the country's top securities regulator said yesterday.

"The regulator will work on the policies and regulations on securities companies, mutual funds and QFIIs in order to guarantee the smooth launch of index futures," said Shang Fulin, chairman of China Securities Regulatory Commission (CSRC) at a national conference on securities and futures supervision that ended yesterday.

Shang Fulin

CSRC will also enhance supervision on securities firms that provide brokerage services for index futures trading and improve the country's cross-market supervision regime, Shang said.

Foreign institutions may be allowed to trade index futures using a portion of their QFII quota, but details on trading requirements are still unknown.

Analysts say opening the stock derivative market to foreign institutional investors would allow them to hedge stock-index futures against falls in the stock market as a better way to protect their profits.

Some foreign investors have already started preparing for the new business sector in China. Ke Shifeng, director of UK-based Martin Currie's subsidiary in China, said $1 billion or 10 percent of the total QFII quota would likely be granted to foreign investors to put into the index derivatives market.

China's securities regulator approved 94 foreign institutions, including Abu Dhabi Investment Authority, Deutsche Bank AG and Goldman Sachs Group Inc, as of the end of 2009, to invest in the country's bond and stock markets. The nation's currency regulator, the State Administration of Foreign Exchange, has granted a total quota of $30 billion to QFIIs.

At yesterday's conference Shang also said that the regulator would introduce margin trading and short selling pilot programs at the appropriate time.

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- China OKs exchange to launch index futures
- Index futures get regulatory approval

Last week the regulator announced plans to allow trading of index futures, margin trading and short selling in an attempt to improve the country's capital markets with more investment options.

The new financial tools will help ease the volatility in the equity market and allow Chinese investors to profit from price declines for the first time.

Shang pointed out that the government's economic stimulus plan has helped the market maintain safe and stable operations, but the international financial environment is still difficult and China needs to prepare for more complicated situations in the future.