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China's foreign ETF plan signals market reform

Wednesday, March 10, 2010
Bloomberg

BEIJING -- China's plan to introduce exchange-traded funds that track overseas stock indexes signals a push to create more opportunities for investors as the market matures, according to West China Securities Co.

The Shanghai Stock Exchange will try to introduce exchange- traded funds that track foreign indexes this year, Chairman Geng Liang said at a briefing in Beijing Monday, without disclosing the indexes.

“This is the way China is gradually relaxing control over overseas investment and the first destination for overseas ETF funds will probably be the Hong Kong market, because of familiarity,” said Wei Wei, an analyst at West China Securities in Shanghai. “Investors will have more options to invest overseas.”

Shanghai is pushing to have an exchange-traded fund of Hong Kong's Hang Seng Index listed on the city's stock exchange, the government said in May of last year. ETFs are designed to mimic the performance of market indexes and are traded like stocks on an exchange.

The Shanghai exchange approved some fund managers to develop exchange-traded funds that track overseas indexes including the Dow Jones Industrial Average, the Nikkei 225 Stock Average and the Hang Seng China Enterprise Index, the Shanghai Securities News reported Dec. 7, citing --u Ming, the exchange's vice general manager.

“The Shanghai Stock Exchange will develop the cross-border ETF this year,” Geng said. “The main setback we're facing now is on the technical side and we will try to overcome those difficulties and introduce the product this year.”

The Shanghai Stock Exchange is drafting rules for its so- called international board where foreign companies will be able to sell shares publicly in China, Geng also said Monday.

The first stock index contracts, based on China's CSI 300 Index, may begin trading in mid or late April, Shang Fulin, chairman of the China Securities Regulatory Commission, said in March.

Chinese nationals aren't allowed to invest in overseas stocks except through products sold by approved financial institutions under a so-called qualified domestic institutional investor, or QDII, program.

In January, China scrapped a plan to allow local investors to buy Hong Kong stocks directly, abandoning a proposal that drove the city's benchmark Hang Seng Index to a record in October 2007.

Shanghai-based HuaAn Fund Management Co. signed an agreement to license the FTSE 100 Index for an exchange traded fund to be listed on the Shanghai Stock Exchange, the FTSE Group said in a March 8 release.