

## China bans central SOEs' speculative derivatives trading

China's State-owned Assets Supervision and Administration Commission (SASAC) tightened the rules Tuesday on the conditions under which central State-owned enterprises (SOEs) could use derivatives.

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In a statement, SASAC said the low risk awareness of a few SOEs had presented a serious danger to State assets' safety.

SOEs should use derivatives "cautiously" and "strictly" follow hedging rules. No speculative trading is permitted, the statement said.

Several central SOEs have reported huge derivatives losses since last year as the global financial crisis spread.

Three carriers -- Air China, Shanghai Airlines and China Eastern -- had reported a total of 13.17 billion yuan (\$1.94 billion) of book losses as of the end of January on aviation fuel hedging contracts.

All derivative activity should be approved by SOEs' boards and trading should be overseen by a specific department. Companies should keep SASAC well-informed of their derivatives activity, the regulator said.

It also said companies with high leverage, huge losses and or impaired cash flow should not engage in derivative trading.

SASAC noted that a few companies, which did not understand the risks and complexity of derivatives and the associated leverage, engaged in speculation that led to mounting losses and posed "severe danger" to the companies' operations and state asset security and produced "very bad impacts," said SASAC.

SASAC said it had urged all central SOEs to overhaul their derivative activities.

SASAC said central SOEs should choose financial products that are relevant to their main business, simple to report under accounting rules and not subject to excessively complicated pricing models.

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