

### QFIIs get futures green light

China may allow qualified foreign institutional investors (QFII) to use no more than 10 percent of their investment quotas to trade stock index futures, the China Securities Journal reported on Tuesday.

The Chinese securities regulator did not comment directly on the report when contacted by China Daily, but said that the rules will be released for public comment soon after they are issued.

An estimated 12 billion yuan (\$1.77 billion) worth of funds from foreign institutions are expected to participate in index futures trading but they will only be allowed to trade for hedging rather than speculative purposes, the report said, citing an unidentified source.

Analysts said that the inflow of foreign capital will help make the stock index futures market more international but the move will have more of a symbolic impact given the relatively small investment quota and the limit on trading purposes.

"Foreign investors' participation in the trading of index futures will bring fresh capital to the market and make it more international. But the initial quota granted to foreign institutions is relatively small so they won't have much competitive advantage over their Chinese peers," said Liao Qing, a Shenzhen-based analyst at Guohai Securities.

The regulator has granted quotas worth about \$17.72 billion to 89 QFII funds by the end of June, according to China Securities Journal.

Selected overseas investors are allowed to invest in China's stock markets under the QFII program, which was launched in 2003.

The equity-market reforms represent the government's effort to make more investment options available to foreign investors, who have limited access to the world's third-biggest stock market by value.

The trading of index futures would give foreign investors a hedging tool in China and allow them to more effectively compete with local fund managers as the nation prepares to open the market to foreign institutions.

Stock index futures, or agreements to buy or sell the CSI 300 Index at a preset value, began trading on the China Financial Futures Exchange in Shanghai on April 16.

The regulator may gradually expand investment quotas for foreign investors to trade index futures, according to market watchers. But QFII's participation in the short term is unlikely to cause sharp volatility in the futures or spot markets.

The CSI 300 Index, which tracks 300 large-cap stocks traded in Shanghai and Shenzhen has slid 25 percent in 2010, one of the worst performers among global benchmark gauges.

Bloomberg contributed to the story.

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