
Stock Index Futures: A Potential Earning Point for Trustee Companies

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This article is to foresee possible participation of the trustee companies in the trading of stock index futures (hereinafter referred to as the “SIF”) in the near future.

1. The Difficulties for Trustee Companies to Participate in SIF Trading

After many years of study and preparation, China officially launched its SIF on April 16, 2010. However, as of today, for the lack of a specific rule guiding trustee companies to participate in SIF trading, huge difficulties exist in both law and practice for trustee companies to engage in such trading.

Although by establishing a limited liability partnership to directly engage in SIF trading, trustee companies may indirectly participate in such trading as limited partners, such operation may still be identified as illegal without express approval from regulatory authorities. Besides, such transaction will involve more complicated structures and procedures, and the related cost will be higher as well.

2. The Door of SIF Market is Likely to be Open to Trustee Companies

Currently, trustee companies are under strict regulations in terms of real estate related trust financing and bank-trustee cooperation business. Under such circumstances, trustee companies may find their way out by exploring the SIF market. By investing in SIF, trustee companies may efficiently control their portfolio risk and seek arbitrage opportunities as well as optimize their investment structures. Furthermore, due to the specialty and complicity of SIF trading, there shall be a huge potential demand in trust financing market.

Recently it is reported that China Banking Regulatory Commission (hereinafter referred to as the “CBRC”) is drafting the *Guidelines for Trustee Companies’ Participation in Stock Index Futures Trading* (hereinafter referred to as the “*Guidelines*”) and soliciting opinions from trustee companies on the *Guidelines*. If the *Guidelines* is promulgated, the way to SIF trading will be clear and smooth for trustee companies. According to the unverified draft of the *Guidelines*, trustee companies shall apply to CBRC for trading qualification. Based on trustee companies’ trading

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qualification level and regulation ranking, they may be allowed to engage in different types of SIF trading including but not limited to hedging and arbitrage trading.

3. Advice for Trustee Companies

The SIF market will be open to trustee companies sooner or later. Therefore, trustee companies should make sufficient preparation in advance so that they can gain an advantage when the door is open.

First, trustee companies need to improve their corporate governance and internal control system and strengthen their risk management. In this way, trustee companies would be able to have competitiveness in extending their service and product scope to include SIF trading.

Second, trustee companies need to enhance employees training and to recruit experienced talents in SIF trading. As SIF trading is a comparatively new area where trustee companies have very limited experience, it is essential for trustee companies to develop and establish their own elite SIF trading staff.

Finally, trustee companies need to conduct in-depth study in SIF trading before entering into this business and strengthen their risk prevention in advance. Considering the complicity and specialty of SIF trading, it is highly suggested that trustee companies design reasonable and workable risk management procedures and risk prevention plan with the support of professionals such as lawyers.

Disclaimer: This article is based on research of statutes and legal practices and shall in no way be regarded as legal advice or suggestions. If you need further information or you have queries, please contact the authors directly.