

Research on the Development Course and Countermeasures of Chinese Financial Derivatives Market

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Abstract: With the development of times, the trading volume of financial derivatives continuously extend, and its growth rate has exceeded that of traditional financial products. China's financial derivatives market is a crucial part of the financial system, showing a trend of optimized development, and international influence significantly improved. However, compared with the mature financial market abroad, there are still many problems in China's financial derivatives market. The paper analyzes the development course and problems of China's financial derivatives market, and puts forward the countermeasures to effectively promote the development of China's financial derivatives market, in order to enhance the competitiveness of China's financial derivatives market.

Keywords: Financial derivatives, Development course, Development countermeasures.

1. Introduction

From the reform and opening up to the present forty years, China's financial industry has made a breakthrough, widely attention and attention. The report to the 19th National Congress of the Communist Party of China calls for accelerating the improvement of the socialist market economy, enhancing the ability of financial services to serve the real economy, increasing the proportion of direct financing, and promoting the healthy development of the multi-tiered capital market. The financial derivatives market is closely related to the capital market. To promote the development of multi-level capital market and increase the proportion of direct financing, it is necessary to vigorously develop the financial derivatives market.

From the perspective of economy, the competition between major countries has been upgraded from the competition of global resources and market to the competition of global capital, and the competition of financial capital, as the advanced form of capital competition, has become the most important part of the economic competition between major countries. For power, financial derivatives market successfully attract international financial capital natural advantages, not only can promote employment growth and the function of the capital market is perfect, more can promote the scale of the market growth, efficiency and innovation of science and technology, promote the global resources efficient capital market allocation in each country, in order to maximize its own economic strength and competitive position.

2. Emergence and Development of Financial Derivative Market

2.1. Emergence

In the early 1970s, the Bretton Woods system collapsed, and the world economy showed a development trend of monetization, financialization, liberalization and integration. On the one hand, western countries implement the floating exchange rate system, and the interest rate gradually rises. The two oil crises accelerated the frequent interest rate

changes, and participants in the financial market were exposed to the risk of high interest rate. Organization of Petroleum Exporting Countries twice sharply raised oil prices, triggering stagflation in western economies and sending the average inflation rate in developed countries straight up to 12.3%. In the face of the impact of oil and The European Euro, capital flows to and from various countries under the control of market forces, transnational liquidity is constantly enhanced, the exchange rate between different currencies fluctuates violently, and the risk of international trade and investment increases sharply. On the other hand, the drastic fluctuation of financial commodity prices makes the global capital market and financial institutions unable to avoid risks only through traditional financial instruments, and financial institutions urgently need new financial instruments to avoid risks.[1]

In 1972, the Chicago Mercantile Exchange of the United States launched the first financial derivative contract - foreign exchange futures contract. Futures, options and swaps as the main financial derivatives came into being.

2.2. Development

By the 1980s, western developed countries continued to relax financial regulation, and price fluctuations such as interest rates and exchange rates became more frequent, and investors' requirements for avoiding risks were further expanded. As the change of investor risk appetite and exposure, currency futures, interest rate futures and stock index futures and futures products and corresponding development swaps to appear a variety of options, for investors to trade and management of various risks provides effective hedging tool, as a new means of risk management, financial derivatives market scale expands unceasingly. At the same time, countries carried out financial liberalization measures, the global financial competition environment was very loose, financial derivatives market in this period of rapid development.

3. Development Course of Chinese Financial Derivative Market

In the early 1990s, Zhengzhou grain wholesale market mainly used spot goods and began to introduce futures trading mechanism. This is the earliest financial derivative in China. From then on, all kinds of domestic exchanges were established rapidly, once more than 50, futures brokerage institutions reached more than 1000, financial derivatives were vigorously pursued. However, the market environment at that time was extremely immature. There was no clear administrative department in the market, the supporting laws and regulations were seriously lagging behind, and the financial knowledge of market participants was quite lacking. The frequent occurrence of illegal speculation caused a series of economic disputes and social problems, and the derivative market was stagnant for a time.

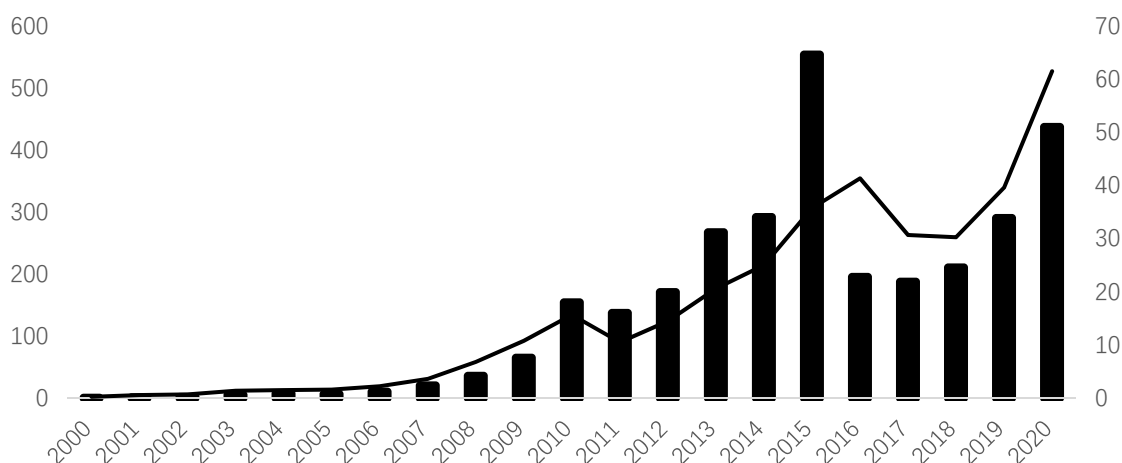
In 2006, located in Shanghai China financial futures exchange, with the development of economy and the change of market environment, all kinds of financial derivatives business has increased dramatically, established under the government leading to promote for the purpose of "service economy", including "transmission" regulatory mode, the "five one" regulatory system, The corresponding laws, regulations and supervision system have been constantly improved, forming a unique supervision concept and system.

Since 2012, China has successively launched commodity

futures such as crude oil, rubber and gold, followed by stock index futures, Treasury bond futures and foreign exchange futures. So far, China has listed more than 70 futures and options, covering metals, energy, agricultural products and other important fields. [2]

In recent years, China has paid more and more attention to the development of financial derivatives, so that the financial derivatives market has achieved good development. In 2019, China's financial derivatives market entered the era of options, and more than 3,700 listed companies landed in A-shares, with A total market value of more than 57 trillion YUAN. On this basis, the market value in circulation exceeded 46 trillion yuan, significantly higher than before. [3] In 2020, the global financial market fluctuated violently under the impact of COVID-19, and investors' demand for hedging increased. According to the data of China Futures Industry Association, the turnover of China's futures market in that year reached 6.153 billion lots (unilateral, the same below), a record high, and the turnover reached 437.53 trillion yuan, up 55.29% and 50.56% year-on-year respectively.

In general, since the beginning of the new century, the transaction volume and trading volume of China's futures market have shown a trend of rapid growth (Figure 1). Although it has fallen in some years, the development momentum is still good.



Note: The bar chart indicates the turnover (in trillions of yuan) and the line chart indicates the volume (in billion lots)

Figure 1. Turnover and volume of China's futures market from 2000 to 2020

4. Problems Existing in China's Financial Derivatives Market

China's financial derivatives market is still far behind developed countries both in terms of time and scale. Compared with the international market, China's derivatives market still has many problems, it is difficult to fully adapt to the requirements of high-quality economic development. Although in recent years, the China financial futures exchange successively introduced all kinds of financial derivatives, such as the rights and interests of the China Securities Index 300 stock index futures and Shanghai 50 index futures, interest rate class of two-year, five-year, 10-year bond futures, etc., but our country financial derivatives market as a whole scale also significantly smaller, structure imbalance, lack of innovation, investors structure to improve, The strength of intermediary agencies needs to be improved.

Specific analysis of the problems in China's financial derivatives market is mainly reflected in the following three aspects:

First, the market is not standardized enough. The development of the financial derivatives market in China has not been standardized, and there are still some multi-management problems. For example, the CSRC, the Ministry of Finance and local governments have certain management rights at the same time. Although China has made corresponding exploration in this aspect, there are still obvious problems of imperfect trading system and lack of standardization of trading procedures, which have a negative impact on trading activities and are not conducive to the realization of the goal of stable development of financial derivatives. [4]

Second, the system of laws and regulations is not sound. Although trading business for financial derivatives market in

China has released the corresponding management measures, and continuously adjust and optimize, but in terms of the construction of legal system, financial derivatives market development still exists some limitations, has not yet formed under the rule of law system, the financial derivatives market development has played a role.

Third, lack of innovation. The development of the financial derivatives market requires continuous innovation and improvement of products. However, on the whole, China has not carried out effective innovation in combination with the development needs of The Times and the actual needs of the financial industry. The low level of products makes it difficult to promote the efficient development of financial derivatives, and the problem of restricted transactions is serious.

5. Countermeasures for the Development of China's Financial Derivatives Market

To adhere to the opening to the outside world in our country, we must appeal to different risk preferences of investors to participate in as much as possible in our country's capital market, in terms of the financial derivatives markets has natural advantages, not only can provide investors with risk management tool, expand the scale of all kinds of funds to participate in China's capital market, but also to fully improve the price formation mechanism, by traders Improve the quality of market operation, so as to reduce cross-border flows of international capital in the short term, reduce short-term fluctuations of RMB exchange rate, and enhance China's global capital competitive advantage.

Based on the problems in the financial derivatives market mentioned above, in the new period, China needs to formulate a sound financial derivatives development plan, promote the construction of a sound management system, accelerate the modernization of financial derivatives development process, so as to create greater economic benefits in the financial market competition. Details are as follows:

5.1. Accelerate the Development of Financial Derivatives Market

In 2020, the Chinese economy withstood the severe test of the epidemic and was the first to recover, showing the overall characteristics of "increased resilience and greater maturity". RMB assets have shown a certain risk-averse asset attribute in the world, and assets denominated in RMB are gradually becoming an important subject of foreign investors' asset allocation. In the face of the favorable situation of foreign capital increasing the allocation of Chinese assets, China must accelerate the opening of derivatives market, and pay more attention to the in-depth connection between institutional rules and the international market. Financial derivatives market must be in the form of more efficient, more in line with international practice, strengthen the market system, product system, rule system, the construction of the infrastructure system, create a fair, transparent and predictable system environment and the system of rules, more mature institutional investors and foreign institutions outside investment acquisition in China.

5.2. Improve the Financial Supervision System

In the process of the gradual improvement of the financial derivatives market, not only should financial institutions be guided to carry out financial innovation and create a relaxed

and fair environment for product innovation, but also regulators should strengthen supervision and guard against financial risks. Only under effective supervision can financial derivatives play their hedging and price development functions effectively. Financial regulation is an effective measure to deal with financial market risks, but only by keeping the principle of moderation can the best control effect be achieved. Too strict or too loose will affect the financial market. At present, there are still some loopholes in the supervision and management of the financial derivatives market in China. It is imperative to strictly abide by laws and regulations and adjust the financial market according to the economic development situation. From the perspective of financial derivatives, after the loss of supervision, it is bound to bring serious negative impact on the development of the financial industry. In addition, the operation of investors makes it easier for risks to flow out and cause adverse joint effects on other investors.

Of financial derivatives market regulatory supervision should be to advance and supervision afterwards, the official regulation and industry self-discipline, domestic regulatory arrangements and international regulatory cooperation, internal control and external supervision of coordinated development of each other, and constantly promote the development of derivatives innovation and risk control, increase the efficiency of the real economy in financial derivatives service.[5]

5.3. Cultivate Relevant Professionals

The 21st century is the best period for the development of China's financial market. Today, financial derivatives have ushered in a new opportunity for progress with the highly developed economy and the continuous improvement of the market. However, in this context, investors in China's financial derivatives market are still very immature and financial talents are very scarce. There is a big gap between institutional investors and mature foreign qualified institutional investors in corporate governance structure, internal control, research and analysis ability and investment level of financial derivatives. General investors lack knowledge of financial derivatives and often enter with a speculative mentality. Therefore, it is necessary to continuously strengthen education, so that relevant personnel can effectively identify and measure the existing financial risks, so as to control the trading leverage magnification of financial derivatives in an affordable range. We will constantly enhance the awareness, vigilance and prevention of market risks among ordinary investors, and strengthen education on investment decision-making process, asset allocation and investor rights and interests' protection. [6]

5.4. Innovate the Financial Derivative Market

To strengthen financial innovation, financial derivatives innovation is designed with careful derivatives for protection, the design of the product should not only consider the futures of product function and the market parties can have the chance to profit, also want to consider the protection of investors, the balance between hedging and speculative, and regulatory requirements, etc.

6. Conclusion

The integration of the world economy and the high development of the socialist market economy with Chinese

characteristics have made China's financial market begin to integrate with the world and step into the forefront of the world in just a few decades. Financial derivatives are born under this background. In general, the emergence and progress of financial derivatives is an inevitable outcome of China's market economic system, which can effectively promote the development of China's economy toward modernization, and also play a certain role in the optimization of resource allocation, so that China's financial business and foreign financial markets can be integrated. Therefore, the next important task is to promote and improve the financial derivatives market as soon as possible, promote product innovation and adjustment, and enhance the development power of the financial market.

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