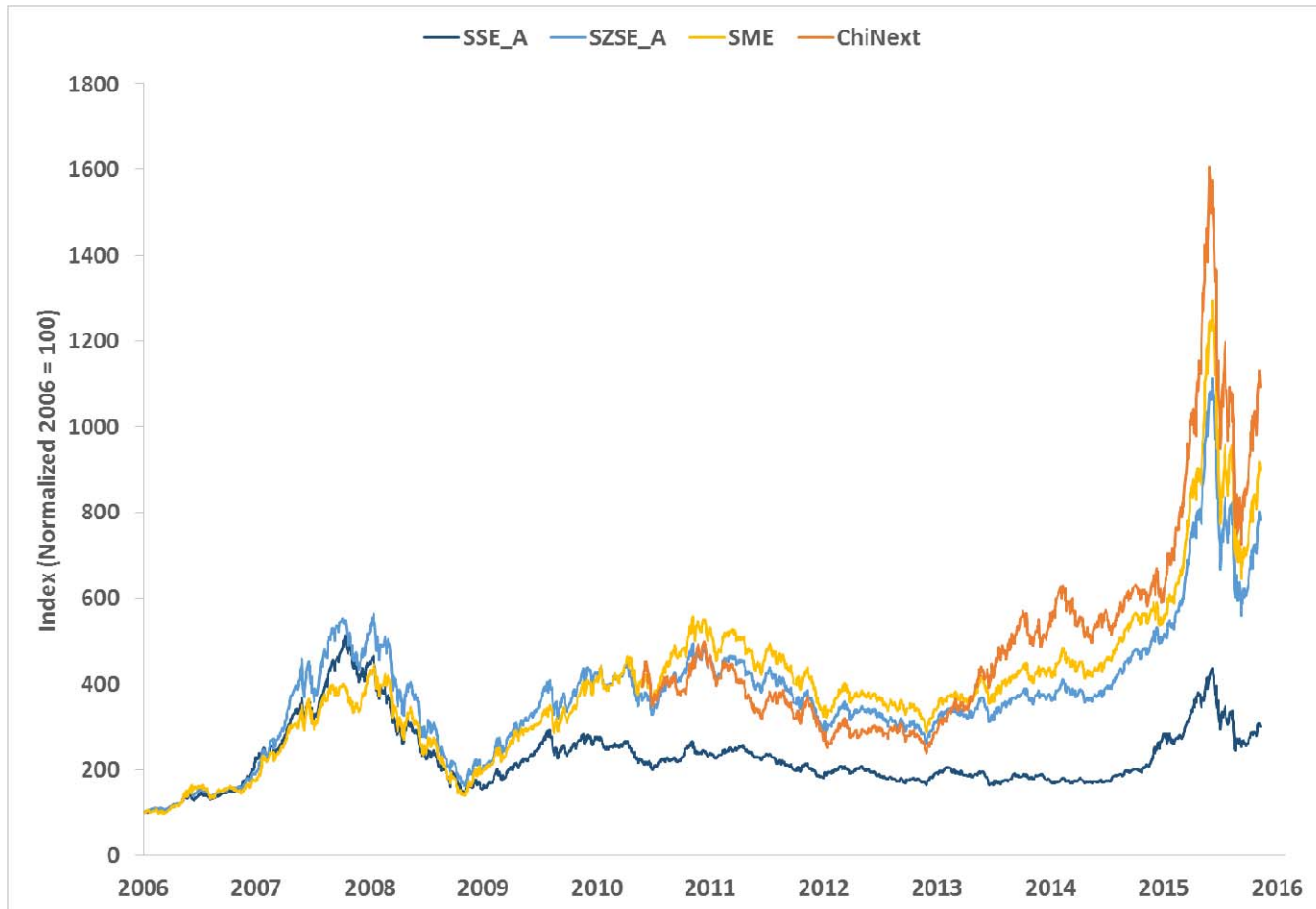


Stock Trading Systems: China and US Comparison

Wei Xiong

Stock market booms and busts in China



Stock trading system in China

- CSRC has adopted paternalistic policies to protect investors from excessive speculation
 - Large fraction of retail investors, most of them lack investment experiences, highly speculative
 - Owning about 50% of tradable shares and making 90% of trades
- T+1 rule
 - A buyer can sell his stock holding only after the purchase day---intraday trading is not allowed
- 10% daily price limits
 - The price of any stock cannot move by more than 10% within a day
- Financial derivatives
 - Experimented stock warrants in 2005-2008, leading to the most spectacular price bubble in finance
 - Introduced index futures in 2010
- Margin buying and short selling
 - Gradually allowed after 2010
- Circuit breakers
 - Installed in January 2016, but removed after 4 trading days

Questions

- Given the largely different investor structures between China and US, can China adopt a trading system similar to that in the US?
 - Various attempts are made
 - Need better implementation or different strategies?
- Objective of system design
 - Facilitate liquidity, reduce market speculativeness, protect small investors, minimize volatility, or something else?
- Should T+1 and 10% price limits be removed?
 - Will the warrants bubble repeat?
- Should China introduce designated market makers?
 - Would market makers help reduce volatility? Could market makers screw up in any way? Can market makers operate with T+1 and 10% price limits?
- Any thought to make Chinese markets less speculative?
 - China made a strong effort to build up mutual funds since early 2000s, which are now sizable but are sometimes destabilizing rather than stabilizing
- Multi-trading platforms
 - How is the US experience?