Stock Trading Systems: China and US Comparison

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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?