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# Derivatives 2025

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**China: Law and Practice**

TieCheng Yang, Yin Ge, Lin (Avery) Huang and Weijun (Elliot) Yi
Han Kun Law Offices

# CHINA

## Law and Practice

**Contributed by:**
TieCheng Yang, Yin Ge, Lin (Avery) Huang and Weijun (Elliot) Yi
**Han Kun Law Offices**

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**Han Kun Law Offices** is a full-service law firm in China and has been widely recognised as a leader in complex cross-border and domestic transactions. Its main practice areas include, among others, private equity, banking and finance, asset management, M&A, capital markets, investment funds, compliance, intellectual property and dispute resolution. It has nearly 800 professionals located in its Beijing, Shanghai, Shenzhen, Hong Kong, Haikou, Wuhan, Singapore, New York City and Silicon Valley offices. It has integrated the best Chinese and Western practices to develop a client-oriented, first-class firm. Its Asset Management & Financial Services team has extensive practice in futures and derivatives regimes. It advises major Chinese exchanges, including the Shanghai Futures Exchange, Dalian Commodity Exchange and International Energy Exchange, on various initiatives. It assists both PRC and international leading institutions with matters involving futures and OTC derivatives transactions, repo transactions, margin trading and securities lending, structured notes, and other complex and cutting-edge financial products.

## Authors

**TieCheng Yang** is a partner in Han Kun's Asset Management & Financial Services group. Before joining Han Kun, Mr Yang was a partner at Clifford Chance, where he headed the firm's financial regulatory practice in China. Mr Yang has over 30 years' experience in advising on various financial service issues, including renminbi internationalisation, banking, bonds, securities and insurance, derivatives, structured products, the Mutual Connect Regime, investment funds (QFI and QDII), cybersecurity and fintech. Mr Yang is a member of NAFMII's Legal Committee and NAFMII's Repo Master Agreement Drafting Committee. He is also a specially invited professor for the LL.M. programme at Tsinghua University School of Law and Schwarzman Scholars.

**Yin Ge** is a Shanghai-based partner in Han Kun's Investment Management & Finance Group and a globally renowned legal expert in this area. She sits on the management committee of Han Kun's Shanghai office and heads the firm's financial services practice. Yin is a board member of the Shanghai Asset Management Association. Before joining Han Kun, Yin led the financial services practice at Clifford Chance Shanghai. Yin graduated from Cornell University and is admitted to practice in the PRC and New York State. Yin's clients include leading global asset managers, trading firms, financial institutions, financial regulators, exchanges and trading platforms. Yin has also been deeply involved in advising on legislation for China's financial services sector.

**Lin (Avery) Huang** joined Han Kun's Asset Management & Financial Services group in 2022, where she specialises in advising international and domestics banks, securities companies, fund managers and other financial institutions on financial regulations, banking and derivatives, asset management. Ms Huang has experience in advising on QFI and QDII investment, cross-border derivatives and financial products, margin financing and securities borrowing, repurchase transactions and structured notes. Ms Huang received an LL.B. degree from East China University of Political Science and Law and an LL.M. degree from New York University, and is admitted to practice in the PRC and New York State.

**Weijun (Elliot) Yi** joined Han Kun's Asset Management & Financial Services group in 2024, where he focuses on banking and finance, financial services and regulatory, financial derivatives and asset management. Mr Yi has provided legal advice on financial regulation and data compliance to domestic and foreign banks, securities firms, fund companies and international asset management institutions. He has also reviewed ISDA, NAFMII and GMRA agreements and has provided legal services for the issuance of QDII/QDLP products. Mr Yi graduated from Peking University Law School with an LL.B. degree in 2022 and graduated from Peking University Law School with a Juris Master degree in 2024.

## Han Kun Law Offices

9/F, Office Tower C1,
Oriental Plaza,
1 East Chang An Ave.,
Dongcheng District,
Beijing 100738
PRC

Tel: +86 10 8525 5500
Fax: +86 10 8525 5511/5522
Email: beijing@hankunlaw.com
Web: hankunlaw.com/en/

HAN KUN
汉 坤 律 师 事 务 所
Han Kun Law Offices

# 1. General

## 1.1 Overview of Derivatives Markets

### General Regulatory Regime

China's derivatives market operates under a multi-sector regulatory regime, where both governmental authorities and self-regulatory organisations play roles in maintaining market order. Oversight is divided by factors such as participant type, product category, underlying asset and policy objectives.

Specifically, the main governmental authorities are the China Securities Regulatory Commission (CSRC), the People's Bank of China (PBoC), the National Financial Regulatory Administration (NFRA), the State Administration of Foreign Exchange (SAFE), the State-owned Assets Supervision and Administration Commission (SASAC) and the Ministry of Finance (MOF). Self-regulatory organisations include the National Association of Financial Market Institutional Investors (NAFMII), the Securities Association of China (SAC), the Asset Management Association of China (AMAC) and the China Futures Association (CFA). The specific allocation of duties and functions among these governmental authorities and self-regulatory organisations is discussed in detail in **3.1.1 National Regulators** and **3.3 Self-Regulatory Organisations, Independent Authorities, and Exchanges**. For purposes of this practice guide only, "China" and "the PRC" refer to Mainland China, which is exclusive of the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

As will be further discussed in **3.3 Self-Regulatory Organisations, Independent Authorities, and Exchanges**, in China, the main onshore derivatives market infrastructure consists of exchanges (including six futures exchanges for most futures and two securities exchanges for exchange-traded fund (ETF) options, as discussed in detail in **2.1 Futures and Options**, and the Shanghai Gold Exchange (SGE) for certain over-the counter (OTC) products), OTC-centralised trading venues (ie, China Foreign Exchange Trade System (CFETS) and China Securities Internet System Co., Ltd. (CSIS)) and an OTC central counterparty (ie, Shanghai Clearing House (SHCH)). Where derivatives transactions involve any market infrastructure, such transactions are also subject to the relevant rules and regulations issued by that infrastructure, including those governing trading, settlement and clearing.

The PRC Futures and Derivatives Law (FDL) provides a foundational and comprehensive legal framework for the regulation of the futures and OTC derivatives markets in China. This is discussed in detail in **1.2 Historical Trends and Looking Forwards**. In China, establishing a futures exchange requires CSRC approval, and any standardised futures or options contracts must be registered with CSRC before listing and trading. As a result, on top of the FDL, futures and standardised options trading is primarily regulated by CSRC together with the relevant futures exchanges or two securities exchanges, while OTC derivatives are subject to regulation by multiple governmental authorities and self-regulatory organisations, depending on the specific product types, underlying assets and other elements.

### Available Investment Channels for International Investors

Notably, due to restrictions on foreign equity participation in China's financial markets and foreign exchange control policies, international investors are subject to restrictions on participation in derivatives trading in China or with Chinese counterparties. Nevertheless, China is committed to promoting the high-level opening up of the financial market and, currently, international investors may access China's derivatives market through the following channels.

#### *Foreign direct investment*

International investors can establish foreign-invested enterprises in China and open institutional futures accounts to invest in onshore futures and options products by their renminbi (RMB) revenue. Since there is generally no licensing requirement for ordinary market participants to engage in OTC derivatives trading in China, international investors are also able to do so through their PRC foreign-invested enterprises, subject to certain investor suitability requirements.

#### *Qualified Foreign Investor (QFI) regime*

Under the QFI regime, eligible foreign institutional investors recognised by CSRC are allowed to trade specific derivatives products designated by the

exchanges with the permission of CSRC. This will be discussed further in **2.1 Futures and Options**.

### *CIBM Direct*

After pre-filing with PBoC, eligible foreign institutional investors and the products they issued may have direct access to the China Interbank Bond Market ("CIBM Direct"), while bond forwards, forward rate agreements and interest rate swaps are available to these international investors only for hedging their bond holding from CIBM Direct. International investors may open an account directly with onshore settlement agents or adopt a custodian model.

In addition, foreign institutional investors are permitted to trade onshore FX derivatives to manage FX risk exposure arising from their CIBM Direct investments. FX risk exposure consists of the principal, interest and market value fluctuations of bond investments, etc. Foreign institutional investors with actual CIBM Direct bond holdings can trade onshore FX forwards for hedging purposes.

### *Internationalised futures products*

For specific futures contracts designated by CSRC ("Internationalised Futures Products"), international investors may trade through domestic or foreign brokerages as intermediaries, or trade directly on the exchanges, subject to certain criteria. To date, China has introduced 15 futures contracts and nine options contracts for trading by foreign investors, with general eligibility criteria set by the domestic futures exchanges.

### *Northbound Swap Connect*

The eligibility for the Northbound Swap Connect is the same as that for CIBM Direct. Under the Swap Connect regime, international investors can leverage their familiar offshore trading platforms to trade interest rate swaps in the China interbank market without the need to open accounts or adopt complex custody arrangements onshore. This will be discussed further in **2.2 Swaps and Security-Based Swaps**.

## 1.2 Historical Trends and Looking Forwards

### Introduction of the FDL

The FDL came into effect on 1 August 2022 and is an important milestone in the construction of the rule of law in China's capital markets. As the "basic law" for China's futures and derivatives markets, the FDL provides a legal basis for the high-quality development of the futures and derivatives markets.

The FDL applies to futures transactions, derivatives transactions and related activities conducted within China, and those conducted outside China that disrupt the domestic market order or damage the lawful interests of domestic traders. In terms of scope of application, the FDL focuses on regulating the futures market, while also considering the OTC derivatives market, and leaves room for future reform and innovation.

Notably, the FDL for the first time recognises in law the enforceability and effectiveness of a close-out netting regime and the single agreement concept, paving the way for China to become a clean close-out netting jurisdiction. The FDL effectively eliminates the concerns over bankruptcy administrator powers in derivatives transactions with respect to cherry-picking and clawback rights.

Meanwhile, it is worth noting that the FDL has extraterritorial effect on offshore entities under certain circumstances, in addition to purely offshore futures and derivatives transactions and related activities that disrupt the onshore markets. For example, offshore futures trading venues will generally need to register with CSRC and accept its supervision if they provide onshore entities or individuals with direct access to their trading system for trading services. Also, offshore futures, options or derivatives contracts listed in offshore futures trading venues that reference the prices of contracts listed onshore must comply with the relevant CSRC rules. In addition, marketing, promotion and solicitation activities in China conducted by offshore entities require CSRC approval and are subject to the relevant provisions of the FDL; onshore entities will also need to obtain CSRC's approval if they intend to engage in such activities for the benefit of offshore entities. This echoes the increasingly tightened regulatory position over marketing activities by offshore entities in China.

### The Forthcoming Measures for Supervision and Administration of Derivatives Trading ("Draft Derivatives Trading Measures")

In 2023, CSRC conducted two rounds of consultation on the Draft Derivatives Trading Measures. The proposed rules will govern OTC derivatives transactions, with the exception of those conducted in the China interbank derivatives market or on platforms organised by banking and insurance financial institutions.

The Draft Derivatives Trading Measures propose the preliminary establishment of a trade repository framework in China and prohibit market participants from using OTC derivatives to circumvent regulatory requirements.

Notably, the Draft Derivatives Trading Measures are intended to apply extraterritorially, extending to derivatives transactions conducted overseas that relate to underlying assets within China and/or involve hedging transactions taking place within China. This proposal has generated considerable debate among market participants, and CSRC has yet to clarify both the scope of extraterritorial application and the possible methods of enforcement.

### New Variation Margin and Initial Margin Rules

NFRA issued margin rules for non-centrally cleared derivatives transactions of financial institutions in December 2024 ("NFRA Margin Rules"). The NFRA Margin Rules are highly aligned with the framework published by the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. This is discussed further in **4.1.2 Margins**.

### Stringent Regulatory Requirements on Program Trading in the Futures Markets

In June 2025, CSRC issued the Administrative Provisions on Program Trading in the Futures Markets (for Trial Implementation) ("Futures Program Trading Provisions"), stipulating the reporting obligations for program traders. Meanwhile, participants in high-frequency trading (HFT) of futures via program trading are now subject to additional and stricter requirements under the Futures Program Trading Provisions, and the futures exchanges may adopt a differentiated transaction fee structure for HFT. In addition, with respect to technology system access and server co-location, CSRC in principle requires program traders to comply with the rules set by the exchanges. The exchanges are expected to impose more stringent requirements in these areas.

### Prospect of Using RMB-Denominated Chinese Government Bonds as Margin

Permitting the use of RMB-denominated bonds as collateral in derivatives transactions can significantly enhance the utility and flexibility of RMB assets held by international investors. The widespread use of onshore RMB-denominated Chinese government bonds in international derivatives trading still faces obstacles, primarily due to foreign exchange controls and an underdeveloped cross-border custody system. However, significant progress has been made with offshore RMB bonds. In January and March 2025, Hong Kong Exchanges and Clearing Limited (HKEX) announced that it would accept Chinese government bonds and policy bank bonds held by international investors through Bond Connect as margin collateral for Swap Connect and all derivatives transactions cleared by OTC Clearing Hong Kong Limited ("OTC Clear"). This marks a major step forward in the use of RMB bonds as collateral.

## 2. Types of Derivatives

### 2.1 Futures and Options

#### Overview of Futures and Options in China

In China, exchange-traded futures and options primarily consist of commodity futures and options (covering energy, agricultural products and metals), financial futures and options, as well as one containerised-freight-index-linked future.

Commodity futures and options are listed and traded on five commodity futures exchanges, namely the Shanghai Futures Exchange (SHFE), the Shanghai International Energy Exchange (INE), the Dalian Commodity Exchange (DCE), the Zhengzhou Commodity Exchange (ZCE) and the Guangzhou Futures Exchange (GFE).

Financial futures are listed and traded on the China Financial Futures Exchange (CFFEX), which is the only

financial futures exchange in China. Products traded on CFFEX include China government bond futures, stock index futures and options. In addition, two securities exchanges, the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) list ETF options, such as the CSI 50 ETF option and CSI 300 ETF option.

At present, more than 145 futures and options products have been listed in China's futures markets, among them, more than 125 referencing commodities, over 20 referencing financial instruments and one containerised-freight-index-linked future. Commodity-related futures and options account for the majority of exchange-traded futures and options in China, representing approximately 70% of the total notional trading volume, according to data from CFA.

### Innovative Futures and Options Products

On 18 August 2023, the SCFIS (Europe) futures contract was officially listed for trading on the INE. The underlying index is the Shanghai (export) Containerized Freight Index based on Settled Rates (SCFIS) (Europe service), which is compiled and published by the Shanghai Shipping Exchange. This is the world's first shipping futures contract developed based on a Chinese containerised freight index. Given that China's port cargo and container throughput remains the world's highest, the launch of the SCFIS (Europe) futures meets the hedging and risk management needs of shipping companies and foreign trade enterprises.

In addition, GFE is positioned to list products related to green development and new energy industries. It has already listed three futures and options products linked to major new energy-related products – silicon metal, lithium carbonate and polysilicon. Meanwhile, CSRC is guiding GFE to develop other green products including futures referencing carbon emissions, climate-related factors and electricity.

Separately, in China, pursuant to the Notice on Further Preventing and Dealing with Speculation Risks in Virtual Currency Trading issued by PBoC, the Office of the Central Cyberspace Affairs Commission, the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Industry and Information Technology, the Ministry of Public Security, the State Administration for Market Regulation, the China Banking and Insurance Regulatory Commission (replaced by NAFR in May 2023), CSRC and SAFE on 15 September 2021, business activities related to virtual currencies, including derivatives trading, are considered illegal financial activities and are strictly prohibited. As such, there are currently no listed futures contracts linked to virtual currencies in China.

### Foreign Institutional Investors

As mentioned in **1.1 Overview of Derivatives Markets**, foreign institutional investors may participate in the trading of CSRC-approved futures and options contracts by obtaining a QFI licence, or directly trade designated futures contracts and options without a licence.

Notably, the scope of futures and options available to QFIs has expanded this year. On 20 June 2025, 16 additional commodity derivatives were added to the QFI investment scope. Starting from 9 October 2025, QFIs will be permitted to participate in ETF options, including four ETF options listed on SZSE and five ETF options listed on SSE, totalling nine products. At time of writing, the number of futures and options available to QFIs has increased to 91, and on 9 October 2025, with the expansion to include additional ETF options, the total number will reach exactly 100.

It is noteworthy that under CSRC's rules, QFIs may trade financial futures or options for hedging purposes only.

## 2.2 Swaps and Security-Based Swaps

### Regulatory Regimes for Swaps in China

All swap transactions in China are conducted OTC, and there are no exchange-traded swap products. The main types of swaps traded in China are, among others, interest rate swaps, FX swaps, credit default swaps (CDSs), commodity swaps and equity swaps.

In terms of regulation, as explained in more detail in **3.1.1 National Regulators**, China's financial system follows a sector-based regulatory mode. Therefore, the regulation of China's derivatives market is carried out by different authorities, mainly based on the type of market participants, the nature of the trading venue

and the type of products involved. Building on the FDL as the overarching statutory foundation for derivatives regulation, swap transactions are subject to regulatory rules that apply to both market participants and products (including their trading platforms), which may be issued by one or more regulatory bodies.

### Product-Specific Regulation for Swaps

From a product-based regulatory perspective, different types of swaps fall under the regulation of different authorities.

Interest rate swaps (IRSs) mainly consist of RMB IRSs and standardised IRSs. IRSs dominate China's interest-rate-linked derivatives market. IRSs on the seven-day fixed repo rate (FR007) are the products most traded by commercial banks, accounting for up to 70% of the total interest rate derivatives turnover, based on the data from PBoC. IRSs are primarily traded in the interbank market and generally regulated by PBoC, NFRA and NAFMII, depending on the specific product and counterparties involved.

Swaps linked to foreign exchange (FX) in China mainly include FX swaps, currency swaps and standardised currency swaps. These products are generally traded on the CFETS and regulated by SAFE and CFETS. Within the FX derivatives category, FX swaps (including currency swaps) are the most widely traded products, with USD/CNY swaps accounting for up to 99% of the notional number traded of all FX swaps, based on the data from CFETS.

Credit-linked swaps traded in China primarily include OTC CDS, which are regulated by PBoC and NAFMII. It is worth noting that in 2010, NAFMII launched two types of credit risk mitigation (CRM) tools: credit risk mitigation agreements (CRMAs) and credit risk mitigation warrants (CRMWs). While CRM instruments are regarded as China's domestic version of CDSs, they differ significantly from international CDS products. For instance, CDSs typically reference a series of bonds issued by the same issuer with common characteristics (eg, governing law, currency, seniority), whereas CRM products only reference one specific bond. A CRMA is a bilateral OTC contract and cannot be transferred in the market. A CRMW, by contrast, is a standardised instrument issued by qualified third-party institutions such as banks and may be traded in the secondary market.

Equity-linked swaps traded in China mainly include total return swaps (TRSs), which are traded OTC under the lead of securities firms or through China Securities Index Company. These are primarily regulated by CSRC.

Commodity-linked swaps traded in China may be traded through OTC platforms affiliated with exchanges such as DCE and SGE, or through other OTC arrangements. Depending on the underlying commodity, these swaps are regulated by CSRC, PBoC and/or the relevant trading platforms.

### Interest Rate Swaps in China

IRSs, as the most widely-used OTC interest-rate derivatives, play a significant role in China's derivatives market. IRSs were first introduced in 2006 on a pilot basis in the interbank bond market and were fully launched in 2008. Currently, swaps in China may be subject to either bilateral or central clearing. Only certain standardised products are subject to mandatory central clearing. According to the PBoC's rule issued in 2014, SHCH provides a central clearing mechanism for IRS transactions, and certain types of IRS traded between financial institutions are required to be centrally cleared in SHCH. This will be discussed further in **3.1.2 Clearing**.

### Swap Connect

The mutual access scheme of the Mainland China and Hong Kong interest rate swap markets (Swap Connect) was launched on 15 May 2023. It enables cross-border participation in Hong Kong and Mainland China's interest rate derivatives markets via a mutual access scheme between the financial market infrastructures in respect of trading, clearing and settlement in both places. Specifically, Swap Connect is run in partnership by onshore trading platform CFETS, central counterparty SHCH, and HKEX through its clearing subsidiary OTC Clear.

Swap Connect is divided into the Northbound and Southbound Swap Connects. The Northbound Swap Connect allows offshore investors in Hong Kong and other countries and regions to access IRSs in the

Mainland interbank market via Hong Kong infrastructure providers. The Southbound Swap Connect, in the opposite direction, will allow Mainland China investors to access the Hong Kong financial derivatives market through mutual access between infrastructure institutions in both places. Swap Connect started initially with the Northbound Swap Connect, while currently the Southbound Swap Connect is not yet available and will be explored in the future.

With regard to the Northbound Swap Connect, offshore investors that meet the requirements of PBoC, have completed filing for participation in CIBM Direct and have been granted permission by CFETS can participate in the Northbound Swap Connect. Swap Connect shares the same operational model with existing OTC Clear products. Even though the ultimate trading and clearing requests are confirmed and executed onshore via CFETS and SHCH, the offshore investors only face offshore electronic trading platforms (such as Bloomberg and Tradeweb) and OTC Clear without altering their existing trading and settlement practices.

As of the end of April 2025, a total of 20 onshore market makers and 79 offshore investors executed more than 12,000 IRS transactions through the Northbound Swap Connect, with total notional principal exceeding CNY6.5 trillion, according to a PBoC announcement.

### Regulatory Considerations for Offshore TRSs on Chinese Securities and Futures

For many years, given that China's capital markets have not been fully accessible to foreign investors, overseas institutions need to utilise regimes like QFI, Stock Connect, Bond Connect, Internationalised Futures Products or CIBM Direct to access A shares, domestic futures and domestic bonds. As a result, many foreign investors engage in TRSs offshore to obtain economic exposure to Chinese securities and/or futures.

From a derivatives regulatory perspective, these offshore TRS transactions generally fall outside of the PRC regulators' jurisdiction. From a securities law and futures law standpoint, the total return receiver is not deemed to be the legal owner of the underlying securities or futures and thus is exempt from foreign ownership limits, duties of disclosure of interest, futures position limits and short-swing profit rules. However, for TRSs on Chinese securities, where the equity amount receiver in a TRS in fact controls voting rights or governance over the underlying securities during the swap's term, Chinese regulators may treat it as an indirect shareholder subject to applicable ownership and disclosure restrictions. Additionally, regardless of contractual structuring, both the TRS equity amount receiver and payer remain potentially subject to PRC insider trading and market manipulation laws.

Meanwhile, as mentioned in **1.2 Historical Trends and Looking Forwards**, the Draft Derivatives Trading Measures are intended to have extraterritorial scope, applying to derivatives transactions conducted overseas that concern underlying assets in China and/or hedging transactions executed within China. In this regard, where an offshore TRS with hedging transaction takes place with China, the onshore securities and futures exchanges may require the derivatives operating institutions (ie, brokers) to provide information related to such offshore TRS transaction, such as the details of the counterparty and the TRS transaction elements, based on the exchanges' monitoring needs. Besides this, where an offshore TRS transaction is in connection with domestic underlying assets, it remains subject to the futures position limit and large position reporting requirements, securities disclosures of interest rules, and the prohibitions on fraudulent, manipulative, insider-trading, short-swing and other unlawful activities. Considering such potential impacts of the Draft Derivatives Trading Measures when effective, it is worth keeping an eye on the finalisation of these measures.

## 2.3 Forwards

In China, forwards are regulated based on the type of underlying assets and the type of market participants involved. The principal forward products traded in China include interest rate forwards, FX forwards, bond forwards and commodity forwards.

FX forwards include currency forwards and standardised currency forwards. They are primarily traded on CFETS and are regulated by SAFE.

Interest rate forwards include bond forwards, forward rate agreements and standardised bond forwards,

which are also traded on CFETS and are primarily regulated by PBoC and NFRA.

Commodity forwards include products linked to metals, agricultural products and energy. Depending on the types of products, commodity forwards may be traded OTC through OTC platforms affiliated with exchanges such as DCE, ZCE or SGE. The regulatory authorities typically are CSRC, PBoC and the relevant trading platforms.

### 2.4 Listed v Over-the-Counter

In China, exchange-traded derivatives include the futures and options described in **2.1 Futures and Options** and certain credit-related derivatives such as credit protection contracts and credit protection certificates, which are traded on SSE and SZSE. OTC derivatives, by contrast, involve a wide variety of products and markets.

Commodity derivatives dominate the exchange-traded market, while FX derivatives dominate the OTC market. Exchange-traded markets such as SSE, SZSE and the futures exchanges apply mature risk management mechanisms, including margining, daily mark-to-market and large position reporting requirements. The regulation of exchange-traded markets is discussed more fully in **3. Regulation of Derivatives**. New product listings require CSRC approval and are generally standardised in structure.

By contrast, OTC derivatives are mostly non-standardised and primarily trade under three master agreement frameworks: (1) the NAFMII framework for the interbank market; (2) the SAC framework for the securities and futures OTC market; and (3) the ISDA framework for the bilateral market used by foreign institutions.

Each framework features its own trading venues, primary products and market participants. The NAFMII market primarily covers interbank FX and interest rate derivatives and is generally traded on CFETS, SHCH and SGE for trading and/or clearing. The SAC framework governs the OTC derivatives markets for securities companies and futures companies, and includes both bilateral and quote-driven platforms. The ISDA framework generally governs bilateral trading between domestic financial institutions and foreign institutions.

In China's OTC derivatives market, trading venues and clearing and settlement infrastructures vary by underlying assets. All interbank derivatives transactions that reference interest rates, FX and credit are executed through CFETS. Most interest rate swaps are centrally cleared and settled at SHCH. Equity derivatives are executed via CSIS and are cleared and settled on a bilateral basis. Commodity derivatives are executed on various electronic platforms operated by exchanges such as DCE and SGE.

Notably, Chinese regulators generally discourage and restrict overly complex product structures in the domestic OTC markets.

### 2.5 Asset Classes

The primary underlying asset classes for derivatives in China are commodities for exchange-traded products and FX for OTC products.

Emerging asset classes include carbon-related products. Pilot markets in Shanghai, Hubei and Guangzhou have introduced carbon forward contracts, which are bilaterally cleared, with Shanghai utilising SHCH for clearing.

As mentioned in **2.1 Futures and Options**, derivatives linked to virtual currencies remain strictly prohibited in China as their trading is considered an illegal financial activity. Meanwhile, to prevent insider dealing and other illegal actions, controlling shareholders, directors and senior management personnel of listed companies are prohibited from trading derivatives linked to their own company's stock. In addition, listed companies and investors may not use derivatives to circumvent regulatory requirements.

### 2.6 Exemptions, Non-Derivative Products and Spot Transactions

Current Chinese regulations do not provide exemptions for specific derivatives products.

Spot commodities trading is regulated by the Ministry of Commerce, PBoC and CSRC. The Ministry of Commerce oversees national planning, information and statistical management for commodity spot markets to ensure healthy market development. PBoC supervises financial aspects and non-bank payment

activities related to spot commodity trading. CSRC is responsible for rectifying any spot trading venues that conduct activities resembling illegal commodity futures trading. Local governments, under the guidance of the State Council, manage approximately 145 commodity spot trading centres, formulating local rules and exercising supervision. Spot commodities trading does not fall under the derivatives regulatory framework but is tightly supervised to prevent disguised illegal futures activity.

Foreign exchange in China is strictly regulated, and PBoC and SAFE oversee FX transactions. Individuals may conduct FX spot transactions primarily for legitimate current-account purposes, such as currency conversion and cross-border transfers. Capital-account FX transactions for individuals remain restricted and are permitted only under specific circumstances, such as cross-border equity incentives. Securities firms are prohibited from offering derivatives services to individual clients, and banks rarely offer FX derivatives to individuals, reflecting a highly cautious regulatory approach.

Leveraged spot commodity transactions, including products that may be categorised as contracts for difference, remain in a regulatory grey area. In practice, regulatory and judicial authorities may deem the trading and operation of such products to be illegal operations or unlicensed derivatives trading depending on their specific structure.

## 3. Regulation of Derivatives

### 3.1 National

#### 3.1.1 National Regulators

China's financial system follows a sector-based regulatory model, resulting in a fragmented oversight structure for derivatives. Depending on the type of market participants, derivatives, underlying asset classes and policy objectives, regulatory responsibilities are distributed across multiple authorities, with potential overlaps in certain areas.

**People's Bank of China (PBoC)**

PBoC, as China's central bank, oversees monetary policy, macroprudential regulation, payment and clearing systems, and the interbank market. It regulates interbank OTC derivatives, including interest rate swaps, forward rate agreements, bond forwards and bullion OTC products on SGE, and is responsible for the oversight and development of key market infrastructures such as CFETS and SHCH.

**China Securities Regulatory Commission (CSRC)**

CSRC regulates exchange-traded derivatives such as futures and standardised options, as well as derivatives business conducted by CSRC-licensed entities, including securities and futures firms. It also supervises futures exchanges and is responsible for monitoring and addressing risks in the futures market.

**National Financial Regulatory Administration (NFRA)**

NFRA is China's regulator for the banking and insurance industries. It oversees derivatives activities conducted by its regulated institutions, with a focus on risk management and the prudential impact of derivatives trading on financial institutions.

**State Administration of Foreign Exchange (SAFE)**

SAFE is China's foreign exchange authority responsible for managing cross-border capital flows and foreign exchange transactions. It regulates the use of foreign exchange derivatives.

**State-owned Assets Supervision and Administration Commission (SASAC)**

SASAC, in its capacity as the capital contributor to central state-owned enterprises (SOEs), regulates the use of derivatives by such central SOEs under its ownership and imposes regulatory and risk management requirements on such activities.

**Ministry of Finance (MOF)**

MOF is responsible for taxation and formulating financial accounting standards related to derivatives and setting requirements for the use of derivatives by treasury-funded entities.

#### 3.1.2 Clearing

Currently, exchange-traded derivatives are cleared and settled through the relevant futures exchanges via their internal clearing departments.

For OTC derivatives, SHCH provides central clearing services for a range of products, including interest rate, foreign exchange, certain credit and commodity derivatives. Currently, SHCH clearing is mandatory for IRS transactions traded between financial institutions referencing FR007, Shibor Overnight_O/N or Shibor 3M with a tenor of five years or less, where the counterparties and contract terms meet SHCH's eligibility criteria. Other standardised OTC derivatives are not yet subject to mandatory clearing.

### 3.1.3 Mandatory Trading

Under PRC law, futures and standardised options must be traded on futures exchanges established in accordance with the law, or on other trading venues for futures transactions approved by CSRC. Futures/standardised options trading outside of such authorised venues is strictly prohibited.

Certain interbank OTC derivatives are subject to mandatory execution venue requirements: all interbank RMB/FX transactions must be executed via CFETS. RMB IRS and bond forwards must also be executed via CFETS.

### 3.1.4 Position Limits

Position limits apply to exchange-traded derivatives. Under CSRC rules, futures exchanges are required to establish position limit regimes in accordance with regulatory requirements. Accordingly, each exchange has set differentiated position limits based on factors such as the type of contract, the type of participant and the nature of the position (eg, hedging, speculation or market-making). By contrast, there is currently no unified position limit framework applicable to OTC derivatives.

### 3.1.5 Reporting

For exchange-traded derivatives, the FDL and futures regulations require futures exchanges to establish reporting regimes covering actual control relationships, transactions, positions and margin usage. In accordance with these requirements, each futures exchange has developed its own reporting rules, which are binding on market participants.

Specifically, program trading is subject to additional disclosure obligations. Where a program trading participant on a stock exchange engages in return swaps or similar structured transactions with its clients and executes the related trades through its own account, it must report relevant client information in accordance with the rules of the stock exchange. Futures exchanges are likewise required to establish program trading reporting systems that specify the scope of reporting, reporting methods and verification procedures. Participants must submit the required information to the relevant futures exchange.

For OTC derivatives, regulated entities, such as banking and insurance institutions, securities firms and risk management subsidiaries of futures companies, are required to report OTC transaction information to their respective regulators or to designated reporting platforms, in accordance with applicable regulatory requirements. For instance, when conducting OTC gold derivatives transactions with onshore counterparties, banking financial institutions are required to report each transaction to SGE within the prescribed time, unless the transaction is executed through SGE's designated system.

### 3.1.6 Business Conduct

#### General Requirements

Under PRC law, the business conduct requirements applicable to futures and derivatives transactions are primarily aimed at maintaining market integrity, protecting investors and safeguarding systemic stability. The FDL establishes a high-level regulatory framework that prohibits manipulative, abusive or deceptive conduct in the derivatives market. Market participants – whether institutions or individuals – are required to act fairly, refrain from market manipulation and avoid trading based on undisclosed material non-public information. They are also prohibited from disseminating false or misleading information that may disrupt the orderly functioning of the futures or derivatives markets.

In addition to these core prohibitions, the FDL imposes conduct-based obligations relating to transparency, risk control and accountability. Exchange transactions are conducted on a real-name basis, where designated accounts cannot be used by others. Program trading must be carried out in a manner that does not compromise the security or stability of trading

platforms. Furthermore, the misuse of credit or fiscal funds for trading in futures or derivatives is strictly prohibited.

#### Requirements for Financial Institutions

Specifically, financial institutions conducting derivatives business are subject to a dedicated set of business conduct requirements that emphasise regulatory approval, client protection and compliance with supervisory rules. Financial institutions must obtain prior approval or registration before engaging in derivatives activities and are obligated to implement suitable management procedures, including know-your-customer, verification of transaction authenticity and client risk assessment.

Furthermore, financial institutions are required to comply with conduct standards specific to their industry. For example, banks must not engage in misleading marketing or promise return guarantees when offering derivatives products. Securities firms are prohibited from improper solicitation, facilitating regulatory arbitrage or acting as a conduit to circumvent eligibility rules.

### 3.1.7 Commercial End Users

Under the FDL and the trading rules of PRC futures exchanges, there are generally no specific exemptions or reliefs for commercial end users. The core trading conduct rules apply uniformly to all market participants, such as those relating to market manipulation, insider trading and information disclosure.

However, due to the functionally segmented regulatory structure in China, most derivatives regulatory requirements are directed at regulated financial institutions such as banks, insurers, securities firms and futures companies, rather than commercial end users themselves. As a result, commercial end users are often indirectly regulated through the compliance obligations imposed on their financial counterparties.

## 3.2 Local

The local bureaus of China's national financial regulators are responsible for certain on-the-ground supervisory functions in relation to derivatives activities, handling both administrative approvals and regulatory enforcement within their respective jurisdictions.

- Provincial-level NFRA bureaus are responsible for approving derivatives business applications by city commercial banks, rural small and medium-sized banks, and certain foreign banks. NFRA's provincial and municipal bureaus are responsible for the ongoing supervision, inspection and disciplinary measures related to these banks' derivatives operations at the local level.
- Provincial-level CSRC bureaus are tasked with approving derivatives business qualifications for securities firms, as well as monitoring the conduct of securities and futures companies through on-site inspections and enforcement actions within their local jurisdictions.
- For foreign exchange derivatives, banks other than policy banks and nationwide commercial banks need to apply to their local SAFE branch for approval to conduct RMB/FX derivatives business. These local SAFE branches also perform compliance oversight and carry out regulatory enforcement concerning such foreign exchange derivatives activities.

## 3.3 Self-Regulatory Organisations, Independent Authorities, and Exchanges

### Self-Regulatory Organisations

*a) Securities Association of China (SAC)*

SAC is a self-regulatory organisation established under the PRC Securities Law and operates under the guidance of CSRC, with all securities firms registered as its members. SAC is responsible for the self-regulation of the OTC markets and OTC derivatives business conducted by securities companies, fund management companies and their subsidiaries, as well as their associated personnel.

In this capacity, SAC formulates industry conduct standards, publishes standardised derivatives trading agreements for the securities and futures markets, and oversees risk management practices related to derivatives trading. It also conducts self-regulatory inspections of OTC activities and administers the filing and data reporting processes for in-scope OTC derivatives transactions.

*b) China Futures Association (CFA)*

CFA is the national self-regulatory organisation for the futures industry established under the FDL and oper-

ates under the guidance of CSRC. CFA is responsible for the self-regulation of derivatives activities carried out by futures companies and their risk management subsidiaries.

CFA formulates and implements industry rules related to futures business. It conducts supervision and inspections of futures companies and their subsidiaries, organises self-regulatory reviews, and promotes investor education and protection to support the sound and compliant development of the derivatives market.

*c) Asset Management Association of China (AMAC)*

AMAC, governed by laws under CSRC, serves as the self-regulatory organisation specifically for the fund industry. Its members are primarily publicly offered and private fund managers, as well as custodian banks for funds. AMAC regulates the use of derivatives by private investment funds.

*d) National Association of Financial Market Institutional Investors (NAFMII)*

NAFMII is the self-regulatory organisation for China's interbank market, operating under the supervision of PBoC. Its mandate covers a wide range of interbank markets, including the bond market, interbank lending market, foreign exchange market, bill market, gold market and derivatives market.

NAFMII is responsible for formulating standard documentation for financial derivatives transactions in the interbank market, overseeing the filing of executed master agreements, and administering the filing of internal operational procedures and risk management frameworks related to derivatives activities.

### Independent Authorities

*a) China Central Depository & Clearing Co., Ltd. (CCDC)*

CCDC functions under MOF as the central securities depository for China's interbank bond market. CCDC plays a foundational role by registering, supervising and settling fixed income securities – such as government and corporate bonds. In the interbank market, certain bond trades executed via CFETS are settled through CCDC's systems.

*b) Shanghai Clearing House (SHCH)*

SHCH, established in 2009 under PBoC leadership, serves as the designated central clearing counterparty (CCP) and clearing house for a broad array of interbank derivatives – including interest rate, foreign exchange, bond forward, credit and commodity products. SHCH develops and enforces standardised clearing rules, margin methodologies, and default and risk management procedures, and it interfaces with both domestic and cross-border markets.

*c) China Securities Depository & Clearing Corporation (CSDC)*

For exchange-based bond and equity derivatives, CSDC acts as the central counterparty. CSDC is responsible for centralised registration, custody, clearing, settlement and netting of all exchange-based securities and derivatives.

### Exchanges

CFFEX is China's dedicated venue for trading financial futures and options. Other commodity exchanges, including DCE, ZCE, SHF, INE and GFEX, provide centralised trading and clearing for futures and options linked to metals, energy, and agricultural and industrial products. SSE and SZSE are China's primary equity markets and also support the trading of listed ETF options. All futures and stock exchanges are regulated by CSRC.

Additionally, SGE, established with State Council approval and overseen by PBoC, serves as a specialised financial market for trading gold and other precious metals as well as the OTC trading platform for derivatives relating to them.

## 4. Documentation Issues

### 4.1 Trading Documentation

#### 4.1.1 Industry Standards and Master Agreements

In China, the documentation for derivatives transactions generally follows three primary master agreement frameworks: those developed by NAFMII, SAC and ISDA.

As mandated by PBoC, participants in the interbank market are required to use the China Interbank Market

Financial Derivatives Transaction Master Agreement formulated by NAFMII to document their transactions of interest rate, foreign exchange, bond, credit and gold derivatives, as well as combinations thereof. NAFMII has also introduced an updated version of the master agreement to accommodate cross-border transactions.

For derivatives transactions conducted by securities firms, futures companies and fund management companies in the OTC market, the latest Master Agreement for Derivatives Transactions in the China Securities and Futures Markets jointly issued by SAC, CFA and AMAC is commonly adopted. However, the SAC master agreement is not mandatory, and counterparties may alternatively choose to adopt the ISDA Master Agreement depending on the nature of the transaction and the parties involved.

It is not uncommon for financial institutions to develop their own master confirmations in derivatives transactions.

#### 4.1.2 Margins

To document margin arrangements, parties using the NAFMII Master Agreement typically adopt the Performance Assurance Documents formulated by NAFMII, which include both pledge and title transfer structures. For transactions documented under the ISDA Master Agreement, it is common to use the ISDA CSA. By contrast, the SAC Master Agreement currently does not have a set of standardised margin documentation.

As for regulatory requirements, initial margin (IM) and variation margin (VM) obligations for non-centrally cleared derivatives were not enforced in China until early 2025, when NFRA released the NFRA Margin Rules. The NFRA Margin Rules apply solely to non-centrally cleared derivatives where at least one counterparty is one of the following NFRA-regulated financial institutions or products: banking financial institutions (including foreign bank branches and subsidiary banks in China), insurance financial institutions, financial holding companies approved by PBoC, and asset management products issued by any of the foregoing institutions. The NFRA Margin Rules do not extend to non-centrally cleared derivatives transacted solely between non-NFRA-regulated financial institutions, such as those regulated by CSRC (including securities firms, futures companies, mutual fund managers and their asset management products), or between such entities and non-financial institutions. These rules introduce a phased implementation timeline for NFRA-regulated financial institutions: VM requirements will take effect from 1 September 2026, while IM requirements will be phased in over three stages from 1 September 2027 to 1 September 2029.

At present, there is no standardised set of contractual documents addressing the newly introduced PRC regulatory margin requirements. In-scope financial institutions are expected to revise or supplement their existing documentation frameworks to reflect and comply with the new margin regime.

#### 4.1.3 Other Agreements

For bond repurchase transactions in the interbank market, PBoC requires market participants to adopt the Master Agreement for Bond Repurchase Transactions in the China Interbank Market, formulated by NAFMII. This agreement covers both pledged bond repurchase transactions and outright bond repurchase transactions. For bond lending activities in the interbank bond market, NAFMII has also developed a Master Agreement for Bond Lending Transactions in the China Interbank Market; however, the use of this agreement is not mandatory.

In cross-border transactions, depending on the specific transaction structure and counterparties involved, it is also common to adopt international documentation standards such as GMRA, MRA, MSFTA, GMSLA or MSLA.

### 4.2 Clearing Documentation

In China, clearing brokers (typically financial institutions acting as clearing members under SHCH) document clearing relationships using the CCP Clearing Agreement formulated by SHCH. This agreement defines the legal frameworks between clearing brokers and the CCP. General Clearing Members (GCMs) should also enter into a CCP Service Agreement for Client Clearing with Non-Clearing Members (NCMs) for NCMs to participate in one or more CCP clearing services. These documents do not directly depend on the derivative product class – be it interest rate,

FX, bond forward or commodity swap – since clearing brokers operate under SHCH's unified central clearing framework.

To facilitate the central clearing of the Northbound Swap Connect transactions, NAFMII formulated the Swap Connect Cleared Derivatives Agreement, under which both parties agree to take reasonable steps to clear eligible Swap Connect transactions. The onshore parties to this agreement are market makers in the interbank derivatives market who are also clearing participants of SHCH.

In negotiating clearing documentation, the key issues typically concern account, margin arrangements, fees, effectiveness and termination of agreement, as well as default-related liabilities.

### 4.3 Opinions and Other Documentation Issues

Currently, there is no regulatory requirement in China that requires a legal opinion for conducting derivatives transactions.

## 5. Enforcement Trends

### 5.1 Regulator Priorities and Enforcement Trends

#### CSRC: Prevent Regulatory Evasion Through Derivatives to Strengthen Capital Market Governance

Over the past year, China's capital markets have experienced rapid growth. In 2024, China's major stock indices had seen significant gains, for example, the benchmark Shanghai Composite Index rising by 12.67%, and this growth momentum has continued into 2025. In line with this favourable trend and to maintain it, the central government, at its meeting on 30 July 2025, placed special emphasis on "consolidating the positive trend of stabilisation and recovery of capital markets" and "consolidating the positive trend of stabilisation and recovery of capital markets".

Against this backdrop, one of the major focuses of CSRC has been strict law enforcement to promote the development of the capital markets, particularly in preventing market participants from disrupting the financial order through derivatives. CSRC specifically disclosed two enforcement cases in 2024 involving derivatives: one concerning controlling shareholders circumventing restrictions on share reductions through securities lending and derivatives, and the other involving insider trading conducted via OTC options.

CSRC is expected to continue to strengthen the supervision of the derivatives market in 2025, as the Derivatives Trading Measures have already been included as a priority project targeted for release within the year.

#### PBoC: Foster the Regulation and Development of Financial Infrastructure

In August 2025, PBoC issued regulatory measures on financial infrastructures, which include provisions on, among other things, the registration and depository system, the clearing and settlement system, the payment system and trade repositories. The measures also allow overseas financial infrastructures to conduct business within China on the condition that their regulatory authorities have signed a memorandum of understanding with the relevant Chinese regulators. It is anticipated that PBoC will continue its focus on the compliance and development of financial infrastructure based on public comments made by PBoC officials, who have indicated PBoC's intent to establish trade repositories for the interbank market.

PBoC stated that, going forward, it will work with CSRC to continue strengthening the development and co-ordinated oversight of financial market infrastructures, with the aim of establishing an advanced and reliable financial infrastructure system.

Advancing the comprehensive development of financial market infrastructures will also mean that Chinese regulators will have greater authority and stronger enforcement capabilities over the operation of the financial and derivatives market. In this regard, we may expect that in the future, the PRC financial and derivatives market will operate in a more orderly manner and under closer regulatory supervision.

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