

An Analysis of the Development Status of the Option Market in China

Jing Li Lijun Tang

Anhui Vocational College of Press and Publishing, Hefei 230601, China

Abstract: In recent years, the financial derivatives market in China has developed rapidly. The financial derivatives market, such as forward and futures, has become mature after many years of accumulation. Throughout the global derivatives market, options are also an indispensable investment tool in the financial market. China's first exchange-traded options SSE 50ETF was officially listed on February 9, 2015. China's first commodity option, soybean meal option, was listed on March 31, 2017, which means that the construction of China's derivatives market has entered a new era. Compared with other financial instruments, option, a special financial instrument, has its unique advantages. Its flexible and diverse trading methods, asymmetric rights and obligations provide more opportunities and guarantees for traders. Similarly, options can also inject new impetus into the development of enterprises, provide new ideas for solving financial problems, and are also conducive to the innovation and development of financial institutions. In view of the importance of options market to the development of the whole financial market, this paper expounds the development status and problems of Chinese options market and puts forward some strategies, which provides relevant suggestions to promote the development of Chinese options market.

Key words: options; financial market; derivative financial products; supervision and management

1. Introduction

Option is a kind of financial derivative instrument, the option contract gives the holder the right to buy or sell an asset at a given price on a certain date. The holder of the option contract can choose whether to buy or sell the target according to the contract, while the writer of the option contract has no such right. At present, many domestic and foreign experts, scholars and investors are paying close attention to the development of China's options market. The launch of options has promoted the development of China's multi-level capital market, enriched financial investment tools, and met the trading needs of investors. As a flexible financial derivative, the emergence of options expands traditional financing methods, and also provides investors with new risk management ways to avoid risks effectively. The development of China's options market is bound to experience many unknown challenges. This paper discusses the problems of the current China's options market and gives some countermeasures.

2. Problems in the Development of Chinese Option Market

As Chinese options market started relatively late compared to developed countries in Europe and the United States, the experience in various trading systems and market construction is limited, the deficiencies show in the following aspects:

2.1. It is difficult to match the underlying assets of the option market with them of the futures market

One of the purposes of using option contracts is that they can cooperate with the corresponding underlying assets in the futures market to help investors avoid risks. At present, China's futures market is booming and becoming mature. There are many kinds of both commodity futures and financial futures, and the number of futures contracts traded is also increasing. However, China's option market has developed relatively slowly after seven years since the first option product was listed in 2015. The total number of futures and options in China has reached 101, including 64 commodity futures and 25 commodity options, 7 financial futures and 5 financial options. Most financial products and futures commodities such as agricultural products and minerals lack corresponding options. Futures and options are both important parts of the derivatives market, which should complement each other and develop together. At present, many futures varieties in China do not have corresponding option contracts, so China's option market and futures market cannot complement each other. There is lack of coherence between futures varieties and options varieties, so it is difficult to use the connection between futures market and option market to complete the relevant hedging operation, which cannot meet the actual needs of investors.

2.2. Investors' knowledge of financial derivatives needs to be improved

As a complex financial derivative, options are a product derived from the development of basic financial products. Even for investors who have participated in financial market investment activities for many years, they may not be able to master all the main points of option contract trading in a short period of time. Its inherent complex structure requires investors to spend more time to study and research. Options have not been around for a long time, and the historical data available for collection and analysis is very limited, which hinders investors' knowledge storage of options, and further hinders the rapid development of options in my country.

Although various exchanges have always attached great importance to investor education, the overall level of investors is still uneven,

and the construction of the appropriate publicity and education system for investors needs to be further strengthened, which is also an important factor related to the healthy development of the whole option market. If we blindly attract people to invest funds, the unprepared participation in the option market trading will only aggravate the speculative atmosphere in the option market, and even endanger the security of the financial market environment. In the publicity and promotion of options, the publicity and education of exchanges, futures companies and other financial intermediaries need to be strengthened urgently. At the same time, investors should be warned not to ignore the risk of trading options, correctly guide the public to participate in options trading, and reasonably arrange funds to invest in options products.

2.3. The construction of the option market maker system is not perfect

The market maker system and the corresponding talent team of China's option market are not optimistic. Although the options of market makers in China has been gradually formed in the process of development, the actual situation is the role of the exchange is greater than the role of the market, and this is not conducive to arouse the enthusiasm of financial institutions, is not conducive to the scale of the systemic development of market makers, is not conducive to the future long-term market power to promote the development of financial institutions market-making business. According to the historical data and experience, the market maker system is related to the operation of the whole floor option market, and plays an important role in promoting the orderly development of the option market. If the market maker is left, the existing option market will develop slowly.

2.4. The appropriateness of the supervision model remains to be verified

The current supervision model in China is that the government departments are in charge of financial supervision. Specifically, the three committees composed of the People's Bank of China, the China Securities Regulatory Commission, the China Banking Regulatory Commission, and the China Insurance Regulatory Commission and their subordinate agencies are responsible for specific supervision activities. his mode of supervision pays more attention to external supervision, mainly by legal, administrative and economic means. Considering the flexibility and variability of trading activities in the options market, although overly strict supervision can protect the interests of investors to the greatest extent and maintain the fairness and openness of the market, it is also difficult to conceal that it will form a certain shackle on the development of the options market. As a result, the free and rapid development of the options market is inevitably restricted.

3. Suggestions for the future development of the options market

As a supplement and extension of basic financial tools, the options market plays an increasingly significant role in promoting the development of the real economy. In the more mature European and American derivatives markets, the trading volume of on-exchange options has surpassed on-exchange futures contracts for many years, so options will definitely become an important force in the domestic derivatives market in the future, and play an important role in the process of escorting the development of the real economy. effect.

3.1. Develop more option products

China's options market started late, and the product types are still not limited. with the needs of China's vast market, we can steadily enrich and improve the productions of China's options market. Take the option contract with the underlying asset of the SSE 50ETF launched by the Shanghai Stock Exchange as an example. Most of the sample stocks are blue-chip stocks. The options varieties appear more urgent.

Since 2015, a series of commodity options and financial options products have been launched successively, and although they have been recognized by investors to a certain extent, the variety and quantity are still very single. The only 30 options products in the market cannot meet the diversified needs of investors to avoid risk hedging. my country is a big agricultural country, but the price formation mechanism of agricultural products is not well developed. We can consider introducing more targeted options, so as to improve the price mechanism of agricultural products and protect the interests of all parties involved in agricultural product transactions, so that options can help the healthy development of China's livelihood economy and other aspects. Therefore, the main task at present is to increase the types of commodity options and financial options contracts, so that investors have a variety of choices, effectively avoid risks and safeguard their own interests, so as to continuously improve China's options market.

3.2 Improve the option knowledge reserve of the participants

First, employee training needs to be strengthened. Practitioners are the link between option products and investors. If practitioners have more professional knowledge of options, and at the same time strengthen basic research on option pricing theory, pricing models, option volatility, etc., and are familiar with the theoretical principles of options, they can apply to options. Then they can effectively assist investors to options operation and get profit. Secondly, hold various forms of option knowledge presentations for investors and potential investors, strengthen publicity efforts, and optimize investor structure. Especially options contract type is complex, elements strategy knowledge, qualified traders need professional quality and trading experience, so the exchange and the media should take the initiative to assume the

responsibility of publicity and education. Information such as option practical operation process guidance and real-time policy information interpretation can be released through various new media channels and platforms, so as to discover more potential option investors with actual needs, so that investors can learn and master the more complex options such as options through various channels. In addition, relevant departments should draw on historical data and operating methods from abroad to launch successful cases to enhance investor confidence and help investors respond to various unexpected problems in transactions in a timely manner.

3.3. Improve options market elements such as the market maker system

At present, most exchanges in the world use the market maker system for option trading. The advantages of the market maker system are obvious. Market makers conduct valuations through professional techniques, making the option price closer to its actual value; Market makers stabilize option prices through two-way quotations and transactions, reduce the risk of market volatility, and act as a shock absorber; The market operations of market makers with strong financial strength can improve liquidity, activate market transactions, avoid the embarrassing phenomenon of price and no market, and make the market operation more rational. However, China's market maker system is stagnant, and there is still a gap compared with foreign developed markets. As China is currently in the early stage of the development of the options market, in order to protect market stability and protect the interests of investors, the dominant position of domestic exchanges is significant, resulting in a reduction in the degree of market freedom. Therefore, we should enrich the types of market makers, attract more market makers to participate in the option market, properly improve the competition mechanism and make the market play a decisive role, and also improve the relevant regulatory mechanism to prevent the market makers from illegal profit behavior, and create a fair, just and orderly market trading environment.

In addition to the market maker system, other basic elements of China's options market also need to be built and improved. First of all, China has not yet set up special laws and regulations on options, appropriate legislation can give investors the power to follow, and a perfect legal system is one of the foundations for the development of the options market; Secondly, in order to ensure the effective and accurate operation of options trading, there should be technical facilities that meet the needs of traders. We need to strengthen the application of computer technology in option trading, provide strong technical support for option trading, provide full support for margin system, trading system, clearing system and other operating links, and realize the needs of investors for high-frequency trading and risk management.

3.4. Strengthen the supervision and management of the option market

The orderly development of the financial market cannot be separated from the supervision and management of various market activities, and the punishment of illegal behaviors, to ensure the healthy development of the option market. The security and stability of options and other financial derivatives market is very important for the whole economic and financial system. If malicious manipulation of the market occurs, it will inevitably be unfair, causing adverse consequences and serious financial crisis. Therefore, the supervision of market entities and the monitoring of trading contracts are the indispensable regulatory contents to reduce market manipulation. Once the abnormal operation is found, it can be dealt with in time to prevent the further expansion of the risk damage. At the same time, the punishment of violations of laws and regulations should be strengthened, so as to increase the cost of illegal profits who disturb the market order, and eliminate the possibility of their attempts to profit from violating laws and regulations from the source. So as to maintain the healthy, stable and orderly operation of the whole option market. Moreover, at present, the supervision mode of China's financial market is still mainly the external administrative supervision, which weakens the internal self-regulation of the option market. It can encourage the industry self-discipline while developing the option market, so as to obtain greater market vitality and conform to the internal law of economic development.

Acknowledgments

This work was supported by the Humanities and Social Sciences Project of Anhui Provincial Department of Education (SK2019A1053) and the Anhui Provincial Demonstration Gold Course Project (2021sfjk021).

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