Jan. 5 (Bloomberg) -- China's securities regulator may introduce futures contracts on the country's stock indexes as early as March, an official with knowledge of the matter said.

The State Council, China's cabinet, has given the China Securities Regulatory Commission approval "in principle" to introduce index futures, said the person, who declined to be identified before an announcement. The first contract, based on China's CSI 300 Index, may begin trading after the Communist party's annual congress in March, the official said.

Index futures would give investors in China a mechanism to profit from declines in prices for the first time, allowing them to hedge risks. That may help ease fluctuations in a market in which the stock benchmark almost doubled in 2007, slumped 65 percent in 2008 and rebounded 80 percent last year.

"China's capital market has been a one-sided market, where investors can only profit from gains in stocks," said Teng Yin, chief strategist at Everbright Securities Co. in Shanghai. "With the introduction of stock index futures, a short mechanism is in place."

Stock index futures are agreements to buy or sell an index at a preset value on an agreed date. CSRC Chairman Shang Fulin said in 2007 that the infrastructure needed for such products, including regulations, are in place. An official at the regulator's press office declined to comment.

Brokerages Gain

Shares of publicly traded securities firms rose on optimism the introduction of index futures will buoy trading revenue. Citic Securities Co., China's largest brokerage by market value, climbed as much as 5.5 percent and Haitong Securities Co. gained by a similar magnitude.

"Stock index futures contract trading will be huge and brokerages will get a slice of the trading fees," said Yin.

The CSRC "will actively and steadily push forward the innovations of securities and futures based on the actual needs of the market," Shang said in a Dec. 18 speech. "We will introduce margin trading and index futures at an appropriate time."

Index futures are part of China's push to make more investment options available in a nation with 25.3 trillion yuan ($3.7 trillion) in household savings. The limited scope of securities to trade has contributed to boom-and-bust cycles in China's stock and property markets.

Tools for Hedging

Singapore Exchange Ltd. started trading stock index futures based on the FTSE Xinhua China A50 Index, which tracks Class A shares of China's 50 biggest companies, in 2006. The value of the contracts advanced 84 percent last year.

Investors will be required to put up 10 percent of a contract's value to buy, sell or short CSI 300-based futures as collateral, according to rules published on China Financial Futures Exchange's Web site in 2007. The bourse has been conducting mock trading in the securities since October 2006.

“For institutional investors, having stock index futures is important,” said Tony Wu, a Shanghai-based portfolio manager at Martin Currie Investment Management, which oversees $4 billion in Greater China. “There will be some tools we can use to hedge risks.”

The value of the futures contracts will be points of the CSI 300 multiplied by 300 yuan, according to the trading rules the exchange set. At yesterday’s closing level of 3535.23, an investor would have to put up 106,000 yuan to buy a contract valued at 1.06 million yuan.