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The Crude Oil "Crude Oil Treasure" Massive Loss Incident of Bank of China

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Abstract: ***In April 2020, an investor who invested 10,000 RMB in crude oil when U.S. oil prices dropped to just one cent ended up owing the bank 40 million RMB. This shocking outcome was the result of a "position overrun" incident involving Bank of China's "Crude Oil Treasure" (Crude Oil Treasure) product, which occurred against the backdrop of an unprecedented plunge in international crude oil prices into negative territory. As a consequence, a large number of long-position investors found their account balances turned negative and even faced additional compensation liabilities. The incident drew widespread attention from the public and media, revealing significant shortcomings in investor financial literacy and regulatory oversight, while also exposing critical flaws in the design and risk management of complex financial products by financial institutions. This paper employs the GARCH model to examine the volatility of crude oil futures prices, aiming to characterize the fluctuation patterns of the crude oil market and provide empirical insight into the market conditions that contributed to the event. As the first major financial product risk event in China triggered by negative international futures prices, the Crude Oil Treasure incident is both representative and serves as a stark warning.***

Keywords: Futures liquidation, Risk management, GARCH model**.**

1. Background of the Incident

Under normal market conditions, when oil prices are relatively stable, bullish long positions and bearish short positions should be roughly balanced. The excess positions on Bank of China's (BOC) "Crude Oil Treasure" (Crude Oil Treasure) product would typically be limited, and BOC's corresponding positions in U.S. markets would not be substantial. However, at the beginning of 2020, the international crude oil market was hit by two major events:

First, the outbreak of COVID-19 led to widespread lockdowns and production halts in many countries, causing a sharp decline in global demand for crude oil.

Second, Saudi Arabia and Russia jointly staged a strategic maneuver aimed at crippling the U.S. shale oil industry.

Originally, the United States was the world's largest oil importer, purchasing vast quantities of crude every year. However, the shale oil revolution dramatically increased U.S. oil production, transforming the country from the largest oil importer into the largest exporter. Although shale oil brought enormous profits to the U.S., it had two fatal weaknesses:

Its extraction costs were significantly higher than those of conventional oil.

Shale oil companies were heavily reliant on debt financing and operated with high leverage.

When the pandemic erupted, global financial markets experienced severe turbulence and liquidity shortages. Shale oil firms found their cash flows strained to the breaking point. Making matters worse, international oil prices continued to fall below shale oil's production costs, pushing many of these firms to the brink of bankruptcy. In an attempt to save the industry, the U.S. sought cooperation from Saudi Arabia and Russia to cut production. If oil prices could stabilize, shale oil companies might survive.

However, U.S. shale oil had significantly encroached on Saudi and Russian market shares in recent years. With the U.S. shale sector on life support, major oil producers saw a rare opportunity. In early March 2020, Saudi Arabia and Russia convened an OPEC+ meeting aimed at cutting production and stabilizing prices. Unexpectedly, the meeting, originally intended to rescue the market, escalated into a price war where both parties aggressively slashed prices.

Amid the dual impact of the pandemic and the severe global oil supply-demand imbalance, international crude oil prices plummeted. On April 20, the WTI crude oil futures contract for May delivery experienced an unprecedented collapse, falling to -$37.63 per barrel on the eve of its expiry — the first time in history that oil prices turned negative.

During this period, Bank of China failed to roll over its Crude Oil Treasure positions in a timely manner, which were linked to the May WTI contract. As a result, a large number of investors were unable to close their positions before expiry. Not only did they lose their principal, but they also faced negative balances due to the negative oil prices — a situation known as a "position overrun", with some even being liable for enormous additional compensation.

What is "Crude Oil Treasure" (Crude Oil Treasure)?

For domestic Chinese investors, there were traditionally two major barriers to investing in crude oil futures: High investment risk – Crude oil prices are highly volatile, and futures contracts come with inherent leverage, making them too risky for average investors. High entry threshold – The minimum trading unit for crude oil futures is 1 contract (equivalent to 1,000 barrels of oil), which requires a large initial investment.

To address these issues, Bank of China launched the Crude Oil Treasure product in 2018 — a personal investment product linked to international crude oil futures prices, mainly tracking West Texas Intermediate (WTI) and Brent crude futures. It allowed retail investors to indirectly participate in

international crude oil price movements using RMB accounts. The product featured leveraged exposure and two-way trading.

In this model, Bank of China acted as a market maker, conducting over-the-counter (OTC) transactions with clients and hedging its own risk in overseas markets. Crude Oil Treasure required 100% margin, effectively removing leverage and reducing investment risk. Additionally, the minimum trading unit was lowered from 1,000 barrels to 1 barrel, with a minimum increment of 0.1 barrel, significantly lowering the investment threshold.

Despite these modifications, the essence of Crude Oil Treasure remained the same as crude oil futures trading, with prices based on WTI futures listed on the Chicago Mercantile Exchange. Bank of China's Crude Oil Treasure functioned as an investment platform where individual investors bet on the rise or fall of oil prices based on their own judgment. The following is the operational logic diagram of Crude Oil Treasure:

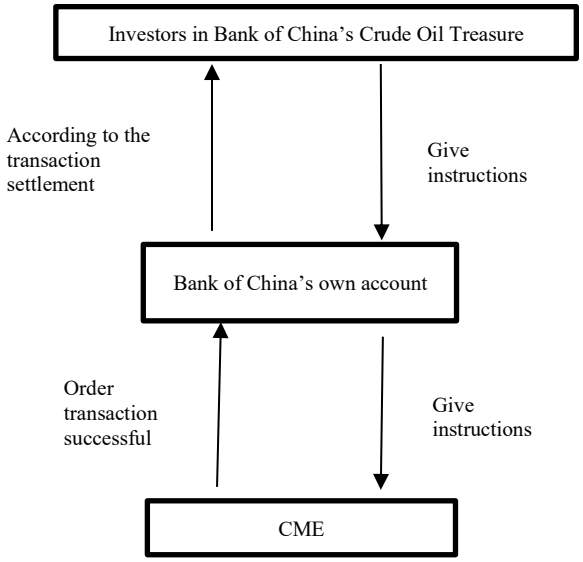

Figure 1: Crude Oil Treasure Trading Logic Diagram

2. Event Timeline

2.1 Operation Mechanism of the Crude Oil Treasure Product

"Crude Oil Treasure" (Crude Oil Treasure) was a personal account-based crude oil investment product launched by Bank of China in 2018. It was linked to U.S. West Texas Intermediate (WTI) and Brent crude oil futures contracts. Investors entered into agreements with Bank of China to speculate on the price movements of the linked futures contracts using RMB accounts. However, they did not directly own the futures contracts nor have access to overseas markets. Bank of China acted as a market maker and hedged the customers' positions on overseas markets.

According to the product rules, BOC would perform a "rollover" on behalf of investors a few trading days before the futures contract expired—closing out the expiring position and opening a new one.

2.2 In the Lead-Up to the Price Crash (March to Mid-April 2020)

In early March 2020, Saudi Arabia and Russia convened an OPEC+ meeting to negotiate production cuts and stabilize oil prices. Unexpectedly, the meeting turned into a price war. On March 6, Russia announced its refusal to reduce oil output, triggering a 9.43% drop in U.S. crude oil futures. On March 8, Saudi Arabia retaliated by slashing the price of its spot crude oil exports to major markets—the steepest discount in 20 years—causing a sharp collapse in global oil prices. On March 9, WTI crude fell by 27%, closing at $30.07 per barrel, marking a nearly 30% single-day drop and ushering in a period of extreme market volatility.

BOC's Crude Oil Treasure investors suffered substantial floating losses during this period, and market risks continued to rise.

Interestingly, on April 8—just 12 days before the May WTI contract's expiry—the Chicago Mercantile Exchange issued an unusual notice: to prepare for the possibility of negative oil prices, the exchange would adjust its systems and trading rules. This was the first official acknowledgment of the potential for negative oil prices. Negative pricing would mean oil producers not only earn nothing but actually have to pay buyers to take delivery. Many long-position investors dismissed this as absurd, assuming it was impossible and ignored the warning.

2.3 Rollover Delay and Crisis Eruption (April 15–20)

Typically, the last trading day for each WTI monthly futures contract is the third-to-last business day of the month prior to delivery. For the May 2020 WTI contract, the final trading day was April 21. Most financial institutions would complete the rollover 3–5 days in advance to avoid the risks of low liquidity and physical delivery.

However, Bank of China failed to complete the rollover operation by April 20 and still held a large number of May WTI long positions. This left investors exposed to contracts on the verge of expiry amid extreme market volatility.

2.4 Unprecedented Collapse into Negative Prices (Night of April 20)

On the afternoon of April 20, 2020 (U.S. Eastern Time)—early morning April 21 in Beijing—the May WTI contract plummeted due to evaporating market demand and nearly full storage capacity. Panic selling ensued, and the contract closed at -37.63 USD/barrel, marking the first time in history that oil prices turned negative.

This meant investors not only lost their entire principal, but were also required to pay $37.63 per barrel as "delivery costs" to the bank. Because Crude Oil Treasure was structured as a margin product, this resulted in negative account balances—a true case of "position overrun".

2.5 Bank Notifies Clients to Pay Margin or Assume Liabilities (April 21)

On April 21, Bank of China issued settlement notices via SMS

and official channels, informing Crude Oil Treasure investors that their accounts had gone negative due to the negative oil price, and they would be required to cover the shortfall. This triggered widespread outrage among investors, who argued that the bank failed to roll over contracts in time, did not provide adequate risk warnings, and did not cut losses when prices turned negative—amounting to serious management negligence.

2.6 Public Outcry and Regulatory Intervention (From April 22 Onward)

The Crude Oil Treasure incident quickly escalated in the public sphere. Investors organized through media, social platforms, and legal channels to defend their rights. In response, Bank of China issued a statement on its website, claiming it would "fully safeguard customers' legal rights and interests" but did not clarify whether it would waive the liabilities.

On April 24, the China Banking and Insurance Regulatory Commission (CBIRC) issued a response, saying it was highly concerned about the issue and had instructed the bank to investigate the cause and handle client complaints appropriately. A formal regulatory investigation soon followed.

2.7 BOC Announces It Will Cover Client Losses (Early May)

Amid mounting public pressure and regulatory scrutiny, Bank of China announced in early May 2020 that it would not pursue the negative balances of Crude Oil Treasure clients who held May 2020 WTI contracts. However, clients would still bear the loss of their original investment principal. At the same time, the bank suspended new account openings for the Crude Oil Treasure product.

3. Problem Analysis

3.1 Product Design Issues

Structural Disconnection from the Futures Market Mechanism:

"Crude Oil Treasure" (Crude Oil Treasure) was marketed as a personal RMB-based crude oil investment product, but in essence, it was an OTC derivative linked to overseas futures contracts. Investors traded with RMB margin, while BOC hedged positions via foreign futures markets. This structure posed inherent systemic risks: although pricing was tied to international futures, investors had no access to physical delivery or overseas exchanges. The product failed to reflect real market mechanics, making it vulnerable in extreme scenarios.

Moreover, the product lacked a mechanism to handle negative oil prices. There were no predefined price floors or contingency rules, making it unprepared for black swan events like the April 2020 crash.

Lack of Automatic Rollover Mechanism:

Standard practice in futures-linked products involves rolling over positions several days before expiry to avoid liquidity crunches and physical delivery risks. While most international institutions complete this process 3–5 trading days before expiration, BOC failed to roll over the May 2020 WTI contract as late as April 20—the day before final trading. This exposed clients to expiring contracts under extreme volatility, leaving them vulnerable to speculative attacks.

No Stop-Loss or Forced Liquidation Mechanism:

The product did not incorporate any stop-loss or margin-call mechanisms. Even as prices fell into negative territory, client positions remained open, leading to account overruns. Such mechanisms are basic risk controls in leveraged products. In contrast, standard futures platforms implement margin alerts and forced liquidation lines—features Crude Oil Treasure lacked during the price collapse.

3.2 Major Flaws in BOC's Risk Management System

Failure in Rollover Operation and Risk Forecasting:

Bank of China failed to anticipate risks or conduct timely rollover during heightened volatility. From April 15 to 17, it was clear that liquidity in the May WTI contract was drying up. International investment banks had already rolled over or issued risk warnings. BOC's failure to act as a responsible market maker showed a lack of foresight and professional competency.

Inability to Model or Respond to Negative Prices:

As WTI prices plunged from positive to negative on April 20, BOC's risk systems lacked any forecasting models or emergency protocols. Their risk models failed to account for the possibility of negative pricing. There was no price floor, no contingency plan, and no circuit breaker mechanism in place.

Flawed Settlement System Logic:

Since clients traded in RMB, the settlement system automatically converted the -$37.63/bbl closing price into negative balances, requiring clients to pay additional losses. This enraged investors, many of whom believed the bank should bear responsibility for negative pricing outcomes. BOC's response—that they were "merely following market rules"—was seen as evasive and irresponsible in the face of extreme events.

3.3 Lapses in Investor Suitability Management

Clients Lacked Adequate Risk Tolerance:

Media reports revealed that most Crude Oil Treasure investors were ordinary retail clients, including elderly individuals and those with no experience in derivatives. The product's entry threshold was as low as 100 RMB, and clients only needed to sign a generic "Risk Disclosure Statement" to begin trading. There was no meaningful assessment of their financial background, risk appetite, or experience with leverage.

Potential Misleading Sales Practices:

Some investors claimed that sales representatives used misleading language such as "low risk, high return, oil can't drop further." Clients were led to believe oil prices couldn't fall below zero. In reality, prices could turn negative due to storage costs and futures structure. BOC failed to disclose risks related to leverage, margin calls, negative pricing, and total loss of funds.

3.4 Inadequate Information Disclosure and Client Communication

Lack of Timely and Transparent Information Disclosure:

The bank failed to alert clients during trading on April 20 when abnormal price behavior emerged. There were no in-app pop-ups, text alerts, or risk notifications that the contract was nearing expiry or that prices were approaching negative territory. Key details such as rollover timing, hedge strategies, and pricing thresholds were not made public.

Chaotic Post-Crisis Communication:

After the crash, BOC issued conflicting messages that worsened public perception. A text message in the early hours of April 21 told clients they had overrun their accounts and must pay losses. Later, the bank claimed it had confirmed prices with the exchange. Days after that, it announced that clients would not be liable for negative balances. These inconsistent statements reflected a lack of a coherent crisis communication and emergency plan.

3.5 Legal and Compliance Uncertainty

Unclear Legal Liability of the Bank:

Though marketed as a "structured deposit," Crude Oil Treasure was essentially an OTC derivative linked to overseas futures. This raises questions: Did BOC have the necessary license to sell derivatives? Was it compliant with regulations such as the Futures Trading Regulation, Interbank Derivatives Trading Guidelines, and civil law requirements for fairness and transparency in financial contracts?

Investor Rights Were Difficult to Protect:

Most investors signed non-standardized agreements directly with BOC rather than transacting through formal exchanges. These agreements contained bank-drafted template clauses with little room for negotiation. In case of disputes, clients had limited legal recourse to assert their rights.

3.6 Regulatory Oversight Gaps

Regulatory Vacuum for OTC Derivatives:

China's domestic OTC derivatives market has expanded rapidly, but regulations remain outdated and vague. Crude Oil Treasure was not centrally cleared, and there were no mechanisms to mitigate overrun risks. The lack of standardized contract oversight made it hard to enforce accountability. Furthermore, the legal framework for individuals trading overseas commodity futures remains in a grey area.

No Emergency Mechanism for Extreme Market Events:

Regulators did not issue any early warnings or conduct risk assessments ahead of the crash. There were already signs: U.S. exchanges had warned of potential negative pricing. If authorities had intervened—by auditing BOC's rollover practices or issuing alerts—the crisis might have been avoided. While regulators launched investigations afterward, the public criticized the lack of preventive supervision and slow response.

4. Empirical Analysis

4.1 Research Objective and Methodology

Volatility management plays a central role in market risk control. The Bank of China "Crude Oil Treasure" (Crude Oil Treasure) incident involved an extreme market risk event. This section applies the GARCH (1,1) model to analyze the volatility of WTI crude oil futures prices, aiming to examine whether there was a significant increase in volatility around April 20, 2020—the date of the negative oil price shock.

The purpose is to assess whether the extreme price movement could have been anticipated through observable market volatility patterns. By capturing the volatility dynamics of the crude oil futures market, the analysis aims to support an understanding of the market conditions that led to the event.

4.2 Data Description

Data Source: Daily settlement prices of WTI crude oil futures (Source: Wind Database)

Time Period: January 2019 to May 2020
(Covers the lead-up and aftermath of the Crude Oil Treasure incident)

Frequency: Daily data

This time frame allows for the observation of both long-term and short-term volatility trends before and after the crisis point.

4.3 Model Specification and Testing

4.3.1 Variable Construction

Construct the logarithmic return series based on the daily price of WTI crude oil futures:

$$r_t = \ln(P_t) - \ln(P_{t-1})$$

4.3.2 Unit Root Test

Before applying the GARCH model, it is essential to test the stationarity of the data series. A unit root test is conducted on the original price series of WTI crude oil futures. The results are as follows:

Table 1

Null Hypothesis: PRICE has a unit root
Exogenous: None
Lag Length: 0 (Automatic - based on SIC, maxlag=16)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-0.861717	0.3421
Test critical values:	1% level	-2.571781	
	5% level	-1.941759	
	10% level	-1.616075	

The P-value is 0.3421, which is greater than 0.05 and unstable.

The unit root test was performed on the logarithmic return series, and the test results are as follows:

Table 2

Null Hypothesis: RETURN has a unit root
Exogenous: None
Lag Length: 0 (Automatic - based on SIC, maxlag=16)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-18.68716	0.0000
Test critical values:	1% level	-2.571801	
	5% level	-1.941761	
	10% level	-1.616073	

The P-value is 0, less than 0.05, indicating a stable return series, which is suitable for GARCH models.

4.3.3 Model setting

Mean equation: AR (1)

Wave equation: GARCH (1,1) model

$$r_t = \mu + \epsilon_t, \epsilon_t \sim N(0, h_t)$$

$$h_t = \omega + \alpha\epsilon_{t-1}^2 + \beta h_{t-1}$$

4.3.4 Empirical Results and Analysis

4.3.4.1 Model Estimation Results

Table 3

Dependent Variable: RETURN(-1)
Method: ML ARCH - Normal distribution (BFGS / Marquardt steps)
Date: 06/04/25 Time: 08:45
Sample (adjusted): 1/07/2019 5/01/2020
Included observations: 339 after adjustments
Convergence achieved after 24 iterations
Coefficient covariance computed using outer product of gradients
Presample variance: backcast (parameter = 0.7)
GARCH = C(1) + C(2)*RESID(-1)^2 + C(3)*GARCH(-1)

Variable	Coefficien...	Std. Error	z-Statistic	Prob.
Variance Equation				
C	1.81E-05	8.10E-06	2.240464	0.0251
RESID(-1)^2	0.203452	0.020287	10.02884	0.0000
GARCH(-1)	0.833349	0.019337	43.09526	0.0000
R-squared	-0.003115	Mean dependent var		-0.002702
Adjusted R-squared	-0.000156	S.D. dependent var		0.048491
S.E. of regression	0.048495	Akaike info criterion		-4.319190
Sum squared resid	0.797245	Schwarz criterion		-4.285331
Log likelihood	735.1027	Hannan-Quinn criter.		-4.305697
Durbin-Watson stat	1.999204			

Using the GARCH (1,1) model, we estimate the conditional variance of the log return series of WTI crude oil futures. The estimation results are as follows (example output from EViews):

The GARCH parameters are: ω=1.81>0, α=0.2>0, β=0.83>0. Satisfy the constraint that the variance is positive.

The α+β value is approximately 1.03, close to 1, indicating strong volatility persistence.

4.3.4.2 Analysis of Volatility Chart

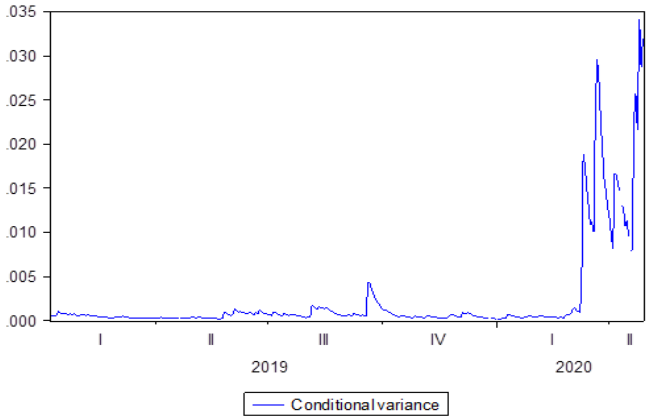

Figure 2

The results from the GARCH (1,1) model show a significant increase in the conditional volatility of WTI crude oil futures around April 20, 2020. This dramatic surge in volatility reflects an intensification of market uncertainty and risk, suggesting that the oil market was undergoing abnormal and potentially unstable dynamics. From a quantitative risk management perspective, such a spike in volatility can be interpreted as an early warning signal of an impending market disruption or a structural break.

Specifically, the evident increase in volatility prior to the negative pricing event indicates that the risk of extreme market movements was already embedded in the market data. This suggests that, although the occurrence of a negative oil price was historically unprecedented, the sharp rise in volatility made it statistically foreseeable that a large price swing—or even an extreme outlier—could occur. As such, financial institutions, particularly those offering derivative-linked investment products like Crude Oil Treasure, should have taken proactive measures based on these volatility signals. These may have included enhanced risk communication to investors, tighter exposure control, dynamic margin adjustments, or even temporary suspension of trading to prevent loss amplification.

The failure to respond to these volatility indicators highlights deficiencies in both market monitoring and internal risk management systems. It reflects an over-reliance on historical scenarios and insufficient preparedness for tail-risk events. Moreover, it underscores the critical importance of incorporating real-time volatility analysis, such as GARCH-type models, into financial product oversight and decision-making frameworks.

In conclusion, the volatility surge identified through the GARCH model provides evidence that the market had already entered a highly risky state before the outbreak of the Crude Oil Treasure crisis. This reinforces the argument that the risk exposure of both the bank and its clients could have been

anticipated and partially mitigated, had appropriate quantitative tools and risk governance measures been in place. It serves as a powerful lesson for improving early warning mechanisms and reinforcing the integration of statistical risk modeling into the management of complex financial products.

5. Post-Incident Response

The Bank of China "Oil Treasure" (Crude Oil Treasure) incident drew significant attention from the market, affected clients, and regulatory authorities. The post-incident handling mainly involved three aspects: the bank's own response, regulatory intervention and accountability, and systemic reflections. The details are as follows:

5.1 Response by Bank of China

5.1.1 Suspension of the Product

Starting from April 22, 2020, Bank of China officially suspended new position openings in the Oil Treasure product. Shortly thereafter, the product was completely discontinued.

5.1.2 Customer Loss Management

Initially, the bank required clients to bear the full loss resulting from negative pricing and position overrun. This stance provoked widespread public backlash and strong opposition from investors. Under mounting pressure, in early May 2020, Bank of China introduced a "conditional partial compensation" plan. According to this plan, the losses caused by negative pricing and overrun would be borne by the bank. Clients were not required to cover negative balances, and any previously collected funds were refunded. However, principal losses were handled based on contractual agreements.

5.1.3 Customer Relations and Settlements

A dedicated customer service hotline was established, and some branches formed special teams to handle Oil Treasure-related claims. Clients were also required to sign waiver and compensation agreements individually.

5.2 Regulatory Intervention and Accountability

In response to the incident, the China Banking and Insurance Regulatory Commission (CBIRC) promptly launched an investigation. The inquiry focused on the product's design, sales practices, trade execution, and risk management. According to official findings, the Oil Treasure incident revealed serious flaws in several areas, including investor suitability management, risk control systems, information disclosure, and product structure. These constituted serious violations of regulatory norms for financial product sales.

As a result, Bank of China was ordered to rectify the situation, and multiple responsible parties were held accountable. Senior executives were interviewed by regulators; some department heads were reassigned or dismissed. The incident also prompted the regulatory body to strengthen oversight across the banking sector, especially regarding structured financial products and derivative transactions. New regulations such as the Interim Measures for the Administration of Wealth Management Product Sales by Commercial Bank Subsidiaries were introduced to strictly limit retail client access to high-risk financial products.

5.3 Broader Impact and Market Consequences

The Oil Treasure incident severely damaged Bank of China's public reputation and triggered broader reflections within the financial industry on derivative product trading and investor protection. In the aftermath, several financial institutions suspended sales of commodity-linked wealth management products, especially those tied to overseas futures markets.

Investor education initiatives were also prioritized. Regional CBIRC offices organized campaigns to enhance public understanding of key financial concepts, such as negative oil prices, margin calls, and the mechanics of leveraged trading.

At a systemic level, the incident exposed weaknesses in the risk management capabilities of Chinese financial institutions, particularly their preparedness for extreme market conditions and understanding of clearing and settlement procedures. In response, regulators accelerated efforts to implement differentiated supervision of derivative businesses, improve risk classification systems, and standardize information disclosure — all aimed at preventing the recurrence of similar incidents.

6. Reflections and Implications

Based on the consequences of the Oil Treasure incident and the analysis of the internal issues within the Bank of China, this paper draws the following reflections and insights:

6.1 Establishing a Scientific and Rational Financial Risk Assessment System

Regulatory authorities need to establish a more effective and rational risk assessment framework. By leveraging financial instruments and quantitative statistical models, regulators can monitor and forecast financial variables, enabling early identification of anomalies in the financial market. At the same time, scenario analysis and stress testing should be used to evaluate potential risks and formulate emergency response plans for extreme situations. Accordingly, differentiated risk management measures can be developed for various financial exposures.

In addition, banks themselves should implement stricter risk management strategies, enhance risk awareness among both institutions and employees, remain alert to unexpected market events, and stay up to date with evolving market dynamics. This will allow them to reinforce and revise existing risk control mechanisms in a timely manner.

6.2 Improving Cross-Market Regulatory Coordination

With the rapid development of the internet and artificial intelligence technologies, financial innovation has become increasingly complex, and interconnections among different markets have deepened. Financial risks now exhibit stronger spillover effects and greater cross-market contagion. A risk originating in a single market can escalate into broader

financial turmoil, or even a systemic crisis.

Many complex financial products are linked to multiple markets. For instance, Oil Treasure allowed retail investors to directly invest in crude oil, thereby connecting futures markets, currency markets, and global financial markets. Therefore, regulation must adopt a broader and more integrated perspective. Cross-market supervisory systems should be established to enhance coordination among regulators, eliminate blind spots in oversight, and improve the efficiency and effectiveness of risk mitigation efforts.

6.3 Strengthening the Review of Wealth Management Products Offered by Commercial Banks

In pursuit of market share and higher returns, commercial banks have launched a wide array of financial products, many of which target ordinary retail investors who lack professional investment knowledge. As such, regulators must reinforce scrutiny of these financial innovations. Review procedures should ensure the reasonableness of product design, compliance of sales practices, fulfillment of disclosure obligations, and protection of investor rights.

Regulators should accurately identify, assess, monitor, and report compliance risks associated with banking products, encouraging banks to improve operational standards and minimize regulatory violations. Internally, banks must establish rational and effective performance evaluation and incentive mechanisms. These mechanisms should protect investor interests while motivating employees to ensure high-quality, efficient, and legally compliant business operations. Moreover, transparent and lawful disclosure of product information and risk warnings must be prioritized.

6.4 Enhancing Investor Education

The Oil Treasure incident revealed that many investors lacked a sufficient understanding of financial risks and had limited knowledge of how futures markets operate. Many clients were unaware of critical concepts such as negative oil prices, margin calls, and forced liquidation, resulting in heavy losses amid extreme market volatility. This highlights the urgent need to promote financial literacy and strengthen investor education.

First, financial institutions selling derivative-linked or high-risk products should enhance their investor suitability management frameworks. A clear distinction must be made between retail and professional investors to avoid risk mismatches. During the sales process, risk disclosures should be more targeted and easier to understand. Tools such as visual aids and simulation-based case studies can help investors grasp the potential consequences of extreme market conditions.

Second, regulatory authorities should continue to promote national financial literacy campaigns, particularly targeting elderly investors and beginners. Education efforts can take place via media outlets, community seminars, or online courses, focusing on key concepts like futures basics, margin mechanisms, and liquidity risk.

Lastly, financial education should be integrated into the national education system, and society at large should prioritize the promotion of financial literacy. A “National Financial Literacy Enhancement Initiative” could lay a solid foundation for empowering investors with better self-protection capabilities.

In conclusion, improving the financial literacy of investors is not only a fundamental measure for preventing financial risk, but also a key pillar for building a healthy and sustainable financial ecosystem.

7. Conclusion

The Bank of China’s “Oil Treasure” incident stands as one of the rare large-scale forced liquidation events in China’s financial market history. It not only exposed significant deficiencies in the risk management of high-risk derivative businesses by financial institutions but also highlighted the overall lack of financial literacy among retail investors in China. Under extreme market conditions, crude oil futures prices plunged into negative territory—an outcome that far exceeded the assumptions of existing trading systems and risk control models—resulting in substantial investor losses, severe reputational damage to the bank, and regulatory intervention.

An analysis of the entire course of the incident reveals that, on the one hand, there were systemic flaws in the bank’s product design, trading mechanisms, risk disclosure, and suitability assessments. On the other hand, many investors lacked a full understanding of the inherent characteristics of futures markets—namely, high leverage, high risk, and high volatility—and blindly participated in complex derivative investments, further exacerbating the resulting losses. Moreover, the prompt intervention of regulators after the incident led to institutional reforms and served as a critical warning for the future development and supervision of derivative businesses.

At a deeper level, the Oil Treasure incident was not merely a product failure, but a comprehensive stress test of China’s financial risk management and investor protection systems. It serves as a stark reminder that, in an era of increasingly complex financial innovation, financial institutions must adhere to the principle of “seller’s due diligence, buyer’s responsibility,” and establish robust risk management and information disclosure mechanisms. Regulatory authorities must continue to improve the legal and regulatory framework, enhancing forward-looking supervisory capabilities. Meanwhile, investors must strengthen their financial knowledge to improve their ability to assess and guard against risks.

In conclusion, the Oil Treasure incident offers profound and multifaceted lessons with lasting implications for the development of China’s financial markets. Only through coordinated efforts in strengthening institutional frameworks, improving regulatory systems, and enhancing financial literacy can a more resilient, fair, and efficient financial ecosystem be built.

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