

Risk and Opportunity Coexist

——Problems and Countermeasures of Asset Securitization of State-owned Enterprises

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Abstract: Under the background of the reform of state-owned enterprises, the asset securitization of state-owned enterprises has a relatively strong practical significance. Although the securitization products have a 12-year history of development, in the process of state-owned enterprise asset securitization, the problem is still very prominent. The paper analyzes the problems existing in the asset securitization of state-owned enterprises and proposes some solutions.

1. Introduction

Based on the analysis of many scholars, this paper argues that the asset securitization of state-owned enterprises can be summarized as follows: through the reorganization of existing assets, the original series of assets with unequal liquidity and future cash flow are reorganized through structural design. Form an asset pool to achieve the goal of reducing debt or increasing total assets. In order to reduce the financing cost, in the process of securitization, the credit rating of the issued securities is usually increased by means of credit enhancement. Through the risk isolation mechanism, the promoters are isolated and controlled to avoid the investor's income from participating in the property liquidation in the event of bankruptcy, which ultimately benefits the participants.

2. Status of asset securitization

2.1 The significance and background of asset securitization

The concept of asset securitization was first proposed by Louis Rainer in the United States in an interview in 1977. Various institutions, scholars and researchers in various countries have interpreted it differently. The US Securities and Exchange Commission define it as “a set of non-continuous receivables or securities supported by cash flows generated by other assets that can be realized within a certain period of time in the future, with additional rights attached to investors”. Professor Wang Song qi of China believes that it is based on the cash flow or economic value generated by the loan or receivables to match the investor's expenditure on the purchase of the relevant securities to achieve the financing purpose of the business activities.

2.2 Asset securitization increases the liquidity of corporate assets

Since 2005, the development of asset securitization in China has entered the initial stage. So far, it has experienced 12 years of development. Since the resumption of the financial crisis in 2008, under the strong drive of China's policies, the asset securitization market has developed rapidly. As a product of economic development and financial deepening, asset securitization is the process of financial management by enterprises themselves, and also the innovation of combining financial instruments with financial products. It discounts the future cash flow generated by the assets owned by the company and finances it in the form of securities to meet the investment needs of the market. In addition, securitization also increases the liquidity of corporate assets and optimizes asset structure. Based on the above understanding, this paper analyzes the problems existing in the asset securitization of state-owned enterprises and proposes policy recommendations.

2.3 Application Status of Asset Securitization in Contemporary Securities Market

In 2016, a total of 8 42.51 billion Yuan of asset securitization products were issued nationwide, a year-on-year increase of 37.32%. Among them, corporate asset-backed securities issued 438.521 billion Yuan, an increase of 114.90%, accounting for 52.08% of the total issued. This paper analyzes the asset securitization of Jiangsu and Zhejiang provinces, as shown in Figure 1 below:

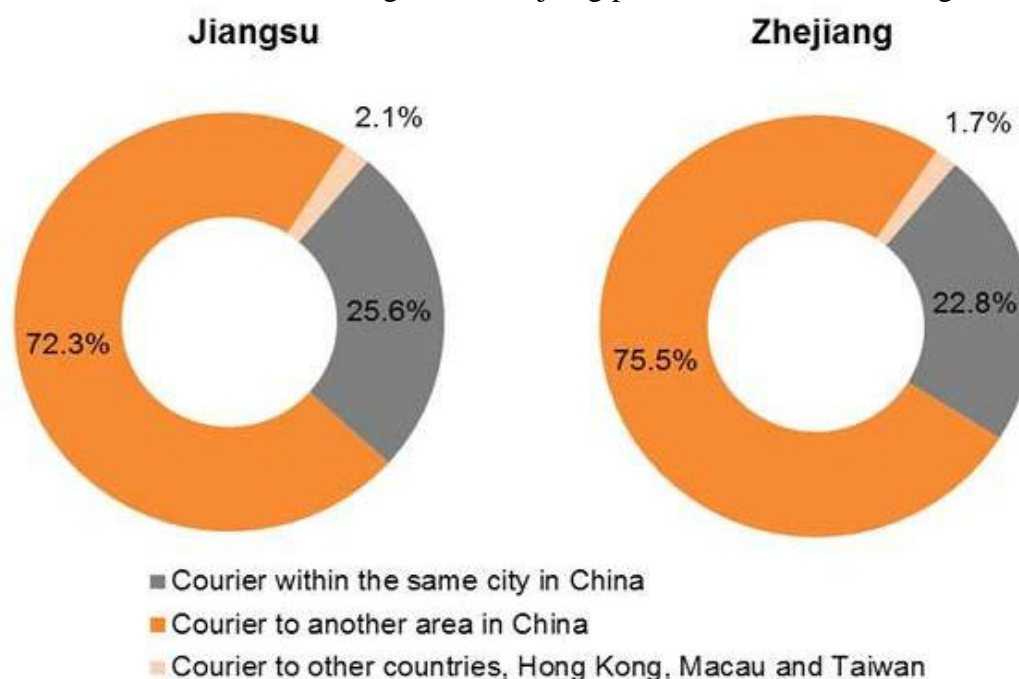


Figure 1 Market application of asset securitization in Jiangsu and Zhejiang

Taking Jiangsu and Zhejiang provinces in Figure 1 as an example, the issuance scale of corporate asset-backed securities doubled from 2015, making it the largest circulation variety. State-owned enterprises have low operating efficiency and high debt levels. The issuance of securitized products is not only conducive to optimizing the capital structure of state-owned enterprises, but also introducing more capital to revitalize state-owned assets in various regions. However, in actual application, there are still many problems in the asset securitization of state-owned enterprises.

3. Problems in the securitization of state-owned assets

3.1 Insufficient physical support capacity

In May 2016, the Ministry of Finance announced the economic performance of the state-owned and state-owned holding companies in the first four months:

- From January to April 2015, the total profit of state-owned enterprises was 7 120.7 billion Yuan;
- The total profit of state-owned enterprises from January to April 2016 was 652.25 billion Yuan; It was down 8.4% year-on-year. Among them:
 - The total profit of central enterprises in January-April 2015 was 5,410.2 billion Yuan;
 - Total profit for January-April 2016 was 5,054.1 billion Yuan; It fell by 6.6% year-on-year. Other than this:
 - ◆ The total profit of local state-owned enterprises from January to April 2015 was 171.05 billion Yuan;
 - ◆ From January to April 2016, the total profit was 146.84 billion Yuan. It was down 14.1% year-on-year.

It can be seen from the comparison that the overall profit of state-owned enterprises is not very optimistic. Among them, the overcapacity in the traditional industrial sector, the steel, coal and other industries have a serious overcapacity, and the profitability is worrying. Under this circumstance, even if the advancement of state-owned enterprise asset securitization continues, due to the lack of concentration of main business of state-owned enterprises, poor efficiency, and insufficient physical support capacity, it is often unattractive for investors, which makes the financing effect large discount.

3.2 Insufficient liquidity of securitized products

We all know that one of the important roles of the financial intermediation structure is to solve the problem of information asymmetry in the market, and asset securitization is based on the credit of the underlying assets. Therefore, whether the liquidity and price of the securitized products are efficient depends on whether the disclosure of information on the underlying assets is sufficient, open and transparent. For enterprise asset securitization, from the establishment to the transfer, the product information is not reflected in the information release end of the Shanghai and Shenzhen Stock Exchanges. Insufficient information and asymmetry have caused insufficient liquidity of securitized products.

The similarity of products using the information interaction platform can also show the similarity between rural e-commerce platforms. Its formula is expressed as:

$$SP(ij, k) = \left\{ \sum_l \left[\left(\frac{(X_{ik}^l/X_{ik}) + (X_{jk}^l/X_{jk})}{2} \right) \times \left(1 - \frac{|(X_{ik}^l/X_{ik}) - (X_{jk}^l/X_{jk})|}{|(X_{ik}^l/X_{ik}) + (X_{jk}^l/X_{jk})|} \right) \right] \right\} \times 100 \quad (1)$$

Where $SP(ij, k)$ indicates that the product similarity index i and j of the i platform and the j platform developed to the market k indicate any two countries to be compared, k represents the third market, and X represents the exit, X_{ik}^l/X_{ik} represents the share of the i -platform export to the first product in the k market, X_{jk}^l/X_{jk} represents the share of the first product in the products exported from the j platform to the k market.

As a kind of bond, asset securitization products have lower liquidity than the already low bond market. In 2015, according to the data of the Central Clearing Company, the trading volume of corporate asset securitization products on the Shanghai and Shenzhen Stock Exchange's block

trading platform was 19.469 billion Yuan, with a turnover rate of 8.46%. In 2015, the overall turnover rate of China's bond market was 172.7%, the turnover rate of corporate bonds was 202.2%, and the turnover rate of medium-term notes was 198.1%. The comparison of turnover ratios of different financing products shows that the liquidity level of asset securitization products is higher. In 2016, the turnover ratio of corporate asset securitization products of the Shanghai and Shenzhen Stock Exchanges was 24.93%, an increase of approximately 17 percentage point's year-on-year. Compared with 2015, the turnover rate of corporate asset securitization products has improved, but compared with the overall 187.87% turnover rate of the bond market in 2016, the liquidity level of the securitization market is still insufficient.

3.3 The lag of legal and regulatory construction is more obvious

Since the official start of asset securitization in 2005, although the overall trend has been prosperous, the relevant laws and regulations are not perfect. At present, the business norms for securitization are mainly subject to the Shanghai and Shenzhen Stock Exchanges. In addition, it is a management regulation promulgated by the China Securities Regulatory Commission. There is no special legal system, which shows a serious lag. Nowadays, the establishment of special vehicles in general is actually carried out in the form of “special asset management plan” of financial intermediaries, but introduces the asset securitization cycle system shown in Figure 2 below. Can effectively reduce this risk:

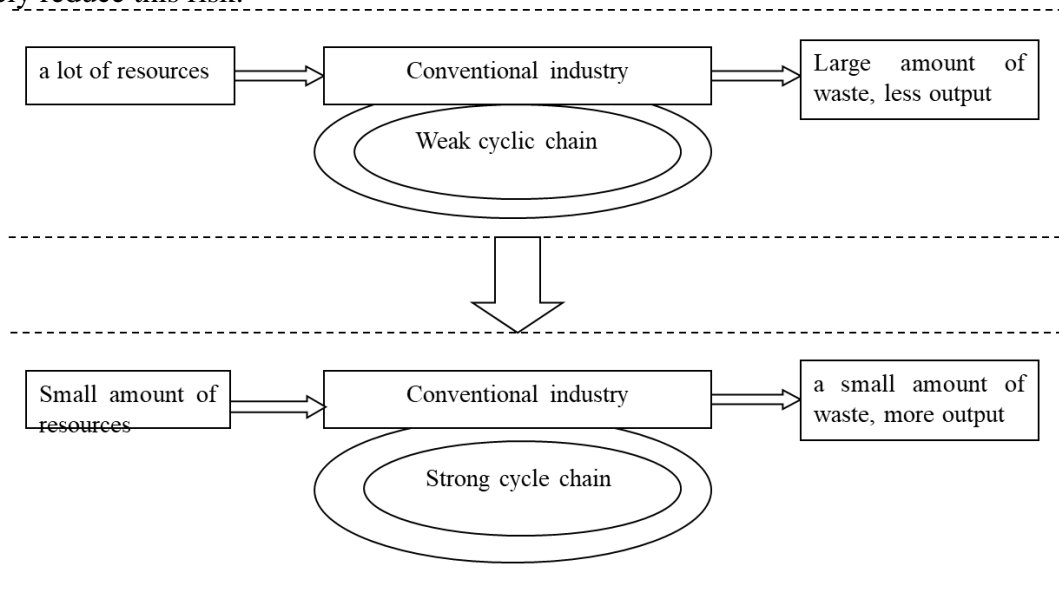


Figure 2 The cycle system of asset securitization and cost accounting

As shown in Figure 2 above: a relatively complete asset securitization cycle system is essential for achieving a legal bankruptcy isolation mechanism. In addition, China's current taxation and accounting system cannot be fully applied to the current development process of state-owned enterprise asset securitization. The lag of relevant legal systems has made state-owned enterprises increase costs in fulfilling asset-backed securities procedures. Although the overall trend of asset securitization is good, local governments lack targeted policies for asset securitization of state-owned enterprises in their respective regions. Therefore, the external environment of asset securitization of some state-owned enterprises is lacking, which restricts its further development. Finally, although there are laws such as the Bankruptcy Law, the Guarantee Law, the Trust Law, the Property Law and the Company Law, different basic assets make the property rights of different

types of assets different in handling, and the procedures are not handled. The same, lack of uniform standards.

4. Policy recommendations for asset securitization of state-owned enterprises

The real economy is the source of living water for the economy, and the healthy development of the entity can bring tangible benefits to the society. Therefore, state-owned enterprises must improve their own technical level, adjust their business strategies, optimize the industrial structure, actively carry out financial innovation, and attract investors to participate in the trading of state-owned enterprise asset securitization products. The quality of basic assets directly affects the interests of investors. Active financial innovation and optimization of asset structure should be carried out at the same time to reduce non-performing assets, package and combine basic assets, increase credit rating, etc., and strengthen market confidence.

5. Conclusions

The practical significance of state-owned enterprise asset securitization is not only to optimize the financial status of enterprises, reduce the ratio of non-performing assets and liabilities, but also to the significance of supply-side reform and improve market competitiveness. However, in the process of securitization of state-owned assets, there are many problems. Insufficient physical support ability leads to investor's lack of confidence in securitization products. The risks and problems brought about by the development of the real economy and financial innovation, the improvement of laws and regulations, the enhancement of information transparency, etc., can better promote the reform of state-owned enterprises through the asset securitization of state-owned enterprises, and thus promote the supply-side reform in China.

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