



Development of the Bond Market and Perfect Enterprise Financing Structure

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Abstract

Development of enterprise bond market is to establish a multi-level capital market needs. Restricts the development of enterprise bond market is the root cause of the internal and external enterprise bond market institutional constraints. One is the current institutional constraints enterprise bond market development, second is the enterprise bond market by external institutional constraints of the development. To develop China's enterprise bond market, on the one hand, to convert the corporate bond market administrative restriction system for legal constraints, market restraint system, at the same time, we should establish corresponding regulation of the financial system, financial supervision and financial innovation keep synchronization. On the other hand, will further reform bank credit system, and improve the state-owned enterprise property rights system, and improve the corporate governance structure, perfect stock issuance and listing company distribution of the external institutional constraints.

Key words: Enterprise Bond; Development; Countermeasures

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INTRODUCTION

With China's financial accelerating of internationalization, safeguard financial system are safe and effective operation of economic and social development is particularly important. At present, the existing problems of China's financial system performance for: first, financial system reform lags behind the development of economy, the financial system resource allocation efficiency is not high. Second, enterprises financing structure unreasonable, direct financing and indirect finance ratio imbalance, indirect finance high proportion. In direct financing system inside, equity financing and debt financing ratio imbalance. Enterprise bond market development is relatively slow, the financial system of internal risk too much focus on banks. Development of enterprise bond market is to establish a multi-level capital market needs. Through the positive development of enterprise bond market can further improve enterprise's financing structure.

1. DEVELOPMENT OF ENTERPRISE BOND MARKET IS TO ESTABLISH A MULTI-LEVEL CAPITAL MARKET NEEDS

A countr's financial system is health and perfect, financing structure whether reasonable, from the macroscopic level to see it can effectively for the entity economy, whether to meet the whole service economic growth needs. Also see financial system is efficient safety, all levels of capital market can foster strengths and circumvent weaknesses, mutual up. From microcosmic Angle to see financial system can make the enterprise market to maximize value. A reasonable financing structure on the enterprise's financing costs, enterprise property distribution, corporate governance structure, and many other aspects will produce

significant influence.

The Pecking Order Theory believed that enterprise financing will follow internal financing, debt financing, the rights and interests financing order generally successively. This theory believed that in the enterprise exterior financing, the bond financing way most has the superiority. Compared with bank loans, enterprise bond financing has low cost advantage. Compared with stock financing, corporate bonds has the advantage of interest tax deduction. Long-term since, the Chinese enterprise mainly through a bank loan to financing, part of the company that accords with a condition from the stock market listing raised after part of the capital, by contrast, enterprise bond markets have become capital market weak links, had been unable to get sufficient development in China's enterprises, the financing structure is unreasonable, indirect financing proportion is high, low ratios direct financing. In the direct financing, enterprises through the proportion of debt financing even lower.

China's enterprise bond market scale far less than bank credit market and stock market scale, enterprise financing needs excessive dependent on bank system, but bank loans are mainly for state-owned enterprises financing, a large number of small and medium-sized enterprises, the lack of financing difficulties for venture investment funds. This situation caused by state-owned enterprises on bank loan the service efficiency of funds is low, make the limited funds can better meet the entity economy on the financial system proposed service demand, on the other hand also caused the financial risk from commercial Banks highly concentrated. Direct financing market accounts for the proportion of capital market, its composition and less with the stock market mainly. The lack of bond market support shows large stock market volatility. This suggests that the subject of national development and various financial organizations establish multi-tiered capital market system, improve the financial market structure is imperative. Among them, the development of enterprise bond market, break corporate bond market development, focus on the development of institutional constraints corporate bond market has become China's further deepening the reform of the financial system of the moment.

2. ENTERPRISE BOND MARKET DEVELOPMENT RELATIVE LAG REASON

Restricts the development of enterprise bond market is the fundamental reason of enterprise bond market external and internal institutional constraints. First, because long-term since the government administrative curbs on market intervention system of enterprise bond market, caused its laws, regulations and financial supervision system cannot form curbs. Second, the development of enterprise bond market institutional constraints, including external bank

credit system, state-owned enterprise property rights system, the corporate governance structure and stock issuance system and distribution system of the listed company. Not a good external environment, causes the market each participating subject's behavior choice and interaction model showed great distortion, which hindered the development of enterprise bond market.

2.1 The Current Bond Issue Beset the Development of Enterprise Bond Mechanism

Enterprise bond issuance management is zero risk as the goal, in order to guarantee expires, management department to cashing in enterprise executes more before issuing bonds issued procedures for approval, link to the issuer, qualifications, complex issue limit should be strictly controlled. For example, corporate debt is issued by the National Development and Reform Commission approval by the central bank interest rates, but is determined by the market, bonds for the China Securities Regulatory Commission. Enterprise bonds usually require banks to provide credit guarantee. Bond issuers are usually large state-owned enterprises, which through the issuing of bonds to raise funds for energy, transportation mainly monopoly has relatively large state-owned or state-controlled enterprises, private enterprises hard in the corporate bond market share. Enterprise bonds issued by state of the quota of directly determine the scale in advance according to the market situation, the enterprise cannot and its need to decide its financing behavior. For enterprise bond interest rate have strict regulation, enterprise bond interest rate cap of non-market tendency is extremely serious. In August 2007, the China Securities Regulatory Commission issued company debt issuance, relaxed measures for trial of bonds issued the bond issue administrative controls, the examination and approval system, adopting instead to approve the system credit rating system. The new measures will no longer mandatory enterprise bonds must request to issue bonds by guarantee, raise funds use do not limit. This means that the development of the Chinese company debt has made new breakthrough. However, because the subject of bonds issued the credit accountability mechanism, the information disclosure system and marketization credit rating system is yet to be established, so, the enterprise bond issue, the scope of the bonds issued still narrow enterprise mainly concentrated in listed companies.

2.2 The Lack of Effective Operation Mechanism and Unreasonable Investors Structure

In the corporate bond market in China, the current lack of laws and regulations risk monitoring mechanism, early warning and disposal mechanism, market exit system, the enterprise claims can not be protected, thus affecting the investors' enthusiasm. Investors' risk consciousness make enterprise bond credit rating non-existing, this will not be conducive to the construction of market credit basis, also was disadvantageous to cultivate acceptable

in the muck of rating agencies. Long-term since, the enterprise bond investors in China has been centered on the small and medium-sized institutions and individual investors primarily. Mainly by individual investor base and bond investment risk level did not match. Small and medium-sized institutions and individual investors lack of risk identification ability and risk-taking ability, to the financing of capital operation, management main body status, financial information, solvency etc information cannot fully understand, lack of investor confidence.

For the benefit of creditors legal protection general is vested in the enterprise bankruptcy creditors to enterprise control stage, and to realize the enterprise normal business cases, creditor of enterprise is actually no control. China's existing legal system design or implementation can either provide effective protection to creditors. On the one hand, the bankruptcy legal system is not perfect led to the legitimate interests of the creditor can influence the Chinese enterprises to protect, the development of the bond market. On the other hand, general debt service mechanism to take effect.

2.3 Bank Credit System Restricts the Development of Enterprise Bond Market

Enterprise on bank lending over-reliance on condition, affected the enterprise the enthusiasm of direct financing. First, Banks monopoly has restricted the development of the bond market. Long-term since, the whole social capital, and the Banks in the Banks largely outside the system of direct financing channel lack, causing personal and business financing difficulties. On the one hand a large amount of money to settle in the bank, on the other hand, a lot of small and medium-sized enterprises can't loan. By the sub-prime crisis, financing difficulties caused a lot of small and medium-sized enterprises are facing trouble, it shows that the bond market behind the problems existing in the financial system. Second, enterprise bank loans low cost leading companies would not through the bond financing.[4] In the current financial environment, enterprise defaults bank debt, to bank on risk, the bank by the government to the government on the behavior of responsibility to ongoing pay. Enterprise to the bank for a loan, whether in loan payments, or in their budget constraint conditions are far less than issuing bonds face the creditors of hard constraints that lead to enterprise more willing to get bank loans, not willing to bond financing.

2.4 The Current Property Right System Hindered the Development of Enterprise Bond Market

In rich countries the capital market, enterprise credit financing and equity financing in about 10 - the ratio of 20% between, while in China, this ratio is very small. A Chinese enterprise and the western enterprise financing preference for different reasons for the differences in property right system. Western society based on private property, and China is mainly of state-owned property

rights. In this system, the enterprise ownership is divided, the country still has residual claims. The state has the personality traits, make the country cannot exercise its surplus control the rest of the state-owned enterprise, control of enterprise managers fell actually hands. Therefore, state-owned enterprise financing decision makers is a manager, and financing cost is the undertaker state and bonds creditors. The rights and obligations of the unequal, make the state-owned enterprises in financing decision, usually made on the maximization of self-interest as the goal, not countries and the interest of creditor maximization as the starting point. In the absence of strong equity constraint conditions, due to equity financing no servicing pressure, stock dividends can temporarily not distribution, equity funds as cheap money without servicing. Equity dilution although will reduce enterprise value, influence the interests of the shareholders, damage the national interests, but for the interests of the business operators without damage. Therefore, in the existing property system, enterprise to equity financing preferences hindered the development of enterprise bond financing.

2.5 Enterprise Equity Financing Costs Low, Hindered the Development of Enterprise Bond Market

Existing market structure in China, the enterprise through equity financing costs is relatively low. Because of the asymmetry of information, plus market pricing mechanism, the enterprise may at lower cost can be obtained through the stock market huge financing. Enterprise equity financing, don't give shareholders after distributed dividends or less profits, make very low cost of equity financing, lower debt financing. So, relative to the interest return bond financing constraints, the listed company's hard more willing to choose low cost management of equity financing, not choose the creditor's rights financing.

3. PROMOTE THE COUNTERMEASURES OF DEVELOPMENT OF ENTERPRISE BOND MARKET

3.1 From Administrative Restriction System to Legal Constraints, Market Restraint Mechanism

Because China bond market law enforcement system and the market restraint system is not perfect, the subject of bond issue credit accountability mechanism not established, which necessarily restrict the development of the bond market. Therefore, perfect China's bond market law enforcement system and the market restraint system, establish the bond issuance subject credit accountability mechanism will promote the development of enterprise bond market.

First, perfect the enterprise bond law enforcement

mechanism, regulating the information disclosure system. On the one hand, perfect the enterprise bond regulatory legislation, regulations of enterprise bonds, PRC company law, the securities law of the People's Republic of China and other relevant regulations to revise, make enterprise bond issuance and trading and acceptance of the detailed rules for the implementation of links, reform of the management system, perfect the supervision method, a unified hierarchical supervision organization system, clear all levels of enterprise bonds regulatory body, regulatory content, regulatory object, the way of supervision and procedures, etc, both in law to construct a comprehensive supervision system, prevent the absence of the regulators phenomenon. On the other hand, standardize enterprise bond issuance subject information disclosure, let the creditors can prompt understanding the issuer performance. Required to issue bonds in the enterprise regularly, information disclosure. To the disclosure of information untrue, not timely, inadequate behavior be legal punishment. Give full play to the risk of a credit rating institution reveals function, strengthen information disclosure system, establish and perfect the corporate bond market credit risk control mechanism.

Second, perfect the enterprise bond market restraint mechanism. Sound market credit rating system. Change corporate bond issuance of system, during the transition period, the credit rating agencies need give full play to the role of social intermediary organizations. Sound credit rating system, establish the scientific rating index system and the rating method, form have independent property right, can bear the liability rating agencies. To set up corresponding enterprise bond cashing risk early warning mechanism, regularly publish all sorts of relevant information enterprise bond to help investors make corresponding decision, prevent bonds cashing risk. The government should strengthen the construction of loan repayment mechanism, improve transaction system, greatly cultivate institutional investors. Establish creditor protection system, establish the sinking fund, execute risk reserve system, constructing the multi-level enterprise bond circulation market, the enhancement enterprise bond liquidity, cultivating organization investors, and promote the stable development of the bond market.

3.2 Establish Competitive and Efficient Financial Market System, Enlarge the Scale of Bond Market

From China's financing structure look, heavily dependent on bank loan financing pattern, increase the bank system risk, leading to the whole financial system risk. Banking monopoly operation against the whole banking system operation efficiency, also go against the bank the realization of the function of optimizing the allocation of resources. Through the positive development of the bond market and stock market optimization financing structure, thus fundamentally changing the monopoly

of social capital bank. Expand enterprise financing channels, vigorously develop equity financing market and bond financing market, particularly to speed up the bond financing market, reduce the cost of financing the bond market. The development of enterprise bond market not only beneficial to improve China's investment and financing system, also improve bank loan quality, reduce the Banks' bad assets proportion. The enterprise credit risk shift from single bank bear many agencies jointly undertake by society, thus reduce commercial Banks have total of credit risk. Expand the opening of the banking industry, actively promoting all sorts of private Banks, foreign-funded Banks of development, gradually relaxing interest rates, enhance the inter-bank competition between the service object to the expansion of the banking, actively, promote financing for small and medium enterprises to bond financing as enterprise.

3.3 Further Reform Property Rights System, Perfect the Corporate Governance Structure, Guide and Promote Enterprise Bonds Demand

First, optimizing equity structure, perfect governance structure of listed company, to prevent and correct "insider control phenomenon". Strengthen the company management equity financing cost consciousness, pay attention to the enterprise market value, limiting "encircling money" seek expansion tendencies and impulsive, avoid equity be diluted and reduce enterprise value. Second, perfect stock issuance and listing company appraisal system, increase listed companies issuing new shares, the difficulty of seasoned equity and match from the source control of listed company preference equity financing tendency. To strengthen the use of fund equity financing constraints, improve the use of proceeds benefit. Third, establish a listed company mainly in cash dividends binding mechanism, and encourage hard cash dividends, maintaining market small Stockholders' equity, improve the rationalization of the listed company refinancing, restrain the listed company degree of equity re-financing abusive situation.

In 2008, the National Development and Reform Commission issued by the national development and reform commission on promoting the enterprise bond market development, simplify matters related issue approval procedures for the notice, corporate debt issuance approval procedures to reform, after verification scale, the first issued two link, simplify approval issued a link for direct approval, the expansion of enterprise bond issue size, to further promote the enterprise bond market development, continuous optimization market environment, improving enterprise based debt-repaying consciousness, strengthening information disclosure forms the enterprise bond market, the effective mechanism and promoting the sustainable development of enterprise bond market play a positive role in the process of development.

CONCLUSION

Development of enterprise bond market is to establish a multi-level capital market needs. Through the positive development of enterprise bond market can further improve enterprise's financing structure. The government should through the development of enterprise bond market to promote the development of capital market and perfect. The government promotes enterprise bond market development countermeasures include: From administrative restriction system to legal constraints, market restraint mechanism. Establish competitive and efficient financial market system, enlarge the scale of bond market. Further reform property rights system, perfect the corporate governance structure, guide and promote enterprise bonds demand.

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