

Analysis of the Difficult Problems of Corporate Financing from the Perspective of Securities Business

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Abstract. In recent years, the arrival of the era of full registration system in the securities market has ushered in a new gospel for the financing of enterprises. Along with this, there are many problems that need to be solved. On this basis, this study starts from the perspective of both the securities companies and the enterprises at the same time, by comparing the macro data, industry data, and combining the representative securities companies the latest policies and hot topic cases to start the elaboration. Based on the evaluations, it explains the irrationality of the current business as well as services of the securities companies and the risks that need to be paid attention to under the new policy and the limitations and shortcomings of the firms themselves. Innovatively framed the thinking framework of the dialogue between specific investment and financing parties, providing new ideas for solving the problem of financing difficulties.

Keywords: Securities business; financing difficulties; full registration system.

1. Introduction

As the era of epidemics comes to an end, the market economy is gradually picking up and economic activity is gradually recovering [1]. According to the preliminary accounting results of the gross domestic product of the second quarter and the first half of 2023 by the National Bureau of Statistics of China, the GDP in the second quarter of 2023 increased by 6.3% year-on-year. Among them, securities business as an indispensable part of financing channels plays an important role in corporate financing. According to the China Securities Association released the annual operating data of securities companies in 2022, 140 securities companies in the whole industry realized an operating income of 394.973 billion yuan in 2022, and a net profit of 142.301 billion yuan. Among them, over 580 billion yuan was spent on domestic listing of service enterprises, and 784.450 billion yuan was spent on refinancing of domestic listed companies.

Oriental wealth securities data center shows that since 2023, the second quarter of the two financing balance to achieve new and maintain a stable trend. Based on the background of the current development of China's financial industry, the brokerage business, with its broad platform, large number of customer clusters, diversified forms of service and resource allocation, has to a certain extent satisfied the financing needs of many enterprises. However, for some groups of enterprises, especially small and medium-sized enterprises and private enterprises, there still exists a huge gap in the fulfillment of financing needs, and the difficulty of financing is still one of the important factors hindering the growth and development of small and medium-sized enterprises(SME) [2].

Regarding the wealth management business carried out by securities firms: on the one hand, securities firms can utilize their own research and development advantages to provide customers with financial products, and on the other hand, provide customers with more value-added services and a full range of financial services [3]. Huatai securities, for example, in recent years, the securities industry market competition has intensified, facing the transition to help customers more personalized financial management. In addition to the brokerage business also includes brokerage business, asset management business, proprietary business, speculative business ,credit business and so on. There is a high threshold of brokerage services, compared with banks, volatility, risk is greater largely affected by the economic cycle [4], the popularity of the secondary market business is low [5], can not maximize to meet the financing needs of small and medium-sized enterprises. On the other hand, private enterprises and small and medium-sized enterprises due to external financing system

deficiencies and their own problems [6] greatly reduces the small and medium-sized enterprises in the financial market financing "qualification" and ability to limit the small and medium-sized enterprises in the financing channels and business, financing structure of the irrationality of the small and medium-sized enterprises to further aggravate the difficulties of financing the status quo [2].

In order to further improve the brokerage business while better meeting the financing needs of small and medium-sized enterprises, accelerate the operation of social capital, promote the development of the real economy, and better promote the rationalization and fairness of resource allocation. This research will take into account the brokerage firms and small and medium-sized enterprises, from the perspective of the two subjects respectively, through the macro data and industry data comparative analysis, and combined with the latest market cases and policy releases, to elaborate the needs of the two sides as well as the expectations, in order to achieve a high point of balance between the two sides.

2. Analysis from a Brokerage Business Perspective

2.1. New Third Board and IPO under Full Registration System

As one of the important means for brokerage firms to help enterprises to raise funds, IPO financing is large in scale and volume, which lays a great role for the subsequent survival and development of the enterprises. Correspondingly, IPO is oriented to a specific customer group, requires the financier to be a listed company in compliance with the law, and has certain requirements on the number of shareholders, which in turn clarify the limitations of IPO in serving small and medium-sized enterprises. However, with the promulgation of the New Third Board and other relevant regulations, to a large extent, to alleviate the difficulties of SMEs in financing, poor circulation, poor information and other significant shortcomings. For some temporarily unable to meet the threshold for listing on the Main Board or the Science and Technology Innovation Board, but in need of a one-time large amount of financing similar to an IPO, one can consider financing through the "New Third Board". Nowadays, more and more enterprises choose to enter the New Third Board to meet the financing needs as shown in Fig. 1.

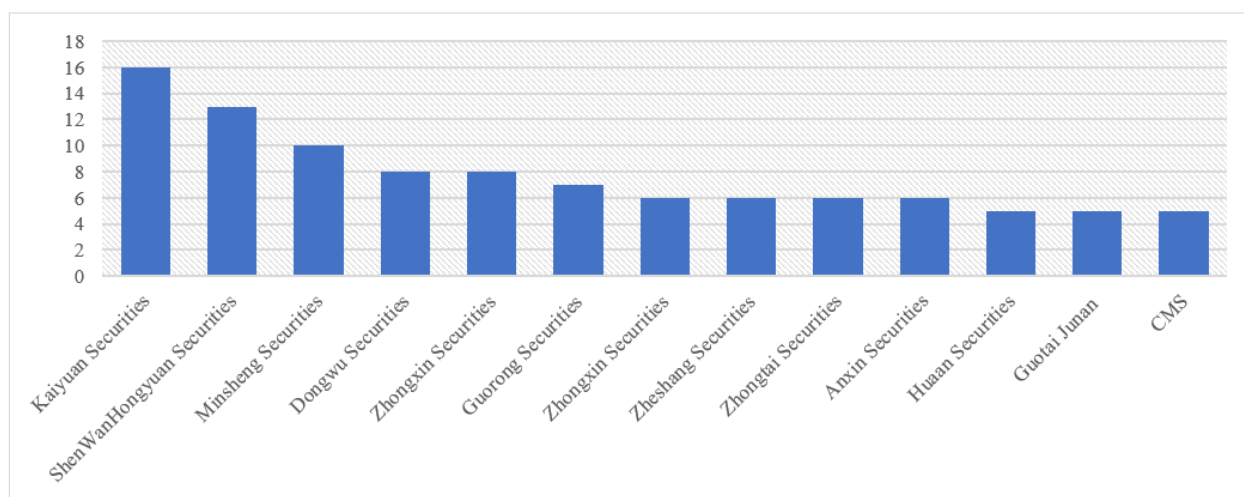


Fig 1. Number of New Third Board Listing Companies of Brokerage Firms in 2023 (Data source: Wind)

As shown in Fig. 2, Since the official opening of the Science and Technology Innovation Board in 19 years, IPO funds raised to achieve a new high, and further support the development of strategic emerging industries in line with the national strategic significance, to meet the needs of national development, and to face the world. However, at the same time, there are also phenomena such as mixed quality of enterprises on the board, which increases the difficulty of screening and verification of enterprises on the board [7]. The full registration system further reduces the cost of transferring to

the board and shortens the review cycle [7], and at the same time, it also brings more stringent listing audit and creates a tendency to shift from strengthening the access audit to strengthening the post-supervision [8]. The full registration system fully implements the concept of information disclosure as the core, and the whole process of issuance and listing is more standardized, transparent and predictable. As presented in Fig. 3, 2023 In the first half of the year, IPO withdrawals were evident, with Growth Enterprise Markets (GEM) taking the top spot in terms of the number of withdrawals. According to Wuhan University of Science and Technology Financial Securities Research Institute Director Dong Dengxin analysis, computers, communications and other electronic equipment manufacturing and other areas involving technological innovation in the IPO changes in the large. This is due to the fact that the positioning of this new field has not yet been finalized, the strategy fluctuates a lot, and there are many items that add or subtract from the financial report, which leads to an impact in the middle of the IPO issuance.

From one perspective, in the context of a full registration system with increasingly stringent auditing and fierce competition, certain enterprises are not strong enough and often fail to meet the listing requirements. At present, compared with the costly, risky and difficult shell listing, IPO under the full registration system is a better choice [9]. However, the relevant hard conditions are even more discouraging to some SMEs and private enterprises, so by designing programs to avoid the disadvantages on the traditional shell as much as possible [10]. If the company gives up too much of its controlling interest to cater for the provision of "shell" companies. This not only realizes the purpose of large-scale financing but also ensures a certain degree of control. This is also known as "shell-like" [10]. In order to prevent some enterprises in order to short-term interests in a hurry to go public, it is necessary to higher audit methods and techniques, as well as the comprehensive quality of the auditors, and focus on the core technology value of such enterprises and input [11].

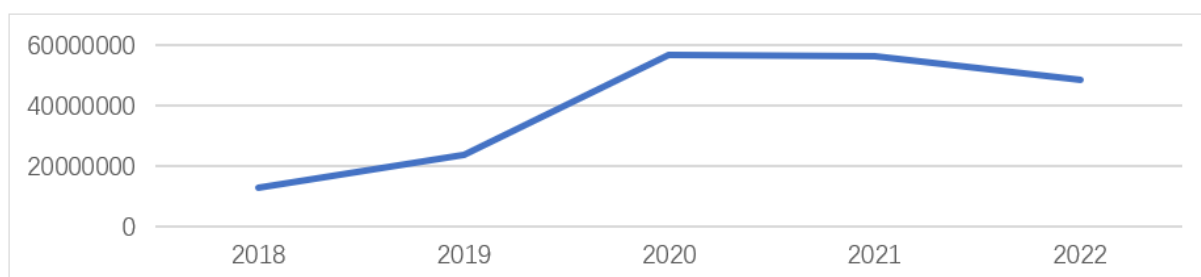


Fig 2. Actual Funds Raised by Brokerage Firm Principal IPOs, 2018-2022 (Data sources: Wind)

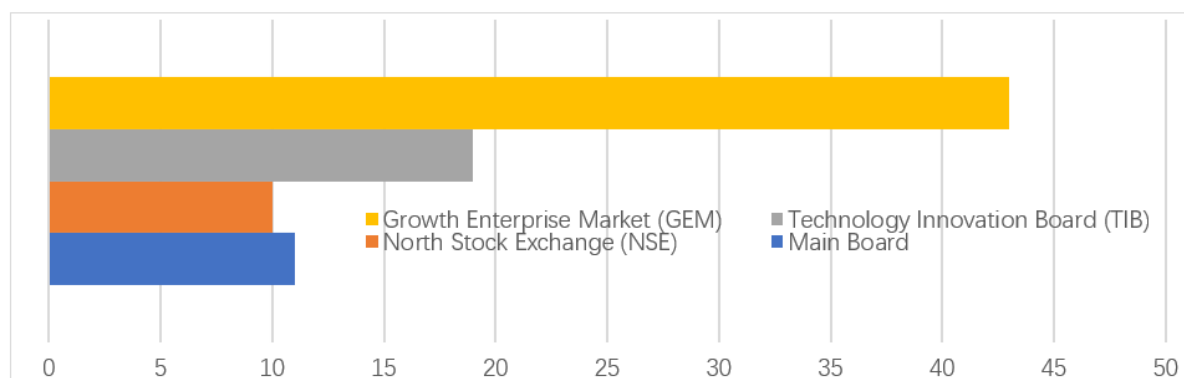


Fig 3. Comparison of IPO Withdrawal Sectors, January-March 2023 (Data sources: Choice)

2.2. Provision of Bond Financing

On June 29th, the association of traders issued the "notice on matters related to further improving the quality and efficiency of debt financing tools financing services", adopting the financing policy combination of "three arrows" to promote the full blossoming of financing channels for private enterprises. GangdaSecurities Chief Fixed Income Analyst Zhang Xu said, due to the characteristics of private enterprises are more susceptible to market fluctuations, and financial institutions have their

own cyclical, the superimposed resonance of the two reasons to further deepen the plight of private enterprise financing difficulties [12]. As illustrated in Fig. 4, compared with commercial banks, the bond business of the brokerage industry still has much room for development. They should respond to the call of the State to provide guarantee and credit enhancement, establish credit evaluation standards that are in line with the corresponding standards for private enterprises and small and medium-sized enterprises, and objectively and fairly provide relevant financing services to avoid discrimination. True screening of projects to promote the flow of funds to enterprises and industries that really need and can utilize the funds for value-added purposes, and to improve the efficiency of financing. Contribute to supporting the development of private enterprise financing. In addition, some scholars have proposed that investment banking and commercial banking business can be organically integrated [13], according to the different needs of customers to mobilize resources, and promote the rationality and efficiency of resource allocation among financial institutions.

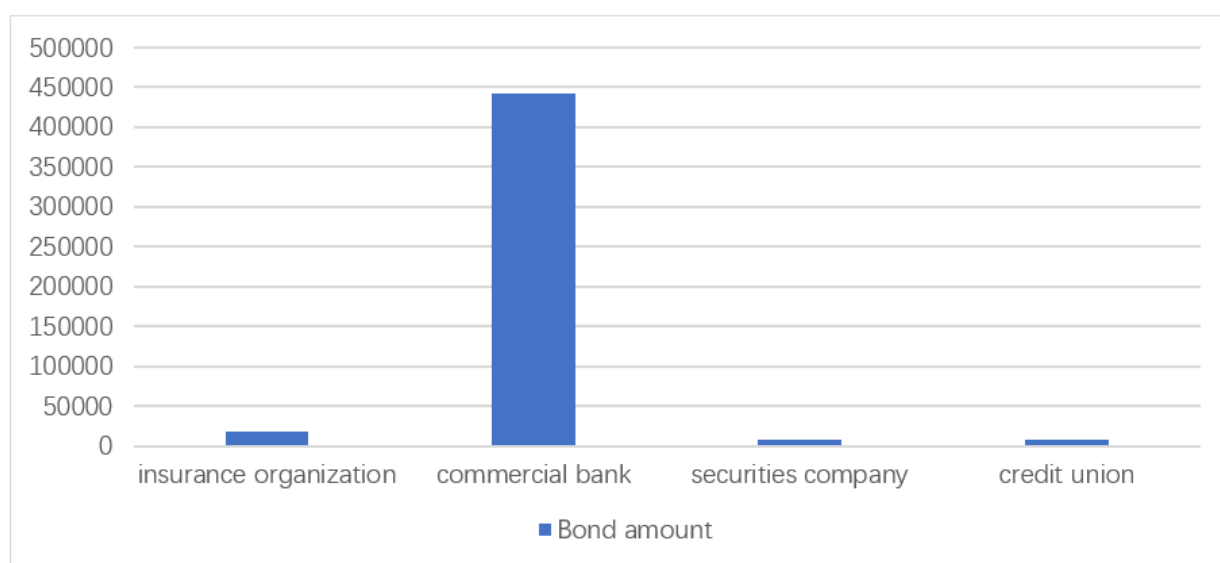


Fig 4. Agencies' May 2020 Bond Escrow Amounts (Data sources: Choice)

2.3. Mergers and Acquisitions

In the M&A business, financiers are often faced with different acquirers. One is the Strategic Buyer and the other is the Financial Sponsor. Both play different roles in the purchase, strategic investors are more concerned about the endogenous power and future development potential of the enterprise, in the enterprise assessment, mostly using DCF model; financial buyers are more concerned about the leverage effect of the enterprise, expect high returns in the future, mostly using LBO model [14]. A comparison table is shown in Table. 1. As a brokerage firm, focusing on the interests of buying and selling at the same time may also be appropriate to pay attention to the potential of small and medium-sized enterprises, multi-faceted and comprehensive consideration, more likely to be limited acquisition costs into the maximum help enterprises to develop benefits. Strategic investors often need strong capital, core technology and advanced management and other advantages, as the brokerage firms to fully measure their own, according to their capabilities, not to pursue adventurous investment.

Table 1. Comparison of models used by different buyers

	users	Emphasis on utility	effectiveness evaluation
DCF	Strategic investors	synergistic effect	Realize the potential
LBO	Ordinary Buyers	leverage	objective and conservative

2.4. Expanding Markets to Meet Demand

Brokerage business as one of the most basic and traditional business of the brokerage firms, with the increasing number of securities companies, the current industry competition continues to intensify, serious homogenization [15], forcing the securities industry related business innovation and transformation. Three possible directions of transformation and development are given in Fig. 5. Broaden the service chain while more closely matching the financing needs of enterprises, more conducive to the realization of the efficient allocation of resources. First, it is necessary to pay attention to the operation and innovation of self-owned products and services to get rid of homogenization. Second, one needs to accurately portray customer profiles and improve the quality of personalized services for target groups. Third, one can make good use of Internet technology to realize direct transactions between stock exchanges and users, and further improve the quality and efficiency of financing [15].

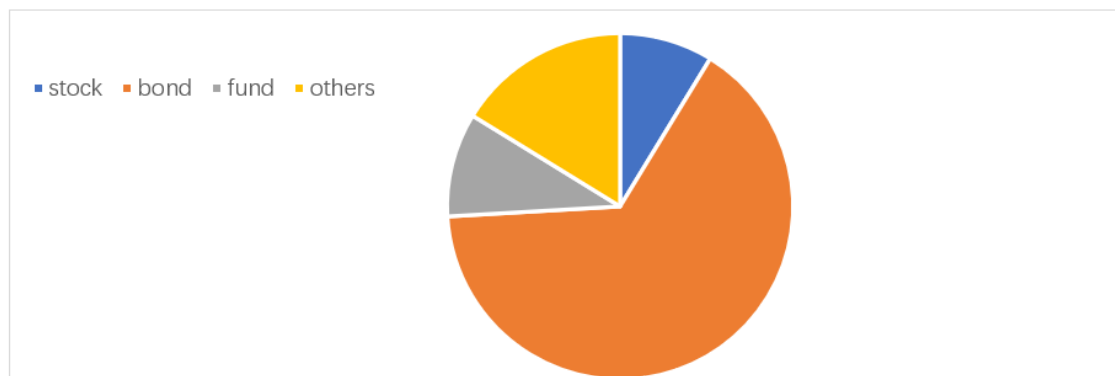


Fig 5. Percentage of investments in various types of financial products in the proprietary business in 2020 (Data sources: Choice).

Compared with the primary market, the secondary market has richer and more flexible financing options. Taking the volatility of securities and fund companies' split repo in the past five years as an example, it shows a gradual growth trend as presented in Fig. 6. Fully opening up the secondary market can effectively match the target fund and meet the needs of the transferor and transferee and other aspects [16]. Huatai adopts the model of "fund management + private equity fund + trust company", in addition to the traditional commissions and management fees, part of the project share will also flow. This approach is close to the primary and secondary markets, and can achieve synergistic development of investment banking, investment research, and proprietary business.

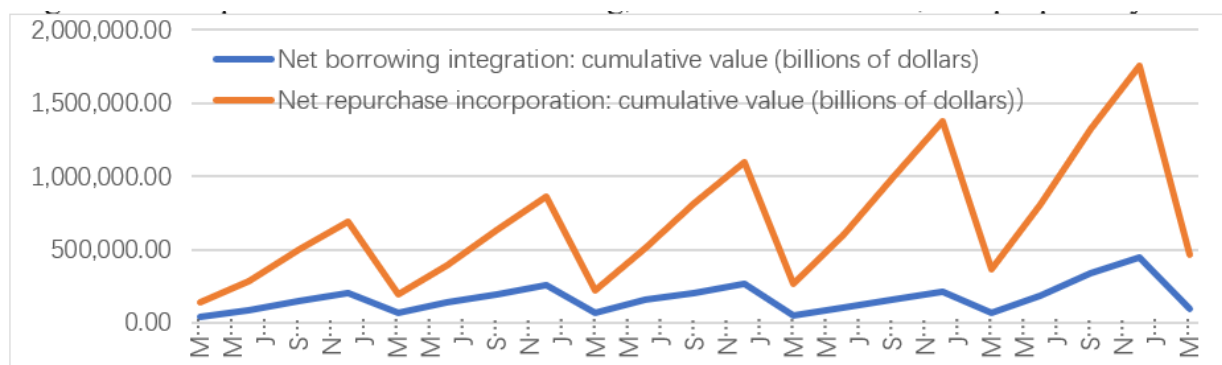


Fig 6. Trends in Securities and Fund Company Lending Repo Changes, 2018-2023 (Data source: Choice).

3. Analysis from the Perspective of the Enterprise Itself

3.1. Upgrading Qualifications and Focusing on Business Growth

The qualification mentioned here, from the perspective of the enterprise, is the ability to be favored by investors or investment institutions. For small and medium-sized enterprises, it is difficult to do extremely well, can exceed the average level of the industry of a business, strong substitutability, no very clear goals and characteristics of the positioning [17], making it difficult for investors to trust the reasons for investment. Therefore, to solve the problem of financing difficulties of small and medium-sized enterprises, especially from the inside out to make a breakthrough, only the enterprise's own qualifications to improve, from the point of view of the investor has the confidence and motivation to provide financial support. In a merger or acquisition, cash payments and stock payments go hand in hand. The amount of cash payment will be higher than the amount of stock payment, based on the internal growth potential of the company and the future dividend forecast. If the acquirer is optimistic about the company's future growth, it will be more likely to share the dividends with shareholders over the long term than in a one-time cash transaction. This example reflects the importance of the company's potential, as the acquirer is willing to pay more for a company with a bright future, even in a cash transaction, to compensate for the convenience of future dividends. Similarly, when faced with the valuation of a losing company, one analyzes the type and stage of the business and, based on the DCF model, analyzes the future direction of the business by discounting the cash flows per period. DCF two-stage growth model is divided into the forecast period and stable growth period [18], investors to partner's perspective to examine the enterprise to determine its inherent potential. The combination of the two stages is more objective and comprehensive positioning of the current state of development of the enterprise, reflecting the company's profitability and intrinsic value.

3.2. Focus on Internal Management and Social Effects

In July 2023, Dingmag Technology's first main board IPO was rejected, becoming the first main board IPO project to be rejected under the full registration system. SSE listing audit center in the audit smell inquiry focus on four major matters, which involves social security provident fund payment and the verification of the chairman's fund flow.

Table 2. China Business News (CBC) Data with the unit of 10,000 yuan

Directors/Executives	2022		2021		2020	
	value	Percentage	value	Percentage	value	Percentage
Chairman of the board	2092.91	68.35	2197.44	67.19	1857.98	65.43
Other directors, officers and core technical staff	969.20	31.65	1073.02	32.81%	981.46	34.57
Total	3062.11	100.00	3270.46	100.00	2839.4	100.00

As shown in the Table. 2 the remuneration of the chairman of the board of directors was 2092.91, 2197.44 and 1857.98 in three years, which was much higher than the remuneration level of other enterprises in the same class. On the other hand, the Committee believes that Dingmag Technology has not paid social insurance premiums and housing fund in full in accordance with the law. Enterprises focusing on performance should not ignore internal management and social benefits, otherwise the corporate image will be greatly reduced and ultimately reflected in the resources obtained. In order to better adapt to the financing model under the full registration system, enterprises need to discipline themselves with higher and stricter requirements.

4. Conclusion

In summary, this study starts from the two financing subjects, namely brokerage firms and enterprises, to explain the difficulties of enterprise financing and propose relevant solutions under the background of comprehensive registration system. Innovative construction of the analytical framework, through the perspective of both sides of the analysis, pointing out that market participants in their own position to take into account the needs of the other side and the current situation, to speed up the exchange and communication between market players, and only further promote the full cycle of resources. Market fluctuations are ever-changing, and solving the enterprise financing problem is destined to be a long-term task. It is not enough to rely only on brokerage firms to improve their business and strategy to docking enterprises and alleviate their financing problems, but one should make use of the power of the state, society and organizations, and do a good job of long-term strategic planning. In addition, to solve the problem of enterprise financing difficulties, it is especially necessary for enterprises to make breakthroughs from the inside out, improve their own qualifications and capabilities, and fundamentally break the bias of market financing, rather than relying on the policy support of the state or the government. Nevertheless, this study only selects the brokerage firm as the provider of financing for relevant explanation, innovatively constructs a specific investment and financing dialogue between the two sides of the thinking framework, to solve the problem of financing difficulties to provide a new way of thinking. It is hoped that in the future, the mechanism of dialogue between various fields and institutions and enterprises can be further refined, and the general rules can be summarized and applied, so as to reduce the barriers and prejudices between subjects and promote the healthy development of the market.

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