

Research on Financial Risk Control of Listed Securities Companies in China — — in the Case of Soochow Securities

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Keywords: Listed Securities Company; Financial Risk Control; Soochow Securities

Abstract: In recent years, with the continuous improvement of China's capital market and the deepening of capital internationalization, the securities industry also faces more complicated competition situation. Under the conditions of market economy, it is inevitable for securities companies to have financial risks. It is very important to predict, control and prevent risks correctly. In this both opportunities and challenges of the market situations, the securities firm should keep up with the pace of the times, improve the abilities of financial risk management constantly, guard against financial risks effectively, enhance its market competitiveness. This paper selects Soochow Securities as a case study, combines theory with practice, and through the qualitative and quantitative analysis of its financial risk control in recent five years, it comes to the measures to strengthen the financial risk control of securities companies.

1. Introduction

In 2016, the securities market fluctuated violently and the economic development was slow. The overall performance of securities companies decreased compared with the same period of last year. With the rapid development of the innovative business of securities companies, the strong impact of high technology and Internet on the securities industry [1], the fierce competition of traditional business makes the profit margin lower. Therefore, many securities companies are seeking transformation to seize the market and increase capital investment. At the same time, the financial risk of securities companies is also rising. In such a complex new situation, it is not only for the securities companies, but also for the securities companies It's both an opportunity and a challenge. In order to remain invincible in the fierce competition environment, securities companies must first of all pay attention to the financial risk control of the company, and then continuously improve the financial risk control and management system of the company, predict and prevent the potential risks, evaluate and control the risks that have occurred, and finally take corresponding solutions according to the actual situation of the company Reduce the risk at the same time to achieve maximum benefit, promote the company towards a reasonable, scientific and healthy direction.

2. A Case Study: Financial Risk Control of Soochow Securities

Soochow Securities, formerly known as Suzhou securities which was established in 1992, was restructured and renamed Soochow Securities Co., Ltd. on May 28, 2010 after three times of capital increase and share expansion. Suzhou International Development Group Co., Ltd. is the controlling shareholder of Soochow Securities. Its business scope includes brokerage and wealth management, investment banking, investment and trading, asset management and fund management, credit trading and other traditional businesses [2]. The shares of Soochow Securities Co., Ltd. were listed on Shanghai Stock Exchange on December 12, 2011. Up to now, Soochow Securities has 16 branches and 137 business departments in China. Its business scale and main business indicators are in the forefront of domestic securities companies.

2.1. Qualitative Analysis

The financial risk control of securities companies is not only reflected by financial indicators, but also reflected by non-financial indicators such as equity structure and corporate governance. Compared with non-listed companies, listed companies have higher transparency of information disclosure, and some non-financial information can also be obtained from the public data, and then these non-financial indicators are analyzed qualitatively to predict and evaluate the financial risk control situation of securities companies.

GE was founded in 1892, headquartered in Boston, USA, and is the world's largest multinational company providing technology and services. Its main stock-in-trade comprise aircraft engines, power generation equipment, financial services, medical imaging, plastics, etc. As of 2016, GEA have taken up about 90% of the US household appliance market and are known as benchmark companies in the North America. GEA have a strong attraction for household appliance companies that want to enter the international market.

2.1.1. The Shareholding Structure is Not Reasonable Enough

Equity structure, use to judge a company's equity ownership balance degree of dispersed or concentrated, when the company's largest shareholder's stake is greater than the sum of the shares held by the second to the fifth largest shareholder, the largest shareholder of the company's control, embodied in "a dominant", the performance as equity checks and balances, mutual supervision, mutual between the shareholders. The shareholding structure of Soochow Securities is characterized by a single dominant share. Suzhou International Development Group Co., Ltd. holds an absolute majority stake of 23.11%, and is the only shareholder over 5%. Since the largest shareholder holds a relatively large share of the company, it is highly correlated with the interests of the company. It can not only improve the enthusiasm of participating in the company's affairs, but also improve the decision-making efficiency of the management. However, the concentration of equity makes the power of major shareholders unrestrained, which may lead to the decision makers' mistakes and even the behavior of major shareholders using their own power to infringe the interests of the company. Therefore, Soochow Securities has the risk of controlling major shareholders, and its shareholding structure needs to be optimized.

2.1.2. Risk Management Mechanism is Not Perfect

Due to internal control audit control is not strict, Soochow Securities is timely identify and effectively guard against business risks, due to a lack of system support business at the same time, to focus on the situation, the company to multiple occurrences of illegal items, shows that its compliance risk management system, mechanism and process there are still many problems. The company does not pay enough attention to the risk control work, ignores the role of the risk control department, and needs to strengthen the personnel behavior management and authority management.

2.2. Quantitative Analysis

2.2.1. Fluidity Analysis

Liquidity is the ability of a company to service its short-term liabilities. Liquidity risk refers to the risk of failing to complete a transaction at the ideal time due to insufficient market volume or a lack of willing counterparties. The capital-intensive characteristics of the securities industry require it to maintain a high liquidity of funds.

Through analysis, it can be concluded that the net capital index of Soochow Securities showed a trend of slow decline and then a sharp rise from 2012 to 2016. In 2013, Soochow Securities focused on margin lending, stock pledge repo capital and other businesses. At the same time, it increased capital by 200 million yuan for innovation capital, resulting in a relatively large demand for funds and a decrease in net capital. Soochow Securities ranked 29th in terms of index and the performance of various businesses tended to be flat. After the completion of private placement in 2014, Soochow Securities' net capital increased significantly. In 2015, the issuance of two subordinated bonds was completed, resulting in a net capital increase of over 30% for securities

companies. In 2016, the regulatory environment of the securities market stabilized, and Soochow Securities' net capital increased steadily. In general, the net capital index of Soochow Securities is better than the regulatory standards of China Securities Regulatory Commission, and the capital is relatively sufficient to promote the sustainable and stable development of the company. The proportion of proprietary equity securities and securities derivatives and net capital of Soochow Securities is increasing year by year. The early-warning standard of CSRC for this index is less than or equal to 80%. In recent years, the index of Soochow Securities reaches 70%, and measures should be taken to improve the index in time to avoid exceeding the early-warning standard.

For the ratio of net capital to debt, the CSRC's regulatory standard for this indicator is no less than 8%. As can be seen from the figure, the index value of Soochow Securities was relatively high in 2012, but dropped significantly in 2013, and it was lower than 100% from 2014 to 2016. The main reason is that Soochow Securities issued subordinated bonds, corporate bonds, income certificates and other ways to increase the total debt by a large margin.

2.2.2. Profit Ability Analysis

China's securities industry continues to prosper. With the gradual liberalization of industry regulation and rapid development of innovative businesses, securities companies are actively exploring new profit models, using innovative businesses to further expand the capital market, increase business transaction volume, and stabilize the company's earnings [3].

From the perspective of the environment of Soochow Securities faces, recent stock market volatility, securities companies face larger operating pressure, since 2014, under the function of various factors, the securities market gradually warming, brokerage, investment banking, investment, business comprehensive improvement, the securities company's performance has a larger increase, from the perspective of the calendar year revenue of Soochow Securities, in line with this trend. Soochow Securities profitability index rising year by year from 2012 to 2015, 2015-2016, have fallen sharply, the trend in conformity with the general trend of the securities industry, the main reason is that the stock market's thriving, the rapid development of innovative business, but in 2016 because of the securities market is not stable, the market volume to drop, Soochow Securities profitability caused a certain influence.

From the perspective of the operating income structure of Soowu Securities, brokerage and financial management business have always been the main source of operating income for securities companies. However, with the decrease of commission rate and the impact of Internet companies on financial enterprises, the income of brokerage business also continues to decline, and securities companies significantly reduce their dependence on it. The rapid recovery of investment banking business has gradually become an important source of operating income for Soochow Securities. Investment and trading business in Soochow Securities in the operating income of a higher proportion. Fund and fund management business is also developing. In terms of credit trading business, in recent years, securities companies are developing rapidly both in business scale and profit level, and Soochow Securities is also maintaining a more stable state of development.

In 2016, three of Soochow Securities' operating revenues were positive growth and two were negative growth. Brokerage and wealth management businesses suffered the biggest decline, leading to a large loss of net profit for the whole company.

2.2.3. Growth Ability Analysis

The growth ability analysis of enterprises is the analysis of the expansion ability of enterprises.

The operating income growth rate of Soochow Securities increased slowly from 2012 to 2015, exceeded 100% in 2014 and 2015, and dropped significantly to -31.99% in 2016. The growth rate of total assets showed an upward trend from 2012 to 2014, reached 204.93% in 2014, and continued to decline from 2014 to 2016. The growth rate of net profit increased steadily from 2012 to 2014, reached 191.52% in 2014, continued to decline from 2014 to 2016, and dropped to -44.68% in 2016.

Soochow Securities completed the private placement in 2014. All the funds raised were used to increase the company's capital, carry out Internet financial business, and increase investment in

online securities business and technology. The total assets increased significantly while the net profit increased by more than 70% year-on-year. With the decline of the commission rate, brokerage income is also in the current situation of decline, coupled with the rapid recovery of investment income and the rise of innovative business, Soowu Securities significantly reduced its reliance on brokerage income. In 2013, the innovative business began to grow rapidly, gradually becoming a new profit growth point, adding new income sources while rapidly expanding business outlets and optimizing the income structure. In 2016, the stock market first slowed down, then rose, and recovered with turbulence. The trading volume of stocks in Shanghai and Shenzhen fell sharply, with the Shanghai Composite Index down 12.31% and the Shenzhen component index down 19.65%. The operating income and net profit of Soochow Securities also declined to different degrees compared with the previous year, among which the brokerage and wealth management business suffered the biggest decline.

2.3. Problems Existing in Soochow Securities Financial Risk Control

2.3.1. Insufficient Attention Has Been Paid to Risk Control Indicators

Through the risk of financial information of Soochow Securities in recent five years, some financial information and indicators of Soochow Securities have shown that there may be financial risks in the company. However, Soochow Securities has not paid enough attention to these financial risk control indicators [4], and has not timely predicted and controlled the potential risks. "Paying more attention to business and neglecting risk control" is a common phenomenon in China's securities companies, so it is urgent to strengthen the management of risk control. In 2012, but dropped significantly in 2013, and it was lower than 100% from 2014 to 2016. The main reason is that Soochow Securities issued subordinated bonds, corporate bonds, income certificates and other ways to increase the total debt by a large margin.

2.3.2. The Execution of Risk Control System is Weak, Lack of Supervision and Balance Mechanism

Although the listed securities companies have basic and relatively perfect system norms in risk control, it can be seen from the analysis of Soochow Securities that there are still some deficiencies in the implementation of risk control system of Soochow Securities. When the financial risk increases and the relevant financial risk control index exceeds the standard, it fails to take timely measures to deal with it. Therefore, the implementation of the risk control system of securities companies should be further strengthened. At the same time, the independence and authority of risk control departments should be strengthened, and control measures should be taken in time to avoid the spread of risks.

2.3.3. The Financial Risk of Innovative Business is Not Evaluated and Prevented in Time

Nowadays, various securities companies are vigorously developing innovative business, and innovative business has become a new profit point, which not only provides securities companies with higher profits, but also promotes the continuous improvement of the profit structure of securities companies. However, many securities companies have not yet formulated the corresponding risk control management system, which cannot well resist the market risks, leading to repeated violations of Soochow Securities. Therefore, while carrying out innovative business, securities companies need to timely assess the potential risks of innovative business and establish relevant risk control system. In strict accordance with the standards of regulatory agencies, for high-risk businesses, they should also analyze specific problems and establish targeted risk control management.

3. Case Summary: Measures to Strengthen the Financial Risk Control of Listed Securities Companies in China

This is risky securities industry enterprises, although our country's listed securities companies have characteristics based on the characteristics of the high risk securities industry and the company

targeted established a risk control system, and formulated the measures to prevent and control risks, but from the point of the present situation of the securities companies, securities companies in our country's system of internal control and risk management is not perfect, the securities market changes in the environment and the company's internal governance failure could lead to a company's financial risk. The following will improve the company's risk control system and improve external supervision of the two aspects of strengthening the financial risk control of China's listed securities companies to put forward specific suggestions[5].

3.1. Suggestions on Improving the Risk Control System of Listed Securities Companies

3.1.1. Develop Diversified Financing Channels

With the continuous growth of the securities market and the continuous development of innovative business, the traditional short-term financing method is difficult to meet the needs of the company's long-term business development due to its short-term term and strong uncertainty, which has not adapted to the development of the times. Securities companies should further expand financing channels and build a set of short, medium and long-term supporting financing channels to promote the company's better development. At the same time, on the basis of making full use of traditional financing methods, such as equity financing, short-term financing bonds and interbank lending, securities companies should actively explore other innovative financing methods to better guarantee the liquidity of their own funds.

3.1.2. Improve Risk Assessment Methods

Securities companies should establish a risk assessment system at all levels to predict and evaluate potential risks, determine the maximum amount of risk the company can bear, and each department should set up a project risk warning line to monitor the risks of each project in real time. The risk management department shall supervise all departments, discover risks in time and report the specific situation to the board of directors.

Securities companies should establish a multi angle financial risk assessment mechanism, classify the identified risks according to their importance, establish the key risk control index system according to the possibility and influence degree of risks, adopt the method of combining qualitative and quantitative analysis, comprehensively use sensitivity analysis, stress test and financial risk early warning model to evaluate financial risk According to the analysis results, corresponding risk control measures are formulated.

3.1.3. Improve Risk Response Mechanisms

First of all, securities companies should establish a risk response mechanism[6]. When major risks occur, they can take appropriate measures to control the spread of risks, so as to minimize the losses of the company. Secondly, securities companies should do a good job in information disclosure, timely communicate the specific situation of the event with the risk control department and management, and disclose the progress of the event to the public, so as to protect the interests of investors. Finally, securities companies should actively implement the risk control system, clarify the risk management responsibilities of each department, and ensure smooth communication.

3.2. Rational Allocation of Regulatory Authority

3.2.1. Promote the Development of Regulatory Laws and Regulations

The development of China's securities market started late, and the development of the capital market is slow. Although relevant laws, regulations and supervision mechanisms have been established, the legislation is not perfect, and the poor effect of law enforcement is still widespread. The following are suggestions on improving external supervision measures of listed securities companies mainly from two aspects of legislation and law enforcement.

Legislation: First of all, the state should improve the legal supervision system of the securities industry. It should not only pay attention to the systematization and comprehensiveness of the law, but also pay attention to the enforceability and operability of the law, so as to clarify the punishment

for violations of laws and regulations. Second, due to the rapid development of the innovative business of securities companies, relevant departments should be timely to study, and make corresponding laws and regulations, the innovation risk evaluation and control of the business, and should be according to the actual circumstance of business development, moderate deregulation, strengthen regulation and specification of innovative business process and risk control measures. Finally, related departments should keep pace with The Times to revise relevant laws and regulations, the rapid development of capital markets in recent years, some laws and regulations constraint has been difficult to adapt to the development of The Times, even to a certain extent, to generate hinder the healthy development of capital market, timely revise laws and regulations and to facilitate better emerging supervision of the securities industry, promote the operation of the securities market stability.

Law enforcement aspect: on the one hand, to enhance the transparency of the securities industry regulation behavior, regulators should be promptly disclose the violation behavior, make the public understand the actual situation of the securities firm, the immediate interests of the reasonable protection of investors, but also to make more involved in the regulation, supervision and subject to effective implementation of laws and regulations, put an end to the practice of securities regulators abuse of power. On the other hand, the communication mechanism between legislative organizations and law enforcement agencies should be established to communicate and give feedback in time when problems occur in the process of law enforcement, so as to promote the continuous improvement of securities laws and regulations.

3.2.2. Rational Allocation of Regulatory Authority

To improve the supervision system of the securities market is the prerequisite for strengthening the supervision of the securities industry. On the one hand, the functions and powers of the supervision institutions should be reasonably distributed, a multi-level supervision system should be established, and the supervisory rights concentrated in the CSRC should be appropriately distributed to the self-regulatory institutions, and the functions and powers of specific supervisory departments should be clearly defined, so that the supervisory duties can be carried out practically. On the other hand, we should weaken the administrative color of the regulatory body, strengthen the position of the securities exchange, the securities industry association and other self-regulatory bodies, make the self-regulatory body truly independent, promote the diversification of the securities market regulatory bodies, and form an effective coordination and balance mechanism.

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