



**STUDY ON THE RISK CONTROL OF SECURITIES MARGIN FINANCING  
BUSINESS  
—TAKE THE SOUTHWEST SECURITIES AS AN EXAMPLE**

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**Thematic Certificate  
To  
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## ABSTRACT

Title: Study on the risk control of securities margin financing  
business——Take the southwest Securities as an  
example

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Margin trading business in developed countries is not a new thing , but entering our country and entering the general investor's view is the matter of the recent years. Since the State Council approved the implementation of the margin trading business in March 31, 2010, China's securities margin trading develop healthy and steadily , more and more securities companies obtain the qualifications of Margin trading ,and more and more securities become the underlying securities, margin trading plays a more and more important role in the development of securities market. But at the same time, it needs to be noticed that there still exist many problems in the margin trading market when compared with the developed countries. The problems come from national level of laws and regulations, securities business, and the investors themselves. Especially there is large gap when compared with the developed countries in risk control. And it should be noted that China's existing problems are not divided from the basic conditions of our country. Reform and improve the system of risk monitoring system of margin trading should be combined with the actual situation of China. Strengthen the management of securities margin trading business risk and protect the interests of investors effectively.

This paper first introduces the research background and literature review of the paper. Secondly analyze the current situation and existing problems of China's margin trading market. The next, carding the risk of margin trading securities companies face. Finally, taking the H securities company as an example, makes an in-depth analysis of the current situation of the financing and securities lending business, the risk supervision, existing problems and policy recommendations, puts forward some pertinent suggestions and summarizes the whole article.

**Keywords:** Securities, Margin trading, risk control, the H Securities company

## 摘 要

标题：证券公司融资融券业务风险控制研究以H证券为例

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融资融券业务在发达国家早已不是新鲜事，但进入我国是这几年的事情。自国务院2010年3月31日批准试点融资融券业务以来，我国融券融券交易健康稳定发展，越来越多的证券公司取得融资融券业务资格，越来越多的证券成为融资融券标的证券，融资融券业务对证券市场的发展具有越来越重要的作用。但同时也需要注意到，我国融资融券市场与发达国家金融市场相比，仍然存在着许多问题，这既有国家法律法规层面的，有证券公司经营方面的，也有投资者自身方面的问题，尤其是在风险监控控制方面与发达国家相比还存在着不少差距。但应看到，我国存在的这些问题与我国的基本国情是分不开的，融资融券监管制度的改革和完善要结合我国实际，加强对证券公司融资融券业务风险的管理，切实保障投资者的利益。

本文首先介绍论文的研究背景、文献综述；其次分析我国融资融券市场的现状、存在的问题；接下来对证券公司从事融资融券交易所面临的风险进行梳理；最后以H证券公司为例，对其融资融券业务现状、风险监控情况、存在问题及政策建议等进行深入分析，提出有针对性的建议，并对全文进行总结。

关键词：证券公司融资,融券业务,风险控制, H证券公司

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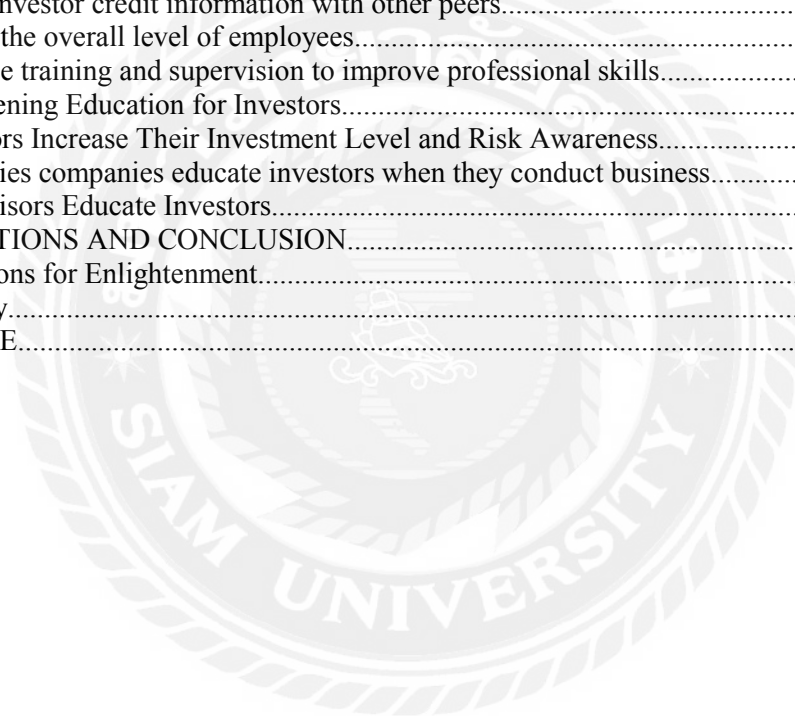
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# 1. INTRODUCTION

## 1.1 Research background and significance

### 1.1.1 Research Background

Yang (2011) suggested that margin financing business refers to the business of lending funds carried out by the securities companies that meet the requirements to buy securities and lend securities to investors for sale. Li (2010) suggested that China's financing and margin business from the proposed to now mainly experienced the following stages

The first stage: provides the policy support stage for the financing margin business's promulgation. October 27, 2005, China passed the newly revised "Securities Law of the People's Republic of China", which stipulates that "securities companies for customers to buy and sell securities to provide margin lending services, should be in accordance with the provisions of the State Council and approved by the Securities Regulatory authority under the State Council", so that the financing and margin business has In July 2006, China Securities Regulatory Commission formally issued the "Security companies financing and margin business pilot management measures", which marked the formal financing margin system in China to start.

The second stage: the real preparation stage for financing margin business. April 23, 2008, the State Council announced the securities Companies supervision and management regulations, the margin trading system provides a legal basis. In addition, other related preparations are progressing synchronously and making great progress.

Phase III: Approval of implementation and a new phase of overall development. The State Council March 31, 2010 approved the implementation of the financing margin business, which marked the official financing margin trading in China to start. In order to better promote the financing and margin business work, the CSRC issued a series of notices and methods, and approved a number of qualified securities companies to carry out financing and margin business qualification. As of March 10, 2016, the qualified securities companies have 93, the Shanghai and Shenzhen stock margin trading margin of 839.07 billion yuan. Margin trading entered a new stage.

Since March 31, 2010, the State Council approved the formal implementation of the financing and margin business pilot transactions, H Securities Company in 2012

to obtain the CSRC's financing and margin business qualification approval, as at the end of 2015, its margin of financing margin has been ranked in the 25th position of Chinese brokerages. This paper makes a deep analysis on the development situation, risk supervision status, existing problems, reasons and policy suggestions of H Securities Company, hoping to make some reference for other securities firms to develop financing and margin business and risk supervision.

### 1.1.2 Significance

A margin account is a loan account by a share trader with a broker which can be used for share trading. The funds available under the margin loan are determined by the broker based on the securities owned and provided by the trader, which act as collateral over the loan. The broker usually has the right to change the percentage of the value of each security it will allow towards further advances to the trader, and may consequently make a margin call if the balance available falls below the amount actually utilised. In any event, the broker will usually charge [interest](#), and other fees, on the amount drawn on the margin account.

If the cash balance of a margin account is negative, the amount is owed to the [broker](#), and usually attracts interest. If the cash balance is positive, the money is available to the account holder to reinvest or may be withdrawn by the holder or left in the account and may earn interest. In terms of futures and cleared derivatives, the margin balance would refer to the total value of collateral pledged to the CCP ([Central Counterparty Clearing](#)) and or futures commission merchants.

Zhu (2010) suggested that margin trading has an important and positive effect on the securities market, including the influence on capital market, brokerage and investors. First of all, it has an important impact on the capital market, because it increases the liquidity of the market, in the financing and margin business before the launch of investors can only do long, in the face of the share price fall only to escape or sitting ducks, and margin trading only investors have the opportunity to short, so that investors into the Greatly improve the liquidity of the Fund, improve the efficiency of the use of funds to help stabilize market prices, better to achieve capital markets to support the role of the real economy. As of March 10, 2016, the balance of financing and margin of Shanghai and Shenzhen are 839.07 billion yuan, of which 493.879 billion yuan in Shanghai, Shen zhen 345.191 billion yuan. Secondly, the introduction of financing and margin business has also had an important impact on the operation of the brokerage. Its introduction has increased the income of securities companies, securities companies to carry out the financing and margin business has a

"class fixed income" nature, basically do not take any risk to obtain a stable income. Jin (2008) suggested that the introduction of margin business will bring 30-40% revenue growth. Zhang (2013) suggested that at present, more than 20% of the profit income of American securities companies comes from financing margin, and the profits brought by the financing and margin business in Taiwan and Japan also account for the income 10%. Finally, the introduction of margin business has also brought important impact on investors. The introduction of margin trading business for investors is the first to increase the chances of shorting, unlike in the past can only do more than short, to improve the efficiency of the use of funds, can attract more investors into the securities market, in turn, increase the securities company's profit income. As of March 10, 2016, a total of about 4 million investors opened a securities credit account. With the further deepening of China's financial reform, more and more investors can be met to join in the margin trading.

In addition, margin business also plays an important role in securities companies themselves, and now has become the third largest brokerage business (brokerage, securities investment, margin financing, securities underwriting and sponsorship), and its interest income is stable and less cost of the securities company's profit source. Margin margin is a credit transaction, which is beneficial to increase the liquidity of securities market and increase the business income of securities companies.

At the same time, we should realize that the financing margin transaction is a security deposit, and the risk of leveraged transaction and the credit risk of customers need to be strengthened in the meantime. First of all, margin lending business exacerbated the volatility of the securities market. As the margin trading is the bond business, it is inevitable to help increase the impact of the decline, exacerbated the market volatility, combined with the various mechanisms of China's capital market imperfect, its negative impact is particularly obvious; second, it poses additional risks to securities firms. In the process of the introduction of margin business in China, only the largest business brokers can become the first batch of the pilot financing margin securities brokerage, which will lead to the first to carry out the business of the brokerage can attract more customers, the final result is to lead to strong constant, oligarch trend is becoming more obvious, not conducive to fair competition in the market; It puts higher demands on investors' investments and faces more risks. Because the investor's own knowledge psychology and so on limits, when engages in the financing margin business once the judgment error may face the margin to be insufficient even to force the liquidation risk.

At the same time, we should clearly see the risks brought by the introduction of margin business. Business is not open, risk management first, so it is necessary for securities companies to finance and margin business in-depth study in order to better play the positive role of the securities market.

## **1.2 Literature review at home and abroad**

At present, there are more literatures on the financing and margin trading of securities companies, from different angles to study the risk of financing and margin business, including margin, financing and margin business on the impact of profitability, margin risk prevention, and so on, the following will be divided into domestic and foreign two aspects of these research results to comb.

Li (2008) suggested that hsieh, and miller (1990) suggested that after a thorough study of the impact of margin adjustment on stock market volatility, it was found that there was no significant correlation between margin adjustment and stock market volatility; Largay and Others (1973) After deep research on the dynamic change of stock price and turnover, it is found that the adjustment of margin ratio has some positive relationship with stock market fluctuation; Ackert, and Athanassakos (2005) After a thorough study of the stock market, it was found that there was a negative correlation between margin fluctuation and stock market volatility. Woolridge, and Dickinson (1994) through the study of the active role of margin trading business, the paper holds that the financing margin business has the function of price discovery, which can promote the return of stock price and stabilize the market.

[Zheng](#), Yan, and Liu (2015) suggested that. angel (1997) found through empirical analysis that the margin financing and securities lending business does not cause significant price fluctuations, but it has the effect of reducing the volatility of the stock price; Charoenrook, and Daouk (2005) Diether (2009) Hsieh (2010) and others studied the relationship between margin financing and securities lending business and stock price, and found that the securities lending business would not cause the share price to accelerate decline; Chang (2007) found that after the study of financing and securities lending business, the financing business Unlike securities lending, which has different effects on stock price volatility, the lending business will accelerate stock price volatility. Eric, Chang, and Yan, and Jin (2014) suggested that found that margin trading has no ability to predict earnings for low-return stocks; Yan, and Yao (2015). believe that In terms of margin, margin financing investors may be equivalent to the overall market rate of return, and believe that the recent trend will continue, while short-selling investors are more likely to be traders of specific

company information.

Chen, and Yang (2016) suggested that through the study of the relationship between stock prices and margin trading, confirmed a significant positive correlation between stock price information efficiency and margin trading. Lin, Wang and Liu, and Chen (2015) suggested that risk the financing of the stock market not only financially but also physically, and pointed out that the impact of margin trading on those 45 to The age of 74 is particularly evident among men. Bacidore, Sofianos (2002) suggested that believe that the same can be achieved by reducing the information asymmetry can improve the quality of the market, while reducing the global regulatory efforts in different markets within the limits of insider trading. Daniele (2005) suggested that showed that margin requirements may have a greater impact on price volatility of risky assets than risky assets. Takehide, Hideaki , and Marc (2009) suggested that analyzed the Japanese stock market and found that margin traders follow small-company stocks with positive feedback trading behavior and large-company stocks with negative feedback trading regardless of the size of the company. The predictability of margin trading still exists.

### **1.2.1 Domestic Literature Review**

Li (2009) analyzes the risks that they may face when they engage in margin trading from the perspective of securities companies and investors themselves. And how to carry out the risk prevention, and from the national laws and regulations on the level put forward a constructive opinion; Lu (2010) The credit risk and market risk of margin trading for securities companies , operating risk and other major risks, it is found that the financing margin business mainly exists the risk of lever risk, compulsory liquidation and supervision, etc., and Wu (2010), etc. to investors in the financing margin trading in the risk perspective, The research suggests that investors are faced with the risk of forced liquidation of securities companies in margin trading, and put forward some pertinent policy suggestions to the risks faced by securities companies.

Shi (2011) After a thorough study of China's specific securities market, it is found that perfecting the price discovery function of financing and margin trading in our country must be based on the actual situation of China's financing and margin business, in order to play its positive role. Lios (2011) After empirical study on Shanghai and Shenzhen stock markets, It is concluded that the relationship between the financing business and the development of margin business in China is unbalanced, it is found that financing business is helpful to improve the price of the

marked securities market, and the price discovery function of margin trading is still to be further developed, and some policy suggestions for perfecting the margin market are put forward. Bi (2010) , etc. from the margin market, Based on the three dimensions of securities companies and customers, the paper forecasts the impact of margin trading on China's future stock market and puts forward some investment strategies and profit models.

SiMa, Yang (2011) suggested that respectively from the financing margin trading mechanism of the positive effects and negative impact of two points of view, and for China's financing margin trading problems mainly from information disclosure, credit system construction, strengthening supervision and other aspects of the improvement; Yang (2012) This paper aims at raising the risk control level of the securities companies in China by strengthening the credit contract management, financing and margin securities, constructing the dynamic risk early warning system and improving the risk-resisting ability of the stock brokers. Gao (2014) . It is considered that margin trading has a significant effect on increasing liquidity and trading activity of stock market, which can effectively reduce the risk of systemic liquidity in the stock market, but the short selling and lever characteristics in the transaction also increase the potential risks in the transaction.

### **1.3 Research methods**

#### **1.3.1 The combination of theory and practice**

Through the network, school library and other channels to collect securities companies financing margin business risk monitoring of the relevant literature, and its in-depth analysis of the summary, formed the theoretical part of this article. In addition, I interned in the H Securities Company for a period of time, daily contact with its margin trading business, and write the margin margin risk daily, its financing margin business, risk supervision and existing problems have a more in-depth understanding. Taking the risk control of financing and margin business of H Securities Company as a case, it coincides with the topic of this paper and embodies the principle of applying the practice.

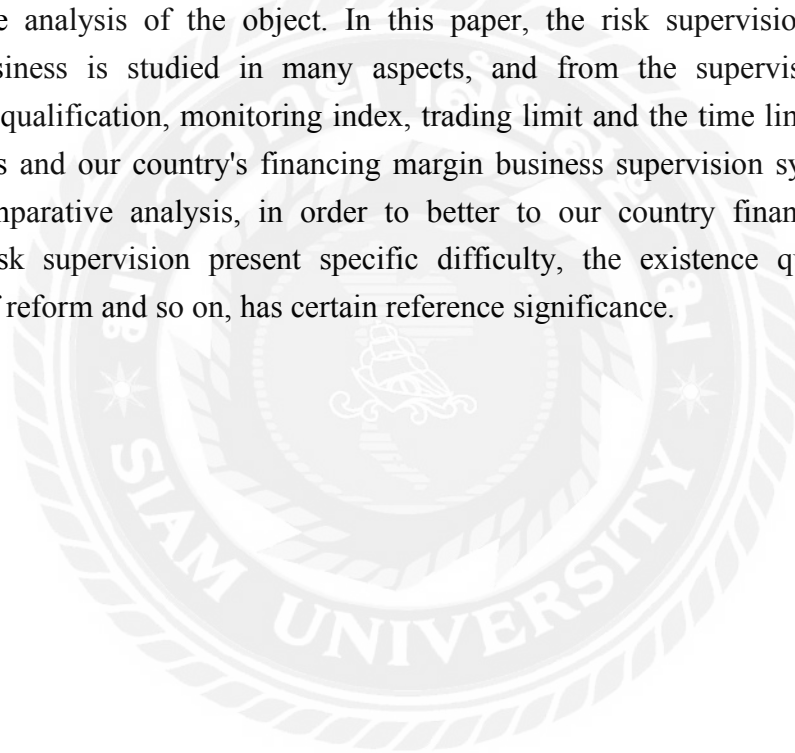
#### **1.3.2 Case analysis**

In order to make a more intuitive analysis on the risk monitoring of securities margin business, this paper chooses H Securities Company as a case for in-depth

research and analysis. Firstly, it introduces the wind control situation of its financing and margin business; Secondly, it makes a thorough analysis of the problems existing in the risk supervision, finds out the reasons for these problems, and finally puts forward some practical suggestions. Taking the H Securities Company as a case, the research on the risk supervision of the margin business of securities companies is more intuitive, making the research results more scientific.

### **1.3.3 Comparative analysis**

In order to carry on the in-depth analysis to our country securities company financing margin risk supervision system, this paper chooses the United States, China Taiwan, Japan as the financing margin business risk supervision system of comparative analysis of the object. In this paper, the risk supervision system of margin business is studied in many aspects, and from the supervision subject, admittance qualification, monitoring index, trading limit and the time limit and so on many levels and our country's financing margin business supervision system carries on the comparative analysis, in order to better to our country financing margin business risk supervision present specific difficulty, the existence question, The direction of reform and so on, has certain reference significance.



## **2. CHINA'S MARGIN FINANCING AND SECURITIES LENDING BUSINESS DEVELOPMENT AND PROBLEMS**

China launched a pilot scheme in March 2010 to lift the ban on short-selling and margin trading for stocks on a designated list. We find that stocks experience negative returns when added to the list. After the ban is lifted, price efficiency increases while stock return volatility decreases. Panel data regressions reveal that intensified short-selling activities are associated with improved price efficiency. Short-sellers trade to eliminate overpricing by selling stocks with higher contemporaneous returns following a downward trend, and their trades predict future returns. In contrast, we find intensified margin-trading activities for stocks with lower contemporaneous returns, and these trades have no return predictive power.

This study contributes to the literature in several aspects. First, it provides additional evidence on the impact of short-selling and margin-trading constraints on the market. Second, to the best of our knowledge, we are the first to comprehensively examine the impact of short-selling and margin-trading on price efficiency in the Chinese market. Third, we are the first to explore the trading strategies adopted by Chinese short-sellers and margin traders. This study helps market participants to understand why, when, and how those special investors trade. The findings in this study provide important policy implications for Chinese regulators. The Chinese capital market experienced burgeoning growth in the last two decades, and is now one of the most important financial markets in the world. Chinese regulators have attempted to lift restrictions on the financial market, whereas they are still concerned about market stability. Our results suggest that due to the special trading strategy adopted, Chinese short-sellers and/or margin-traders do not destabilize the market. China implemented the pilot scheme of “refinancing” in August 2012, allowing banks, mutual funds, and insurance companies to lend out money to margin-traders, contributing to the soaring volume of margin-trading. “Security refinancing”, however, was shelved due to stability concerns, greatly limiting the supply of security lending. Our study reveals that short-selling, not margin-trading, promotes price efficiency. In addition, short-sellers, not margin-traders, are information producers. We thus urge upon Chinese regulators to speed up the security refinancing scheme to facilitate the further development of the market.

This event provides us with a rare opportunity to further investigate the impact of short-selling and margin-trading from several aspects. First, the ban on short-selling and margin trading was lifted for a subset of stocks overnight. We then test whether the short-sale constraint contributes to share overvaluation by examining the event



returns . Second, we investigate whether the constraints hinder price discovery and/or stabilize the market by examining the changes in price efficiency and return volatility after the ban is lifted . Third, China makes the daily short-selling, margin-trading, and associated covering volume data publicly available at the stock level. U.S. researchers, in comparison, usually observe the monthly short interest only. We further examine the relation between price efficiency and short-selling/margin-trading activities using panel data . Finally, we analyze the relation between trading activity and the past and future stock returns, which enables us to infer the trading motivations and to assess the informativeness of Chinese short-sellers and margin-traders.

Our main results are as follows. First, we examine the stock returns around the event day when a stock is added to the designated list and hence the bans on short-selling and margin-trading are lifted. We observe an average abnormal return of  $-47$  bps on the event day, which is significantly negative. The cumulative abnormal returns remain negative for two months following the event. The evidence strongly supports the conjecture that the short-sale constraint contributes to share overvaluation.

Second, we obtain the weekly returns over a one-year period both before and after the event and estimate efficiency measures. The results show that after the bans are lifted, stock return synchronicity ( $R^2$ ) decreases significantly in the down-market. The crossautocorrelation ( $\rho$ ) between stock returns and lagged market returns decreases significantly in both the up- and down-market, but the magnitude of change is much larger in the downmarket. Variance ratio also drops significantly. These results indicate that short-selling and/or margin-trading improve price efficiency, especially during market downturns. We then investigate the change in the distributions of weekly returns. We observe significantly lower return volatility in both the up- and down-market and lower frequency of extreme stock returns after the bans are lifted. This contradicts traditional wisdom that short-sellers and/or margin-traders destabilize the market.

From the law expressly prohibit the financing and margin business, by October 2005 the newly revised "Securities Law of the People's Republic of China" to provide legal support for margin financing, and then the State Council in March 2010 formally approved the Securities company pilot financing margin trading, and after the establishment of the 2011 China Securities and Financial Company Limited, Financing and margin business has been around six years of time, has experienced a preparatory, exploratory period, to now gradually stable development period. Overall, at present, the securities companies in China to develop a good margin business,

business risk control within a reasonable range, but compared with developed countries there is still a large gap.

## **1.1 Development status**

### **1.1.1 Rapid development**

First of all, in terms of margin business balance, with the continuous expansion of the underlying trading securities, as well as the increasing enthusiasm of investors, margin trading volume has also gone up. According to wind data show that, as of March 10, 2016, SSE and SSE two cities of the margin of financing margin of 839.07 billion yuan, is 3 years ago March 13, 2013 151.477 billion Yuan 5.54 times times, of which Shanghai 493.879 billion yuan, Shen zhen 345.191 billion yuan, The stock ratio of Shanghai and Shen zhen is 58.9% and 41.1% respectively; the financing balance of Shanghai and Shen zhen is 836.754 billion yuan, 148.611 billion times 3 years ago March 13, 2013, 5.63 times yuan in Shanghai and Shen zhen, and the balance of bonds in the two cities is 2.316 billion, and 3 years ago March 13, 2013. Fell 19.2%, overall, from the financial margin business has been a formal pilot since the rapid development. Financing margin business balance of the specific situation as shown:

From the financial margin business officially launched to the first half of 2014, the Shanghai and Shen zhen stock margin has been slow growth, starting from the second half of 2014, due to the continued hot market, margin business also ushered in the rapid growth period, the highest is June 18, 2015, Reached 2,273,035,000,000 yuan, the Shanghai and Shen zhen cities of the margin of financing margin reached the highest point, respectively, 1,486,914,000,000 Yuan, 786.121 billion yuan, since the stock market Walk bear, margin of financing margin also plummeted, to March 10, 2016 for 839.07 billion yuan, 36.91% for the highest point only.

Second, from the margin margin account angle, according to wind data shows that as of January 31, 2016, the national margin credit account for the end of the total number of 3,994,107, is March 31, 2013 1,268,947 3.15 times times, of which the individual accounts 3,986,285, 7,822 institutional accounts, 23,296 new credit accounts in January 2016, including 23,088 in individual accounts and 208 in institutional accounts. The growth of margin margin accounts is shown in Figure 2 below:

The total number of credit accounts has been steadily increasing, and the total number of personal credit accounts is larger than the total number of institutional credit account at the end of the year, until the June 2015 Shanghai and Shen zhen stock index reached the maximum, after January because of the stock market crash, the total number of credit accounts Since then, the total number of credit accounts has stabilized at around 3900000. In the figure above, because the total number of institutional accounts is too small relative to the total number of individual accounts, the growth of the total number of personal credit accounts is essentially overlapping with the overall total credit account closing totals.

The number of new accounts opened by individual credit accounts is much larger than the number of new accounts opened by the institution, and the overall growth of the two accounts is basically coincident with the number of new accounts opened in the individual's credit account. Total and personal credit account number of new accounts has not been significantly volatile, until the second half of 2014, with the advent of the bull market, the number of new accounts opened with the increase, to December 2014 to reach the maximum, the total added 724,152, personal growth of 723,262, the organization grew 890.

From the point of view of margin trading, according to wind data shows that as of March, 2016, ETF financing balance of 37.665 billion yuan, March, 2013 4.738 billion Yuan 7.95 times; ETF margin is 995 million yuan, the March, 2013 317 million, Yuan 3.14 times.

The balance of ETF financing has been growing steadily, reaching the maximum value of 138.59 billion yuan on June 19, 2015, since the stock market took bear, accordingly, the ETF financing balance has gradually declined, as of March 11, 2016, ETF financing balance of 37.665 billion yuan; Compared with the growth of ETF financing balances, ETF margin changes are much larger, from 2013 to 2014 July, the balance of ETF margin in the volatility of basic stability, from July 2014 to enter the growth channel, until the middle of January 2015 reached a peak, and then fell, From April 2015 onwards ushered in a wave of growth, the highest in the stock index to achieve the largest, since then, as the stock market by Schong, ETF margin also declined, as of March 11, 2016, as of March 11, 2016, as of 995 million yuan.

From the perspective of industry growth, from March 29, 2013 to March 11, 2016, for example, in the margin business of the top three industries are: manufacturing, finance, information transmission, software and information technology Services for example (Industry classification according to the 2012 edition

of the SFC Industry classification), accounted for : 46.1%, 14.52%, 9.2%. According to wind data shows that March 11, 2016, the manufacturing margin of financing margin of 360 billion yuan, March 29, 2013 55 billion yuan 6.5 times times, of which the financing balance of about 365.5 billion yuan, the balance of the margin is 470 million yuan, The imbalance of financing business and margin business is evident in manufacturing.

According to wind data, March 11, 2016, the financial industry's margin of financing margin of 112.9 billion yuan, March 29, 2013, 2.36 times times 47.9 billion yuan, growth is very rapid; The imbalance of financing business and margin business development also exists in the financial industry

According to wind data, March 11, 2016, information transmission, software and information technology services in the margin of financing margin of 71 billion yuan, April 3, 2013 4.9 billion Yuan 14.5 times times; The contradiction between financing business and margin business imbalance is very prominent.

### **1.1.2 Mainly based on financing business**

Since March 2010, the official launch of the margin business, trading volume has been steadily increasing, according to wind data show that, as of March 10, 2016, the Shanghai and SSE two cities margin of financing margin of 840 billion yuan, of which the financing balance of 836.754 billion yuan, Shanghai and Shenzhen stock bond balance is 2.316 billion yuan, the proportion of the financing balance is far ahead of the margin balance, the proportion of the two accounted for 361.29 times times. There are two main reasons, the first is the financing and margin business in China is a new thing, investors on their awareness is not high, especially on the short function of the securities margin business is not in-depth understanding, for the sake of insurance is mainly engaged in financing business; the second is the nature of the "0 and game" in the margin business, The profit of the customer is the loss of the securities company, on the basis of which, the enthusiasm of the securities company to develop the margin business is not as high as the financing business. With the development of the market and the increase of investors ' cognition to the margin business, it is believed that the short function of the margin business will be further played, and its proportion in the margin business will be increased correspondingly

### **1.1.3 Formed the "28 Pattern"**

According to wind data, in the first quarter of 2016, the top ten securities

companies accounted for the final margin market share of 52.06%, which accounted for the highest number of Acer securities reached 5.95%. In the top 20% of the scale of securities companies accounted for the margin of the market more than 80% of the shares, 20% of the securities companies accounted for more than 80% of the profits, forming a typical "28 pattern." The formation of "28 pattern" for large securities companies, is conducive to the formation of economies of scale, improve service levels and competitiveness. The formation of the "28 pattern" is one of the main reasons for the financing margin business pilot, only the most powerful securities companies to be eligible to start financing and margin business, so as to obtain the first advantage, and then obtain the highest market share.

## **1.2 The main problems**

### **1.2.1 Unbalanced development of margin financing and securities lending business, too few underlying securities**

Since the introduction of financing and margin business, its rapid development, but this kind of growth is very uncoordinated, financing business in the financing margin business in the proportion of the share is much higher than the margin business, so disparity has seriously affected the margin trading short function of the play, to a large extent, the impact of the introduction of margin trading in the original intention. Yang (2012) suggested that the financing balance is far greater than the margin, one reason is that the securities margin business is limited, the income of the investor's margin business means the loss of the securities company to a certain extent, which leads to the conflict of interests between the broker and the customer, thus forming a profit-losing situation , which is obviously not in line with the long-term interests of the securities company; Another reason is that, because the financing margin business is not long, investors have long been accustomed to short, lack of experience and knowledge of shorting, the demand for margin business relative to the financing business is not so strong.

In addition, in terms of ETF margin and margin trading, the basic financing business balance is much larger than the margin business balance. The imbalance of financing and margin business development will eventually affect the long-term healthy and stable development of the securities market, which should arouse our attention.

Zhai (2013) suggested that Some data show that Japan's financing margin business of the number of securities accounted for 70% of listed securities, the proportion of Taiwan in China is higher, to reach 97%[17]. According to data published by Shanghai Stock Exchange and Shenzhen Stock Exchange, as of the end of March 2016, the total number of the listed securities in China was only 900, and the 9,728 of the total varieties of the securities and futures market in CSI was less than 10%. Compared with the international developed financial markets, such as China's Taiwan region's securities accounted for 90% of listed securities, Japan accounted for 70%, the United States also has about 50%, the number of China's securities is still less, the expansion of space is larger. Shao (2011) suggested that the contradiction of "No voucher can be merged" is more outstanding, the number of the listed securities is too small, which affects the short function of the investors through the margin business, and the short function to a certain extent, the securities prices back to a reasonable position, conducive to play the function of price discovery, the subject of less securities issue letter to be resolved.

On the other hand, because the securities companies carry out the bond business of the underlying securities are mainly private securities, which means that investors in the securities company account can be carried out in the margin business choice of the scope will be very limited. The number of listed securities is too low, it means that securities companies are more concerned about the rise and fall of the underlying securities when they develop the margin business, and if investors and securities companies are judged that a certain stock is going down, the securities firm is reluctant to sell the underlying securities to investors because of the "0 and game" nature of the bond business. In reality, because securities companies hold information, technology and other factors, investors in securities companies on the underlying securities are often in the disadvantaged position, which also limits the development of the margin business. In addition, the number of listed securities is too small, increase the liquidity risk of securities companies, because the securities company's underlying securities limited, when the margin business when the financing appeared "no coupon can be merged" situation, affecting the normal business of securities companies and the status of investors in mind.

### **1.2.2 High degree of industry concentration, small margin trading margin trading**

From the financing and margin business involved in the industry look (industry classification according to the 2012 edition of the SFC Industry classification). According to wind data, the trading situation from January 1, 2016 to March 11, 2016,

for example, the highest margin of financing margin of the two sectors of the industry and the financing of the financial balance accounted for more than 60.62%, has exceeded the total amount of margin financing margin, financing and margin business too concentrated in a number of industries, There is a risk of excessive concentration in the industry.

Finally, the scale of margin trading is small. Although the volume of trading has increased rapidly since the official pilot margin trading, the proportion of market capitalisation in the securities markets is still low. Take several developed financial markets as an example, some data show that the United States margin trading market capitalisation ratio of 20% or so, and China's Taiwan region has even reached the 46%[19], in contrast to China's margin trading transactions accounted for stock market circulation market capitalisation ratio of 2.66%, compared with foreign developed countries or regions, The scale of China's securities credit transaction is obviously small, which shows that there is still a great development space for margin trading in China.

### **1.2.3 High Financing Rates and Short-term Lending Rates**

Lu (2015) suggested that it is necessary for the investors to pay a certain fee and interest rate to the securities company, which constitutes the transaction cost of the investors, which constitutes the business income of the securities company. Wang and Bao (2015) suggested from the mature stock market, the financing interest rate and the coupon rate in the United States are around 2%, and Japan's financing interest rate and coupon interest rates are 3%, while the financing interest rate of our securities companies is generally between 8% and 9%, and the coupon rate is generally around 10% , much higher than the developed financial market rates. In the long run, compared with developed financial market, the financing interest rate and coupon interest rate of China's securities companies still have a great decline, especially in the background of the financial system transformation, the rate of margin lending will no longer be the main source of the financing margin of securities companies. The higher interest rate of margin lending in China needs further reform and development of China's securities market, and the transaction cost of the investors ' financing and margin trading will decrease correspondingly.

### **1.2.4 Refining and merging mechanism to be improved**

According to the definition of "trial measures for intermediation business supervision and management", the intermediation business means that the securities

and financial companies will lend their own or lawfully raised funds and securities to the securities companies for their business activities. Yang (2011) suggested that the mechanism intermediation is the link between the capital market and the money markets, as mentioned above, although China's financing and margin trading volume is not small, but relative to the overall market value of circulation is still small. Yang (2011) suggested that one important reason leading to the small scale of margin trading in China is that the market lacks effective mechanism of intermediation, before the opening of the business, China's financing business and margin business mainly from the securities company's own funds and the underlying securities, and securities companies are free funds and the size of the underlying securities limited, Lin (2015) suggested that the number of investors available is very limited; in the August 2012, after the formal pilot transfer business of our country, the securities company has a channel of funds and securities source, which is helpful to expand the scale of margin business and break the malpractice of the division operation, and to improve the efficiency of capital flow, thus speeding up the conduction speed of monetary policy, Also to some extent to ease the bank's systemic risk, thus more conducive to the healthy and stable development of the security market.

But when we see the positive effect of the mechanism, we should also see the existing problems. First, it is similar to the unbalanced relationship between the financing business and the margin business, the transfer financing transaction is also obviously bigger than the securities trading, accounting for more than 90% of the total interchange business transaction, is in absolute position, the short function letter of the margin business is to be played, which is also an important purpose of opening the business of intermediation; second, The number of negotiable securities is still low, according to the official website of China Securities and Financial Stock Co., Ltd., as of March 2016, the standard securities of the 887, accounting for 2,933 of the listed shares of 30.2%, compared with the developed countries to circulate the business of the underlying securities are still less; Also need to see the intermediation in the increase of liquidity and reduce volatility in the securities market, but also increase the risk of investors, their risk prevention awareness put forward new requirements, which need to be from the regulatory level of law and regulation, securities companies risk control, the improvement of investors own awareness.

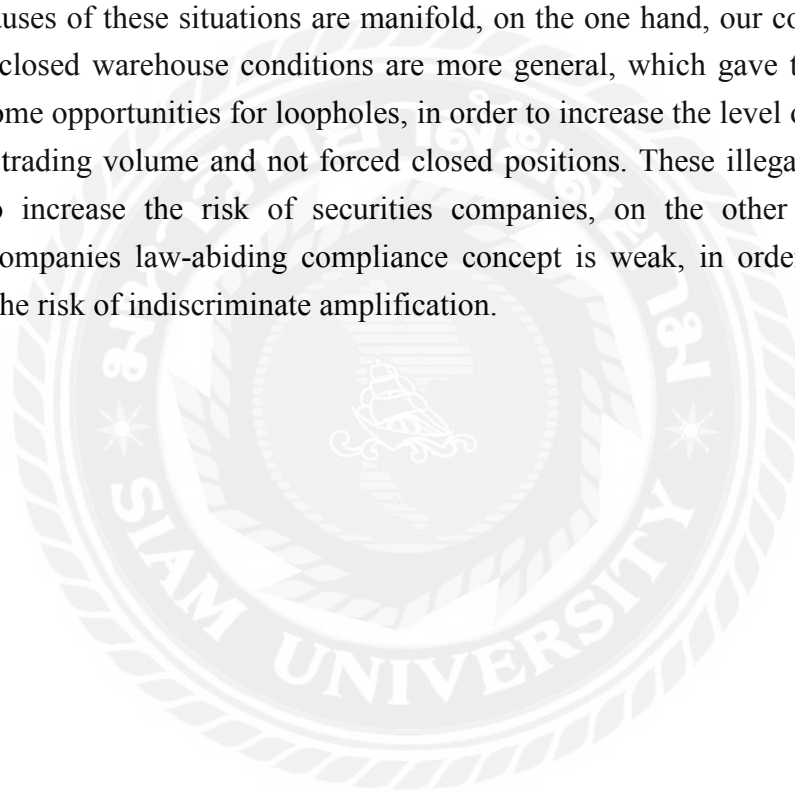
### **1.2.5 Frequent violations of securities companies' insider trading and other violations**

From the official website of the China Securities Regulatory Commission, since 2015, the SFC has increased the number of cases of illegal violations of securities



companies, some securities companies in improper interests driven by malicious harm to the interests of investors, malicious to carry out financing and margin business. If some investors do not meet the requirements of the financial position of the credit rating, however, some securities companies in the interests of the drive is still illegal to open accounts for investors to carry out business, in addition to some of the securities companies have reached the liquidation requirements of investors do not close the position, on the surface can increase business income, but significantly enlarge the risk; And if some securities companies in order to increase revenue, the expiration of the business of the rollover, and so on, these violations are not uncommon, there will be.

The causes of these situations are manifold, on the one hand, our country on the mandatory closed warehouse conditions are more general, which gave the securities company some opportunities for loopholes, in order to increase the level of the market, to enhance trading volume and not forced closed positions. These illegal behavior is invisible to increase the risk of securities companies, on the other hand, some securities companies law-abiding compliance concept is weak, in order to increase revenue at the risk of indiscriminate amplification.



### **3. RISKS FACED BY SECURITIES COMPANIES IN CONDUCTING MARGIN FINANCING AND SECURITIES LENDING BUSINESS**

As a kind of financial innovation, margin trading has enlarged the transaction volume of securities market, promoted the liquidity of securities trading, improved the efficiency of securities market and promoted the development of real economy. But also need to see that its leverage, complexity and other reasons, a little careless may be likely to investors and securities companies caused great loss of profits.

The trading of the basic commodities that are transformed into the foods we eat, the energy that fuels our transportation and heats and lights our homes, and the metals that are present in the myriad objects we employ in our daily lives is one of the oldest forms of economic activity. Yet, even though this activity traces its origins into prehistory, commodity trading is often widely misunderstood, and, as a consequence, it is often the subject of controversy. So too are the firms that engage in it.

This whitepaper is intended to help demystify the commodity trading business. It presents a combination of description and analysis: in it, I describe some salient features of the commodity trading business and commodity trading firms, and utilize a variety of economic concepts to analyze and explain them.

Some commodity trading firms are public companies, whereas some are private. The private ownership model is well-adapted to traditional, “asset light” transformation activities, but as economic forces are leading to increasing investments in physical assets by all types of trading firms, the private ownership model is coming under pressure. Some major traders have already gone public; others are considering it; and still others are implementing hybrid strategies that allow them to retain some of the benefits of private ownership while tapping the public capital markets (sometimes including the equity markets) to fund some investments.

#### **1.1 Overview**

##### **1.1.1 Origin and Definition of Risk**

On the origin of the risk, a saying is that the ancient times people go to sea fishing, encounter storms are prone to danger, in their case, there is "wind" must have "risk", which is the origin of earlier. Another argument is that the word risk is imported, mainly from the Italian word "risque", but also in the sea of sailing is prone

to risk. With the advance of time, the meaning of the term risk has more economic significance.

There are many definitions of risk, one of which is mainly from the angle of loss, that is, the risk is the possibility of loss, which is the narrow definition of risk. Through real-life observations, it is found that risk not only leads to loss, but sometimes to additional benefits, and people put this extra benefit into risk, so there is a broad definition of risk, that is, risk is the uncertainty of the outcome. This definition includes not only loss, but also additional benefits, which further extend the scope of risk, more in line with the realities of life, and make it more up-to-date.

### **1.1.2 Characteristics of Risk**

The first characteristic of risk is objectivity. As the saying goes, risk is everywhere, and risk is everywhere. Economic activity is accompanied by risk, the risk of economic activity is not to be transferred by human will, so it is necessary for investors to do risk management according to the actual situation of risk.

Secondly, it is its loss. While it may be possible to bring additional benefits to some extent, the risk of loss is generally higher, which is why real life is more of a risk aversion than a risk-averse person.

In addition, the risk is also relative. Marxist philosophy holds that matter is movement and movement is the fundamental attribute of matter. As time and other conditions change, the size of the risk, the consequences will also change.

In addition to the above several major characteristics, there are contingency, testability and other characteristics of risk.

## **1.2 Classification of Risk of Securities and Short-selling Business**

### **1.2.1 Customer Credit Risk**

Jiao (2014) suggested that the customer credit risk is one of the main risks that the financial institution faces because of the risk of the investors defaulting in the course of the transaction. When the investor's margin cannot cover the loss, it may cause the customer credit risk, thereby damaging the interests of the securities company. Yang (2015) suggested that in particular, the factors that lead to customer credit risk are mainly a few: First, because the investor's margin ratio is not high,

when the stock price falls when the investors failed to make up the margin to the specified ratio, resulting in investors by the securities companies forced to liquidate; Because of the asymmetric information between investors and securities companies in the process of securities credit transaction, it may induce "moral hazard" and "adverse selection", which is an important cause of credit risk. Finally, due to the decline of investors ' credit grade and financial condition, the possibility of their default may be caused.

To this end, securities companies should establish an effective customer credit system, the customer's credit rating and other information to be fully demonstrated and evaluated, and according to customer credit conditions to give the appropriate margin ratio, to achieve Inn, and single customers to maximize the credit line management, strengthen risk prevention, To prevent the trading situation of large clients from having a great impact on the securities companies ' overall risks and benefits, and to protect their own and investors ' interests; In addition, the establishment of forced-closed warehouse system and market-day system, the daily financing and margin business real-time monitoring, and issued a risk analysis report, And not to meet the required margin ratio in advance to the customer early warning, guarantee gold ratio below the minimum bottom line or customer credit rating significantly reduce the likelihood of a significant increase in losses should be forced to close the warehouse, prevent further increase in risk, to achieve risk controllable. Credit risk is the risk that securities companies often encounter and need to focus on in the financing and margin business.

### **1.2.2 Market Risk**

Market risk is a kind of non-system risk in nature, which refers to the uncertainty of risk caused by the fluctuation of financial market. Market risk is everywhere, in any financial activities will face market risk, financing margin business is not spared. The factors that lead to market risk are various, including interest rate, exchange rate, price, policy, news public opinion, the change of macroeconomic situation, etc., all may cause the change of investor mood, and then cause market risk.

Luo (2012) suggested that the market risk of the securities company's margin trading business mainly includes the change risk of the underlying securities and collateral, the adjustment of the national price, the exchange rate and the interest rate, etc. The market risk spreads widely, once occurs will have the very big impact to an enterprise, an industry even a country's financial market. Huang (2011) suggested that at this time the risk management is very necessary, securities companies can use some

financial instruments to transfer, quantification and other means to manage the risk, Han (2010) suggested that the specific measures means there are several categories: first, the strict calculation of the underlying securities and the conversion rate of the collateral, because the customer's security or the underlying securities due to various factors change, will also change accordingly, the securities companies are required to follow closely and make scientific valuations of these collateral, and the second is to set up a price check and make short selling rules to prevent investors from violating the rules and implementing market manipulation.

### **1.2.3 Legal Compliance Risk**

Wang (2010) suggested that market economy is also a legal economy, in the process of securities companies to carry out financing and margin business needs a complete legal system to escort. October 27, 2005, the newly revised Securities law of the People's Republic of China is the basic DAFA for securities companies to carry out financing and margin trading transactions, and the State Council issued the Regulation on supervision and management of securities companies in 2008, and the regulations on risk handling of securities companies, in addition, The SFC and the two major stock exchanges have also introduced policies to tie in with the financing margin trading pilot work. Although the margin trading in the developed countries is not new, but in China, after all, as a novel tool, to its operating conditions such as lack of practical experience, the existing legal system unavoidably exist various deficiencies. Liu (2009) suggested that for example, China's regulations stipulate a lot of financing and margin business operating procedures, but for the securities companies to dispose of customer trust assets, securities assets of the mandatory liquidation is not specified in the specific circumstances, as well as the legal liability for margin, mandatory liquidation after the legal liability of who has not clearly listed, lack of operability, This is to harm the securities companies and investors buried hidden dangers. In addition, because of our country to carry out financing and margin business pilot period is not long, regulatory agencies to the practice of information disclosure requirements are strict, securities companies should be in accordance with the exchange of information disclosure requirements and data declaration, as well as abnormal transaction behavior, timely and accurate SFC, exchange and other institutions to submit, Failure to timely and accurate submissions may face the legal risks of business qualification restrictions.

As the financing and margin business in China to carry out the time is not long, on the one hand, China's laws and regulations more stringent monitoring, such as the information disclosure system is stricter, market access threshold is higher; on the

other hand, there are some laws and regulations are too general, the operation is not strong. Securities companies need to carry out business in strict accordance with laws and regulations in the course of financing and margin trading, to disclose information in a timely manner, and not to use the credit account funds of clients, so as to effectively protect the interests of investors.

#### **1.2.4 Business Management Risk**

Business management risk is also a kind of non-system risk, strengthening management can effectively reduce or avoid the risk, business management risk It is the securities companies in the process of financing and margin business in the course of management, operation has not keep up with the standards and other reasons caused by the risk of loss of securities companies. On the one hand, there are loopholes in the business operating system of the securities company or the transaction personnel in the operation of negligence, internal fraud, embezzlement and other reasons leading to the loss of securities companies, is a typical business management risk; On the other hand, it may be because the individual internal control system of securities company is unscientific and lacks the comprehensive and effective internal control mechanism. Lead to loss of management

The Securities Company's business management risk has several major characteristics: first, it is closely related to the internal control system of securities companies, which causes a variety of reasons for the risk of business management, external factors and internal factors, but mainly internal factors, if the internal control system of securities companies, such as staffing reasonable, clear division of labor, professional competence , the risk of business management will be reduced obviously; second, the business management risk is always accompanied by margin business, because the reasons for the risk of the company's system, there are also personnel operating errors, and so on, theoretically the risk everywhere, all the time, as long as the financing and margin business, There is a potential for risk of business management. Therefore, it is an effective measure to manage the risk by strengthening personnel training and raising staff risk consciousness. In the process of the development of margin trading, we should grasp the law of risk regulation and make precautions against risks in advance.

#### **1.2.5 Liquidity risk**

Securities companies mainly rely on their own capital and own securities to carry out financing and margin trading, although our country has opened the mechanism of

intermediation, because of various reasons, it is still not enough in the financing business of securities companies and margin business, and it has a long way to go before the full play of its "intermediation" business. But the securities firms' own funds and securities are limited, if the investors due to a variety of reasons not to repay the securities or securities companies do not have a reasonable distribution of the term of the underlying securities, such as securities brokers short loan long loan behavior, it may lead to investors can not be merged into a debt-free integration of the situation; In addition, due to the special UPS, if the underlying securities are stopped or suspended, it will also lead to the occurrence of liquidity risk, and further affect the development of other business of securities companies, indirectly damage the reputation of the securities companies.



## **4. HSECURITIES COMPANY FINANCING FINANCING TRANSACTIONS AND RISK MONITORING**

In order to analyze the financing margin trading and risk supervision of securities companies more intuitively, this paper chooses H Securities Company as case analysis, analyzes the current situation of the transaction, the current situation of risk supervision, the main problems and reasons of risk supervision, and puts forward the policy suggestions. We hope to have a reference to the risk supervision of the financing and margin business.

The credit risk is not only measures and monitors by bank, but bank also actively seeks to control and reduce it. The risk arising from the investment portfolio is constrained by limits on the amount, distribution of responsibilities, control and separation front- and back- office. Among the hedging techniques belong risk diversification, risk sharing and risk transfer. On each level is applied system of limits. Limits reflect the level of risk that the bank is able to accept. Some of the limits have the character of external regulations and their compliance is monitored by the authorities of banking regulations, other limits the bank may provide as an internal. System limits must take into account also other risks to which the bank is exposed and must be proportionate to the size of the bank and also to management method, complexity and capital adequacy

Banks provide funding limits for each client based on the creditworthiness of the client. These limits are calculated based on (i) rating of the client, (ii) turnovers on his account, or (iii) assessment of the financial situation of the client. The funding limits an expression of risk exposure to an individual client. These limits are determined by the current situation of the client, market, industry, position in relation to competitors, etc. The overall client limit is usually broken down into individual limits for specific products according to these risky products. Among the forms of limiting risks include: receiving the collateral, guarantee, protection insurance, a lien on the assets or restrictions limits.

### **1.1 HSecurities Company Profile**

#### **1.1.1 Overview**

H Securities Company is an early establishment of an integrated securities company, the main securities brokerage, investment banking business, proprietary



business, financing and margin business. In the industry indicators, H securities companies in the overall ranking of the National Securities Company ranked 30, in its province's overall business ranked first.

Financing margin Business, H Securities Company has always attached great importance to its financing and margin business development, from its 2010 China Securities Regulatory Commission to obtain financing margin business qualification approval, its margin trading has been steadily developing. Although its margin business ranking volatility, but has been stable in the forefront of the ranking of securities companies, as of now, the margin of financing margin has been ranked 25th around the country.

### **1.1.2 margin trading conditions**

First of all, H Securities Company's financing margin business balance has grown steadily. Since April 2010, the CSRC approved the qualification of H securities financing and margin business, H Securities Company's financing and margin business has developed rapidly, according to wind data, H Securities Company in February 2016, the total amount of margin shares in the 25th ranked around, In more than 90 to obtain financing margin business qualification of securities companies in the forefront. H Securities Company specific financing business and margin business situation.

H Securities Company since the start of the financing and margin business since the financing business and margin business has been at a relatively low level of stability, at the end of 2014, with the Shanghai and Shenzhen stock market to go cattle, H Securities Company's financing business has also developed rapidly, in the stock market around the highest point, the financing business balance also reached the highest point, Then along with the stock market walk bear, the financing balance also fell. and H Securities Company's margin business since the launch of a larger volatility, the total amount of the balance is the largest stock index before the highest point. It is noteworthy that the margin business balance compared with the financing business balance has been low, in the figure of the intuitive reflection is the financing balance and financing margin balance two lines basically coincide. As with the whole margin market, H Securities Company also faces the unequal situation of financing business and margin business.

the cumulative financing buy of H securities company remained basically stable before June 2014. Then, as the stock market improved, its quota increased

correspondingly, from December 2014 to February 2015 there was a significant decline, followed by a wave of great bull market of the stock market, H Securities Company's cumulative financing buy also increased to the highest. In July 2015, as the stock disaster occurred, its quota also fell correspondingly, September to November, a small increase, then fell. To February 2016, H Securities Company's cumulative financing buy amount is 7.21 billion yuan. H Securities Company's cumulative financing to buy with the stock market to increase the bull, along with the stock market walk bear and correspondingly lower

By the end of 2014, H Securities Company at the end of the margin in the fluctuation of the increase in volatility, and then with the 2015 wave of the stock market great bull market rise, to 2015 to achieve the highest value of about 5, with the stock market walk bear and fall, basically with the market to coincide, generally speaking, H Securities Company's bond balance is lower And no more than 18 million yuan at the highest level.

Second, the number of its underlying securities is wide. As at April 15, 2016, the number of securities margin was 907, of which the Shanghai Stock Exchange announced the number of listed securities is 505, the Shenzhen Stock Exchange announced the number of 402. H Securities Company's underlying securities are 903, accounting for 99.6% of the total number of securities listed on the market, almost covering the securities Exchange issued the underlying securities, H securities companies can be used to carry out financing and margin business.

The more the number of the underlying securities, the more options the securities company can use to carry out its business, to meet the needs of different investors, to increase the investor's confidence in the securities company, and the loss caused by the fall of one of the underlying securities may be offset by the rise of the other securities, In general, the greater the number of listed securities can reduce the volatility of operating income of securities companies. And too little of the underlying securities may restrict the enthusiasm of the securities companies to carry out the bond business because when the underlying securities are too low, unless the securities companies are very confident bullish on the underlying securities, otherwise the securities companies do not have much will to the underlying securities to investors, although also can get the corresponding income, but compared with the share price is not too much attraction. For investors, the more the securities company's underlying securities means the more leeway he can choose, especially in the downward process of the stock market, the demand for margin business is greater.

## **1.2 Risk Management**

The margin trading of securities companies has been more than 300 years since its inception, its trading system is a mature system in foreign developed countries or regional securities market, and these countries or regions have also established the corresponding risk regulation system of financing and margin business, because each country or region's economy, politics, culture, History and other characteristics, their risk control system also has different advantages. The following is a review of the risk regulation of H Securities Company and a comparative analysis of the financing and margin market in the United States, Taiwan and Japan, and draw some inspiration from it.

### **1.2.1 Internal Control**

The scientific and effective internal control of securities companies is beneficial to the legal compliance of companies, the prevention of risks and the realization of corporate development strategy. There are mainly three institutions that have an important impact on the internal control of securities companies, namely, board of Directors, supervisory board and managers.

The internal control of the H Securities Company is primarily in the context of internal control, in accordance with the Regulations of Company law and securities Law, H Securities Company has formulated the rules of procedure, established scientific and reasonable corporate governance structure, and formed the mechanism of power balance between shareholders ' meeting and supervisor's supervision. Manpower, H Securities Company based on the actual situation of the company, the establishment of job promotion, performance incentive punishment, training and other mechanisms, to achieve accountability, promotion and so on.

Second, the risk assessment, H securities companies in accordance with the actual situation of the company to adopt qualitative and quantitative methods, the risk of scientific assessment. The establishment of the risk Control Committee, Risk management department, such as internal control risk management structure, the Board of Directors of the overall control of risk management, the formation of prior, in-process and after the risk of the mechanism to effectively deal with possible risks.

In addition, in the information communication, H Securities company based on its own actual situation, developed a corresponding internal information

communication mechanism to ensure that important information, matters can be timely high-level reports. Information disclosure, the H Securities Company in accordance with the "Company Law", "Securities Law", "listed companies information disclosure management measures" and so on, set up with the company's information disclosure system to ensure that investors accurate and comprehensive timely access to relevant information. Finally, in the internal supervision, H Securities Company's business and functional departments, such as the Division of Labor cooperation, in accordance with the requirements of laws and regulations and the Company regulations, the internal legal compliance supervision and inspection.

### **1.2.2 Investor Access Qualification and Key Supervision over Individual Shares**

According to the July 1, 2015 China Securities Regulatory Commission issued the "Security companies margin business management measures", the restrictions on investors are mainly divided into two categories, one is not in line with the transaction or credit conditions of investors and the development of margin trading Securities Company shareholders and related people. On the basis of this management method, H Securities Company has formulated the business operation method in line with the actual company, carries on the related business to the investor, although this standard is higher, but because the financing margin business in our country still is a newer thing, it is necessary to set certain threshold to guard against the risk.

In China, for financing and margin business, take the Shanghai Stock Exchange margin trading implementation rules (2015 revision) as an example [32], its 51st and 50th provisions on the scale of financing transactions have many restrictions, if the above-standard will likely be taken to suspend the purchase measures, effectively curb the transaction risk of a stock. H Securities Company for the financing and margin business of the key supervision of the stock also formulated the company's approach, but also in the standards of the laws and regulations

### **1.2.3 Wind Control Indicators**

The first is the guarantee of the proportion of gold monitoring. The margin ratio refers to the proportion of the total amount of the securities mortgage when the investor is in the financing business or the margin business. In particular, it can be divided into financing margin ratio and margin deposit ratio, and the margin ratio can be divided into initial margin ratio and maintenance margin ratio. From the official website of H Securities Company, as of March 10, 2016, H Securities Company financing margin business of the number of securities is 904, the proportion of margin

due to the difference between the underlying securities, the same as the underlying securities, the security deposit is generally less than margin bonds, One of the reasons is that because investors are unfamiliar with the bond business, the Securities Company's risk prevention is stronger than the financing business.

The second is to maintain the monitoring of the proportion of guarantees. According to the information of the official website of H Securities Co., Ltd., the proportion of its maintenance guarantees can be divided into the following categories: liquidation, recovery, security, security, and extraction lines. It can be seen that H Securities has established a multi-level maintenance guarantee line to better track the investor's risk profile.

In order to prevent the risk of margin trading, the securities companies' financing and margin business management measures stipulates the system of forced liquidation in the margin business, which makes the securities companies' monitoring of investors more operational. Although China has made legislative provisions on the forced liquidation system, however, the specific mandatory level of the target and so on, but there is no specific provisions, the practice of forced-closed warehouse conditions are more by the securities Company and investment from the bank agreement, because the securities companies in information, technology and other aspects of dominance, easy to lead to "shop bullying" situation. In view of this, in the financial reform in the aftermath of the financing of the compulsory liquidation system procedures, conditions, legal liability and other content to make a unified provision to make it more operational, more conducive to protecting the legitimate interests of investors.

In addition, it is the regulation of the ratio of cash and the conversion rate of securities. The cash ratio refers to the proportion of the cash in the collateral in the course of financing and margin business. Since our laws and regulations do not specify the proportion of cash in the collateral, it is mainly determined by the securities companies and investors themselves. In practice, securities companies give investors different cash ratios mainly according to investors' credit grade and financial status. such as the Shanghai Stock exchange of the "Financing margin trading pilot implementation of the Rules (Revised 2015)," the securities companies to customers to finance, bond, should be a certain percentage of the customer's margin. Margin may be the subject of securities and other securities approved by this. According to the official website of H Securities Company, the types of securities that can be offset by margin include stocks, bonds, ETFs, funds, etc., and the conversion rate is mainly decided by the quality of securities, because the quality of the securities

is different, the quality of the securities is higher, the conversion rate is close to 1. The lower the conversion rate for the securities with the same offset margin, the more strict the securities companies control the risk

Finally, the limit on the amount of trading and the duration of the transaction. At present, the existing laws and regulations of our country do not express the transaction amount. In practice, mainly by the securities companies and customers to determine their own. For the duration of the transaction, the securities company and investors agreed to the longest period of not more than six months. However, the extension of contracts allowed, such as the Shanghai Stock Exchange margin Trading rules [2015 Amendment], the maximum length of each extension shall not exceed 6 months.

In addition, H Securities also monitor the concentration of business, including the total customer margin margin accounted for net capital ratio, the single securities margin of credit margin accounted for net capital ratio, the acceptance of the market value of the individual security securities as a proportion of the overall market value of the securities, as well as a single customer to submit the sole security securities market value of the customer collateral value of the market Daily financing and margin risk daily for internal supervision, to prevent the business too concentrated on the company's business caused excessive fluctuations and shocks.

### **1.3 Comparative Analysis of Risk Monitoring Systems in China and Other Countries or Regions**

#### **1.3.1 U.S. Risk Regulatory System**

The main U.S. regulatory bodies, including: The U.S. Securities and Exchange Commission (SEC), the Federal Reserve Board, the stock exchange and the Securities Industry Association. The Securities and Exchange Commission is at the top of the securities market regulation, responsible for the regulation of the entire securities market; the regulation of margin trading by the Federal Reserve Board mainly includes the rules for the establishment of margin trading , and the stock Exchange stipulates the specific operating procedures of investors and the proportion of margin. The Securities trade association mainly make normative documents for the contract agreement of margin trading, which plays an important role in the industry self-discipline of securities companies.

Li (2009) suggested that the United States has stricter supervision over the

qualification of investor admittance, set stricter restrictive conditions and stricter supervision over credit transactions, while the United States restricts access qualification of investors mainly in two aspects of funds and procedures, of which funds are determined by the stock exchange;

Shen (2014) suggested that in terms of margin ratio, since 1974, the United States Federal Reserve Fund margin business of the initial margin of 50%, has not been adjusted so far, it can be said that the United States has basically abandoned the use of margin lending business to adjust the proportion of the initial bond to market regulation of this measure, The adjustment of margin ratio is mainly to the use of maintenance margin ratio of the regulation means, the United States Federal Reserve has set the minimum standard to maintain the margin of authority, but in practice, mainly through the stock exchange to set specific proportions.

In terms of turnover and duration, investors can only carry out margin trading within their credit limit, and investors who exceed the credit limit should apply for credit, and must deposit 50% of their own funds in the margin account within the t+5 trading day. There are no restrictions on the delivery period for securities credit transactions in the United States.

### **1.3.2 Risk Supervision System in Taiwan, China**

The main regulatory bodies in Taiwan include the Securities Regulatory Commission, the "Executive Yuan" financial supervision and Management Commission, the stock exchange and the securities companies themselves. Which, the Securities Regulatory Commission is responsible for enacting and promulgating the operation rules and regulations of the margin trading, and for the securities companies to apply for the financing and margin business to carry out the examination and approval; the Financial supervision and Administration Commission is mainly responsible for formulating a series of regulations such as the admittance standard of market participants The establishment of rules and regulations under the premise of the establishment of financing and margin business of the specific operating rules.

China's Taiwan region to the investor access supervision regulations are more detailed, including the protection of the minimum amount of restrictions, but also the general account of the opening time and the transaction situation has detailed provisions. For the regulation of margin ratio, the margin ratio of financing business is divided into listed stock and upper cabinet stock, and the margin ratio changes with the height of Taiwan stock index closing highly.

Taiwan has given different credit ratings to investors of different grades, and the higher the credit rating, the higher the turnover. There is no special restriction on the trading quota of the investors, and the investors can do the margin trading within the corresponding amount of the security deposit, while the securities and financial firms have limited the trading quota of the securities companies. and margin trading period can not exceed six months.

### **1.3.3 Japan's Risk Management System**

Japan's supervisory responsibility for margin trading is mainly borne by declaring his candidacy, stock exchanges, securities and financial companies and securities associations. Among them, declaring his candidacy to participate in financing margin trading securities and financial companies to conduct accreditation review, according to the Securities Exchange Act authorized to make relevant provisions. After the reform of the financial supervision system in Japan in 1998, the securities market was supervised by the financial department, and the Securities and Exchange Supervision Committee of its internal institutions was responsible for the qualification examination and various punishments of financial companies, and the stock Exchange adopted a series of normative documents to guide and standardize the margin business. The Securities finance company is the key point of concentrating the credit to the margin business, on the one hand, the securities company can only apply to the securities financial company to control the total amount of the securities company to carry out the intermediation business. On the other hand, it holds the types of securities that can be used for credit transactions. In addition to the above-mentioned major regulatory bodies, the Securities Industry Association also plays its due regulatory role, the securities companies play a role in the industry self-discipline.

The limitation of the market admittance of the investors in Japan mainly includes the financial condition, the credit qualification, and the investors who are not eligible. Japan declaring his candidacy under the "Securities Law" authorization, the margin trading initial security provisions are clearly defined, the stock exchanges can be declaring his candidacy in accordance with the market situation on the basis of the corresponding proportion of the report, the declaring his candidacy audit after implementation; The securities companies, on the basis of the declaring his candidacy and stock exchanges, Can be based on the actual situation to establish their own margin ratio. For the form and conversion rate of the deposit, the investor's entrustment margin can only be cash, not securities. The Japanese declaring his candidacy promulgated the discount rate of the substitute securities, the specific



securities Exchange and the discount rate are specified by the stock exchanges. Investors are trading within the margin limit; Japan's margin trading period is generally six months.

Compared with the above table, it can be seen that the trading supervision system is developing with the development of the securities market financing and margin business, and it is closely related to the operating system of financial markets, and the supervision system required by the separate operation and mixed operation is different. The regulation system of margin trading in China should be closely combined with China's financial practice, in the case of mixed operation Trend, the responsibility Division of supervision subject should be done well, and the provisions of laws and regulations should be made more detailed to make them more operational.



## **5. ANALYSIS ON THE MAIN PROBLEMS AND CAUSES OF RISK MANAGEMENT OF 4 H SECURITIES COMPANIES**

### **1.1 The main problem**

Compared to many developed financial markets in China, the time for financing and margin trading is not long, H securities companies to carry out financing and margin business qualification time is not more than five years, in these years of development has made some achievements, there are many problems, the main problems are as follows:

The role of supervisory authorities undertaking prudential supervision is to promote the maintenance of efficient, fair, safe and stable insurance markets for the benefit and protection of policyholders<sup>1</sup>. An effective supervisory authority is able to require an insurer to take timely preventive and corrective measures if the insurer fails to operate in a manner that is consistent with sound business practices or regulatory requirements. Traditionally, authorities have performed this role by way of compliance based supervision. Under this style of supervision, insurers must comply with a set of prudential rules generally written into the law or the subordinate legislation. The role of the supervisory authority is to ensure that insurers do, in fact, comply with these rules. In recent years, supervision has been evolving and moving from a style that is compliance based to one that is risk based. This progression has also been a feature of the activities of bank supervision and pension supervision.

#### **1.1.1 Monitoring indicators are more rigid**

As can be seen from the above, H securities companies in the margin ratio, cash ratio and the conversion rate of securities and other aspects of the more rigid, operability is not strong, there is a certain degree of "a knife-cutting." There are two major adverse outcomes that could result, one is that investors with low credit ratings engage in margin trading at the same low cost, which makes securities firms riskier than ordinary investors, while better investors, such as credit and financial conditions, engage in trading at higher costs, However, the risk to the securities companies is less than that of ordinary investors.

Referring to some foreign developed countries or regional financial market m

onitoring indicators, they are mostly flexible, based on the financial situation of

investors, qualification grade and the specific situation of the underlying securities, flexible formulation of relevant indicators, to achieve the scientific and rational risk and indicators, conducive to mobilizing investors enthusiasm, It is also more conducive to the scientific nature of risk monitoring of securities companies.

### **1.1.2 Compliance issues such as information disclosure are more prominent**

Some securities companies in order to increase the financing margin business income, regardless of risk, take a variety of ways, malicious to investors to carry out business, damage to the interests of investors violations of illegal acts repeatedly. In the short term to increase business income at the same time, but also to the customer to the abyss, it is worth us to ponder.

According to the H Securities official website and the information disclosed, most of the information disclosed is within the scope of laws and regulations. But from the China Securities Regulatory Commission's official website, H Securities companies still exist a variety of illegal and irregular issues, including the provision of margin trading to the investors who do not meet the conditions, for some investors after the expiration of the financing margin business extension and other violations, the China Securities Regulatory Commission to take warning of administrative and regulatory measures, and to require strict rectification, Improve the level of employees and risk awareness. This fully explains that H Securities Company still has some problems in legal compliance and information disclosure, and it needs to strengthen internal monitoring to enhance the professional quality and risk consciousness of employees. The regulatory body should intensify the crackdown, closely monitor the illegal behavior of securities companies, protect the legitimate interests of investors and promote the healthy and stable development of the margin market.

### **1.1.3 High margin financing and securities lending rates**

According to the H Securities Company's official website, its latest financing interest rate is 8.35%/year, above mentioned, our country's financing interest rate is generally around 8.5%, the H Securities Company's financing class interest rate is relatively in our country industry average level, but compares with us about 2% financing interest rate as well as Japan's about 3% financing interest rate, Still has a larger drop space.

With the further development of margin business and the maturing of China's financing and margin market, the proportion of additional "windfall" resulting from higher rates in the future securities companies ' main revenue of margin business will be lower, and the lower rate is beneficial to reduce the cost of investors, Enhance the

enthusiasm of investors to participate in margin trading, and then promote the financing and margin market gradually grow and develop.

H Securities Company's latest coupon rate is 10.35%/year, at the industry average of 10%-11%, like the financing rate, margin rates are significantly higher than the developed financial market rates.

## **1.2 Analysis of Causes of Problems**

### **1.2.1 National policy level**

First of all, the relevant laws and regulations of China is not very operational. For example, the proportion of the cash in the Wind control index the laws and regulations of the country do not make explicit mandatory rules, but are determined by the securities companies and investors themselves, so the lack of operational regulations, easy to lead to securities companies and investors moral hazard. Because of the advantages of securities companies in information, technology and other aspects, the actual transaction can easily lead to the phenomenon of hurting the interests of investors.

Second, the regulatory model letter to be perfect. China's financial management is divided into business, the regulatory model corresponds to the supervision of the separate industry. As the trend of mixed operation is strengthened, the original supervision mode of separate industry is increasingly not suitable for the development of China's financial business and faces more and more challenges. For example, China's three-party association does not have a subordinate relationship and lacks information sharing. On the one hand, especially for some new things, lack of co-ordination between each other, easy to lead to mutual prevarication, on the other hand, they have overlapping regulatory scope, high regulatory costs, responsibility needs to be clearly divided. There are inherent problems in the regulatory model, which makes it more difficult to regulate securities companies.

### **1.2.2 Internal Aspects of Securities Companies**

First, the implementation of the internal control system is greatly compromised. From the CSRC, we can find the administrative penalty stipulation of H Securities Company in the past two years, in the process of financing and margin trading, there are still some illegal laws and regulations, although it has made corresponding rules and regulations according to the Law of securities law, but there are still some compliance problems, It is still necessary to strengthen the development of

implementation within H Securities Company. In addition, when the investor's risk degree is big, the securities company is driven by the interest, also will continue to carry on the related business to the investor, like the H Securities Company for the investor maturing margin margin contract extension and so on.

Second, the business philosophy letter to innovation. The high margin of credit margin indicates a problem, H Securities Company's income is too dependent on the rate of collection, in the securities companies are less dependent on the brokerage business, such as the background, H Securities Company's business philosophy is obviously a little behind, and it for different investors to collect margin margin rate is the same, This requires securities companies to flexibly set different standards according to the specific situation of investors, so as to better match the degree of risk.

### **1.2.3 Investor Credit Level**

First, the whole society has not established a sound and effective credit system. In the developed countries or regions of the financial market, its high degree of marketization, the legal system is relatively perfect an important prerequisite is that the whole society has a sound credit system, the investors of the illegal problem can be known to the securities companies. Due to the relatively backward economy, the development of financial market is not long, investors do not pay much attention to personal credit and other reasons, China's credit system construction relative to market development and demand is relatively backward, invisible to increase the securities companies to carry out financing and margin business costs, increased the transaction risk.

Second, investors do not pay enough attention to their credit. From the point of view of our country, the loss of the investors ' breach of credit is less and the cost of default is lower. On the one hand, because the whole social credit system is imperfect, the lack of supervision and punishment of investors ' honesty and credit is not enough, which leads to the low cost of breach of faith. On the other hand, when investors take credit risk, some securities companies also carry out related business for vicious profit, which also encourages investors to pay less attention to personal credit.

## **6. HSECURITIES COMPANY RISK CONTROL COUNTERMEASURE SUGGESTION**

The causes of H Securities Company's problems are manifold and long-term. To promote H Securities Company's risk control level, mainly includes from several aspects promotion, namely the national law and Regulations level, the Social credit system aspect, the security company practitioner level aspect, as well as the investor own risk consciousness aspect and so on.

Enterprise Risk Management (ERM) is all about understanding and managing the impact that threats and hazards have on your operations. ERM begins with an analysis of your business' assets, business processes, and threat environment and then allows you to use your resources most effectively to minimize the losses to your operations. It's an overall process to help you gain more insight into the relationships between threats, vulnerabilities, and hazards so you can develop smarter, safer courses of action that will benefit both you and your customers. It's very hard to run a successful business without a strong focus on ERM. After all, a winning business plan can't maximize profits without minimizing losses.

Successful ERM can involve many different areas of your company including security, safety, and compliance. Thankfully, these are all areas where Counter Measures.com offers a technology solution and more. With Counter Measures® web-ERM software, you can mind your business and your budget while getting up and running with the world's leading Enterprise Risk Management solution.

### **1.1 Improve relevant laws and regulations**

#### **1.1.1 Setting Up Regulatory Indicators Flexibly**

There is a certain "one-size-fits-all" phenomenon in the setting of margin ratio and maintenance guarantee proportion in China's securities companies, this is the same in the H Securities Company, which in the time of saving time and effort, but also for the operation of the hidden dangers, leading to different grades of investors with the same cost participation in margin trading, Indirectly enlarge the risk, the securities company should set the index flexibly according to the different situation of investors.

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#### 6.1.2 Establish and improve internal systems such as effective information disclosure

In the disclosure of information, in accordance with the requirements of laws and regulations, timely and accurate disclosure of margin trading and risk situation, and effectively protect the legitimate interests of investors, in addition to some of the securities companies are harmless but the investment of investors helpful information can also consider appropriate public disclosure, so that investors better understand the company's business management In the aspect of investor education, when the investors open the margin business, they should fully disclose the business risk, in the internal control, from the organizational structure, human resources and so on, so that the company's business management to keep pace with the development of financing and securities business needs.

The healthy and stable development of margin market cannot be separated from the norms of laws and regulations, in the process of margin trading, a lot of problems are due to the lag of laws and regulations and their own defects, such as forced-closed warehouse system in the specific conditions and the share of the responsibility after the liquidation is not clear provisions, Instead, the securities companies negotiated with investors themselves, which caused the securities companies to harm the interests of investors to buy the curse. Therefore, in the following related reforms, we should improve the relevant laws and regulations of margin financing, further clarify the responsibility, make it more operable, and promote the development of margin and margin market.

### 6.2 Establishing a scientific and effective credit system

#### **1.1.2 Establish a Sound and Unified Investor Credit System at the Social Level Although**

The Social credit system in China began to pilot work at the end of 2003, and achieved some results, but for the development of China's market and demand, appears to be lagging behind, the overall is still in the credit system in the initial stage of work, there are many roads need to go. It has not established a unified and perfect credit system, and the laws and regulations in the field of credits have yet to be established and perfected, the disciplinary mechanism of some dishonest behavior has not been established, and the cost of default is too low.

The healthy and steady development of securities credit market requires the escort of the whole society, and it should be improved and perfected from several aspects: first, stipulate the national credit standard, make the credit problem have a norm. Secondly, to enhance the degree of participation and specialization of the intermediary structure. From the developed countries or regions of the financial market, it often has a well-developed credit system and highly specialized credit rating agencies such as intermediary agencies, such as Standard Poole, Fitch, Moody Company, they played a very important role in the financial market, Credit rating agencies have played a significant role in the cash conversion rate of securities. China's credit system construction also needs a group of highly specialized credit intermediary to promote.

### **1.1.3 Establish a sound investor credit system within securities**

In the process of financing and margin business, H Securities Company will deal with tens of thousands of investors, in the process, the securities companies have detailed information on investors, including financial situation, credit qualification and other information, securities companies should be carefully recorded and analyzed, and in future transactions to determine and monitor it. Investors with high credit qualification for financial condition can continue to trade, and investors with low credit qualification can take measures such as reducing trading quota, improving monitoring intensity, even suspending trading, and waiting for investors to meet the criterion before they can continue trading, which can effectively prevent transaction risk. In tracking the investors' investment transaction information, colleagues should do well the information secrecy work of investors, use the relevant information of investors in the scope of national laws and regulations, and fully protect the information security of investors.

### **1.1.4 Share investor credit information with other peers**

Under the background of the national credit system in China, it is necessary to share the information among the securities companies. Since April 2015, our country has reformed the investor's account opening, since the stock market "one person one household" becomes the history, the investor may open 20 accounts in 20 securities companies. Its positive significance is self-evident, on the one hand it is advantageous to the securities company to reduce the rate, to improve the service quality, on the other hand, as the investor account increases, also has raised the higher request to the securities company to the investor's transaction supervision level.



An investor may default on a securities company, and if he goes on to another securities firm, if the securities firm does not know the bad record of the investor's default, it may harm the securities company. At this time, it is necessary for the securities companies to share the information of the investors' credit qualification, and establish the mechanism of investor's combination, such as setting up the investor blacklist on the platform of China's securities association, and sharing the relevant information by the securities companies, so as to reduce the loss of the investors.

## **1.2 Improve the overall level of employees**

### **1.2.1 Increase training and supervision to improve professional skills**

From the internal control system of H Securities Company, it has been made more perfect, but we can still see that H Securities Company still has a discounting phenomenon in the implementation of internal control system, such as the extension of expiring contract, etc. This requires H securities Company to further improve the risk consciousness of the practitioners, increase the training and supervision of its risk management, regular or irregular internal control system of the implementation of random checks, so that the iron also need their own hard.

To improve the level of the practitioners to start from a few points. First, change the concept of the relevant personnel. As the financing and margin business in China is relatively a new thing, some practitioners of its risk, characteristics, such as not deep understanding of the level and requirements do not match the situation, which requires the practitioners to change the concept of active learning to understand the characteristics of financing and margin business, improve standards. Secondly, improve the quality of training. May consider the front-line staff to go to the outside organization or the interbank organization regularly to attend the training, or organizes the internal outstanding staff to carry on the training curriculum, causes the training to be more close to the reality

The most important thing is to do a good job of risk management in the radius. In the illegal behavior of H Securities Company, it is obvious that the main reason is that the relevant practitioners have weak sense of law and risk consciousness, in order to pursue improper interests at the expense of the legitimate interests of investors. Under the background of establishing a socialist country under the rule of law, we should make efforts to promote the sense of law-abiding.

To do a good job of risk management, first of all, should be responsible for the eyes of the relevant personnel to punish, to report or meritorious personnel to reward, so that the punishment of evil and good. At the same time, H Securities Company established the relevant incentive and punishment mechanism to further improve, focusing on the supervision of front-line financing margin trading practitioners. In addition, it is necessary to increase the implementation of incentive and punishment mechanisms, regular or irregular assessment, the long-term law-abiding personnel to carry out the appropriate incentives for illegal acts of strict penalties, and do a good job of relevant violations of records, in order to cultivate practitioners of the law-abiding awareness, to stimulate their enthusiasm, Create a law-abiding atmosphere within the company.

### **1.3 Strengthening Education for Investors**

#### **1.3.1 Investors Increase Their Investment Level and Risk Awareness**

As the financing and margin business in China to carry out the time is not long, investors have a process of understanding, the same investor's investment level and risk awareness of the increase also need a long-term process. In this process, because the investor's investment level limit causes some transaction risk to enlarge, then causes the securities company's loss, this part is not the investor subjective intentionally to break the faith, this is not uncommon in the securities company to carry out the financing margin. In addition, due to investors in the margin business, especially the margin business of risk amplification and leverage function, its awareness of risk has not yet to keep pace with business development requirements, at this time it is very easy to default and so on, increased the risk of securities companies.

Investors want to improve their investment level and risk management awareness, the first is to obey the law, in the scope of the laws and regulations to carry out business, which is to carry out financing and margin trading is the most fundamental and most important step. Secondly, to develop good investment habits, do not follow suit, do their best to keep track of their account situation, to do a good job in advance risk prevention measures. In addition, consciously learn investment knowledge, improve investment skills, increase investment income.

### **1.3.2 Securities companies educate investors when they conduct business**

The securities company is in a very core position when the investors develop margin trading. On the one hand, investors often deal with the margin trading, securities companies have a large number of investors, such as their investment level, qualification level, securities companies can do the education of investors targeted; on the other hand, securities companies in the financing and margin business knowledge of professional comprehensiveness, So that it has a natural advantage for investors to carry out education. Securities companies play an important role in the business of investors.

The securities company should first of all explain and disclose the contents, characteristics and risks of the margin business to ensure that the investors can grasp the relevant information and skills. Secondly, in the course of the investors ' business, investors should be classified tracking the transaction, so targeted, such as investors in large transactions, or the newly opened margin trading business investors, special supervision, and daily issued a special risk daily, according to the financial status of investors, such as information, credit, Scientific development of corresponding warning lines and other monitoring indicators, when investors reach the risk cordon, timely warning. Finally, to expand the channels for investors to education, such as from the traditional listed on the official network of some risk management knowledge on the basis of innovative channels of communication, using the Internet, micro-bo, micro-letter public number, video and other forms, more simple and easy to spread investment knowledge to investors, so as to Also enables investors to learn to absorb advanced investment skills, to help investors develop good investment habits.

### **1.3.3 Supervisors Educate Investors**

To strengthen the education of investors is not only the responsibility of investors themselves and securities companies, regulators also need to guide the education of investors, investors good investment habits and the formation of risk awareness can not be separated from the government and other regulatory agencies useful guidance. In the more developed financial markets, regulators have played a more perfect role in guiding and educating investors.

First of all, to the investors to carry out a number of laws and regulations of the popularization of knowledge and education, through the traditional media and new media, the actual case to investors widely disseminated. Secondly, through the investigation and treatment of some illegal and illegal cases, to inform the cases of illegal violation, to form some case data, and to carry out case propaganda in the

process of financing and margin business of investors, it is helpful for investors to deepen their understanding of margin business and raise their risk consciousness and level. Finally, the regulatory body can hold a number of forums, lectures, competitions and so on to attract investors to participate in, so that they better understand the margin business, improve their investment level and risk awareness.



## 7. SUGGESTIONS AND CONCLUSION

### 1.1 Suggestions for Enlightenment

Through the development of the securities margin business, the current situation of risk supervision, the existing problems, the analysis of the reasons and the countermeasures, and the comparative analysis of the financial market and margin trading between China and the United States, Taiwan and Japan, some of their experiences are worth summarizing.

First of all, in the regulatory legal system, the developed countries or regions of securities margin trading has a perfect and effective risk supervision legal system as a guarantee, China should learn from these countries or regions of successful experience, to establish a multi-level legal supervision system suitable for our country. With the deepening of China's financial reform, the reform of legal supervision system should change with the change of China's financial operation mode.

Secondly, on the market access system, China's investors and securities companies relative to the other three securities market strict requirements, excluding some small and medium-sized investors and securities companies, which is necessary in the initial financing and margin business, but with the development of the securities market, the threshold of investors will inevitably affect the scale of financing margin expansion, It is imperative to establish an admittance system that is suitable for more investors and can effectively guard against risk.

Third, in the monitoring of indicators, some of our laws and regulations have made provisions, but in practice is not high. For example, China's laws and regulations on the security of the proportion of cash does not make a clear mandatory provisions, the main is to be determined by the securities company and investors, this will easily lead to the investors in the trade disadvantage. It is suggested that the regulatory department should deepen legislation and perfect laws and regulations according to the development of China's financing and margin business and make it more suitable for the development of China's securities market. In addition, China's information disclosure system, stock monitoring and other aspects need further reform and improvement.

## 1.2 Summary

China's financing and margin business since the State Council approved the formal pilot, has been a healthy and stable development, but there are many problems, such as the financing business and margin business inequality, the law and regulation of the lack of perfection, margin business scale accounting for the stock market, the proportion of total market capitalisation is not high, to improve the financing institution.

As regards the risk regulation system, China because of the short time of financing and margin, compared with foreign developed countries or regions, there are many problems, such as the risk disclosure system is not perfect, margin system provisions are not clear, market access conditions are stricter, and so on, to some extent, limited the further development of financing and margin business. Securities companies should strictly abide by the laws and regulations, raise the awareness of risk prevention and improve the management of margin trading.

In the ensuing financial reforms, we should focus on the laws and regulations, the financial Management system, information disclosure, investor education, and learn from the successful operation of foreign developed countries or regional financial markets, improve the level of financing and margin business development, protect the interests of investors, and promote the healthy and stable development of China's securities market.

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