

A Study on the Investment of Securities Company's Stock Pledge Default Creditor's Rights

Jiang Tao

Business School, China University of Political Science and Law, Beijing, China

Keywords: Securities Company, Stock pledge, Default creditor's right

Abstract: Since 2017, default events of stock pledges of listed companies have occurred repeatedly, and securities companies have shifted from self-digestion to seeking transfer of creditor's rights to reduce risks, which has created opportunities for investment securities companies to pledge defaulted stocks. Based on the analysis of the current situation of stock pledge of Listed Companies in China and the remedies after default, this paper puts forward the strategies and conditions for investment in such assets. In order to prevent and resolve the default risk of creditor's rights in the securities market, this paper puts forward its own suggestions.

1. Introduction

Stock pledge is the abbreviation of stock pledge repo. On May 24, 2013, according to the measures for stock pledged repo transaction and registration and settlement business (Trial) (hereinafter referred to as the business measures) jointly issued by Shenzhen Stock Exchange and China Securities Depository and Clearing Co., Ltd., stock pledged repo transaction (hereinafter referred to as the “stock pledged repo” or “transaction”) refers to the qualified fund merging party (Hereinafter referred to as “the receiving party”) shall pledge the shares or other securities held by it to the qualified capital financial lender (hereinafter referred to as “the lender”), return the funds at the agreed time, and release the pledge registration of the pledged subject-matter securities and corresponding fruits. Although it is called “buyback”, but the stock has not been transferred to the pledgee, there is no transfer of ownership, which belongs to the scope of pledge in law. Stock pledge, on the one hand, provides another convenient, efficient and on-the-spot trading financing way and means for the market; on the other hand, the introduction of this business can objectively improve the liquidity of the listed company's shares (limited shares can also be pledged), which helps to stabilize the secondary market. At present, there are about 122 companies whose share pledge ratio is more than 50% in China's listed companies, involving about 103.405 billion shares in total, with a total market value of about 1.17 trillion yuan.

Stock pledge of listed companies

(0-10%]	1673	109321	5509.1	364.72
(10%-20%]	582	40111	10739.75	857.93
(20%-30%]	458	33307	12086.14	1071.13
(30%-40%]	289	22571	11685.4	1183.92
(40%-50%]	181	15025	9624.4	857.34
(50%-60%]	79	5093	5650.91	459.42
(60%-70%]	35	2657	4675.96	461.1
(70%-80%]	8	591	1367.89	113.53
总计	3305	228676	61339.54	5369.09

Data source: According to data compiled by Oriental Fortune.com.

Stock pledge is divided into on-site pledge and off-site pledge: on-site pledge, i.e. stock pledge

type repurchase business, is reported to the exchange trading system by the securities company according to the entrustment of the merging party and the financing party. The trading system shall confirm the trading declaration according to the relevant rules and send the trading result to China Securities Depository and Clearing Co., Ltd. China Securities Depository and Clearing Co., Ltd. provides corresponding securities pledge registration, clearing and settlement and other business processing services for stock pledge style repo according to the transaction results confirmed by the exchange; for over-the-counter pledge, the handling of stock pledge is not through the exchange system, but in China Securities Depository and Clearing Co., Ltd. for registration, trust, bank, insurance company, fund subsidiary, etc To participate in the off-site pledge business. Among them, the quantity of on-site pledge with securities companies as lenders is far greater than that of off-site pledge, which is mainly determined by the characteristics of the two kinds of pledge. First of all, they have different security requirements for the subject-matter stock. Article 23 of the business measures of Shenzhen Stock Exchange: the underlying securities of stock pledge repurchase are A-share stocks listed and traded on Shenzhen Stock Exchange or other securities recognized by Shenzhen Stock Exchange and China Clearing. Although the laws and regulations do not make clear restrictions, but from the perspective of risk control and dispute prevention, securities companies will strictly control the subject-matter securities pledged on the floor. Generally speaking, the following shares cannot be used as the subject matter of pledge: St, * ST; companies that lost money last year and are difficult to reverse, may wear hats and other companies with poor performance; long-term suspension. Sunset industry, restricted industry, sensitive industry with unstable performance, shell company; overvalued value, high quality rate (for example, shareholders have pledged more than 70% of shares); investigated, warned, involved in litigation, etc. It can be seen that the on-site pledge has higher requirements on the target stock, and the pledge rate is also controlled at a lower level. Sometimes, it is not the best financing plan for the participants. Secondly, they have different procedures for the disposal of Pledged Shares. The characteristics of on-site pledge is to complete the stock pledge settlement on the site (i.e. in the exchange), and can be disposed directly on the site. In case of default of the financing party, the securities company can directly submit the default disposal declaration to the stock pledge Repurchase Trading System of the comprehensive business platform of Shanghai Stock Exchange, and directly sell the Pledged Shares on the site for disposal and realization. In fact, off-site pledge is a risk control method for trust companies to carry out financing business. Unlike on-site pledge stock, it is more convenient to dispose. Sometimes, as long as the investors approve, the requirements for risk control are lower. From the perspective of debt investment, the subject matter of pledge in the field is more secure. In this paper, the subject of stock pledge default of securities companies is chosen as the research object of investment, which is mainly based on security and convenience of disposal.

Scale of pledged equity corresponding to different types of Pledgors

Data source: Haitong Securities Research Institute

2. The Feasibility of Stock Pledge Default Debt Investment of Securities Company

2.1 The Stock Market Continues to Be Depressed, and the Number of Pledged Stock Defaults and the Number of Potential Default Risks Increase

Statistics show that from the opening of business on June 24, 2013 to the end of December, the scale of stock pledged repo reached about 100 billion yuan; at the end of May 2014, the scale even increased to about 180 billion yuan. By June 2015, the total market value of stock pledge had reached 2.53 trillion, but the stock disaster caused by the “circuit breaker” mechanism in late June and December 2015, a number of listed companies' stock pledge burst out of risk, and they “piled up” to issue supplementary pledge announcements. Due to the sharp adjustment of the A-share market due to the “stock disaster”, some of the pledge targets have been significantly discounted. Although the number of stock pledges is increasing, the total market value of stock pledges by the

end of 2016 is only 1.28 trillion, about half of which was in June 2015. Since 2017, the market value of equity pledge has increased. There are 3305 shares involved in equity pledge in the two cities, accounting for 98.5% of all a shares. There are only less than 50 shares left in the whole market without equity pledge, and the market value of UN Pledged Shares is 6.13 trillion yuan (Accounting for 10.8% of the total market value of a shares). Since 2017, it has been a wave of stock pledge defaults, such as LETV, which has attracted more attention from the market. In 2018, the news of stock pledge breach continued. For example, Shunwei shares (002676, SZ) announced that Jiang Jiuming, a major shareholder, was deeply involved in the dispute of pledge type securities repurchase. According to the company, the Anhui Higher People's court has accepted the case of Hua'an securities (600909, SH) suing Jiang Jiuming after receiving documents such as "subpoena", "Notice of proof" and "civil indictment" from Anhui Higher People's court. Hua'an securities requested Jiang Jiuming to pay off 835 million yuan of financial capital, plus overdue interest and liquidated damages, it was 925 million yuan. On August 5, 2016, Jiang Jiuming and Hua'an securities signed the stock pledge type repurchase transaction business agreement of Hua'an Securities Co., Ltd. According to the agreement, Jiang Jiuming pledged 153 million shares of Shunwei stock to Hua'an securities to raise RMB 835 million at that time, and agreed that the repurchase transaction date was August 3, 2017, with an annual interest rate of 5.87%. Jiang Jiuming shall pay interest quarterly, and overdue payment shall be deemed as breach of contract. However, as of June 20, 2016, Jiang Jiuming paid interest of 43.4323 million yuan to Hua'an securities, and no interest was paid after that. On August 3, 2017, Hua'an securities required Jiang Jiuming to repurchase the above financing principal and pay interest at maturity according to the agreement, but Jiang did not fulfill the repurchase obligation as agreed. Hua'an Securities believes that Jiang Jiuming's behavior has constituted a serious breach of contract, so it filed a lawsuit with Anhui Higher People's court. In January 2018, Hua'an securities also forced the closing of some shares held by Jiang Jiuming, with 7.19 million shares closed and the average closing price of 6.89 yuan / share. Hua'an securities has applied to the court for property preservation at the end of January this year, requesting to freeze 153 million shares of Shunwei and 1275000 yuan of cash dividends held by Jiang Jiuming. At present, the application has also been ruled by the court. There are also shares that trigger the risk of closing positions, such as Qianshan Pharmaceutical Machinery Co., Ltd. announced on January 19 that Liu Xianghua, the largest shareholder and one of the actual controllers, holds 14.83% of the company's total equity. At present, Liu Xianghua has pledged 13.78% of the company's equity. The 29.808 million shares pledged by Liu Xianghua to Guotai Junan Securities have fallen below the closing line. The company's controlling shareholder Xuzhou Fengli Technology Development Investment Co., Ltd. holds 210280000 shares of the company, accounting for 29.50% of the company's total share capital, according to an announcement released by the financial environment on the evening of February 1. Up to now, Xuzhou Fengli has pledged 202867400 shares, accounting for 29.46% of the company's total share capital. Among them, 51620000 shares pledged by Xuzhou Fengli to Jinyuan Securities Co., Ltd. and 58450000 shares pledged to Great Wall Securities Co., Ltd. have fallen below the closing line. On March 28, Tianguang Zhongmao announced that Qiu Maoguo, the second largest shareholder of the company, and most of the company's shares pledged by Qiu Maoqi, who acted in concert with him, had touched the closing line and faced the risk of being forced to close positions. If forced to close positions, the company's control might change significantly.

2.2 The Policy Strictly Controls the Scale of Pledged Stocks and Restricts Disposal Methods. Securities Companies Urgently Need to Pledge Stocks to Be Disposed of in Breach of Contract.

2.2.1 Risk of Intensifying Market Volatility

Due to the volatility of the market price of pledged shares, in order to protect the interests of pledge holders, the market value of the pledged shares is generally much higher than the pledge financing amount. According to the market's general estimate of 3-4% of the equity pledge rate, the ratio between the two is generally 250% -300%. In view of the high volatility of the GEM, the

amount of pledged financing of the shares of GEM listed companies is lower than that of the Main Board. According to the current system, when the stock price of the relevant pledged shares declines, causing the ratio of the stock market value to the financing amount to decrease, and when the warning line is reached, the pledgee often needs to pledge the pledger to add additional pledges; If the pledgee fails to take corresponding measures, the pledgee has the right to sell the relevant shares for cash. In the short term, the liquidation behavior of the investors and the process of shareholders' replenishment by reducing the holding of other stocks will further exert downward pressure on the stock market.

2.2.2 Cause Market Liquidity Risk

If a high proportion of individual large shareholders' equity pledge financing is put into the stock market, they will purchase stocks again through capital allocation to obtain investment income or consolidate control of listed companies. Once the stock market fluctuates, the risks will be further amplified. If the pledged stocks are closed, it will have a further effect on the further decline of the listed company's stock price, and even create a dangerous situation where the liquidation cannot be achieved. When the stock price drops sharply, in order to prevent the risk of additional pledges or even forced liquidation, large shareholders often put more pressure on the listed companies to suspend trading until the market stabilizes or even rebounds. The long-term suspension of trading caused by equity pledge risk hinders the continuity of transactions, affects the liquidity of the securities market, and adversely affects the market's trading mechanism. Therefore, the suspension caused by the risk of stock pledge affects the liquidity of the market.

2.2.3 Risk of Transfer of Controlling Power of Listed Companies

At present, the major shareholders of listed companies' stocks are mainly market financial institutions. Most of these financial institutions do not have arrangements for long-term industrial operation and management. Therefore, once the high percentage pledge of large shareholders' equity is forced to be liquidated, it may lead to the transfer of controlling power of listed companies, which often results in frequent changes in the controlling shareholders and actual controllers of listed companies. Negative effects, leading to turbulence in listed companies. In particular, many stocks are pledged to financial institutions such as banks and trusts. When they passively become major shareholders, the shares they hold will often be transferred again, causing the major shareholders of listed companies to change again, and the risks faced by listed companies will be magnified again. In addition, even if the position cannot be closed temporarily due to suspension of trading or a sharp decline in the market, the relevant shares will often be actually controlled by the pledgee, causing the listed company's nominal controller to be inconsistent with the actual controller, and fully fulfill the information disclosure obligations of listed companies As well as normal corporate governance mechanisms.

2.2.4 Cause the Risk of Illegal Violations of Listed Companies

The financing amount of the stock pledge, the early warning line of the additional pledge, and the liquidation line are closely related to the stock price of the listed company, which will inevitably increase the demand of the large shareholders for the management of the market value of the listed company. For private listed companies with the largest share of stock pledges, the majority shareholders, actual controllers, and directors and senior management of most companies coincide with each other, creating more convenient conditions for market value management of listed companies. In the case of excessive stock price declines, in order to avoid the forced liquidation of pledged shares, relevant shareholders and listed companies will further increase the risk of manipulation of stock prices through selective information disclosure and cooperation with market institutions. In recent years, when major shareholders face the risk of liquidation, they often have more incentives to require listed companies to release good news, which leads to violations of laws and regulations of listed company information disclosure. When major shareholders' equity is pledged or frozen, they are more likely to occupy listed companies. The desire for funds, and the appropriation behavior at this time will have a negative impact on the performance of listed

companies. If the secondary market continues to fall, there will be more large shareholders who pledge stocks to face additional pledged funds pressure, especially for large shareholders of listed companies with high stock pledge ratios, greater pressure on shareholders, capital violations and other violations of listed company interests. Matters may look up again.

In order to prevent the risk caused by the default disposal, the Shanghai and Shenzhen Exchanges have stated that even if the stock price touches the liquidation line due to short-term sharp fluctuations, the securities company will not immediately dispose of it, but will actively communicate with the customer and ask the customer to add collateral. Not limited to financial assets such as stocks and cash, real estate, land, etc. can also be used as collateral. Even if the stock prices of individual companies are close to the liquidation line, securities companies will not rush to sell in the secondary market. Even if they have to sell in the end, they will gradually sell in accordance with relevant reductions. However, the securities company as the lender is more passive under the existing policy conditions, that is, it cannot easily choose to close the position to deal with the default stock pledge according to the contract, but must do its best to prevent the liquidation line from being reached. Pledges in other ways, including stocks. If the market stabilizes, it will be deepened if it continues to decline. Judging from the current situation, the pressure on both sides of the pledger and the pledgee can be relieved at the same time to achieve a better effect. This is like pulling a rubber band between the pledger and the pledgee. One way is that one side relaxes and the other side stays still; or both sides relax. Both methods are effective, and the latter is better than the former. However, the current market situation is that policies are conducive to reducing the pressure on pledgers, but the pressure on securities companies is gradually increasing, which means that the expected effect is very small, and even the pressure on securities companies is greater than the pressure on pledgers, the end result is pressure. Still increasing. Therefore, the securities company, as the lender, very much hopes to find a way to relieve the pressure without deviating from existing policies and reducing its own risk.

2.3 The Securities Company Acting as the Lender Shall Have the Right to Dispose of the Pledged Shares after the Default of the Merging Party.

Due to the volatility of the market price of pledged shares, in order to protect the interests of pledge holders, the market value of the pledged shares is generally much higher than the pledge financing amount. According to the market's general estimate of 3-4% of the equity pledge rate, the ratio between the two is generally 250% -300%

2.4 Cause Market Liquidity Risk

The creditor's securities company accepts the shares pledged by the acquirer's listed company in accordance with the contract. From the time of providing financing, the double convenience constitutes the relationship between the creditor and the debtor. Generally, according to the agreement of the stock pledge contract, when the acquirer defaults, the securities company can submit a report of the breach of disposal to the stock pledge repo trading system of the comprehensive business platform of the Exchange according to the contract and can directly sell the pledged stock on the floor Disposal and realization to ensure the safety of the funds of the lender. However, this is not the only way for the lender to breach the contract and cannot compensate the pledge. According to Article 79 of the Contract Law, "creditors can transfer all or part of the contract's rights to a third party", which includes both the transfer of normal contract rights and the assignment of non-performing creditor rights. Therefore, securities companies' transfer of stock pledged default creditor's rights is in compliance with the law. At the same time, Article 80 of the Contract Law also stipulates that "the creditor shall notify the debtor when transferring creditor's rights", but it is not necessary to obtain the debtor's consent. The transfer of the defaulted creditor's rights on stock pledges needs to be executed by the securities company in accordance with the assignee's instructions in the buying and selling operation, and the others are no different from ordinary claims. Of course, unless the original contract stipulates that the creditor's rights cannot be transferred.

3. Proposal for Securities Company's Stock Pledged Default Debt Investment

3.1 Formulation of Screening Criteria for Stock Pledged Default Debt Investment

Although the number of potential stock pledged defaults is increasing, not all are suitable for investment. Therefore, screening criteria need to be developed. There are two ways to realize the default of credit on investment stocks, namely the traditional disposal of bad debts and the self-investment income based on the value of pledged stocks to obtain equity. Therefore, there are two corresponding screening standards for stock pledged default debt investment. For the selection criteria based on the traditional disposition of non-performing claims, the purchase price of the default claims multiplied by the profit margin is equal to or less than the realised amount of the disposal of the pledged stocks, the non-performing debt investment is worth investing. Screening criteria for self-investment to obtain equity returns. It is necessary to comprehensively consider the defaulting listed company and have optimistic expectations for its future development. You can consider obtaining equity through negotiation and obtaining equity through negotiation, and transforming the fixed income from debt to the variable income from equity. The screening criteria have accordingly changed to focus on the price expectations of pledged company stocks and the company's profit potential. Evaluation indicators have become more detailed, such as the domestic and foreign macroeconomic situation, the development of domestic and foreign industries, the company's financial situation, and even managers' management capabilities.

3.2 Obtaining the Default of the Debt Rights of the Securities Company's Stock Pledge

According to the previous analysis, if the stock pledge defaults and the pledge cannot be replenished, the securities company as a creditor can basically close its principal and interest income in accordance with the contract to close the position. So, how to obtain the target of the securities company's stock pledged bonds? According to the current actual situation, the methods of obtaining default creditor's rights on securities company stocks can be roughly divided into two types:

The first is the active disposal of creditors. This situation is mainly due to the way in which creditors may dispose of defaulted claims on stock pledges after the emergence of new rules on stock pledges. The Shanghai Stock Exchange, Shenzhen Stock Exchange and China Securities Regulatory Commission issued the "Policies on Stock Pledged Repo Transactions and Registration and Settlement Business (Revised in 2018)" (hereinafter referred to as the new rules) on January 12 this year, and the new rules became official on March 12 Implementation. This is also known as the strictest new pledge financing rules in history. The new pledge rules require that "a single securities firm accepts no more than 30% of its total A-share pledge, and collective asset management plans and targeted asset management plans cannot accept a single A-share pledge of more than 15% of its total share capital; The pledge ratio must not exceed 50%; the upper limit of the stock pledge rate must not exceed 60%. "Although the new and old cut-off principle was later proposed, the new rules caused negative market reactions to future expectations, and some pledged stocks continued to decline. The risks of securities companies have been further increased. However, in accordance with the "risk of no disposal risk", institutions must not simply and ruthlessly close their positions. The choice of default disposal methods is no longer a complete market behavior, but is restricted. Securities companies are in an embarrassing situation under the current policy conditions, that is, they cannot deal with pledges of defaulted shares in accordance with market rules, but must do their best to prevent the liquidation line from being reached and accept pledges by other methods, including stocks. If the market stabilizes, it will be deepened if the economic situation continues to decline. Judging from the current situation, the better effect can be achieved if the pressure of the melter and the melter are alleviated at the same time. , The other party stays still; or both parties relax. Both methods are effective, and the latter is better than the former. However, the current market situation is that the policy is conducive to the reduction of the pressure on the integration side, but the pressure of the securities company on the financing side is gradually increasing. As a result, the pressure is still increasing. Enlarging the channels for securities companies to dispose of pledged targets and the previous policy to alleviate pressure on stock pledge companies to close

their positions can maximize the effect and minimize the negative effects. At this time, the involvement of other investors will greatly ease the pressure on securities companies that have problems in this regard. On the basis of negotiation between the two parties, it is also welcome for the securities company to transfer the pressure from this part of bad debts. Therefore, we can take the securities companies that have previously undertaken higher pledges as key acquirers.

The second is a potential assignee intent. In this case, the potential assignee may, in the tracking of many pledged stocks, intend to communicate with the creditors to negotiate the transfer intention on the initiative of some parties who are close to default or have defaulted. If it is the interest income of the investment target, it depends on whether the creditor can give a discount to the guaranteed assignee's income. If the assignee is based on the investment that wants to obtain equity, it can even evaluate the stock's internal and external value to a certain extent. Buy at par or above debt.

3.3 Disposal of Stock Pledged Default Claims after Assignment

When the lender's securities company is willing to transfer the defaulted creditor's rights on the pledged stock, and after the debtor of the pledged stock is notified to the assignee, the assignee becomes the new creditor on behalf of the securities company, and the securities company becomes the disposal of the assignee. Stock intermediaries, or the role of agents. On the one hand, the new creditor can choose to close the position, and the securities company of the executor of the specific operation will dispose of the pledged stock by closing the position. After disposal is not enough to repay the debt, the remaining part still has the right to recover from the debtor; if there is more than one, the excess part is returned to the debtor. On the other hand, if the new creditor wishes to finally obtain the equity through the creditor's rights, he can also sign the “Obtained by way of the Pledged Securities Disposal Agreement.”

3.3.1 Assignee Aims to Obtain Income from Debt Investment

3.3.1.1 Judicial Proceedings¹

The stock market is a “news market and policy market”, and prices fluctuate greatly and very quickly. Sometimes the speed of disposal determines whether the pledge right can be successfully realized. However, judicial enforcement often requires complicated procedures, takes a long time, and has a slow disposal speed, so it is not the best choice for pledgee to exercise stock pledge. Normally, it is only used as a last resort to achieve pledges. According to the provisions of Article 39 of the Securities Law, stocks that are publicly issued in accordance with the law shall be listed and traded on a stock exchange established in accordance with the law or transferred to other securities trading venues approved by the State Council. In practice, the auction and sale of pledged stocks by the executive authorities of the people's courts often requires the designation or entrustment of relevant securities companies to transfer the pledged stocks at trading venues. Related securities companies should provide corresponding services on the premise of obtaining the same commission.

If the pledged stock is transferred to compensate the pledgee after the stock is sold, or if the executive authority of the people's court decides to transfer the stock directly to the pledgee under certain circumstances, it is necessary to obtain China Securities Regulatory Commission to assist in the transfer and other related procedures. Card registration should provide assistance.

3.3.1.2 Disposition by Both Parties

The China Securities Depository and Clearing Corporation Limited Shenzhen Branch Securities Pledge Business Guide (implemented on May 2, 2017), the procedures for the realization of stocks for disposal are applicable to both on-site and off-site pledges. As long as the two parties have signed the Pledge Contract in advance, and then signed in advance or provisionally in the Pledged Securities Disposal Agreement, in addition to the pledger's ability to dispose of the pledged shares, the parties can also entrust the securities company as the first The three parties will dispose of the stocks (requires the stocks to be escrowed in the securities company); when the two parties entrust

the securities company to dispose of the stocks, from the application for changing the registration status of the stocks to the actual completion of the disposal of the stocks, no assistance from the pledger is required. Such an institutional arrangement has greatly accelerated the speed of stock disposal, and the pledgee can efficiently realize its pledge right.

Regardless of whether the pledger will dispose of the pledged shares or the securities company commissioned by both parties, the proceeds of disposal cannot be transferred to the special deposit account for client transaction settlement funds, but to be allocated through the relevant fund settlement account specifically opened in CSI Gold. Transfer to the pledgee account. Such an arrangement, especially in the case of the pledgee to dispose of the shares, fully guarantees that the proceeds from the disposal of the shares can be smoothly transferred to the pledgee.

The pledge realization came into effect on May 2, 2017. The specific provisions of the “Guide to Securities Pledge Business of China Securities Depository and Clearing Corporation Limited Shenzhen Branch” were implemented. The application for adjusting the status of securities pledge registration is as follows:

“1. In the event that the debtor fails to perform the due debt or the pledge is agreed by the parties, and the parties have reached consensus on the pledge, the pledge parties may apply to the company according to the pledge contract or a separately signed pledged securities disposal agreement. Adjust the registration status of securities pledges from 'non-sellable pledge registration' to 'sellable pledge registration'. “

“2. The securities pledge registration status adjustment business may be applied by the pledge parties or the pledgee unilaterally (hereinafter referred to as the” applicant “). When the pledge parties agree that the pledgee shall apply to the company for the securities pledge registration status adjustment business, The following shall be agreed in the pledge contract or pledged securities disposal agreement in advance: (1) the situation of realizing the pledge right; (2) the two parties of the substantive pledge have reached an agreement, and when the above situation occurs, the pledgee shall unilaterally register the certificate Apply for securities pledge registration status adjustment business; (3) If the pledgee applies to China Securities Regulatory Commission for securities pledge registration status adjustment business, it shall be deemed that the pledgee has known and agreed to handle securities pledge registration status adjustment business. “

“3. After the security pledge registration status adjustment takes effect, according to the relevant provisions of the pledge contract or the pledged securities disposal agreement, the pledger may sell the pledged securities on its own and transfer the proceeds of the disposal to the pledgee. The pledged parties may also entrust the securities company As a third party to assist in the sale of pledged securities and transfer the disposal proceeds to the pledgee. When the pledged parties entrust the securities company as a third party to assist in the sale of the pledged securities and transfer the disposal proceeds to the pledgee, they shall sign in advance with the securities company The three parties agreed and agreed on the following: (1) the situation of realizing the pledge; (2) the two sides of the substantive pledge have reached an agreement. When the above situation occurs, (the name of the securities company) is used as a third party to adjust the registration status of the securities pledge. Assistance in selling pledged securities after the entry into force, and timely transfer the proceeds of disposal to the bank account designated by the pledgee (including the pledgee's bank, account name and bank account number). “

“4. After the securities pledge registration status adjustment takes effect, if the pledger sells the relevant pledged securities on its own, it shall promptly report to the securities company relevant data and information on the date of sale.”

“5. After the pledged securities are sold, the securities company shall confirm the transaction data of the pledged securities that have been sold, and by 15:00 on the day of sale, it will use the D-COM system to 'register the depository'-'floating stocks frozen'- 'Freeze and thaw' menu, timely report to the company the relevant pledged securities selling information. The company will deduct the pledger at the end of the day according to the transaction information confirmed by the securities trading venue and the pledged securities selling information declared by the securities company. Corresponding securities in a securities account. “

“6. If a securities company accepts an entrusted sale of pledged securities and transfers the proceeds of disposal, the proceeds of disposal shall be in accordance with the” Reply on Matters Concerning the Transfer of Funds for Default Disposal of Stock Pledged Repurchase Transactions “(Letter from the Agency Department [2013] No. 714), in accordance with the relevant requirements for the default disposal of stock pledged repurchase transactions, transfer it through the relevant fund settlement account opened in the company in a timely manner, and it cannot be directly transferred to the pledgee through the special deposit account for client transaction settlement funds. Account. “

3.3.2 Assignee Aims to Acquire Equity through Debt Investment

If the transferee is willing to acquire the pledged equity, the pledged parties can also transfer the pledged stock to the pledgee (creditor) by signing the Pledged Securities Disposal Agreement. Of course, this type of disposal requires the cooperation of both parties. As a non-transaction transfer method, unlike other typical transfer transactions such as public bidding, block transactions or agreement transfers, placing stocks on the open market, this pledge of stock transfers to compensate pledgees has an impact on the stock prices of listed companies. Not big. This is also what the controlling shareholders and major shareholders of listed companies are most concerned about. At this time, as the pledge party's controlling shareholder and major shareholder, it is very likely that there is no lack of willingness to cooperate with the transfer (except for the case where the actual controller may be changed in this way).

The specific requirements for the transfer of pledged stocks to compensate the pledgee are set out in the “Guide to the Securities Pledge Business of China Securities Depository and Clearing Corporation Limited Shenzhen Branch” effective from May 2, 2017 (hereinafter referred to as the “Business Guide”) for pledged securities disposal and transfer business. The operation procedure is as follows:

“1. In the event that the debtor fails to perform the due debts or the pledge is realized by the parties, the pledged parties may apply to the company for the pledged securities disposal transfer business according to the pledged securities disposal agreement.”

“2. The transfer of pledged securities to settle the pledgee shall refer to the market price, and the disposal price shall not be lower than 90% of the average price of the closing price of the securities 20 trading days before the signing date of the pledged securities disposal agreement. The closing price of the pledged securities involves ex-rights. Ex-dividend situations should be adjusted accordingly. “

“3. The pledged securities disposal and transfer business shall be handled through the counter of this company, and the following materials shall be submitted: (1)” Application for Pledged Securities Disposal and Transfer “; (2) the original pledged securities disposal agreement, which shall include the relevant information of the pledged securities (the number of securities) (The nature of the securities, etc.), the reasons for the transfer of the pledged securities (the debtor does not perform the debt due, the amount of the unpaid debts due, etc.), the basis for determining the disposal price of the pledged securities, the number of pledged securities applying for the disposal of the transfer, etc., the parties to the pledge shall agree in the agreement 'The total discounted amount of the pledged securities for application for disposal shall be subject to the maximum amount of outstanding debts'; (3) the original certificate of securities pledge registration; (4) the announcement (if any) of the transfer and disposal of the pledged securities; (5) the effective identity of the pledged parties Certificates and photocopies; (6) Letter of commitment from the pledged parties on the disposal price; (7) Other materials required by the company. “

“4. When the pledge parties apply for the pledged securities disposal and transfer business, if the transferee does not have the qualification to open an account, they should apply directly to the company for opening a securities account and promise that the opened securities account will only be used for disposal in the pledged securities disposal and transfer business. The transferred securities shall not be traded in other securities (except as otherwise required by laws and regulations). “

“5. The pledged parties applying for the pledged securities disposal and transfer business shall pay the transfer registration fee in accordance with the relevant provisions of the company's securities non-transaction transfer business, and shall pay the stamp tax on securities transactions in accordance with relevant national regulations.”

“6. The company will go through the registration procedures for the pledged securities after reviewing the application materials submitted by the pledged parties.”

4. Potential Risks of Defaulting Creditor's Rights on Stocks Pledged by Investment Securities Companies

4.1 The Global Economy is Still Hovering

The world economy will still be in a repair period after the international financial crisis. The effectiveness of policy measures has declined. New growth momentum has not yet been established. It will still maintain the “three lows and one high” of “low interest rates, low inflation, low growth, and high debt” Situation, the recovery will remain weak. Unfavorable and uncertain factors in the operation of the world economy have increased, and it is more likely to continue low-speed operation. In particular, the recent “trade war” between China and the United States has added another layer of uncertainty to the overall economic trend, which directly aggravates the cautious and even pessimistic mood of investment in the real economy and capital markets. In this case, it is difficult to avoid the impact of the general environment by choosing various investment target reference indicators, such as reasonable financial and industry potential indicators, so the corresponding investment risks will also increase.

4.2 There Are Many Problems in China's Deepening Reform of Policies and Systems That Need to Be Resolved

China is in a period of great transformation and is constantly improving and improving, but at the same time, some problems have emerged. The policy market of China's securities market has been criticized by investors, and its policies are changeable. Policies should be rigid and need to be stable. However, the arbitrariness of China's capital market policies often leads to insufficient market response, and even to the pessimism brought about by the policy side. From “leveraging bulls” to “killing leverage” and then to the fuse mechanism, it can be said that the exploration of the capital market has caused the most direct and rapid harm to investors. As mentioned earlier, the systematic implementation of the intervention policy to prevent stock pledge defaults is indeed intended to protect investors, but the effect is not necessarily obvious, but it will easily affect the value judgment of normal investment.

4.3 Increased Geopolitical Turmoil Will Put Pressure on China's Economic Growth

Global hotspots are concentrated in the Middle East and surrounding areas. Regional conflicts that break out at any time affect the sensitive nerves of investors, which in turn affects the violent fluctuations in the capital market; the earlier North Korean nuclear issue and the US-Iran conflict at the beginning of this year. With the current lack of momentum for world economic growth, once the war breaks out and tensions intensify, consumer confidence and investor confidence will be greatly affected. Even conflicting expectations are enough to have a fairly significant impact. The negative attitudes of consumers and investors will also affect the capital market and the real economy behind it.

4.4 The Impact of the “Black Swan” Incident is Difficult to Control

If the U.S.-Iraq conflict at the beginning of this year was a farce of gray swans, then the 2019-nCoV virus, which is the sudden public event caused by the new crown virus, is a real black swan. From the perspective of overall economic activity, the short-term impact of the epidemic on economic growth is mainly the degree and length of isolation and control of normal economic activities. Obviously, the impact of the epidemic on the real economy will soon spread to the capital market, especially it is likely to cause large-scale stock pledge defaults. To this end, the China

Securities Regulatory Commission considers that the epidemic objectively affects the business activities and cash of some enterprises and individuals. The flow caused a temporary impact. In order to alleviate the liquidity difficulties of related enterprises and individuals, it was proposed that the stock pledge agreement expires during the epidemic prevention and control period. If the customer applies for renewal due to repayment difficulties, the customer in Hubei (that is, the registered place is Provincial enterprises or residents living in Hubei Province) can apply for an extension of 6 months, and the securities company will assist in the extension; for customers in other regions, they can negotiate with the securities company for an extension of 3 to 6 months. As for the buffer effect of this “delay strategy” in the future, it will largely depend on the development of the epidemic.

References

- [1] Ying Shangjun, Pan Chen, Wang Hongjuan. Risks and Policy Suggestions of Listed Companies' Stock Pledge Financing [J]. Shanghai Finance, 2019 (09).
- [2] Wang Xian. Pledge of controlling shareholder stocks and corporate governance challenges [J]. Tsinghua Financial Review, 2019 (09).
- [3] Chen Lei. Risk analysis and development strategy of stock pledge business--Based on the perspective of commercial bank business development [J]. Northern Finance, 2019 (08).
- [4] Guo Jinlong, Xue Min. Risks of Pledge of Stocks of Private Listed Companies and Preventive Measures [J]. Banker, 2019 (04).
- [5] Yu Yongcheng, Chen Chao. Risk Control of Stock Pledged Repo Business--A Study Based on Multi-Factor Model and VaR Method [J]. Financial Economics, 2019 (06).
- [6] Guo Jing. Pledge of stocks of listed companies [J]. China Finance, 2019 (04).
- [7] Niu Wenxin. Stock pledged liquidation: a risk, but also an opportunity [J]. China Economic Weekly, 2018 (48).
- [8] Yang Kaisheng. The practice of disposing of non-performing assets of financial asset management companies [J]. China Finance Press, 2004 (11).
- [9] Zhang Xu. Analysis of the Research on the Implementation Scheme of Stock Pledged Repurchase [J]. Economic Perspective, 2014 (08).
- [10] Zhang Shilong. Talking about the Risk of Stock Pledge and Interpretation of New Regulations [J]. China International Finance and Economics, 2017 (05).