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Analysis of Motives and Influences of East Money Convertible Bond Financing

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Abstract: *Convertible bonds are fully known as convertible corporate bonds. Since the CSRC issued new financing rules in 2017, convertible bonds have developed rapidly without relevant restrictions. As an important investment and financing tool in the financial market, the orderly development of convertible bonds is very important to maintain financial stability. It is necessary to pay attention to its current situation and study the Countermeasures for its healthy development. On the basis of the existing research, it is found that the motivation of issuance includes easing the conflict of interest, reducing the cost of financing, optimizing the capital structure, etc., and it will have an impact on the company's stock price, equity dilution and predatory behavior of major shareholders; Combined with the case analysis, it is found that there are some problems in the current convertible bond issuance, such as the slow progress of convertible bond investment and education, the inadequate supervision of the issuance market, and the imperfect regulations on the termination of convertible bond transactions. Therefore, this paper puts forward some suggestions for investors, original shareholders and relevant regulatory framework, so as to promote the healthy development of convertible bonds.*

Keywords: *Convertible bond, Convertible Debt Financing, Agent, influence*

1. Introduction

Convertible corporate bonds, also known as convertible bonds, are an investment and financing tool between stocks and bonds. The world's first convertible bond was issued in the United States in 1843, 178 years ago. Relatively speaking, China's listed companies use convertible bonds for financing relatively late, and some listed companies began to issue convertible bonds at the end of the 20th century. Debt financing has gradually become standardized and efficient. The prime time for China's convertible bond financing began in 2017. The China Securities Regulatory Commission issued new financing regulations, and convertible bonds are not subject to the 18-month "refinancing cooling period" for private placement. In 2017, 34 were issued, and in 2018, 67 were issued. The number of convertible bonds issued increased by 97%, and the financing of convertible bonds had a blowout development. At present, the scale of convertible bond issuance is getting larger and larger, and the issuance of convertible bond financing has become an important way for Chinese listed companies to refinance.

This paper focuses on the case analysis method, taking the issuance of convertible bonds by East Money Information Co., Ltd. Corporation in April 2021 as an example, to study and analyze the motivation and impact of the issuance of convertible bonds by listed companies, and find out the problems existing in China’s convertible bonds, and propose norms. Suggestions on sustainable development of convertible bonds and how convertible bond stakeholders can avoid risks.

2. The connotation of convertible bonds and related theories

2.1. The connotation of convertible bonds

Convertible bonds can be converted into corporate bonds, which are bonds that can be converted into company stocks under specific conditions, so they have both debt and equity properties. Brennan.M.J. and Schwartz (1980) combined the characteristics of convertible bonds and considered that convertible bonds are a hybrid bond that retains most of the characteristics of pure bonds, but at the same time gives investors a call option on the common stock of the company [1] .

During the conversion period, if investors convert the convertible bonds they hold into shares of the

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corresponding company, they can obtain equity in the company, participate in the company's decision-making and have the right to distribute dividends. The conversion of such bonds into stocks is irreversible. Once converted, the company will no longer repay the convertible debt obligations before the conversion, thereby achieving the purpose of equity financing.

Investors can also become shareholders without converting shares during the conversion period. You can use fluctuations in the secondary market to obtain profit from the price difference, and finally sell it to realize it; you can also hold the convertible bonds until maturity, collect the corresponding principal and interest, or sell them back to listed companies. Under normal circumstances, converting shares or selling them in the secondary market is conducive to maximizing investor returns [2].

The basic elements of convertible bonds of listed companies in China mainly include issuance scale, coupon rate, remaining life, conversion price, redemption price at maturity, forced redemption clause, downgrade clause and put-back clause.

Conversion price: The price at which a certain number of convertible bonds are converted into underlying shares.

Redemption price at maturity: the price at which the convertible bond is not converted into shares and is finally redeemed from investors by the listed company.

Forced redemption clause: The issuer can force the redemption from the holders of convertible bonds at a certain price under specific circumstances.

Downward revision clause: It is a right of the issuer to guarantee the conversion of shares. When the stock price continues to be lower than a certain price, the issuer can choose to revise the conversion price downward to increase the conversion value of the convertible bond.

Sell-back terms: In order to protect the interests of convertible bond investors, when the company's stock price falls below a certain price for a long time, the issuer buys the convertible bonds in the hands of the convertible bond holders at the previously agreed price.

It can be found that the redemption clauses, downgrade clauses and sell-back clauses are all designed to ensure that the conversion of shares can achieve the purpose of equity financing of listed companies, and at the same time to protect convertible bond investors.

2.2. Signal Transmission Theory

For the real business situation and potential investment income of the company, there is asymmetric information obtained by the company's internal managers and major shareholders and external small and medium investors. The signaling theory is based on this. Since it is almost impossible for both parties inside and outside the enterprise to obtain sufficient information at the same time, it is a relatively realistic situation that the internal managers of the enterprise understand the operating conditions of the enterprise better than the external investors. Internal managers and major shareholders can grasp the inside information of the company, and have a better understanding of the production and operation of the company, more detailed financial data and the development prospects of the industry. Due to the limitation of professional ability and the distance from the company's management and operation, external investors can only indirectly evaluate the value of the company based on the company's public financial data and the information transmitted by the announcement [3]. Therefore, the decision-making of internal managers, company announcements, and the increase or decrease of major shareholders will be regarded by external investors as the transmission of some unannounced positive or negative signals.

2.3. The Theory of Priority Financing

There are two main sources of financing for listed companies: internal financing and external financing. Myers (1984) believes that if a project can achieve greater profits, the management of the enterprise will often use internal financing or debt financing in order to prevent the interests of shareholders existing within the enterprise from being damaged. Use equity for financing. Therefore, companies tend to finance in the following order: internal financing→debt financing→external equity financing [4].

According to the signaling theory, if a company conducts equity financing, external investors will subjectively believe that its operating performance is poor. In China, the terms of convertible bonds are

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generally designed to be partial shares, and the purpose of equity financing is finally realized, which sends a signal to the market that the enterprise is not operating well or has no good prospects.

3. Convertible bond issuance, features and value

3.1. Overview and Procedures of Convertible Bond Issuance

3.1.1. Overview of China's Convertible Bond Issuance

The world's first convertible bond came from the United States in the 19th century. In 1843, the American company Erie Railway issued convertible bonds to finance. European countries also began to issue convertible bonds for financing in the late 1980s. In the 1990s, Asian countries except Japan began to slowly explore the issuance of convertible bonds.

The issuance of convertible bonds in China started late, and it was not until 1991 that the first convertible bond in China's history appeared. However, since the conversion rate of Bao'an convertible bonds issued in 1992 was less than 5%, the issuance of convertible bonds in China almost stagnated in the following years. It was not until 2001 that China issued the "Implementation Measures for the Issuance of Convertible Corporate Bonds by Listed Companies" that China's convertible bond market gradually developed and entered the right track. The prime time for China's convertible bond financing began in 2017. The China Securities Regulatory Commission issued new financing regulations, and convertible bonds are not subject to the 18-month "refinancing cooling period" for private placement. At the same time, the rules for subscribing for convertible bonds are revised. Online investors do not need to freeze the prepayment when subscribing for convertible bonds, but after confirming the placement, they will pay the actual placement amount. In addition, the online issuance of convertible bonds has been adjusted from the allocation principle of time priority to the method of winning the lottery, which greatly reduces the subscription threshold for convertible bonds and stimulates small and medium investors to actively participate in convertible bond investment. In 2017, 34 were issued, and in 2018, 67 were issued. The number of convertible bonds issued increased by 97%, and the financing of convertible bonds had a blowout development.

Due to the rapid development of the convertible bond market, some smart investors are enthusiastic about convertible bonds that "have a guaranteed bottom and no upper limit". More and more investors are paying attention to convertible bonds as a high-quality investment product. Due to the t+0 trading system for convertible bonds, there is no limit on price fluctuations, and most convertible bonds are not in large-scale circulation in the market, lacking sufficient supervision and an effective temporary suspension system. Therefore, under the pursuit of many investors, since the beginning of 2020, the convertible bond market has continued to be demonic. On March 16, Xintian convertible bonds soared by 95%. On March 17, molded convertible bonds also soared by 94%. The convertible bond market entered a crazy state of breaking away from the corresponding stock trend and the conversion premium rate. The Shanghai Stock Exchange and the Shenzhen Stock Exchange have repeatedly issued news that they should focus on the supervision of convertible bond transactions. In May 2020, the Shenzhen Stock Exchange issued the "Notice on Matters Concerning the Temporary Suspension of Convertible Corporate Bonds", and also introduced a temporary suspension system similar to that of the Shanghai Stock Exchange. Notice of the Temporary Suspension System in China", to a certain extent curb the crazy speculation of convertible bonds. From October 26, 2020, ordinary investors need to sign the "Risk Disclosure Statement" when subscribing for or buying convertible bonds, which is conducive to protecting the rights and interests of convertible bond investors and keeping investors' rational transactions.

It can be seen that in 1991, convertible bonds took root in China's investment and financing market, and then experienced a 10-year stagnation period. It was not until the "Implementation Measures for the Issuance of Convertible Corporate Bonds by Listed Companies" in 2001 that it began to develop slowly. After 2017, convertible bonds entered a golden period of rapid development, with a substantial increase in the number and scale of issuance. Since 2020, a series of measures taken by the China Securities Regulatory Commission and the Exchange to deal with the speculation of convertible bonds have gradually matured and rationalized the supervision of convertible bonds in China.

3.1.2. Conditions and procedures for the issuance of convertible bonds

The issuance of convertible bonds by listed companies in China strictly abides by the relevant provisions of the "Securities Law", and must meet the requirements of net assets profit ratio, and

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asset-liability ratio. In addition, the investment direction of the funds raised by listed companies issuing convertible bonds needs to comply with the national industrial policy, the coupon rate of convertible bonds shall not exceed the interest rate of bank deposits for the same period, and the issuance amount shall not be less than 100 million yuan.

After meeting the above requirements, if a listed company wants to issue convertible bonds, first of all, it needs a plan of the board of directors, which is submitted to the general meeting of shareholders for approval, and then submitted to the Issuance Review Committee of the China Securities Regulatory Commission for review. Announcement of the issuance of convertible bonds within six months. The day before the issue date is the registration date for preferential allotment of equity, and investors who hold the corresponding convertible bonds have the right to preferentially allot a certain amount of convertible bonds. During the trading hours on the issue day, the original shareholders can operate the preferential allotment of convertible bonds, and other investors can subscribe for them independently. About 15 to 45 days, the company announced the listing of convertible bonds.

3.2. Features of Convertible Corporate Bonds

Convertible bonds are a good financing method for issuing companies, and for investors, they are also a high-quality investment target. In general, convertible bonds have the following characteristics:

a) Debt. A convertible bond is itself a bond with principal and interest repayment at maturity before being converted into shares, so the holder of the convertible bond has the right to require the relevant company to pay the principal and interest when the convertible bond matures.

b) Equity. After the investors convert the convertible bonds they hold into company stocks, they get the equity of the corresponding company and enjoy the same rights as ordinary shareholders such as dividends and voting.

c) Option. Because investors have the right to convert convertible bonds into stocks during the conversion period, the price of convertible bonds is inseparable from the price of the corresponding stock. If the convertible bond conversion value is greater than the market price of the convertible bond, the investor can convert the convertible bond to obtain excess returns

d) Tradability. After the convertible bonds are listed, they can be freely traded on the secondary market, and the t+0 trading system is implemented.

e) Low risk. Since the principal and interest of convertible bonds can be recovered at maturity, the price of convertible bonds is supported by a lower limit, and the price of convertible bonds is highly positively related to its conversion value. If the corresponding stock continues to rise, the price of convertible bonds will also with the rising tide. Convertible bonds are a kind of investment product with a "guaranteed bottom and no top cap".

3.3. The theoretical value of convertible bonds

Convertible bonds are a new type of bond investment and financing tool that combines three properties of debt, equity and options. Considering that the theoretical value of convertible bonds needs to be evaluated from these three aspects, when the conversion value of convertible bonds is higher than its market price, the value of options converted into stocks is deemed to be zero, and there is only pure bond value at this time; A conversion option has in-the-money when the value of the stock is lower than its market price, when the conversion price is lower than the share price of the underlying stock.

3.3.1. Pure Debt Value

The bond value of convertible bonds is mainly related to the coupon rate, the issuer's rating, market liquidity, issuance period and discount rate. We generally use the discount method to calculate the net debt value, that is, the sum of the cash flows of each period discounted by the discount rate.

3.3.2. Conversion value of convertible bonds

During the conversion period, investors can freely convert the convertible bonds they hold into corresponding stocks. Therefore, the convertible bonds have conversion value, and the conversion value is the value of converting the convertible bonds into stocks. . It can be expressed by the formula as:

Conversion value = (face value / conversion price) * share price of the underlying stock

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The face value of each convertible bond is 100 yuan, and the conversion price is the price per share when investors convert the convertible bonds they hold into shares. Listed companies have a clear conversion price when issuing convertible bonds. , the stock price of the underlying stock is the real-time stock price of the listed company that issued the corresponding convertible bond. In order to prevent the stock price of the target company from falling sharply unilaterally, thereby greatly reducing the conversion value of convertible bonds, and harming the rights and interests of convertible bond investors, and in order to encourage investors to complete the conversion, listed companies have stipulated when issuing convertible bonds. , when the company's stock price relative to the conversion price continues to be lower than a certain level, the listed company has the right to revise the conversion price downward and increase the conversion value of the convertible bond.

Under normal circumstances, the market price of convertible bonds is positively correlated with the pure debt value and conversion value of convertible bonds. In addition, the price of convertible bonds is related to the stock price elasticity of the underlying stock, industry track, market enthusiasm and other factors.

4. Case Study of East Money Information Co., Ltd. Convertible Bond Financing

4.1. Introduction to the basic situation of East Money Information Co., Ltd.

The full name of East Money is East Money Information Co., Ltd.., which is a leading integrated operator of Internet financial information platform in China. The stock code is 300059, and it landed on the Shenzhen Stock Exchange Growth Enterprise Market in March 2010, becoming the first A-share listed Internet company.

East Money Information Co., Ltd. is mainly engaged in securities business, financial e-commerce service business, financial data service business and Internet advertising services. Securities", "East Money Futures", "East Money Fund" and other businesses and products. It is the first Internet company in China to have a securities dealer license, a futures license and a public fund license.

East Money Information Co., Ltd. will issue 15.8 billion convertible bonds on April 7, 2021. It plans to invest in credit transactions, expand the scale of margin financing and securities lending business to no more than 14 billion yuan, and plans to invest in securities investment business of no more than 1.8 billion yuan.

East Money Information Co., Ltd. has issued three convertible bonds in total. The first was issued in December 2017, with a financing scale of 4.65 billion yuan and a credit rating of AA. It was delisted in May 2019; the second was issued in 2020. In January of this year, the second convertible bonds with a scale of 7.3 billion were issued, and the bond rating was AA+. The forced redemption and rapid delisting were completed within half a year of listing; the latest convertible bonds were issued in April 2021. It is larger than the total scale of the previous two times, at 15.8 billion. The main purpose is to invest in credit transactions and expand the scale of margin financing and securities lending business and securities investment business.

4.2. Analysis of Financing Motives of East Money Information Co., Ltd. Convertible Bonds

4.2.1. Analysis of financing environment

The external financing of listed companies in China mainly includes the debt financing method of borrowing from financial institutions and issuing bonds, the equity financing method of allocating shares and issuing new shares, and the half-equity half-creditor's method of issuing convertible bonds. Changes in financing policies have a certain impact on financing motivations. In February 2017, new regulations on refinancing were introduced, and the regulatory authorities strengthened restrictions on the issuance of new shares. In contrast, in September of the same year, the China Securities Regulatory Commission. It is clarified that convertible bonds are not subject to the 18-month "refinancing cooling period" of private placement, and at the same time, the strict capital purchase method of convertible bonds is revised to a more relaxed credit purchase system, which greatly reduces the investment in convertible bonds. threshold. East Money Information Co., Ltd. issued convertible bonds for the first time in December after the new regulations on convertible bonds were relaxed.

4.2.2. Industry Competition Analysis

East Money Information Co., Ltd. belongs to the securities industry, which is one of the important

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industries in China's financial market. The rise and fall of its industry reflects the prosperity of China's financial market to a certain extent, and the prosperity of the financial market is also conducive to the rapid financing of real enterprises.

At present, there are more than 40 listed companies in China's securities industry. Among them, CITIC Securities ranks first in terms of comprehensive strength. However, CITIC Securities' main business is traditional brokerage business and securities business. In the future, the Internet will be more convenient and the competition between traditional securities companies will become increasingly fierce. In the future, Internet brokerages are quietly emerging. East Money Information Co., Ltd. owns the largest Internet financial information platform in China, "East Money Network", and is also one of the few Internet brokerages with full licenses for securities firms, futures and public funds.

The convertible bonds issued by East Money Information Co., Ltd. are mainly used to expand the scale of the two financing business and securities investment business. The ranking of interest income from the margin financing and securities lending business of East Money Information Co., Ltd. rose from 42nd at the end of 2017 to 20th at the end of 2019, with good results. In order to narrow the gap with first-class brokerage brokers, further increase the scope of investment, and enrich the source of income, East Money Information Co., Ltd. will issue the third convertible bond on April 7, 2021.

4.2.3. Analysis of financing needs

a) Internal financing scale

There are two main ways of financing listed companies: internal financing and external financing. Retained earnings are the main source of internal financing. Retained earnings include surplus reserves and undistributed profits. In the past three years, both the surplus reserve and undistributed profits of East Money Information Co., Ltd. have increased, which means that the internal financing scale of East Money Information Co., Ltd. has continued to expand in the past three years. As of December 2017, the retained earnings It was 2,297,474,200 yuan, and by September 2020, the scale of retained earnings was 4,245,104,500 yuan, a year-on-year increase of 84.77%. And this is due to the good management in recent years, and the net profit has continued to grow. The net profit in 2017 was 634.8 million, and it was 1.831 billion in 2019, an increase of 188.44% in two years. It can be found that East Money Information Co., Ltd. has developed rapidly in recent years. While issuing cash dividends, the company has continuously increased the scale of internal financing to help the company expand rapidly while releasing the signal of excellent operating performance and abundant cash flow. However, the scale of endogenous financing is greatly affected by profit. If there is less profit in the year, less dividends or no dividends are issued, it is easy to be misunderstood by the market as a signal of poor management, so listed companies cannot rely solely on endogenous financing for financing.

b) Scale of external financing

External financing is the main financing channel of East Money Information Co., Ltd., and the issuance of bonds is the main source of external financing. The financing amount of bonds issued in 2017 accounted for 97.31% of the external financing amount of the year, 95.01% in 2018, and 92.31% in 2019. The financing amount of bonds issued for three consecutive years accounted for more than 90% of the external financing amount of the year. From 2017 to 2019, the cash absorbed through the issuance of new shares was stable at around 80 million yuan, and accounted for a small amount of external financing in that year, accounting for 0.67% in 2017, 1.30% in 2018, and 1.02% in 2019, none of which exceeded 2 %, which has limited impact on the financing amount of East Money Information Co., Ltd..

Facing the fierce competition for high-quality customers from traditional securities companies led by CITIC Securities, and competition for online users through good software experience such as Ant Fortune and Tencent Wealth Management, we will further expand and strengthen the securities business, improve the company's layout, and optimize the profit model. , to improve the market risk resistance ability, East Money Information Co., Ltd. needs external refinancing to obtain a large amount of funds to ensure rapid development.

4.2.4. Analysis of the choice of financing methods

On the basis of the need for external financing above, combined with the specific situation of East Money Information Co., Ltd., the following three external financing methods are used to analyze the financing motivation of East Money Information Co., Ltd. for issuing convertible bonds.

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a) Equity refinancing: According to the actual situation of East Money Information Co., Ltd., the company issued 154.3859 million shares non-publicly in 2015, and the actual financing was 4404.6297 million yuan. Although the company's first issue of convertible bond financing was in June 2017, which exceeded the CSRC's requirement of not less than 18 months for the fixed increase cycle in February 2017, it took only 2 years to use the fixed increase method again. Refinancing will quickly dilute the equity of the original shareholders, which the major shareholders do not want to see. At the same time, this is easily misunderstood by the market, and it will be considered to release a bad signal that the company is in poor management, urgently needs funds, and major shareholders are eager to realize cash. Therefore, the financing method of private placement of shares is not the best external financing method.

b) Debt refinancing: This article mainly discusses two methods of debt refinancing, borrowing and issuing ordinary corporate bonds. Although borrowing from financial institutions such as banks can raise funds quickly and does not dilute control rights, it can also protect its own funds and transfer business risks. However, there are generally many restrictions on borrowing, and there are higher requirements for the company's credit. Funds are limited and may not be able to meet the long-term capital needs of the company. Therefore, borrowing is not suitable for the long-term capital needs of the company. Similarly, the issuance of ordinary corporate bonds also has higher requirements on the company's financial and operating conditions, and the interest costs borne are also higher, so it is not the best choice.

c) Convertible bond refinancing: As mentioned above, convertible bonds have the dual nature of equity and debt, so it combines the advantages of equity refinancing and debt refinancing. The terms of China's convertible bonds are designed to favor equity, with the purpose of converting shares before maturity. According to the backdoor equity hypothesis, in the case of information asymmetry, the issuance of convertible bonds is regarded by investors as good news for the company's operation, which helps With the rise of stock price, shareholders transfer risks to convertible bond investors for a short time, and convertible bond investors use the right of debt-to-equity swap to curb the plundering of the original shareholders, and ultimately maximize the rights and interests of shareholders.

Compared with the one-time equity refinancing method such as fixed increase in stocks, convertible bonds can only be converted into shares after 6 months of issuance. If the secondary market price of convertible bonds is higher than the conversion value for a long time, it is very difficult Rarely will investors conduct share conversion operations. Occasionally, the market price of convertible bonds in the intraday market is lower than the share conversion price, and only a small number of people will perform share conversion operations. Therefore, the share conversion is generally intermittent, which avoids the need for equity. The risk of being suddenly diluted has eased the pressure on the stock price from the conversion. Even if convertible bonds cannot be fully converted into shares before maturity, the coupon rate of convertible bonds is generally lower than that of long-term loans and ordinary corporate bonds, and the interest cost of convertible bonds with a 6-year duration of listed companies is far lower than that of other debt financing.

East Money Information Co., Ltd. is the most successful listed company that has issued convertible bonds for many times and has rich experience. The first convertible bond issued in December 2017 was successfully delisted in May 2019. The price of the convertible bond in the secondary market was as high as 201 yuan, and the conversion rate before delisting was as high as 99.34% ; In January 2020, the second convertible bond was issued. After only 0.62 years of existence, it was successfully redeemed and delisted. The market price exceeded 150 yuan most of the time, and reached 224.5 yuan at the highest. With rich issuance experience, the convertible bonds issued twice have good market performance, which greatly improves the market popularity. It is indeed a good choice to issue convertible bonds for financing again.

4.3. Analysis of the impact of debt-to-equity swap financing of East Money Information Co., Ltd.

4.3.1. Impact on operating performance and stock price

The 15.8 billion yuan convertible bond is mainly used to invest in credit trading business, expand the scale of margin financing and securities lending business and expand the scale of securities investment business. The margin financing and securities lending business is a capital-consuming business. According to the requirements for risk control in the Measures for the Administration of Risk Control Indicators of Securities Companies, a large amount of capital is required to operate the margin financing and securities lending business. East Money Information Co., Ltd. Securities relies on

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Internet traffic and data services to accumulate a large number of users, and the scale of margin financing and securities lending business is increasingly limited by the scale of its own capital. Since the first issue of convertible bonds in 2017, the interest income of the margin financing and securities lending business of East Money Information Co., Ltd. Securities has risen from 42nd to 20th. It is foreseeable that with the addition of its own funds, the margin financing and securities lending business of East Money Information Co., Ltd. will develop rapidly.

The securities investment business of East Money Information Co., Ltd. includes investment and research on various financial types such as bonds and stocks. At present, a reasonable investment decision-making and risk control process has been formed. The capital of not more than 1.8 billion convertible bonds will be used to increase the investment scope and scale, and enrich the source of income.

The first two convertible bond financings made the share price per share of East Money Information Co., Ltd. rise from 6 yuan to more than 30 yuan now.

4.3.2. Impact on company control

The issuance of the convertible bonds will not change the status of Mr. In fact, the actual controller and controlling shareholder, and the company's shareholding structure will not undergo major changes. However, after the convertible bonds are converted into shares, the stock circulation of East Money Information Co., Ltd. will be increased in the secondary market, which will dilute the equity of the original shareholders to a certain extent.

4.3.3. Impact on financial position

After the issuance is completed, the company's debt will increase and the asset-liability ratio will increase. However, during the convertible debt-to-equity conversion period, the debt will gradually decrease, and the company's net asset scale will gradually expand with the increase in the amount of conversion. , so as to further improve the company's risk prevention capabilities. But it may also have the negative impact of lowering ROE. The company needs to quickly use the funds from the issuance of convertible bonds to expand its business scale and improve profitability.

5. Problems existing in the current convertible bond financing

5.1. Problems with education

Investment in convertible bonds is progressing slowly. Investors and original shareholders have low awareness of risk aversion in convertible bonds. There is no holding placard system like stock trading, and investor education has not kept up with the pace of convertible bond financing, which is also one of the current problems of convertible bonds in China. It has been 30 years since the development of convertible bonds in 1991. As of April 28, 2021, there are 371 convertible bonds in the surviving market, and the stock size has reached 649.902 billion yuan. At the same time, 34 listed companies have passed the approval of the China Securities Regulatory Commission. Convertible bonds were issued and the number of households who subscribed for convertible bonds once exceeded 8 million. However, many investors do not understand convertible bonds very well. Some trade convertible bonds according to the trading rules of stocks, and some even do not understand the terms of convertible bonds, and do not understand the conversion value and premium rate. This is obviously not conducive to investor protection and long-term stable development of convertible bonds.

5.2. Regulatory issues

Issue market supervision is not in place. Since the issuance of convertible bonds requires much less information than the IPO issuance review, there may be areas where supervision is not in place. At the same time, major shareholders have a significant impact on the issuance time and terms of convertible bonds. Some major shareholders took advantage of the insider information of the issuance time to buy the underlying shares in advance in the secondary market and wait for the market to seize power after the announcement. This is not conducive to protecting the interests of small and medium investors.

5.3. Regulatory issues

Regulations for the termination of convertible bonds are not yet perfect. Convertible bonds can be

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terminated in two ways: conversion to shares and repayment of principal and interest at maturity. China's convertible bonds are designed to be partial shares, and most companies take convertible bonds into shares as the ultimate goal. Although there has been no case of a listed company being forcibly delisted by the CSRC during the duration of the convertible bond, it is not certain that it will not happen in the future. The starting shares (603557) of the starting convertible bonds issued in April 2020 were not disclosed as required, and the internal management anomie will be issued a risk warning from April 30, 2021, and the stock name will be changed to ST starting, and may be delisted in the future. . In addition, if a listed company successfully issues convertible bonds through financial fraud, what should be done with the issued convertible bonds? What should a listed company do if it is unable to repay the convertible bonds after they are due due to poor management or significant asset impairment after the issuance of convertible bonds? There are currently no laws to follow. As of March 30, 2021, Asia Pacific Pharmaceuticals had a monetary capital of 943.6 million yuan and a total asset of 1.947 billion yuan. However, the debt is 1.310 billion yuan, and the asset-liability ratio is as high as 67.29%. At the same time, the net interest rate in the first quarter of 2021 is -30.31%. The operation is poor, and the profitability is worrying. The value of the debt-to-equity swap is only 26.15 yuan, the remaining term is 3.9 years, and the current balance of convertible bonds is 963 million yuan. If the business and financial conditions of Asia Pacific Pharmaceuticals do not improve, the company cannot temporarily How will the repayment of convertible bonds be handled?

6. Suggestions for Enterprises to Issue Convertible Bonds for Financing

6.1. Suggestions on Avoiding Risks Caused by Insufficient Investment in Convertible Bonds

6.1.1. Advice for investors

Convertible bonds are originally a low-risk investment variety with "a bottom guarantee and no cap", but why are there still a large number of investors who have lost or even suffered serious losses? On the one hand, because a small number of investors do not understand convertible bonds and make blind trading investments, on the other hand, investors follow the trend and hype, which makes the transaction price greatly deviate from the conversion value of convertible bonds. How can investors avoid the risk of loss? Investors need to always keep the market entry concept of "investment is risky and investment needs to be cautious" when investing in convertible bonds, and at the same time strengthen their studies, carefully understand the trading rules of convertible bonds, and study the trading ideas of convertible bonds that are different from stocks, etc. . For example, after the foreclosure announcement, investors should sell or convert convertible bonds into shares as soon as possible.

6.1.2. Recommendations for the original shareholders

Issuing convertible bonds for financing may dilute the rights of the original shareholders. How to avoid the risk of equity dilution and maintain company control? This requires the use of preemptive rights to actively place convertible bonds. Major shareholders can convert the convertible bonds they hold into stocks or directly increase their holdings in the secondary market when a large number of convertible bonds are converted into shares, so as to reduce the risk of equity dilution. influences. Other shareholders can also actively place convertible bonds and share the proceeds from the company's issuance of convertible bonds, which are then sold in the secondary market.

6.2. Suggestions for sustainable development of convertible bonds

It is precisely because of the imperfect regulations and insufficient supervision of China's convertible bond market that incidents of infringing on small and medium investors occur from time to time. Relevant departments of the CSRC need to strengthen the review of convertible bond issuance documents, which can raise the threshold for listed companies to issue convertible bonds to screen out high-quality potential companies; at the same time, it is recommended that convertible bonds learn from the trading system and supervision methods of stocks to improve Relevant laws and regulations, strengthen penalties for violations and achieve effective supervision; for the problem of illegally borrowing accounts, various supervision and reporting channels can be established, and then relying on big data and the Internet to collect evidence for violations. Faced with the influx of more and more investors into convertible bonds, the exchanges, the China Securities Regulatory Commission and other departments need to do a good job in investor suitability evaluation and investor education, so as to protect the rights and interests of small and medium investors from being infringed. The sustainable

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development of the convertible bond market can only be maintained if the regulations are improved, the supervision is effective, and the rationality of investors is maintained.

7. Conclusions

Since the "Implementation Measures for the Issuance of Convertible Corporate Bonds by Listed Companies" issued in 2001, China's convertible bond financing has gradually become standardized and efficient. The year 2017 has been a golden period for the development of convertible bonds in my country. Convertible bonds, a composite financing tool with both debt and equity nature, benefit from less approval materials and low financing costs under the policy incentives that are not restricted by the 18-month "refinancing cooling period" of private placement. Advantages, more and more listed companies choose to issue convertible bonds for financing.

East Money Information Co., Ltd., which has issued three convertible bonds, is a leading Internet brokerage company in China. This article takes the convertible bonds issued by East Money Information Co., Ltd. in April 2021 with a scale of 12.8 billion yuan as the object. Through analysis, the following conclusions are drawn:

The motivation for East Money Information Co., Ltd. to issue convertible bonds can be summarized as follows: (1) Policy support for listed companies to issue convertible bonds for financing. (2) Increase the scope of investment and enrich the sources of income (3) The financing cost of issuing convertible bonds is low. The impact can be summarized as follows: (1) Supplement own funds and expand business scope. (2) After the share conversion, the equity of the original shareholders will be diluted (3) After the share conversion, the asset-liability ratio will be reduced and the risk resistance ability will be improved.

In view of some problems existing in the convertible bond market at present, this paper puts forward some suggestions: (1) Investors should always maintain a sense of risk and be in awe of investment. Seriously study the rules of convertible bond trading. (2) The original shareholders actively placed convertible bonds to obtain equity income (3) Improve relevant laws and regulations, increase the cost of violations, strengthen supervision by regulatory authorities, and strengthen risk education for investors.

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