

Analysis of Case Teaching in Finance under the Background of High Quality Economic Development——Taking the Development Analysis of Special Asset Investment Industry as An Example

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Abstract: With the characteristics of resisting business cycle, mitigating cash flow, and improving portfolio resilience, special assets usually enter a highly active period in the economic downturn cycle, and gradually become an effective asset allocation means in the transition phase of the business cycle. This article aims to analyze the importance of the development of China's special asset investment industry in the context of high-quality economic development, and explore how to introduce market-oriented mechanisms to build primary and secondary markets for special assets, in order to improve the effective allocation of market resources and maximize returns.

Keywords: Finance; Special Assets; Investment; Case

1. Introduction

The outbreak of COVID-19 in 2020 has made the global economy face a serious impact and accelerated the exposure of risk assets. Currently, the risk exposure window period is both a crisis and an opportunity for the entire special asset industry. From a global perspective, under the impact of the epidemic, the exposure of credit risk, liquidity risk and market risk led to the increase of assets with significantly reduced value. More and more professional investors began to pay attention to special assets in order to profit from the rebound of the overall market price and the improvement of the underlying asset balance sheet. ^[1]

2. The origin and development of special asset investment industry

In the 1990s, the excessive level of leverage in the US financial market led to a large number of defaults on high-yield bonds. In order to revitalize distressed assets and defaulting high yield bonds, a type of investment institution called special asset investment funds has emerged in the US market. This institution mainly focuses on investing in distressed and defaulting corporate bonds, commonly known as "Vulture Capital", which has become the beginning of the development of the special asset investment industry. The "particularity" of the so-called special assets is mainly reflected in the fact that they have a very urgent demand for liquidity, the asset price is significantly lower than the market value, and there is a huge appreciation space, which is coincident with the non-performing assets of financial institutions, but there are many differences in actual operation. It is precisely because special assets have a very urgent demand for realization that buyers have an active advantage in bargaining.

3. The development status and restrictive factors of China's special asset investment industry

3.1 Development status.

From 1999 to 2000, in order to accelerate the process of state-owned enterprise shareholding reform, a modern corporate governance structure for state-owned enterprises has been established, and achieve overall listing, the State Council successively

established four major asset management companies, including Huarong, to receive the distressed credit asset portfolio of the four major state-owned commercial banks, including Industrial and Commercial Bank of China and the National Development Bank, with a total acceptance amount of 1.4 trillion yuan, opening the way for the development of China's special asset investment industry. Around 2014, in order to effectively respond to the complex and severe situation of the international and domestic economy, the CPC Central Committee timely made the judgment of the New Normal of economic development, emphasized that improving the quality and efficiency of development should be the center, promoting the supply side structural reform, and implementing the industrial development policy focusing on "three removal, one reduction and one compensation". In particular, affected by the outbreak of the novel coronavirus epidemic in 2020, the distressed assets of various enterprises due to operating difficulties have further increased, and provide new opportunities for the development of the domestic special asset investment industry.

3.2 Constraints

At present, China's special asset management entities are still represented by the four major asset management companies and local asset management companies. In terms of access qualification, business scope, capital capacity, pricing and incentive mechanism, it has been difficult to meet the needs of Economic restructuring [2].

One is admission qualifications. According to relevant national laws and policies, financial enterprises regulated by the China Banking and Insurance Regulatory Commission can only operate their non-performing assets exclusively by asset management companies that have obtained financial licenses; The primary market for non-performing asset disposal (batch disposal and transfer of more than 10 households) can only be opened to specific market operating entities; The secondary market for non-performing asset disposal (non bulk disposal and transfer of less than 10 households) allows social investors to participate in investment, form a situation where the four major asset management companies and local asset management companies monopolize the non-performing asset disposal and transfer market, and form strong entry barriers for private capital or social investment that hope to enter the special asset investment market.

The second is the scope of business acceptance. In China's financial system, the non-performing asset business operated by asset management companies is not only a part of distressed securities but also a part of special situations. However, the concepts of distressed securities and special circumstances do not completely overlap with non-performing assets, and even go beyond the scope of non-performing assets. That is, special asset business can be non-performing asset business within the business scope of asset management companies (including specialized business for more than 10 households and socially viable business for less than 10 households), or other types of distressed securities, such as non-performing bond business of listed companies or other bond issuers, Or equity investments based on special events, such as equity investments in company restructuring. Therefore, from the perspective of accepting business scope, the connotation of special asset management is more comprehensive.

The third is financial capability. In recent years, due to the cyclical impact of economic downward pressure, the total non-performing assets and non-performing asset ratios of China's banking industry, non-bank financial institutions, and financial enterprises have shown a significant upward trend. Compared with the initial establishment ten years ago, the financial strength of the four major asset management companies has significantly decreased, and they no longer enjoy the financial funds and policy support provided by the start-up countries, even if they can temporarily obtain financing at lower interest rates through the capital market.

The fourth is pricing and incentive mechanisms. Under the current state-owned capital management model, the pricing mechanisms of the four major asset management companies are influenced and constrained by many non market-oriented factors, especially the insufficient and meticulous exploration of the value of underlying projects with certain potential in the market. In contrast, social capital with professional investment capabilities has the opportunity to obtain more investment value asset packages through a flexible and efficient pricing system. Especially under the state-owned system, the retention and retention of talents, as well as the incentives for specialized personnel, appear relatively insufficient, directly affecting the investment returns of special assets.

Fifth, in terms of asset investment and exit efficiency. By analyzing and comparing the asset disposal efficiency of the four major asset management companies, it can be seen that due to the need to simultaneously dispose of policy non-performing assets and commercial non-performing assets, the overall disposal efficiency of special assets by the four major asset management companies is significantly affected. Among them, policy businesses account for nearly one-third of the total book value of assets and require priority

clearance, which will inevitably occupy a large amount of resources and disposal costs. In terms of disposal effectiveness, the recovery rate of policy based businesses is also significantly lower than that of commercial assets.

In summary, special asset investments should not be limited to administrative boundaries, but should introduce more flexible market-oriented operating mechanisms based on actual investment conditions.

4. The development strategy of China's special asset investment industry under the background of high quality economic development

In terms of disposal methods, it is necessary to gradually break through the control of non-performing asset operation licenses, allowing private financial institutions and private capital to participate in the "primary market" transactions of special asset disposal through "indirect" participation, and build a secondary market for special asset disposal and transfer. The specific steps are as follows: (1) we can strengthen cooperation with non-performing asset primary market institutions, and form a complementary market for non-performing asset primary and secondary markets. (2) we can lower the threshold and allow private or social capital to directly participate in the disposal, transfer, and management of single non-performing assets or non-performing assets of less than 10 households. (3) Deregulation, allow private capital to participate in the transfer of special assets of non bank institutions, and form an investment situation that complements the advantages of the four asset management companies. In this case, the non-performing assets of financial institutions can be transferred to both the four major asset management companies and local asset management companies; The four major asset management companies can dispose of non-performing assets themselves or transfer them out for disposal; Internet financial platforms and social investors can choose to obtain resources from asset management companies and provide related services, including information auctions, intermediaries, resales, evaluations, collection services, intermediary matchmaking, etc. They can also directly establish a principal-agent relationship with banks and obtain outsourcing services.

In specific forms, it can be operated by establishing special asset funds. Essentially, special asset investment is a process of providing liquidity for the transfer of "special assets", rediscovering and redistributing the value of special assets in both "time" and "space". In a market-oriented mechanism, high-quality teams with rich experience and practical ability can be effectively bound together with investment returns, forming good consistency of interests. Referring to foreign special asset investment practices and successful experiences, the establishment of special asset funds can be adopted to operate. Similar to other private equity fund operating mechanisms, fund managers can establish private equity funds to raise funds from specific investors, search for suitable asset investment targets in the market, use the raised funds for asset disposal and post investment management, so as to finally return investment returns to fund investors through various exit methods. In short, adopting a market-oriented special asset fund operation has the foundation to achieve better investment returns than the four major asset management companies.

References

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