

ABSTRACT

Asset-backed securities (ABS) originated in the United States in the 1980s and began to be practiced in the Peoples Republic of China (China) from 2005. With the supply-side structural reform after China's "four trillion" RMB economic stimulus policy in 2008, China's asset securitization began to enter the stage of rapid expansion in 2014. By the end of June 2020, the value of China's asset securitization market reached 4.33 trillion (RMB). Previous studies on asset securitization are mostly based on the mature market environment of the United States and Europe. These studies focused on: i) the motivation and economic effect of bank loan securitization, ii) the “true sale” of underlying assets, iii) the bankruptcy remoteness of Special Purpose Vehicle (SPV), and iv) the investment risk side of securities. However, there is a significant study limit in the area of the influence of asset securitization as a structured financial instrument in the adjustment of economic structure and the reform of financial system of China.

This thesis comprises empirical research and the case study on the effects of asset securitization in China’s financial reform. The work is presented in four perspectives (hereinafter the FOUR).

Firstly, the thesis studies loan securitization. By using the Logit and Tobit model to study the data of 35 Chinese listed commercial banks from 2012 to 2019, factor analysis is used to summarize the information from various financial indicators that reveals banks' securitization determinants. The study conducted a sensitive analysis and a credit-deposit relationship estimation to examine the impacts of loan

securitization. The analysis shows that the determinants of China's banks' securitization include cost advantage exploitation and performance promotion. The incentive of risk transfer involves risks from the stock market rather than non-performing loans. There is little evidence that loan securitization improves the income structure of banks nor even the investment efficiency of China's financial market. On the other hand, the credit-deposit relationship of securitized banks is improved. This study argues that China's loan securitization market welcomes large banks with lower risks rather than small banks with higher risks. The default risk level of banks themselves rather than that of loan customers affect bank's securitization decision, mostly. Safe and high-yield spread business is still the best investment of loan securitization proceeds. It is the authors argument that the loan securitization market should be developed continuously and rapidly, which will have great implications on China's financial reform going forth.

Secondly, the thesis investigates determinants of asset securitization of non-financial enterprises under the background of supply-side structural reform, using 3,444 listed companies in the Shanghai and Shenzhen Stock Exchange from 2012 to 2017 as samples. Probit regression results show that determinants of asset securitization of non-financial enterprises are positively correlated with asset size and concentration of accounts receivable, negatively correlated with R&D expenses, and concave with the asset liability ratio; ownership form does not affect the decision-making of enterprises, but the main credit rating has a significant effect on the decision of securitization, and it is concentrated in AA+ companies. The evidence

leads the author to conclude that there are threshold and scale effects in securitizing firms. Specifically, small- and lower middle-scale credit rating companies are not often part of the asset securitization market. Securitization enterprises usually have less investment opportunities and short cash flows, so they may face financial difficulties. The motivation of asset securitization of AAA enterprises is to reduce leverage, when possible. There are restrictions on the issuance of corporate securitization debt by the unsecured creditors, but the strength is weak.

Thirdly, the thesis examines the “true sale” effect of SPV in China's asset securitization market. Using a single case analysis, it discusses a legal lawsuit of the securitization of KaiDi Power Charging Right that was court filed in June 2015. The Intermediate People's Court of Hefei Municipality, Anhui, concluded that the identification standard of the legal provisions of “true sale” of underlying assets in China is yet developing. Additionally, it also assessed the financial situation of the originator and its parent company to determine the deeper reasons behind the KaiDi Power incident. The Court determined that whether the underlying assets are “true sale” or not is based on the legal contracts, rather than the accounts where the cash flows are; the phenomenon of "capital confusion" in the securitization of charge rights is one of the reasons affecting the “true sale”. The Court concluded that “true sale” still has legal obstacles in China. The possible contributions of the study are as follows: first, it studies the first court case of “true sale”, which has a demonstrative effect on the development of asset securitization market in China, and . second, it analyzes the power charging right, which is the legal criterion for the “true sale” of

ABS issued with future claims as the underlying assets.

Fourthly, the thesis investigates the selection strategy of the underlying assets of Intellectual Property Asset-Backed Securities (IPABS) and the current replication and promotion path in China. Using multi-case analysis and the research period from December 2015 to July 2020 (during which the practice of IPABS began to emerge in China and 10 IPABS products were successfully launched), the thesis selects Four of the 10 cases (which respectively represent a class of underlying assets), and conducts a comparative study. Firstly, it finds that the IPABS products are small in scale, short in term and highly credit rated, from the perspective of securities side. Secondly, this study revealed that the underlying assets are not intellectual property rights themselves, but their derivative rights, with higher asset concentration, stronger external credit enhancement and smaller cash flow coverage, from the perspective of assets end. Thirdly, this review also unveiled that the bottom assets are mostly intellectual property royalties with a strong guarantee. The study concludes that the "future claims" attribute of the intellectual property right permits the securitization to face the dilemma of the compliance of the underlying assets. The double SPV model constructs compliance underlying assets with new standardized financial claims (SPV1), transforms "future claims" into "existing claims", and realizes the homogenization of intellectual property rights, so as to solve the compliance, scale and operational difficulties of IPABS, and help small- and medium-scale high-tech enterprises achieve financing.

To summarize the main findings of the thesis are that: 1) China's loan

securitization promotes banks' performance and improves their credit-deposit relationship, but does not played a significant role in improving the income structure of banks and the investment efficiency of the financial market; 2) there are threshold and scale effects in securitizing firms as small- and lower middle-scale credit rating companies are not well received in the asset securitization market; 3) "true sale" still (by 2021) has legal obstacles in China, with executor future flow as the underlying assets, the cash flow of ABS is confused with that of originators, even if the "true sale" is achieved, ABS investors face a great risk of default on principal and interest payments; and 4) the dilemma of IPABS comes from intellectual property itself, that is, the "future claim" attribute of its right of use, while the purpose of underlying assets reconstruction is to achieve "compliance", and the essence is risk transfer.

Taken together, the evidence from the above Four studies suggests that commercial banks use asset securitization to release capital and non-financial enterprises use asset securitization to realize financing and asset-light strategy. "Bankruptcy remoteness" is the essence of asset securitization, but the market participants' understanding of "bankruptcy remoteness" needs to be improved, especially in China. The dilemma of IPABS comes from the facts that the underlying assets are future claims. The double SPV structure can reconstruct the underlying assets, disperse risks and resolve the dilemma.

This thesis contributes to a deeper understanding of the motives and consequent implications of securitization within China's financial reform. It also provides

valuable conclusions, that is, to improve the current information disclosure of asset securitization and the legal level of SPV, and to reform the supervision of enterprises participating in securitization activities. China's financial reform is a huge, complex and far-reaching project, which requires the cooperation and efforts of the government and financial market in an all-round way. The asset securitization market should be developed continuously and rapidly, which is of great implications to China's financial reform, today and tomorrow.