FINS1612

Week 1
Financial system
- encourages accumulated savings that are then available for investment within an economy
- a modern financial system comprises *financial institutions*, *financial instruments* and *markets*

A financial system has:
Money - a medium of exchange
Markets - facilitate exchange of goods and services
Surplus units(come in) - (provide of funds) savers of funds available for lending
Deficit units(out) - Users/borrowers of funds for capital investment and consumption
Financial instrument
- issued by a party raising funds, acknowledging a financial commitment and entitling the holder to specified future cash flows
- incorporate attributes of risk, return(yield), liquidity and time pattern of cash flows
- Savers are able to satisfy their own personal preferences by choosing various combinations of these attributes

Flow of funds - movement of fund through the financial system between savers and borrowers
A stable financial system is characterised by the smooth flow of funds.

Global financial crisis (GFC)
3 key points:
1.American 2.2007-2008 3.Housing sector
- GFC had a significant effect on *financial systems and the real economies of many countries* and *highlighted the interconnectedness* of the world's financial market

Financial Institution categories:
1. Depository institutions 委托公司
- e.g. commercial banks, building societies, credit unions
- specialise in gathering savings in the form of deposits and using those funds in the provision of loans to customers.

2. Investment banks
- specialise in the provision of advisory services 咨询服务 to clients
- (e.g. merger and acquisition advice)

3. Contractual savings institutions 契约性机构

- e.g. *insurance offices*保险 and *superannuation funds*养老金
- enter into contracts in which they receive funds on the undertaking that they will pay a policy holder, or member of a fund, a specified sum when a nominated event occurs.

4. Finance companies

- sell debt instruments directly to surplus entities (savers) and then use those
  funds to provide loans and lease financing to borrowers.

5. Unit trusts 信托基金

- sell units in a trust
- The accumulated funds in the trust are pooled and invested in asset classes specified within the trust deed.
- 其实就是由一间公司(通常是银行或金融机构,如: Public Mutual)收集民众投资者的钱,然后由专业的基金经理进行投资
- *Commercial banks dominate in terms of their share of the assets of financial institutions.*

The major reason for us to consider "Time pattern of cash flows":

- Inflation (purchasing power)

Financial Instrument

- central to any financial relationship between two parties
- represented in paper or electronic form

1. Equity (Shares) - where the saver acquires an ownership claim on the deficit entity (borrowers, corporation)
2. Debt (bond, notes) - where the relationship is a loan
3. Hybrid(混合的) - incorporates the characteristics of both debt and equity
4. Derivatives - main use in the management of commodity and financial risks (not used to raised funds. e.g. futures, forwards, options and swaps)

What's the major difference between equity and debt?

- Voting rights (If you're a shareholder)
- Dividend/You can take share for future profit
- (Shareholder) may also have tax benefit
- Capital gain (the difference between two prices), for debt, when you led money to someone and you get interest

Flow of funds

- Financial markets and instruments allow borrowers to meet the requirements of the "Matching principle":

- short-term assets should be funded by short-term liabilities and long-term assets should be funded by long-term liabilities and equity
- (major reason for the happen of GFC)

Primary market
- new financial asset (debt and equity securities) are issued

Secondary market
- the sale and transfer of existing financial assets/previously issued securities (e.g. stock exchange)
- serve the most important function of adding liquidity to financial instruments
- “Security” has an active secondary market

Direct finance - surplus entities(saver/lender) may acquire assets directly from the issuers

Financial intermediary
- the surplus entity establishes a financial relationship with the intermediary
- attract savers because the intermediary provides a range of financial attributes

Finance Intermediation Advantages

1. Asset transformation - becomes deposit to loan. e.g. home loan & your income
- 资产转换，是通过打破单一的信用放款，创造丰富的金融工具，来实现金融商品的供给对需求的有效性
2. Maturity transformation - decrease or increase the maturity by changing the maturity time 期限转换，借短债放长贷
3. Credit risk diversification & transformation
- bank transform the risk (spend money in different product)
- diversified because your money may go to anyone (1 cents), decrease the risk
- 信用转换最初用来描述银行以其信用替代了借款人的信用。具言之，商业银行从存款人处吸收存款，再将其放贷给借款人，无论借款人是否按期偿还债务，存款人都可以要求银行偿还本金和利息。
4. Liquidity transformation
- “The bank can change the liquidity by issuing the bonds” - Right!!
- ease to take money
- If the bank release more bonds, people will buy more, less cash in the hand
- 从银行的资产负债表来看，在负债端，银行从存款人处吸收短期存款，存款人可以随时提现。在资产端，银行向借款人发放的是长期贷款，银行只有在债务到期时才可以要求借款人偿还本金和利息。
- 流动性转换则是期限转换的结果，利用流动性好的短期存款发放流动性差的长期贷款。
5. Economic of scale (e.g. ATM)

Financial Market

Money market 货币市场
- issue short-term (generally discount) securities, <= 1yr, high security, low risk, low return (Treasury securities market国库券)
- e.g. central bank transaction, inter-bank market, bills market, commercial paper market, government securities

Capital market 资本市场
- issue longer-term securities, > 1yr, high risk, high return
- e.g. equity market, corporate debt market, government debt market, foreign exchange market, derivatives market

Wholesale market (institutional investors) & Retail market

Two rules to judge **"Financial asset"(debt & equity)**
1. you will have some future cash flow without selling this asset
2. the value of this assets depends on economic factors (e.g. interest rate, inflation)
(for example, physical asset, a paper or a building is not a financial asset)

"Financial security"
- if there is a formal secondary market where the asset may be bought or sold, the investors are willing to buy the assets in primary market

Week 2 Banks

LP1: Commercial banks - provide a full range of financial services (e.g. credit card, net banking, help company to fund or do equity)

LP2:
Asset management (passive)
- Loans portfolio is tailored(订做) to match the available deposit base
- a bank only giving loans (assets) when it had sufficient deposits, asset growth is managed and constrained by, the bank's deposit base.

Liability management (Deregulation)
- Deposit base and other funding sources are managed to meet loan demand
- (what we use now, bank borrows to lend, normal practice today)
- banks actively raising funds (liability) in the capital markets sufficient to meet future loan demand (assets).
- Off-balance-sheet (OBS) business

LP3: Sources of funds

Where does the bank obtain/get the funds?

- Sources of funds appear on the balance sheet either as liabilities that the bank will eventually repay or as equity funds provided by shareholders.

Main sources of commercial bank funds:

1. Current account deposit: 银行账户现钱
- *Highly liquid funds* held in a *cheque account*, may be *interest or non-interest bearing*

2. Call or demand deposit: 活期存款 (e.g. Net bank saver)
- no obligation, *have interest*, funds held in a savings account that *can be withdrawn anytime on demand*

3. Term deposit: 定期存款 (e.g. Short-term bond, 1 month - 5 years, get interest, not will get money out)
- fund lodged in an account for a predetermined period and at a specified *fixed interest rate*
- l*ess liquidity owing to fixed maturity*, higher interest rate than 1&2

4. Negotiable certificate of deposit(CDs): 可转让定期存单
- short term (30-180days) **discount security** issued by a bank
- specifies repayment of the face value of the CD at maturity
- highly negotiable(流通) security

5. Bill acceptance liabilities:票据承兑负债
- Bill is a **discount security**, it is issued today and sold at a price that is less than the face value
- Acceptance is a bank put its name on a bill issued by a third party, the bank will get money by charging service fees.
- Bank accepts primary liability to repay face value of bill to holder. The bank will not issue by itself.

6. Debt liabilities, Debenture and Unsecured note
- are bonds(debt instruments) issued by corporations including banks.
- The periodic rate can be fixed or floating, medium to long-term bond, the bank issue the bond directly (different with acceptance).
- Debentures(similar to bond):公司债券 bonds with a form of security attached
- Unsecured note:非担保证券 bonds with no security attached

7. Foreign currency liability:外币负债 debt instruments issued into the international capital markets that are dominated in another currency.

8. Loan capital (借贷资本) and shareholders' equity
- Sources of funds that have characteristics of both debt and equity (e.g. subordinated debentures and subordinated notes)
- Subordinated means the holder of the security has a claim on interest payments or the assets of the issuer, after all other creditors have been paid (excluding ordinary shareholders)

LP4: Uses of funds

- Uses of funds appear in the Balance sheet as **assets**
- The majority of banks assets are loans that create an entitlement to future cash flows (e.g. interest and repayment of principle)

- Banks use their money in the following ways:

1. Personal and housing lending (largest portion to lend)

- the largest form of bank lending is for owner-occupied housing

(1) Housing finance

- Mortgage 抵押/按揭贷款(only for house!!!)(How can u finance a car? short-term or long-term loan)
- Amortised loan 分期

(2) Investment property 投资财产/地产

(3) Fixed-term loan

(4) Credit card

2. Commercial lending

- invested in the business sector, lend money to other bank or to other financial institutions
- (all the bonds, bills are future cash flows)
- (1) Fixed-term loan: a loan with negotiated terms and conditions, fixed or variable rates set to a specified reference rate
- (2) Overdraft 透支: a facilities allowing a business to take its operating account into debit up to an agreed limit
- (3) Bills of exchange:

• *Bank bills held:* Bills of exchange accepted and discounted by a bank and held as assets
• *Commercial bills:* Bills of exchange issued directly by business to raise finance
• *Rollover facility:* Bank agrees to discount new bills over a specified period as existing bills mature 交易双方当合约到期时以新的合约取代已到期合约

- (4) Leasing finance 租赁给公司

3. Lending to government

- Commercial bank lend to govt directly by investing in govt-issued securities, such as treasury notes/bonds, low risk, low return

(1) Treasury notes: Short-term **discount securities**

(2) Treasury bonds: Medium- to longer-term securities, pay a specified interest coupon stream

(3) State government debt securities

4. Other bank asset (e.g. electronic network infrastructure and shares in controlled entities)

LP5: Off-balance-sheet

(on-balance-sheet: borrow or lend)
中间业务：银行纯粹是中介人，向客户提供服务，成本低，风险小
表外业务：银行对客户的某种承诺或是其他潜在的，可能转化为银行资产和负债的业务项目

- if one transaction have some uncertainty, that is off-balance-sheet
- (e.g. the interest of your mortgage is not off-balance because that is your obligation to pay that, so no uncertainty)

1. Direct credit substitues 直接信贷的替代

- The bank does not provide the finance from its own balance sheet, just ensure that the client can raise fund from the market
- support a client's financial obligations, e.g. stand-by letter credit or a financial guarantee

2. Trade and performance related item

- support a bank client's non-financial contactual obligations, promising financial compensation for non-performance of commercial contact. (e.g. the agreement to provide good and service)
- documentary letters of credit 备用信用证/ performance guarantees

3. Commitment (not yet a official customer)

- yet-to-be-completed financial agreements made by a bank to its customers (provide a loan in the future)
- bank undertakes (承诺) to advance funds or make a purchase of assets at some time in the future (e.g. forward purchase, underwriting担保)

4. Foreign exchange, interest rate and other market-rate-related contract

- derivative contracts, such as futures, used to manage risk exposure (foreign exchange risk, interest rate risk, equity price risk and commodity risk)

LP6: Regulation structure & Capital Adequacy standard

Reasons for regulation of banks

- Importance of the banking sector for *health of the economy*

Prudential supervision 审慎监管

- Imposition and monitoring of standards designed to ensure the soundness and *stability of a financial system* 化解银行危险为目的，制定经营规则

Australian regulatory structure

1. *Reserve bank of Australia (RBA)* - system stability and payments system
2. *Australian Prudential Regulation Authority (APRA)*

- Prudential regulation and supervision of deposit-taking institutions

3. *Australian Securities and Investments Commission (ASIC)* - market integrity and consumer protection
4. Australian Competition and Consumer Commission (ACCC)

- The capital held by financial institutions serves as the "buffer" against such losses
- If capital is inadequate, a financial institution may face insolvency (破产)
- **Capital adequacy standards** set down in Basel II and Basel III (agreement, all the banks need to hold some capital), define the minimum capital adequacy for a bank
- The standards are designed to promote stability within the financial system
- having capital is safe, avoid troubles,
- keep the profit of shares or dividend to attract more customers

Functions of capital:
1. Sources of equity fund
2. Demonstrates shareholders' commitment to the organisation
3. Provides funding for growth and source of future profits
4. Write-off periodic abnormal business losses (major reason)

Basel I (1988) capital accord

Basel II (2008) capital adequacy guidelines
- Basel II increased sensitivity to different levels of asset and OBS business risk
- *Minimum capital adequacy requirement* applies to commercial banks and other institutions specified by *prudential regulator*

Main elements of Basel II
- Credit risk of banks' assets and OBS business
- Market risks of banks' trading activities
- Operational risks of banks' business operations
- Form and quality of capital held to support these exposures
- Risk identification, measurement and management processes adopted
- Transparency透明性 through accumulation and reporting of information

Minimum risk-based capital ratio of 8%
- Minimum 4% held as Tier 1 capital
- Reminder(4%) can be held as Tier 2 (supplementary) capital

Tier 1 capital: highest quality, core capital
- (The quality means "how fast we can transfer capital to cash")
1. provide a permanent永久的 and unrestricted commitment to fund

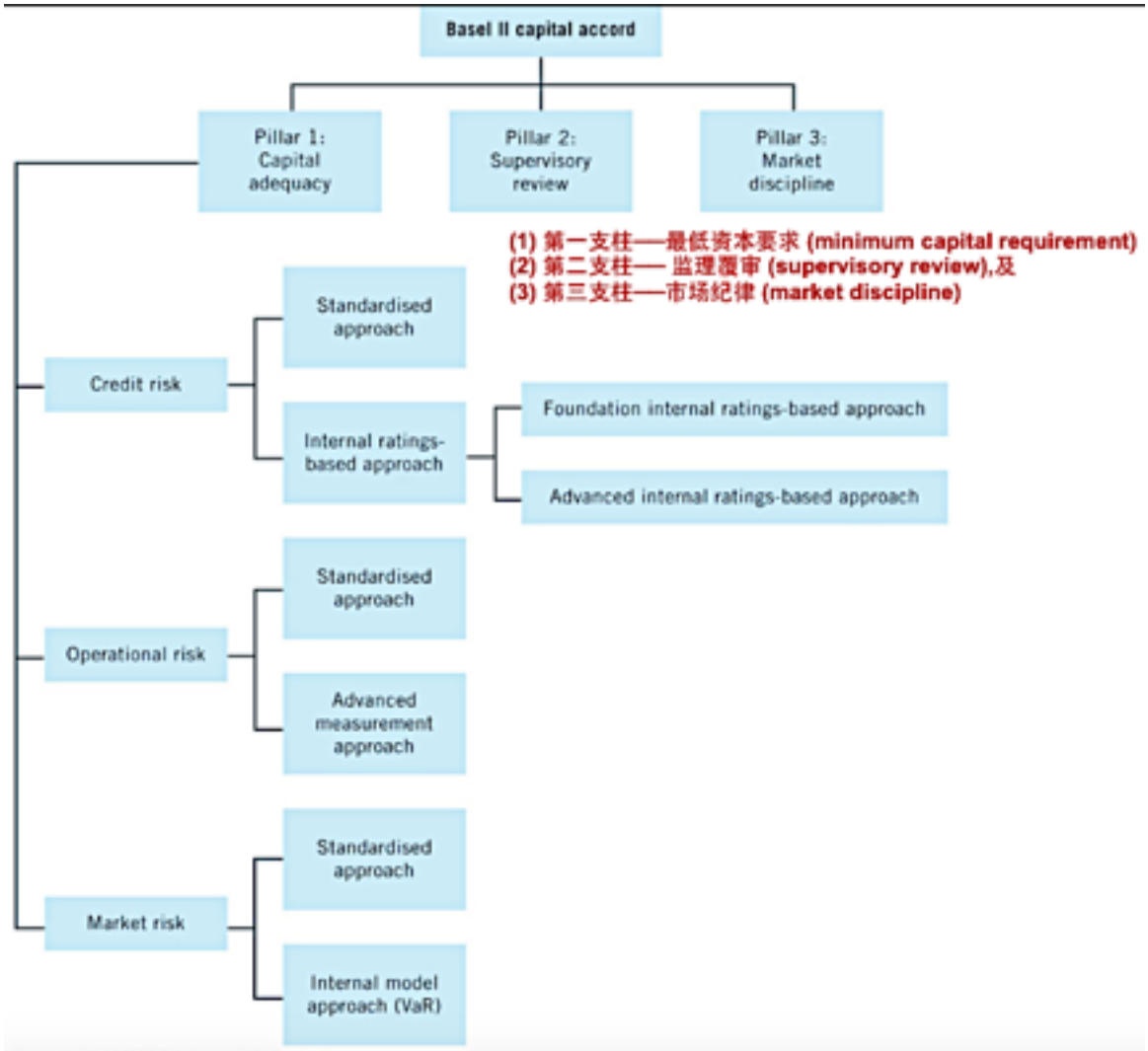
2. freely available to absorb loss
3. do not impose any unavoidable servicing charge against earning
4. in the event of winding-up, rank behind the claims of depositors and other creditors

ordinary shares, general reserves, retaining earning, current year's earning, foreign currency translation reserve

巴塞尔协议按照资本质量及弥补损失的能力，将商业银行的资本划分为一级资本、二级资本，其中二级资本又可以分为低二级资本和高二级资本。混合资本债(hybrid capital)就是属于二级资本中的高二级资本。
** 小插曲 Capital = Debt + Equity

Tier 2 (supplementary) capital:

- (slower) take longer time to convert the capital to cash (nearly 4 months)
- Upper Tier 2 capital: essentially permanent in nature, including some hybrid capital instruments (e.g. hybrid capital of a permanent nature, perpetual cumulative preference shares)
- Lower Tier 2 capital: instruments are not permanent, dated or limited-life instruments (e.g. limited-life preference shares)



LP7: Basel II 3 pillars

Basel II accord协议 comprise three pillars三大支柱:

Pillar 1: Capital adequacy (minimum requirement)

- (1) Credit risk: borrower will not repay interest or principle when due, not meet commitment

Standardised approach: measures risk weights from **i. balance-sheet and OBS **ii.** external rating grade or supervisor **iii.** loan- to-valuation ratio (LTVR) and level of mortgage insurance for residential housing loan

**Internal ratings-based approach: use bank's own measurement model factors. - Foundation (FIRB), relies on supervisor estimates - Advanced (AIRB), banks provides estimates of all credit risk components

- (2) Operational risk: risk of loss from inadequate or failed internal process, people and system and external events (e.g employee steal money) (what banks can do: internal control, CCTV, more responsibility for managers, pay attention to all the employees, reward and punishment)
- (3) Market risk: risk of losses from exposure to the changes in interest rates and exchange rates (bond portfolio, separate risk)

Pillar 2: Supervisory review of capital adequacy 监督检查

Four basic principles:

(1) the assessment of total capital requirements by a bank
(2) the review of capital levels and the monitoring of banks' compliance by supervisors
(3) the ability of a supervisor to increase the capital requirement of a bank
(4) the intervention of a supervisor at an early stage to maintain capital levels

- ensure banks have sufficient capital to support all risks
- encourage improved risk-management policies and practises in measuring and managing risk exposure such as:

*risks not captured in Pillar 1 and factors external to the bank (e.g. a changing business cycle)

*additional risk management practices (e.g. training, improved internal control, internal responsibilities)

Pillar 3: Market discipline 市场纪律

- aim to develop **transparency and disclosure** requirements that allow the market to assess information to the capital adequacy of an institution
- banks are required to provide information and data on a periodic basis to the supervisor, some of these repots may be made public

Basel III (2010)

- aims to enhance the risk coverage of the Basel II framework by enhancing capital adequacy requirements

(1) Strengthen capital base: (total-risk-weighted asset)

- Minimum 8% should be capital

- Minimum 6% (4% in Basel II)should be Tier 1 capital
- The reminder should be Tier 2 capital
- Increase minimum Common Equity Tier 1 capital to 4.5% (2% in Basel II)
- Create capital conservation buffer (new) for use during a financial crisis and economic distress

(2) Liquidity Requirement

- minimum liquidity coverage ratio (LCR)
- minimum net stable fund ratio (NSFR)

(3) Governance & Systemic Risk Mitigation 降低风险

LP 8: Liquidity management & Supervisory control

Liquidity - access to sources of funds to meet day-to-day expenses and commitments

- Liquidity prudential standard APS210 (APRA)
- The bank regulator, APRA, applies a number of important prudential controls on commercial banks
- (e.g. liquidity management policies, risk management systems certification, business continuity management, audit (external auditors), disclosure and transparency, foreign currency exposures)

Summary

- Banks are the dominant financial institution and have moved to liability management
- Sources of funds include deposits (current, call and term deposits) and non-deposit sources (bill acceptances, debt and foreign currency liabilities, OBS business and other services)
- Uses of funds include government, commercial and personal lending
- OBS transactions are a major part of a bank's business and include:

**direct credit substitutes
**trade-and performance-related items
**commitments
**market-rate-related transactions

- APRA's bank prudential supervision requirements include capital adequacy, liquidity management and other controls

Week 3

LP1

Share market only deals Share(equity securities), only *a part of stock exchange.*

Stock exchange is a formal market within a nation-state that lists a range of securities issued

- A publicly list corporation is a company whose shares are quoted and traded on a formal stock exchange
- Ordinary shares/Common stock: the main type of equity security issued by a corporation, bestows a claim to residual cash flows and ownership and voting rights
- A share is a financial asset, a security that entitles a shareholder to share in the net profits and to vote for the boards of directors and attend general meeting
- Advantages of holding a share: dividend, voting rights, capital gains, the price of share may go up when you sell it.

LP2
- Shareholders elect boards member, (shareholder not deal daily operation)
- the board determine the objective and policies of the firm, appoint Executive managers
- Executive managers manage the daily operations.

Limited liability Co
- In share market, you only lose the money you put in the market, compared with other assets (mortgage - lose your house)
- The liability of shareholder is limited to the fully paid issue price of the shares (you pay full money at the beginning and you will get the share)

No liability Co
- Shareholder hold any partly paid share (e.g. just pay half)
- For example, a share worth 4, you pay 2 today, and 2 after few months, if something goes wrong, you just lose 2 today

Advantages of corporation:
1. Access to larger pool of equity funds (at a relatively cheaper cost)
- smaller firms are not able to access capital as easily and would normally be expected to pay a higher rate of return
2. The separation of ownership (shareholder) and control (managers)
- appointment of specialised management
- greater effectiveness in the planning and implementation of strategic decisions
3. The continuity of operation (Perpetual succession)
- the corporate form is unaffected by change in ownership or management (e.g. died of shareholder)
4. The corporate form is suited to large-scale operation
5. (Liquidity) The opportunity for investors to hold a diversified share portfolio

Disadvantages of corporation:

Agency problem, managers may act for their own benefit rather than for shareholder's benefits

- conflict of interest between owners(principals) and managers(agents)

Factors moderating conflict of interest between owners and managers:

1. Investors' ability to sell shares in a corporation, causing the share price to fall
2. Dismissal from the board at AGM by shareholders
3. Threat of takeover and loss of employment
4. Use of performance incentives, such as share options
5. More rigorous严格的 corporate governance

LP3: Roles of a stock exchange

Primary market Role

- ensure the efficient and orderly sale of new issue securities

1. New floats/Initial public offerings (IPOs): the listing of a new company on the stock exchange
2. Rights issue:供股 Issue of additional shares to existing shareholders on a pro-rata按比例 basis
3. Placements: Issue of new shares to selected institutional investors
4. Dividend reinvestment plans: Reinvestment of dividends into corporation for additional shares

Secondary maket Role

- provides a market structure for the buying and selling of existing listed securities (no new funds are raised by the issuing company)
- Only a transfer of ownership for shares
- An active, liquid, well-organised secondary market increases the appeal of buying new shares in the primary market

Market liquidity 股票周转率 = Turnover(成交量) / Capitalisation

- a deep and liquid market encourages investors (Turnover - Sales, not asset)

Capitalisation 市价总值= Number of shares * Share price

Third role: Managed product and Derivative product Role

- Stock exchange may list a range of managed products and derivative products, these standardised products are known as exchange traded contacts
- Equity-based managed products are professionally managed funds
- A derivative is a financial security that derives its price from an underlying commodity (e.g. gold) or financial instrument

1. Exchanged traded funds (EFT): invest in a basket of securities, provide access to a diversified portfolio of securities.

2. Contract for difference (CFD): an agreement to exchange the net difference in value between the start date and the close date
3. Real estate investment trusts (REIT): issues units in the trust in order to raise funds to purchase property, including industrial, hotels and leisure, retail and office.
4. Infrastructure funds: enable investors to gain access to large-scale infrastructure projects, e.g. utilities, transport.
5. Options: a right, but not the obligation, to buy (call option) or sell (put option) a specified security at a predetermined price and on a predetermined date.
6. Warrant: a derivative product
7. Futures contract: a derivative product used to lower risk

Fourth role: Interest rate market Role

- facilitate(促进) the issue of debt securities and the subsequent(随后的) trading of those securities on a formal exchange
- Keep interest rate stable to avoid people invest money in bank
- Debt issues may be listed on a stock exchange and provide investors with transparency, liquidity and ease of entry and exit.

1. Straight corporate bond - fixed interest security that pays a periodic coupon, secured bond is known as a debenture, unsecured bond a an unsecured note.
2. Floating rate note (FRN) - corporate bond that pays a variable coupon rate which will be based on a published reference rate.
3. Convertible note - a hybrid security that pays a fixed interest rate and includes an option to convert the note at a future date into ordinary shares.
4. Preference share - a hybrid security that pays a fixed dividend. It has an option at maturity to redeem to cash or convert to ordinary shares

Fifth role: Trading and settlement Role

- ASX uses ASX Trade (an integrated system), allows the stock exchange to trade all shares
- ASX Trade 24 facility the international market (global trading)
- Investors lodge(apply to) buy and sell orders with their stockbroker (who have access to the ASX platform), generally using internet
- Clearing Hose electronic sub-register system (CHESS): process transfer of ownership and financial settlement. (transaction settlement)
- used to ensure the system is work
- Settlement will normally occur in **T+2 business day** (e.g. if trillion to buy shares, need time) through CHESS
- e.g. if earthquake, 2 days includes some special consideration

- With ASX, the actual share certificate is no longer issued to the shareholder, an electronic record is maintained of share ownership,
- therefore, share listed on the ASX are know as uncertificated securities (means no paper receipt, not means not paid yet)

Sixth role: Information and regulation Role

- Information is the only reason for investors to buy the share (relies on information efficiency)
- The current share prices should reflect all information available in the market

1. Continuous disclosure of information (reporting requirements)
2. Stock exchange will monitor information flows to ensure the market is fully informed, in order to maintain the integrity and confidence in the market

- **Regulatory:** The Australian Securities and Investment Commission (ASIC) has responsibility for the supervision in domestic market

Examples of information disclosures required by ASX listing rules

- A change in a company's financial forecasts
- Appointment of a liquidator
- Declaration of a dividend
- Notice of a takeover bid
- Disclosure of directors' interests

LP4: Investment and financing decision

Four main aspects of financial management:

1. Investment choices (capital budgeting)

- Invest in which assets?
- Capital budgeting refers to the choices that a company makes when allocating its capital
- NPV: the sum of present value of all future cash flow (initial cost should be positive, otherwise not acceptable)
- Accept if NPV > 0
- IRR 实际回报率: a rate that make NPV equal to 0
- Accept, if IRR > Required return rate

2. Financial decision (capital structure)

- How to fund the purchase of these assets? Debt or equity?
- (Consider current D/E ratio & the associated degree of financial risk)
- The financial objective of a corporation is to maximise return, with an acceptable level of risk
- Business Risk: depends upon the type of operations of the business, market share, aggressiveness of competitors

- Financial Risk: exposure to factors that impact on the value of assets, liabilities and cash flows (e.g. interest rate risk, foreign exchange risk, liquidity risk, credit risk, capital risk, country risk)
- Debt must be repaid while equity does not need to be repaid.
- Debt to equity ratio = debt / equity (no ideal number)
- D/E indicates the risk of being unable to meet interest due and principal repayments associated with use of debt, i.e. risk of insolvency破产
- If the cost of debt < the return achieved, issuing more debt will benefit shareholders (higher EPS)
- However, high debt levels, high financial risk
- So!! should reach an appropriate D/E ratio!!
- Interest payable can be tax reducible

Factors influencing the D/E ratio:

1. industry norms
2. historical levels of firm's ratio
3. loan covenant, limit imposed by lenders
4. firms' capacity to service debt (most relevant)

Forms of equity finance:

1. Initial public offering (IPO)

- incorporate as limited liability company and issue ordinary shares, listing on a stock exchange
- Promoter: the party seeking to list as a corporation on a stock exchange
- Promoter and adviser decide: the structure, the pricing, the timing, the marketing and the allocation of the share issue
- Underwriter:保险公司 purchase any shares not taken up by investors

2. Additional ordinary shares

I. Rights issue:供股 Issue of additional shares to existing shareholders on a pro-rata按比例 basis

- issued at a discount to current share price
- need prospectus, so take long time to work
- *Renounceable*—share holder may sell their right
- *Non-renounceable*—right may not be sold

II. Placements: Issue of new shares to selected institutional investors

- fast, less work, give small discount
- Not required to register a prospectus but a memorandum of information must be prepared

III. Takeover issues: issued by a takeover company as full payment, or part payment with a cash component, in a merger bid

IV. Dividend reinvestment plans: Shareholders have the option of reinvestment dividends in additional ordinary shares

- issued at discount (0% - 5%)

- give existing shareholders the opportunity to increase their equity holding

3. Preference shares (Hybrid security)

- hybrid securities (have characteristics of both debt and equity)
- offer a fixed dividend that is set at the issue date, have fixed term to maturity (more like debt than equity)
- rank ahead of ordinary shareholders in the payment of dividends and liquidation, rank behind the company's creditors

Features attached to preference shares:

- Cumulative or non-cumulative (carry paid dividend forward or not)
- Redeemable or non-redeemable 可换成现款的 (convert share into cash or not)
- Convertible or non-convertible (Hybrid debt can become shares or not)
- Participating or non-participating (get higher dividend or not)

4. Quasi-equity (Hybrid securities)

I. Convertible notes

- issued for a fixed term at a stated rate of interest, either by direct placement or pro rata to shareholders
- holder has right to convert the note into ordinary shares at a future date at a predetermined price

II. Company-issued options (期货或定期股票的)期权

- provides the holder with the right (not the obligation) to purchase ordinary shares at a predetermined price on a specified date
- have value, can be traded

III. Company-issued equity warrants 普通股认购权证

- a corporate bond debt issute
- provides the holder with the right to convert the warrant into ordinary shares in the issuer company at specified price over a given period
- no dividends but holders benefit form capital gains

3. Liquidity (working capital) management

- How best to manage current assets and current liabilities

4. Dividend policy decision

- How to retain and/or distribute profits