Why is the Bond Market Useful? Evidence from Risk Management

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Abstract. The bond market is crucial for the financial market, because as long as a public company is faced with the birth of the bond market through the decentralization of shares at the same time. And risk management strategies are equally important for a company. A business can be exposed to significant risks causing losses within the business during the course of operations. It is then necessary for the managers of the company to develop risk management strategies to reduce the risk of the company. The topic of this paper is Why is the bond market so useful? What contributions can it make to risk management strategies? Through this analysis, we know that understanding the bond market can help managers to develop risk management strategies. In addition, the significance of this research paper is also shown in theprovide implications for investors.

Keywords: bond market, Risk management strategies.

1. Introduction

There are three functions financing function, fund flow guidance function and macro-control function. The bond market can meet the needs of diversified asset allocation of enterprises to share risks, optimize investment projects to reduce risks, stabilize the balance of the entire financial market, and create a low-risk environment. This can make a great contribution to the risk management strategy.

Bond trading is a low-risk financing tool that can provide investors and fundraisers in a unified, stable and mature financial market. A bond certificate with legal effect that the debtor borrows from the society to raise funds and promises to pay interest to the creditor and repay it within the time limit. In short, the essence of bonds is a certificate of borrowing and exchanging, and it has legal effect.

Risk management strategy mainly refers to four aspects. Risk is defined as the uncertainty of loss. A good risk management strategy can affect the development direction, viability, corporate culture and so on of the whole enterprise, and effectively improve the core competitiveness of the enterprise.

2. Bond Market

2.1 The bond market is useful

2.1.1 The bond market is a safe, stable, and free-flowing financial market.

Debt instruments are mainly classified into corporate and government-issued notes, which are corporate and government bonds [1]. The main types of bonds are zero coupon bonds and coupon bonds [2].

Compared to the stock market, the bond market is less risky because it is held for a longer time, has a smooth growth rate, and has relatively low returns. This is particularly true for government-issued bonds. Therefore, some investors prefer the bond market to the stock market.

However, unlike treasury bonds, corporate bonds usually have a higher rate of return because they aim to attract more investors to inject capital to make their bonds more competitive than treasury bonds, but corporate bonds also have the disadvantage of being riskier and less stable than treasury bonds. Investors can calculate the spot rate to grasp the corresponding interest rate of each period of the bond [3]. So, you can choose the right bonds to add to your portfolio.

2.1.2The issuance of debt instruments allows the company to have autonomous control and access to capital.

A corporate bond is a means by which a business can raise money by issuing bonds. The corporate bond differs from when it sells shares. The original stock structure of the company and its operational independence are preserved through the issuance of bonds in exchange for investment. The original cost per share will be diluted to the corporation if additional shares are issued.

The corporate bond compared to bank borrowing, corporate bonds can be arranged with a fixed interest rate and maturity, which lowers risk. Second, corporations can obtain more investment for less money because bonds are typically offered at cheaper interest rates than bank loans.

2.1.3 Future economic changes can be forecasted based on the bond market's direction.

Bond market trading is a judgment of investors about the future development of a company, which they believe will bring them income in the future. Therefore, investors have to predict the future direction of the economy. For example, they use yield curves to help them make their judgments [4]. Calculate whether long-term bonds are more favorable than short-term bonds. In the bond risk management strategy Macaulay Duration helps investors to know the maturity of bonds in their portfolios by measuring the average maturity of bonds through a weighted average, while Modified Duration measures the sensitivity of prices to interest rates to help investors choose the right bonds to add to their asset portfolios for risk hedging [5].

The bond market is equally important for the national government, which stabilizes the country's economy as a component of the national financial market. This is because bond issuance is an important source of access to funds for the government. The funds obtained from universal bonds will be used for the infrastructure of the social state. But sometimes higher yields are not good for the national debt, because it will probably face inflation. But in special cases bonds can help the government to solve some difficult problems. For example, during the New Coronary Pneumonia, the government used bonds to stabilize basic social security (e.g., pensions).

3. Risk management

3.1 Internal Control

Enterprises need internal control to achieve management goals, business objectives, internal business activity organization, development of activities between organizational departments, and techniques and measurements for management, management, assessment, and regulation. Internal controls are rules and regulations created and put into place by management, governance, and other parties [6].

3.1.1 Internal

management is divided into five levels. First of all, the internal environment is the influence, restrict the establishment and implementation of enterprise internal control system of various internal factors, is the basis of the implementation of internal control.

3.1.2 Second

Risk assessment is the process of early detection, scientific investigation, and countermeasure implementation of numerous unknown aspects affecting the achievement of corporate strategy and management objectives. It is a crucial component and link in the execution of internal control. There are four risk management techniques included.

3.1.3 Third

control measures, according to the results of risk assessment, combined with risk response strategy to ensure that the enterprise internal control objectives to achieve the method and means, is the implementation of internal control of the specific way and carrier [6]. Control measures should also depend on the specific business responsible for the development of affairs. It mainly includes division of labor control, authorization control, audit and approval control, budget control, accounting system control, information technology control and so on.

3.1.4 Fourth

The enterprise's internal control system is comprised of supervision and inspection. An key assurance of the application of internal control is the soundness, logic, and effectiveness of supervision and assessment, the creation of a written report, and the creation of the appropriate procedure [6].

3.2 Deal with risk

When the risk occurs, the manager of the enterprise should think of ways to deal with the loss caused by the risk. Therefore, there are four ways of dealing with risk.

3.2.1 Loss control

Loss control refers to the possibility or actual loss that managers make strategies to reduce losses after the occurrence of risks.

3.2.2 Risk transfer

Risk transfer refers to the contract-based transfer of an enterprise's risk to third parties, who then take on the associated costs.

3.2.3 Risk avoidance

Risk avoidance refers to the complete loss avoidance and abandonment of management risks.

3.2.4 Risk retention

refers to the use of the private property of employees or managers in the enterprise to bear the risk of loss [7].

3.3 Board

The board of directors is composed of the internal directors of the company. The relevant business of the board of directors is the business executive body that deals with the internal affairs of the company and represents the company's operational decisions externally. Not only that, the board of directors will also vote to elect the chairman and deputy directors as representatives of the board [8].

3.4 Independent director

The purpose of independent directors is to shield the company's interests from harm caused by internal management and shareholder control. The listed firm and its shareholders owe the independent directors a duty of good faith and diligence. In accordance with applicable laws and regulations, the Guidelines, and the company's articles of association, independent directors must diligently carry out their responsibilities, protect the company's long-term interests, and give particular consideration to the rights and interests of minority shareholders. Independent directors must carry out their responsibilities without interference from the listed company's actual controllers, major shareholders, or other units or parties with a stake in the business. An independent director can, in theory [9].

3.5 Risk management strategy

Risk management strategy needs to be divided into four parts, which are risk identification, risk analysis, risk response and risk monitoring [10].

First, for risk identification, the risk of a business requires one to identify his potential risks and uncertainties.

In order to determine the frequency of a certain risk and estimate the level of damage, including the extent of direct damage, the people and property used to prevent and manage the risk, as well as the extent of indirect losses linked to direct losses, risk analysis is second. Third, risk management calls for several strategies to lessen the losses brought on by the risk in order to effectively limit the harm that risk poses to the business. Last but not least, risk adjustment aims to enhance the risk management system to reduce losses and boost returns.

4. Conclusions

In general, the bond market is very popular with investors as an important part of the financial market. Our exploration of internal control, risk resolution, board of directors, independent directors and risk management strategies demonstrates the positive contribution of the securities market to risk management strategies in a real sense. It can also help corporate managers to develop more rational risk management strategies that allow investors to take less risk and maximize returns.

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