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THE ROLE OF BONDS MARKET IN FINANCING JOINT STOCK COMPANIES

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Xulosa. Korporativ obligatsiyalar - tadbirkorlik sub'ektlari chiqaradigan qarz qimmatli qog'ozlari - bu korxonalar o'z aktsiyadorlik kapitali, bank ssudasi va boshqa manbalar bilan bir qatorda, o'z faoliyatini va kengayishini moliyalashtirishning bir necha usullaridan biridir. Ushbu maqola obligatsiyalar bozorining ahamiyatini o'rganadi, xalqaro obligatsiyalar bozorini tahlil qiladi va tahlilga ko'ra ba'zi xulosalarni ishlab chiqadi.

Kalit so'zlar: obligatsiya, obligatsiyalar bozori, aksiyadorlik jamiyati

Аннотатция. Корпоративные облигации - переводные долговые ценные бумаги, выпущенные предприятиями, - являются одним из нескольких методов, с помощью которых предприятия финансируют свою деятельность и расширение, наряду с акционерным капиталом, банковским кредитованием и другими источниками. В данной статье исследуется важность рынка облигаций, анализируется международный рынок облигаций и делаются некоторые выводы на основе анализа.

Ключевые слова: облигация, рынок облигаций, акционерное общество.

Abstract. Corporate bonds - transferable debt securities issued by businesses - are one of several methods by which businesses fund their operations and expansion, alongside equity share capital, bank lending, and other sources. This paper studies the importance of bond market, analyzes the international bond market and develops some conclusions according to the analysis.

Keywords: bond, bond market, joint stock company

Introduction. The term «capital market» refers to a location where long-term supply of funds is available, as well as where those funds are procured. That is, the capital market is the source of long-term funds of all types, including equity, preferred stock, and debt securities. That is, the capital market trades capital market securities such as Treasury notes or bonds, municipal bonds, corporate bonds, and mortgage-backed securities, as well as equity securities such as common stock and preferred stock. Personal and institutional savings are converted to investment through the capital market. As a result, the capital market is developed in collaboration with savers and investors.

When capital is supplied in a manner consistent with the needs of industrial enterprises, it is referred to as an ideal capital market.

Additionally, it should be well-organized, transparent, and efficient in order to be an ideal one. A perfectly functioning capital market should exhibit the following characteristics:

i) Sufficient individual and institutional investors;

ii) The presence of numerous competitors and auxiliary organizations, such as stock exchanges, investment banks, and broker firms.

iii) Increased liquidity as a result of sufficient transactions in the indirect market.

iv) Expected transparency and reasonableness in dealings and contracts

v) Appropriate supervisory organization, such as the stock exchange commission, to oversee the capital market's operation

vi) Transactions involving various types of securities, such as stock, equity, preferred stock, bond, and other securities.

vii) To provide investors and savers with a clear understanding of the capital market's operation and administration through the presence of skilled entrepreneurs and professionals.

Corporate bonds have historically been a popular way for joint stock companies to raise capital for operations and debt financing, particularly in the long run. It is also a popular investment channel for investors seeking stable returns through holding bonds to maturity or high yield through secondary market bond trading (Tendulkar & Hancock, 2014). The development of bond markets is critical for the economic system's efficiency, in addition to providing additional opportunities for investors and deepening financial markets (Herring & Chatusripitak, 2007). The existence of a functioning bond market is critical for reducing financial sector fragility and providing joint stock companies with an alternative source of cheap capital (Yoshitomi & Shirai, 2001). As evidenced by the Asian financial crisis of 1997-1998, one of the primary causes was cited as the economy's excessive reliance on the banking system, which was highly regulated and thus susceptible to efficiency loss as well as increased systematic risk. Additionally, a healthy bond market will help to mitigate currency and maturity mismatches when long-term assets are financed by long-term liabilities; it will improve risk pricing tools due to reduced information asymmetry; it will enable efficient asset management, and it will strengthen the country's position in international capital markets (Plummer & Click, 2005). In terms of macroeconomic policy, a well-developed bond market not only provides useful market signals to policymakers, but also serves as a financing mechanism for fiscal deficits (Kahn, 2005). Sharma (2001) examined the corporate bond markets in Southeast Asia and concluded that corporate sector and banking reforms, as well as the enforcement of legal processes and increased business transparency, were necessary to increase the market's attractiveness. Additionally, market infrastructure should be strengthened and regulations governing bond issuance and operations should be improved.

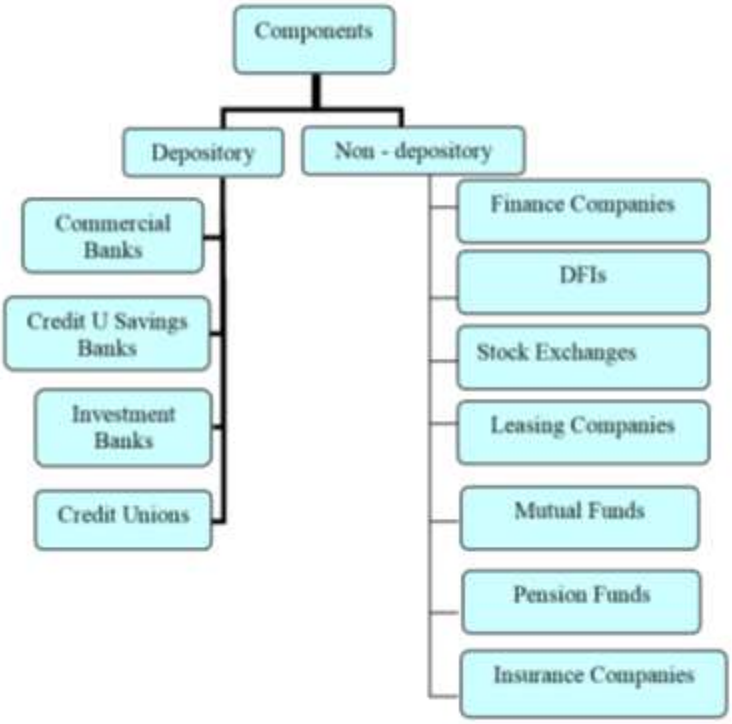

Figure 1 Various Components of Capital Market
Source: Eugene F. Brigham, Joel F. Houston, Fundamentals of Financial Management, 2016

Because the capital market is formed in collaboration with investors and savers, the capital market's primary components are as follows: i) Saving banks; ii) Investment banks; iii) Finance companies; iv) Development Financial Institutions (DFI); v) Commercial banks; vii) Leasing companies; viii) Credit units; ix) Mutual funds; x) Insurance companies. The various components of the capital market can be classified as depositors and non-depository financial institutions, as illustrated in Figure 1.

Individuals with savings to invest, merchant banks, commercial banks, and non-bank financial intermediaries such as insurance companies, finance houses, unit trusts, investment trusts, venture capital, leasing finance, mutual funds, and building societies all contribute to the capital market.

Additionally, there are issuing houses that do not provide capital but rather underwrite companies' shares and debentures and assist them in selling new issues of shares and debentures. Joint stock companies seek funds to finance working and fixed capital assets and inventories, while local, state, and federal governments, improvement trusts, and port trusts seek funds to finance a variety of expenditures and assets.

The capital market operates via the stock exchange. A stock exchange is a market where shares, stocks, bonds, securities, and debentures can be bought and sold. It is not just a market for older securities and shares; it is also a market for newly issued securities and shares. Indeed, the capital market is intrinsically linked to the supply and demand for new capital, and the stock exchange facilitates these transactions.

Capital Markets' Importance or Functions:

The capital market is critical in mobilizing savings and channeling them into productive investments for the development of commerce and industry. As such, the capital market contributes to the country's capital formation and economic growth. The following section discusses the capital market's significance.

The capital market is critical in connecting savers and investors. Investors are lenders of funds, whereas savers are borrowers. The term refers to savers who do not spend all of their income. The surplus units are referred to as «surplus units,» while the borrowers are referred to as «deficit units.» The capital market is the mechanism by which surplus and deficit units are transmitted. It acts as a conduit for surplus units to lend their excess funds to deficit units.

Joint stock companies typically finance their growth and development through a variety of different sources of funding. Some are self-financing with retained cash. External sources of funding include long and short term bank loans, syndicated loans made by a group of banks and possibly institutional investors, trade finance, short term (less than one year) capital market debt, corporate bonds, and other forms of hybrid capital.

The position of corporate bonds in a joint stock company's capital structure is determined by the terms of the issue. Secured debt is typically repaid from the proceeds of the security's sale prior to unsecured debt, and both are repaid prior to equity in the event of the issuer's insolvency.

Corporate bonds provide both issuers and investors with predictable cash flows: payment of capital at issue, regular interest payments, and capital return at maturity. Secondary market prices fluctuate in response to prevailing interest rate expectations and the issuer's creditworthiness. Bond financing is typically less expensive and riskier for businesses than equity financing. Because dividend payments are contingent on future profitability, dividend expectations drive market valuations, and investors demand higher returns to compensate.

Joint stock companies typically choose between bank and bond debt financing based on their size, the stage of market development, and the availability and relative costs of various forms of finance. Typically, SMEs seek funding from banks or tailored lenders, or from the syndicated loan market. As they expand, they may issue bonds, initially in their domestic bond market, and then in international markets if their needs exceed the domestic market's investor capacity or if the international nature of their business necessitates more sophisticated risk management of foreign exchange or other risks. The stages of this progression may vary by country, depending on the maturity of their bond markets. Certain emerging markets continue to be heavily reliant on bank financing.

Analysis and results. As of August 2020, ICMA estimates that the global bond markets will total approximately $128.3 trillion in terms of USD equivalent notional outstanding. This total includes $87.5 trillion in SSA bonds (68 percent) and $40.9 trillion in corporate bonds (32 percent).

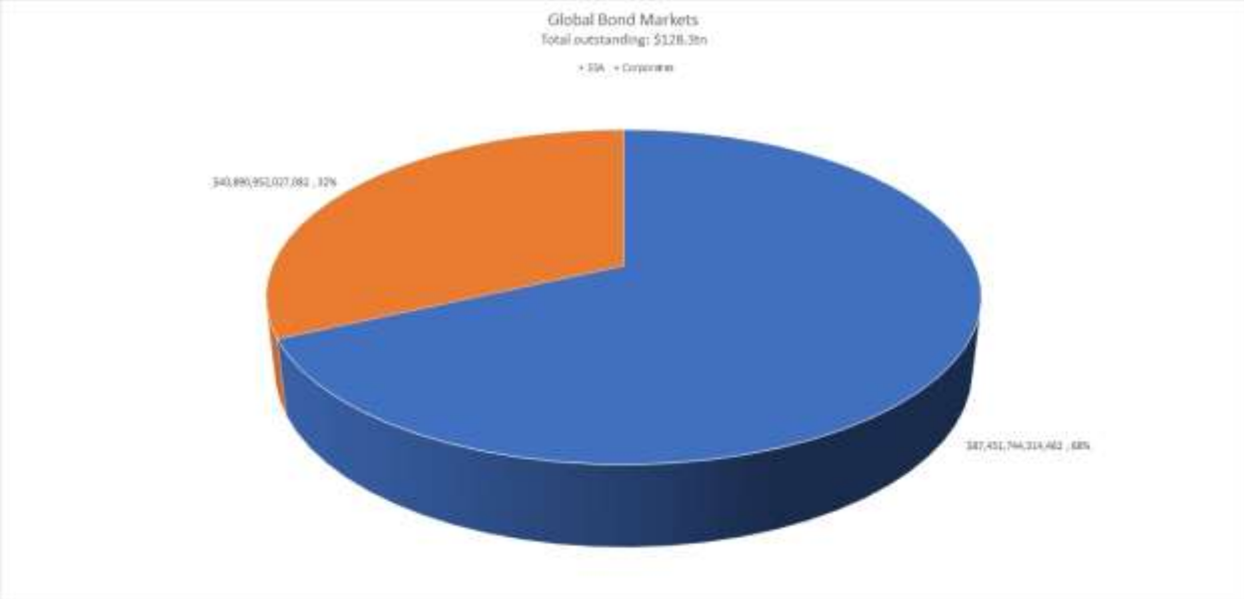

Figure 2. Global Bond Markets

Source: *ICMA analysis using Bloomberg Data*

In terms of country of incorporation, the US ($10.9 trillion) and China ($7.4 trillion) dominate the global corporate bond markets. Together, they account for 45 percent of the global corporate bond market. Financial institutions issue 53% ($21.5tn) of all outstanding corporate bonds.

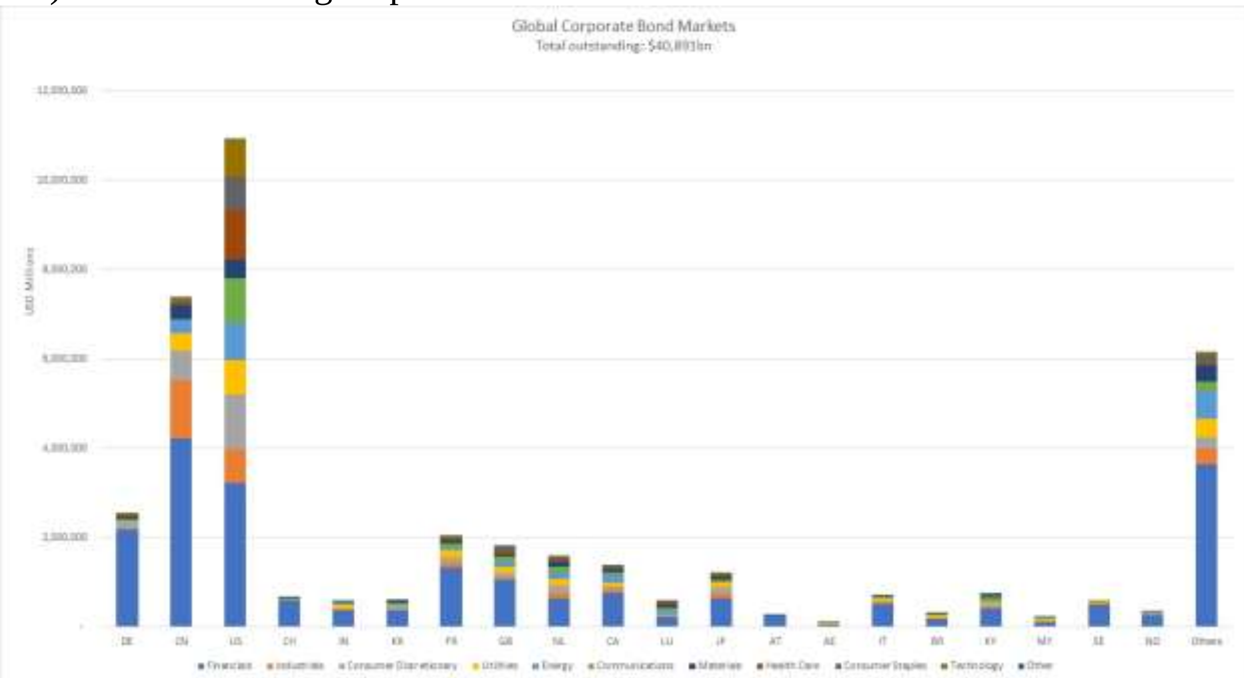

Figure 3 Global Corporate Bond Markets

Source: *ICMA analysis using Bloomberg Data*

It can be seen that Denmark, China and the US have big bond market, therefore they outnumber other countries in terms of corporate bond issuance.

Conclusions. Corporate bond markets benefit issuers by providing secure, stable, and flexible financing for enterprise, innovation, technological development, economic growth, trade, employment, and wealth creation. Typically, investors (typically insurance companies or pension funds tasked with financing long-term cash flow commitments on behalf of retail investors) buy to hold to maturity. The secondary market has a much lower turnover rate than the equity market.

Corporate bonds compete with alternative sources of capital, such as equity or commercial bank lenders, driving down companies' funding costs. The cost of issuance must continue to be reduced. However, because of the disintermediation between issuers and investors, as well as the intense competition among underwriters and brokers who provide support services, corporate bond markets help issuers reduce their cost of capital. This enables the most efficient use of investor funds to benefit corporate enterprise.

Bond financing reduces companies' reliance on banks, whose ability to lend is occasionally tested – for example, in the years following the 2007/8 financial crisis, as a result of reformed prudential regulation, and as a result of banks' need to deleverage their balance sheets in response to the Third Basel Accord. Deleveraging could have a disproportionately large effect on the real economy, particularly in areas where banks have been the primary source of debt financing.

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