Analysis of the Effect of Short-Selling System on the Scale of Enterprise Commercial Credit Financing

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ABSTRACT

This article focuses on the role of the short-selling system in influencing the scale of enterprises' commercial credit financing. Firstly, it elaborates on the basic concepts, operational mechanisms, and significant importance of the short-selling system in the financial market. Then, it deeply analyzes the connotation, forms, and influencing factors of enterprises' commercial credit financing. Through theoretical analysis, it explores the possible positive and negative mechanisms of the short-selling system on the scale of enterprises' commercial credit financing, including aspects such as information transmission, supervision and governance, and market pressure. Finally, it proposes how enterprises and regulatory authorities should reasonably respond to the short-selling system to promote the healthy development of enterprises' commercial credit financing and maintain the stability of the financial market.

Keywords: Short-selling system; Enterprise; Scale of commercial credit financing; Mechanism of action.

1. INTRODUCTION

In the process of the continuous development and improvement of the financial market, the short-selling system, as an important trading mechanism, has gradually become the focus of market attention [1]. The introduction of short-selling mechanism has broken our previous unilateral market model, which can only buy up, and provided investors with more diversified investment strategies. This has a profound impact on the price discovery, liquidity and risk management of the market [2].

At the same time, enterprise commercial credit financing, as an important link in enterprise financial management, is particularly critical for enterprise production and operation, resource allocation and value realization [3]. Commercial credit financing with appropriate scale can help companies optimize their capital structure, reduce operational risks and enhance their competitiveness in the market [4]. However, the relationship between short selling mechanism and the scale of corporate commercial credit financing is quite complicated. Short selling mechanism may affect the behavior and scale of commercial credit financing by companies in several ways [5]. Deeply exploring the role of short selling mechanism in the financing scale of corporate commercial credit will not only enable companies to better understand the market environment and formulate more scientific financing plans, but also provide theoretical basis and practical guidance for regulators to improve market supervision policies and promote the healthy and stable development of financial markets [6].

2. OVERVIEW OF THE SHORT SELLING SYSTEM

2.1 Concept and Operating Mechanism of the Short Selling System

The short selling system is a closely related operation mechanism to the long selling system. It refers to the methods and measures adopted by investors to protect their own interests and take advantage of the market to make profits when they predict that the future trend of the overall stock market or certain stocks (including short-term and medium-term) will be bearish. This also includes the related systems. [7] The core logic is "selling high and buying low". The specific operation process is: Investors expect that the price of a certain asset will fall, then borrow the asset from a third party (usually a securities firm) and immediately sell it in the market; when the future price drops, they buy back the same amount of the asset at a lower price and return it to the lender, thereby earning the difference between the selling price and the buying price [8]. Common short selling methods include margin short selling, futures short selling, and options short selling. Taking margin short selling as an example, investors borrow stocks from a securities company and sell them. When the stock price falls, they buy back the stocks and return them to the securities company to achieve profit [9].

2.2 Significance of the Short Selling System in the Financial Market

The short-selling mechanism has many important functions in the financial market. From the perspective of market price discovery, with the short-selling mechanism, different views and expectations in the market can be fully expressed. When some investors think that a company's share price is overvalued after in-depth research, they will choose to short the stock. With the short-selling transaction going on, the stock price will gradually return to a reasonable level, avoiding the excessive market bubble, and also helping to improve the market pricing efficiency and make the stock price reflect its true value more accurately. In terms of increasing market liquidity, when short sellers borrow and sell assets, they will increase the trading volume of the assets in the market, make market transactions more active, improve the efficiency of capital use and promote the stable operation of the market. In addition, short sellers can often analyze the market more calmly and find and help correct those behaviors that do not follow the economic laws. They pay more attention to investigating the financial situation of suspicious companies, and their efforts make it easier to find tricks to deceive investors, just like inviting external supervisors to the market to help maintain fairness, justice and transparency in the market.

3. OVERVIEW OF ENTERPRISE COMMERCIAL CREDIT FINANCING

3.1 The Essence and Forms of Enterprise Commercial Credit Financing

Enterprise commercial credit financing refers to a financing method where enterprises obtain funds by opening credit loans to external parties and using credit channels such as bank quasi-credit cards, etc. This is a way for enterprises to carry out production and business activities. Its essence is that enterprises issue bond-like products and other creditor products to utilize the market credit mechanism to obtain working capital. Enterprise commercial credit financing has various forms, including accounts payable financing, commercial bill financing, and advance payment financing. Accounts payable financing is the debt incurred by enterprises for purchasing materials, goods, or accepting labor supply, etc. For financing enterprises, it means giving up the discount of cash transactions and incurring certain costs because the earlier the payment is made, the greater the discount. Commercial bill financing is a debt and creditor document issued by enterprises in deferred payment transactions. For some enterprises with good financial strength and reputation, their issued commercial bills can directly be raised from the money market to obtain short-term monetary funds. Advance payment financing is a form of commercial credit provided by the buyer to the seller, which is a short-term source of funds for the seller. However, this credit form is very limited and is only applicable to market-scarce goods, goods urgently needed by the buyer, construction industries with long production cycles and large investment, and heavy manufacturing, etc.

3.2 Factors Affecting the Scale of Enterprise Commercial Credit Financing

There are many factors that affect the scale of enterprise commercial credit financing, including various internal and external factors. From the internal point of view, the financial situation of an enterprise is one of the important influencing factors. The profitability, solvency and cash flow of an enterprise will directly affect its scale of obtaining commercial credit financing. Companies with strong profitability usually have better repayment ability and are more likely to gain the trust of suppliers and partners, so that they can obtain a larger scale of commercial credit financing. The reputation and word-of-mouth of the enterprise are also crucial. A good reputation can help enterprises establish a good image in the market and make partners trust it more, thus promoting the development of commercial credit financing. The scale and industry status of enterprises will also affect the scale of commercial credit financing. Large companies or industry leaders usually have stronger negotiation ability and market influence, so they can get more favorable commercial credit financing conditions.

From the external perspective, the macroeconomic situation has a significant impact on the scale of enterprise commercial credit financing. In an economic boom period, market demand is strong, and enterprises' production and business activities are active, suppliers and partners are more willing to provide commercial credit support, and the scale of enterprise commercial credit financing may expand accordingly; in an economic recession period, the market is sluggish, the risk of enterprise operation increases, and the difficulty of commercial credit financing may increase. The development level of the financial market and the policy environment will also affect enterprise commercial credit financing. A well-developed financial market can provide more financing channels and financial tools, which is conducive to the enterprise's commercial credit financing; while the support and guidance of policies, such as tax policies and credit policies, will have positive or negative impacts on the scale of enterprise commercial credit financing.

4. THE POSITIVE MECHANISM OF THE SHORT-SELLING SYSTEM ON THE SCALE OF CORPORATE CREDIT FINANCING

4.1 Information Transmission and Enhancement of Market Transparency

The short-selling system can exert an information governance effect, effectively improving the quality of information disclosure of listed companies. Short-selling investors are mostly institutional investors with strong information acquisition and professional analysis capabilities. They will conduct in-depth investigations and research on the target enterprises to uncover potential problems and negative information of the enterprises. Once they find that the enterprises have financial fraud, poor management, etc., they will convey these information to the market through releasing short-selling reports. This prompts enterprises to pay more attention to the authenticity, accuracy and completeness of information disclosure, and improve information transparency. For corporate credit financing, a more transparent information environment helps suppliers and partners to have a more comprehensive and accurate understanding of the real financial situation and operating conditions of the enterprise, reducing the degree of information asymmetry. Suppliers and partners can evaluate the credit risk of the enterprise based on more reliable information, thus being more willing to provide commercial credit support to the enterprise, which is conducive to the expansion of the scale of commercial credit financing of the enterprise.

4.2 Supervisory Governance and Corporate Behavior Norms

The short-selling system has an external supervisory governance effect on enterprises, which can restrain the self-interested behaviors of management and major shareholders. Under the short-selling mechanism, the stocks of enterprises face the risk of being short-sold. The improper behaviors of management and major shareholders may lead to a decline in stock prices, causing huge economic losses to them. Therefore, in order to maintain the stability of stock prices and the image of the enterprise, management and major shareholders will make more cautious decisions and regulate their own behaviors, avoiding actions that harm the interests of the enterprise. For example, they will pay more attention to the long-term development strategy of enterprises, rationally allocate resources, and improve the operating efficiency and profitability; of enterprises; Strengthen the management and supervision of enterprise finance to ensure the authenticity and reliability of financial information. The standardization of enterprise behavior is helpful to improve the reputation and credibility of enterprises, enhance the trust of suppliers and partners, and create favorable conditions for enterprises to obtain larger commercial credit financing.

4.3 Market Pressure and Enhancement of Enterprise Risk Awareness

The short-selling mechanism will bring certain market pressure to enterprises. This kind of pressure will prompt enterprises to raise their risk awareness. When enterprises face the threat of short selling, the fluctuation of stock price may cause market concern and doubt, which will have a negative impact on the operation of enterprises. In order to cope with this pressure, enterprises will pay more attention to risk management and strengthen the evaluation and monitoring of market risks. In terms of commercial credit financing, enterprises will more carefully assess their repayment ability and credit risk, rationally plan the scale and duration of financing, and avoid over-reliance on commercial credit financing to avoid excessive repayment pressure. At the same time, enterprises will actively take measures to optimize the capital structure, improve the efficiency of capital use, and ensure that the repayment obligations of commercial credit financing are fulfilled on time. This improvement of risk awareness will help enterprises to maintain a good credit record and lay the foundation for obtaining larger-scale commercial credit financing in the future.

5. THE NEGATIVE EFFECT MECHANISM OF THE SHORT-SELLING SYSTEM ON THE SCALE OF ENTERPRISE'S COMMERCIAL CREDIT FINANCING

5.1 Stock Price Decline and Damage to Enterprise Reputation

The short-selling mechanism may make the company's share price fall. When those short investors release short-selling reports or sell stocks in large quantities, other investors in the market may feel scared and sell stocks in large quantities, resulting in a sharp drop in stock prices. Falling stock prices will not only affect the company's market value, but also damage the company's reputation. Suppliers and partners may regard the stock price decline as a signal of poor management of the company, which will cause concern for the future development of the company and reduce their trust in the company. In this case, suppliers may tighten the commercial credit policy of the enterprise, reduce the amount of commercial credit financing or shorten the financing term, and even require the enterprise to provide more guarantees or mortgages, which undoubtedly increases the difficulty of enterprise commercial credit financing and leads to a reduction in the scale of commercial credit financing.

5.2 Rising Financing Costs and Intensified Financing Constraints

The short-selling system may cause the financing costs of enterprises to rise and intensify financing constraints. When enterprises are short-sold, investors' confidence in the enterprise decreases, and they require higher expected returns to compensate for the possible risks. This will lead to an increase in the financing costs of enterprises in the capital market, whether it is equity financing or debt financing, and may face higher interest rates or stricter financing conditions. For commercial credit financing, suppliers and partners will also increase the risk premium due to the enterprise's exposure to short-selling pressure, requiring the enterprise to pay higher interest or fees, or reduce the supply of commercial credit financing. The rise in financing costs and deterioration of financing conditions will impose greater financing constraints on the enterprise, restricting the expansion of the scale of enterprise commercial credit financing.

5.3 Business Interference and Management Energy Dispersion

The enterprise needs to invest a lot of time and energy to deal with short-selling events, which may interfere with the normal operation of the enterprise and disperse the management's energy. The management needs to spend a lot of time investigating, clarifying facts, communicating with investors, etc., to deal with the negative impacts brought by short-selling. During this process, the management may not be able to devote sufficient energy to the decision-making of enterprise production and operation, resulting in the impact on important work such as strategic planning, marketing, and product research and development. The deterioration of the enterprise's operating conditions will further reduce the confidence of suppliers and partners in the enterprise, reducing the scale of commercial credit financing. For example, the enterprise may miss market opportunities due to the management's energy dispersion, resulting in poor product sales and difficulty in capital turnover. Suppliers will therefore be more cautious in providing commercial credit support.

6. STRATEGIES FOR ENTERPRISES AND REGULATORY AUTHORITIES REGARDING THE SHORT-SELLING SYSTEM

6.1 Strategies for Enterprises

Enterprises should actively strengthen their own construction and enhance their competitiveness and risk-resistance capabilities. Firstly, enterprises should pay attention to financial management and improve the transparency and quality of financial information to ensure the authenticity, accuracy, and completeness of financial data. By establishing sound financial management systems and internal control frameworks, they can regulate financial behaviors, monitor and warn of financial risks, and promptly identify and solve potential financial problems. Secondly, enterprises should strengthen risk management and formulate comprehensive and effective risk management strategies to assess and manage market risks, credit risks, etc. When facing short-selling threats, enterprises should remain calm, actively communicate with investors, promptly release true information, clarify misunderstandings, and maintain the enterprise's image and reputation. In addition, enterprises should optimize their capital structure, reasonably arrange financing scale and financing term, reduce reliance on a single financing channel, and improve the flexibility and efficiency of capital use, enhancing their financing capabilities and risk-resistance capabilities.

6.2 Strategies for Regulatory Authorities

Regulatory authorities should further improve the short-selling system, strengthen market supervision, and maintain the stability and fairness of the financial market. On one hand, they should reasonably expand the scale of short-selling transactions and moderately increase the convenience of short-selling transactions. Currently, there is an imbalance in China's margin trading and short-selling transactions, with a relatively small short-selling scale. They should further promote and improve the margin trading and short-selling transaction system to better exert the company governance effect of the short-selling mechanism. On the other hand, they should standardize the disclosure of short-selling information to enhance market transparency. They require short-selling investors to promptly and accurately disclose short-selling information to prevent information asymmetry from leading to unfair competition in the market. At the same time, they should strengthen the supervision of short-selling activities, crack down on malicious short-selling, market manipulation, etc., and maintain market order. In addition, regulatory authorities should strengthen the supervision of enterprises' information disclosure, urge enterprises to improve the quality of information disclosure, provide accurate and reliable information to market participants, and promote the healthy development of commercial credit financing for enterprises.

7. CONCLUSION

The short-selling system has a complex mechanism on the scale of enterprises' commercial credit financing. It has both positive effects and negative impacts. The positive effects mainly lie in aspects such as enhanced information transmission and market transparency, improved supervision and governance, and strengthened enterprise behavior norms, as well as increased market pressure and enhanced enterprise risk awareness, which help enterprises expand the scale of commercial credit financing. The negative effects are manifested in situations such as stock price decline and damage to enterprise reputation, increased financing costs and intensified financing constraints, operational interference and distraction of management energy, etc., which may lead to a reduction in the scale of enterprise commercial credit financing. Enterprises and regulatory authorities should fully understand the impact of the short-selling system. Enterprises should actively respond to the short-selling system by strengthening their own construction, optimizing the capital structure, and enhancing risk management. Regulatory authorities should improve the short-selling system, strengthen market supervision, and standardize information disclosure to promote the healthy development of enterprise commercial credit financing and maintain the stability of the financial market. In the future, as the financial market continues to develop and the short-selling system is further improved, it is necessary to continuously and deeply study the relationship between the short-selling system and the scale of enterprise commercial credit financing, in order to provide more targeted suggestions for enterprise financial management and regulatory authorities' policy formulation.

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