

## The Analysis of the Problems in China's Money Market Fund and Countermeasures

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### Abstract

The Money Market Fund is one important financial market in the economy of China. In recent year, with the rapid development of E-finance, more changes happened in the money market fund. With the reform of china's financial system, the financial structure of our country is in the constant change. But many problems still exist influenced by the financial environment, financial policy and other factors. In this paper, firstly, we show the conception of Money Market Fund, and then we analyze the problems existing in the Money Market Fund and state the factors. Finally, we put forward some of the suggestions and countermeasures which are suitable for the development of Money Market Fund in China which are based on the analysis of the problems.

**Key words:** Money market fund; E-finance; Financial market

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### INTRODUCTION

Money market fund is a kind of investment fund which invests in money market. It is a kind of fund unit which is issued by institutions and individual investors. The main assets of the fund invested in short-term monetary instruments such as treasury bills, commercial paper, bank

certificates of deposit, bank acceptance bills of exchange, short-term government bonds, corporate bonds, short-term securities.

#### A. The Conception of Money Market Fund

Monetary Fund is only one way—dividend transfer investment. For example, money market funds each unit has remained at 1 yuan, more than 1 yuan after the return will be automatically converted into fund shares, and the number of shares of the fund have a number of assets. While other open end funds are a fixed share of the unit, the cumulative net, investors can only rely on the fund's annual dividend to achieve revenue.

#### B. The Characteristics in Carbon Finance Market

##### (a) Fixed unit net asset value

Money market funds and other investments in the stock of the fund's most important difference are that the fund's net asset value is fixed, usually 1 Yuan per fund unit. After investing in the fund, investors can use their proceeds to re-invest, so that the investment income will continue to accumulate, so as to increase the share of the fund investors.

##### (b) Low risk, low investment costs

The maturity of money market instruments is usually very short, the average maturity of the money market fund portfolio is generally 4-6 months, so the risk is lower, the price is usually only subject to the impact of market interest rates.

Money market funds usually do not charge redemption fees, and its management costs are lower, the annual management fee of the money market fund is about 0.25%-1% of the fund's net worth, which is lower than the traditional fund annual management fee 1%-2.5%.

#### C. The Scope and Advantages of Investment in Money Market Fund

In addition to earnings stability, liquidity, low purchase limit, capital security features, there are some other

advantages in Money market funds, such as the use of funds accounts to issue checks, pay bills, etc. It usually can be used as a temporary deposit of cash before the new investment, these cash can be higher than the current deposit income, and can be withdrawn at any time for investment. Some investors will put large number of money in money market funds, and then gradually invest in stocks, bonds or other types of funds with the money in market funds they have put. Many investors will also prepare for emergency cash in the form of its money market funds, and some money market funds and even allow investors to withdraw funds directly through the automatic teller machine.

Money market fund is a money market tool for the investment object of the fund, the investment scope of the money market funds mainly include: Short-term debt (remaining period less than 397 days), the central bank notes, bank endorsement of commercial paper, bank acceptance, bank deposit, large amount of transfer certificates of deposit and other money market instruments within a year.

## **1. THE ANALYSIS THE PROBLEMS IN CHINA'S CARBON FINANCE MARKET**

With the rapid development of economy, the money market fund of China has made a big progress, not only in the scale and level of the industry but also in the competitiveness. But compared with other developed countries, many problems still exist influenced by the financial environment, financial policy and other factors.

### **1.1 The Narrow Channel of Money Market Fund Investment**

At present, the development of China's money market fund has been limited by many policies; people can only invest in the remaining term of the bonds, repurchase and bank deposits, etc.. But In the international market, it can be invested in the credit, bank acceptance and the acceptance of the bank's endorsement of the bill which can not be invested in China. Therefore, narrow money market fund investment scope reduces investor's attraction; it also affected the development of our country money market fund. Limited money market instruments have limited the diversity of the money market fund portfolio. The main problem is that there is not a unified national market, but only some regional markets in the East China region. Also, the development of commercial acceptance bills is lagging behind.

### **1.2 Small Profit Space in Money Market Funds and the Lack of Investment**

Since the money market fund flexibility and demand deposits are similar, we often take compare the revenue of "seven day notice deposit" after tax income with it. When the latter is lower than the former, money market

funds and the income level is not as satisfactory, fund investors will therefore also lose confidence in money market funds, make money market funds lost its appeal. for example, when the money market funds rate of 1%, after deducting the integrated management fee of 0.68%, the fund's new fund shares of the money market funds to return only 0.32%, and seven days after the bank notice deposit 1.35% of the tax return. The narrow profit space reduces the investment value of the money market funds, which makes the investors reluctant to invest, which directly hinders the development of money market funds.

In addition, the high liquidity of the money market fund is the main reason for the interest of investors in developed countries, in these developed countries. At any time, the central bank redeems or issue cheque payment way to make investors' investment is highly mobile, but in our country, investors can not issue a cheque payment. It results low liquidity and flexible money market fund of China over the bank's 1 year term deposits so that their attractiveness to investors declines. From the perspective of investors, whether the purpose is to avoid tax or idle funds for effective liquidity management, the reaction in the final result is that the investment money market funds can bring greater benefits. This is not only the requirements of investors, but also the basic money market funds can survive. From the current operating situation of various monetary funds, the proceeds are relatively low.

### **1.3 Lag in the Legal Supervision of Money Market Fund**

At present, China's financial industry is divided into separate supervision, due to the investment object of our country's money market fund is more special, in the present circumstances, the CBRC and the Securities Regulatory Commission should strengthen cooperation, the approval and establishment of the money market fund strict control, and gradually explore the suitable mixed management measures.

Legal supervision is not enough, the management and monitoring of the monetary market fund is an important factor in the development of money market funds. Monetary market fund in our country has just begun to develop, mechanism is not perfect, single investment tool, laws and regulations are not sound and inadequate monitoring will lead to the healthy development of the money market fund. In addition to the rapid development of China's financial and economic enable our country present stage some of the laws and regulations not to adapt to the new market, for some criminals to exploit, resulting in harm to the money market fund investment.

We should establish a sound financial system to improve the effectiveness of financial supervision and macro-control. The people's Bank should be the object of the financial statistics from the traditional banking system to the money market fund gradually expand, in addition

to improving the traditional banking and money market funds related business statistics system, establish a sound social financing scale total statistical system; establish a sound information sharing mechanism, increase the intensity of information sharing is necessary. To speed up the realization of the various regulatory agencies and exchanges and the industry association of statistical standards, in order to facilitate the collection, analysis and publish market data, etc..

## **2. THE ANALYSIS OF THE CARBON FINANCE MARKET CONSTRUCTION IN CHINA AND COUNTERMEASURES**

### **2.1 To Promote the Development of Money Market Funds**

On the one hand, we should allow more financial institutions and non-financial institutions to issue and use a variety of different types of monetary instruments in order to enrich the money market instruments, so as to enrich the monetary market. On the other hand, we should improve the two market transactions, so that more public individuals and institutions to enter the money market, through the investment and trade to meet their needs. At the same time, it can also allow more financial institutions to enter the market and bond market, accelerate the process of the securities companies, securities investment funds, financial companies, Trust Investment Company and leasing companies directly into the money market transactions, and further expand the currency market transactions, is more active market transactions. In addition, for large enterprises or enterprise groups and other institutional investors can through the establishment of agency financial institutions in the form of indirect access to the money market; for individual investors can enhance the liquidity of the individual holdings of bonds, thereby expanding market capacity, so as to meet the investment needs of various types of market participants.

At the same time, the government should encourage and protect the financial innovation of our country. The advent of a lot of money market instruments is the result of financial innovation. Today and the future trend of the more shows that money market innovation is the focus of financial innovation, it is the general trend of financial derivatives, which also includes financial futures, options contracts and swaps, etc.. So it should be in advance to do a good job in the corresponding system design and arrangement, to ensure that these derivatives market norms operation.

### **2.2 To Enrich and Improve the Money Market Fund Products**

Firstly, the main financial institutions of China's monetary market are the main body of the commercial banks, securities companies, banks and insurance companies,

but lack of investment organization. These different financial institutions are also involved in different financial markets. In order to promote the development of China's monetary market, we should actively expand the scope of the trading body and increase the degree of participation of financial institutions; we need to take this as the main task of financial market reform to promote. Therefore, in order to accelerate the development of China's financial market, we should accelerate the process of securities investment funds, Trust Investment Company and financial companies to enter the money market, in order to promote the rapid development of China's monetary market. At present, the investment types of our country's money market is limited, the overall capacity is not big, which caused the investment object of our country's money market fund, which affected the overall income of the money market. Therefore, it is necessary to enrich the money market instruments, to provide more investment objects for money market funds, to improve the liquidity of the money market is very necessary. In addition to adopt a parallel distribution mode, let the fund management companies and commercial banks in parallel, the establishment of a managed money market fund, so that the money market funds to develop.

Secondly, we should regulate the variety of inter-bank lending, allowing higher asset quality, the credibility of a good group of financial companies regularly issued 3 months, 6 months of commercial paper. To continue to develop the bank's acceptance bill market, play its payment settlement, short-term financing of the dual function. By stimulating domestic demand to stimulate the economic growth of macroeconomic regulation and control requirements, we should encourage banks to with increase the amount of bank acceptance bills which have a certain reputation and development potential.

Thirdly, we should link the stock exchange and inter-bank bond market, and to further regulate the repurchase agreement, strengthen the system to strengthen the institutional constraints, control risk. So that allow commercial banks to issue negotiable certificates of deposit, and the formation of the transfer and exchange market, commercial banks to issue a large part of the large companies or institutional investors can transfer certificates of deposit, and its interest rates by the market, and effectively make it transferable transactions, expand the scale of short-term treasury bonds, the strength of the local government can be allowed to issue municipal bonds, and by the local government to implement the differentiation of the tax arrangements.

### **2.3 To Improve the Relevant Laws and Regulations, Improve and Strengthen the Fund Supervision System**

Improving the legal system is the basic guarantee for the healthy development of the money market fund in China. With the further development of China's money market

fund, the fund management law should be introduced as soon as possible, in the form of law to the issue of money market funds, investment scope, operation mechanism, income distribution, trust and risk prevention and other institutions to provide protection. At the same time, it is necessary to strengthen the fund management company's management of the fund management company's own normative management, the need to strictly audit the fund's employees and senior management qualifications, to strengthen the information disclosure of the money market funds, money market funds should be at least the next day in the designated newspapers and the management of the information on the website of the management and management of each million net income and 7 day return.

We should speed up the construction of laws and regulations in our country, and to establish a perfect legal system of money market. From the point of view of law, it is necessary to carry out the positioning of the money market, the supervision of its legislation, and the law and regulations on the entry and exit of the market, but also to supervise and manage the currency market so that promote the stable, healthy and rapid development of China's money market. Meanwhile, we should strengthen the clearing and settlement system of China's monetary market, to provide the facilities for the settlement of bonds, but need to further strengthen the system construction, to clear all the securities should focus on hosting the company, improve the authority and efficiency of its market, the real money market funds to provide effective settlement services. But in such a complex financial environment, the main body of investment, environment and tools are constantly changing, the regulatory authorities should learn from the developed countries of the operating mechanism of the money market funds, and the current situation of China's market, to improve its policy and regulations.

We should establish a sound financial market laws and regulations and strengthen the cooperation between the capital market and the supervision. Sound financial market laws and regulations, are to provide legal and institutional guarantee for the development of the money market fund is the key. With the rapid development of China's financial market, and develop and improve laws and regulations is not mature enough, so that some criminals exploit, flee the money market supervision, the money market funds into the stock, real estate, such as some high risk industry, or investment institutions are related party transactions, this to the development of China's money market fund has

hampered, relevant policy departments need to increase the importance of money market, more perfect money market fund management and supervision.

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## CONCLUSION

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In one word, the development of monetary market fund in China plays an important role to the development of the Chinese characteristics economy; however, we has not established the real carbon trading market in China, and the market development is not balanced, the lack of talent, experience and technology required, domestic enterprises lack of awareness of regulation. So we should learn from foreign experiences and lessons, combined with China's national conditions, through the evolution of regional development and function, the construction has the Chinese characteristic the monetary market, and through the improvement of laws and regulations, we should speed up the cultivation of talents, strengthen the financial service, increase the promotion methods, improve the level of development in China's monetary market fund.

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