

## Research Article

### Research on the Operation Mode of Commercial food Enterprises Participating in the Carbon Fund

Huilan Zhang and Jingwen Wang

Shijiazhuang Information Engineering Vocational College, Shijiazhuang 050035, China

**Abstract:** Commercial food enterprises and carbon fund have the relationship of mutual promotion and mutual restraint and large-scale and diversified development of carbon fund is closely connected with the participation of commercial food enterprises. China's commercial food enterprises should keep a foothold on the role of fund distribution and fund custodian of carbon fund. This paper studies the operation mode of commercial food enterprises participating in the carbon fund from the perspective of fund operation.

**Keywords:** Carbon fund, commercial food enterprises, fund distribution

#### INTRODUCTION

Since the World food enterprise issued the first Prototype Carbon Fund invested in emission reduction projects in May, 2000, carbon fund has undergone the development and evolution of the three aspects on shareholder structure transiting from government investment as the priority to private investment as the priority, the establishment and management mode transiting from government domination to market-driven, investment method expanding from merely ERPAs to direct financing, N/A method, which has become the focus of the carbon trading market gradually. With the expansion of the carbon fund market transactions, the commercial food enterprises should grasp opportunities to play different roles successfully in the carbon fund trading by means of making business scopes permeate into various links of carbon fund trading (Qiongfang and Yang, 2010). This paper studies the operation mode of commercial food enterprises participating in the carbon fund from the perspective of fund operation.

#### MATERIALS AND METHODS

**Mode of fund distribution agency:** Carbon fund distribution of commercial food enterprises refers to an intermediate business that commercial food enterprises accept the commission of carbon fund manager by both parties signing written distribution agreement and agent fund manager sells carbon fund as well as accept the subscription, purchase, redemption and other business and provide appropriate support services (Jun and Lei,

2011). Commercial food enterprises become the preference of carbon fund distribution quickly by their strong financial settlement network and clearing system, widespread outlets, good market images, fund distribution qualifications and other advantages.

Carbon fund distribution is just like fund distribution owning some benefits for commercial food enterprises: Firstly, increasing non-interest income scale to create new ways for commercial food enterprises restructuring. Fund distribution with low risks and less investment can bring subscription fee, sales charge, redemption fees, transfer commission fees and other intermediate business come to commercial food enterprises. Secondly, commercial food enterprises can enlarge the range of integrated services to increase high-quality clients and business by developing carbon fund distribution. Commercial food enterprises can provide value-added services that related to distribution business through distribution business itself such as customer financial services, etc. and the combination of other business of food enterprises to sale clients; at the same time, due to companies developing low-carbon business are mostly potential enterprises, who are high-quality clients of business commercials, business commercials can develop high-quality clients by these superiorities to produce greater economic benefits.

After several years of development, China's commercial food enterprises become the main force of fund sale by resourceful clients accounting 60% of fund shares so that these measures lay a foundation for developing carbon fund distribution business. In addition, business food enterprises not only need to

have fund distribution qualification but also need to have corresponding fund distribution staffs with qualification. Under the formulates of Employment Qualification Management Rules for Securities Investment and Fund Sales Personnel of Securities Association of China stipulated by Securities Association of China in Jan. 2010, commercial food enterprises take the methods of classified management that is personnel engaged in fund sales management shall get practicing certificate while personnel engaged in fund promotion shall get certificate of employment test for fund sales (Xiaolin, 2010). Through the systematic management for the qualification of fund sales personnel, commercial food enterprises standardize fund sales practice, improve the professional quality of personnel so that commercial food enterprises can carry out corresponding business better.

Therefore, China's commercial food enterprises engaged in carbon fund mode can start from the mode of fund distribution agencies. After commercial food enterprises accumulate experience and own customers, they can carry out custody mode for carbon fund in order to participate in carbon fund operation in a deeper level and get more benefits (Lingjie, 2004).

## RESULTS AND DISCUSSION

**Fund custodian mode:** To ensure the safety of carbon fund assets, in accordance with the rule of "separation between management and custody" in fund operation, fund trustees is responsible for the custody of carbon fund assets with the identity of rights and interests representatives of investors while the nominal holders or management institutions of carbon fund assets usually hold by commercial food enterprises or trust and investment corporations with fund custody qualification. Commercial food enterprises not only in charge of the custody of carbon fund assets, but also handle the business of fund settlement, accounting, investment supervision, information disclosure, internal auditing and monitoring, etc. This is the main mode of China's commercial food enterprises to participate in the carbon fund operation.

At present, the main causes for China's commercial food enterprises to conduct carbon fund custody business are:

**Possessing a sound framework of the fund custodian institutions and hardware foundation:** China's Securities Investment Fund Act provides that the acquired fund custodian qualification of commercial food enterprises should be equipped with a dedicated fund custodian department, with the requirements of the place of business, security facilities and other facilities related to the fund custodian business.

According to China Securities Regulatory Commission's data show that China's commercial food

enterprises which have custodian qualifications are all set up a corresponding fund management agency. We take the Industrial and Commercial food enterprise of China, the first with securities investment fund custodian, as an example, to analyze the setting of the fund custodian institution. As a fund custodian food enterprise, generally set up a special fund custodian or asset custody department, such as the Industrial and Commercial food enterprise of China has set up a special asset custodian. At the same time, asset custody department also establishes a trust fund of the corresponding departments, such as the securities investment fund department which responsible for the custody business of securities investment funds and fund companies' financial accounts; the market development department which responsible for fund custody business; the research development department which responsible for fund custody business; the custody business operation center which responsible for the fund liquidation and accounting; the department which responsible for the supervision of trade transaction; the internal risk control department responsible for internal risk; the information service department which maintains customer relationship.

The sound institutional framework of fund custodian, not only makes the industrial and Commercial food enterprise of China became the first choice for the fund custodian, but also makes industrial and Commercial food enterprise of China become the first domestic customized index tracking, the first can invest in stock index futures Carbon Fund (i.e.: CSI South off ETF Feeder Fund) custodian, for China's commercial food enterprises to participate as the fund custodian in the carbon fund operation provides the basis.

**Possessing experienced business services team with software assurance:** China's Securities Investment Fund Law stipulates that "the practitioners of commercial food enterprises intending to engage fund liquidation, accounting, investment supervision, information disclosure, internal auditing, monitoring business and other businesses shall not less than five people as well as the practitioners shall have fund practice qualifications."

Fund industry is a knowledge- intensive industry as well as the industry with many innovative products, therefore it has higher requirements on the level of employees and it has higher requirements on the level of employees who are directly related to the efficient of the fund market operation and the vital interests of investors. Therefore, it requires that fund practitioners of a fund custodian food enterprise must have practice qualifications and simultaneously the food enterprise shall implement strict qualification management so as to improve professional standards and ethnic quality of practitioners. Such as practitioners are required to have

experience on financial accounting, domestic and financial capital settlement, fund marketing, internal risk control and other aspects as well as have knowledge on modern commercial food enterprises, modern operational management, fund business only by which practitioners can provide customers with efficient, fast, flexible, individual, marketable hosting services. Especially it is important to pay attention that nearly every position needs “stronger English listening, speaking, reading and writing skills”, which provides personnel assurance for the commercial food enterprises involved in international business of carbon fund. At the same time, employees who are engaged in fund custody business generally have years of working experience on funds, securities and food enterprising.

In view of carbon fund custody is a kind of technical service-oriented business, it has to publish the error-free information of fund net value (NAV) to the public. Commercial food enterprises not only to have an experienced team for business services, but also to have software assurance such as rigorous and scientific risk management and internal control system, standardized management, advanced operating system, etc. Taking the example of internal control system of ICBC who passing the most authoritative international qualification of SAS70 by assessment of the sufficiency of internal control and security measure or not, we analyze the management and institutional guarantee of the fund custodian food enterprises.

On the aspect of the organizational structure of internal risk control of ICBC, the structure is composed of auditing and supervision departments (internal control compliance department and internal auditing bureau), asset custody risk control department equipped with risk control bureau and various business offices of asset custody department; On the aspect of internal risk control principals, it stipulates “six” principles of legality, completeness, timeless, prudence, effectiveness and independence; on the aspect of internal risk control measures, it stipulates strict quarantine system, high-level inspection, personnel control, management control, internal risk management, data security control and emergency preparedness and response system, etc. including internal risk management system of work responsibilities, operational processes, audit monitoring system, information disclosure system and others covering all departments and positions, penetrating the entire business process, formulating the restriction mechanism of business links so as to ensure the security and integrity of custody assets, safeguard the interests of fund holders, guarantee the operation of custody business.

Possessing experienced business services team, rigorous as well as scientific risk management and internal control system, standardized management mode, advanced operating system and other advantages

provides a comprehensive software support for commercial food enterprises to strive for carbon fund custody business.

**The vast expansion of intermediary business profit margins:** Fund custody business is the most typical intermediary business of commercial food enterprises, which does not take up capital, income stability, low risk, high growth and other characteristics of the commercial food enterprises are increasingly becoming new profit point. After many years of development, China's commercial food enterprises' asset custody business market size has been growing rapidly, has been able to provide customers with comprehensive services including basic services and value-added services, which greatly expanded the profit space of commercial food enterprises in the intermediary business.

At present, the income of China's commercial food enterprises to handle the fund custodian business mainly in the following areas: First, take the fund custodian fee charged according to a certain proportion and fixed rate of the fund's net assets as income, daily calculation, monthly extraction and collect annual fees in the fund's duration, to make income stable. The second is to maintain liquidity and to retain a certain proportion accumulated funds of capital gains according to market situation decided the proportion of positions, existing in the form of cash and food enterprises can lend out this available loan funds to obtain the corresponding difference between deposit and loan spreads. Third is to handle fund liquidation or fund liquidation proceeds of urgent remote and large telegraphic transfer business, generally charged the corresponding costs based on each business. In addition, the fund management company sometimes to meet the needs of liquidity management and purchase of new shares will repurchase some of the Treasury bonds through the fund custodian food enterprises, increasing commercial food enterprises' corresponding business income and capital utilization channels. This is also the main factor of China's commercial food enterprises to conduct the carbon fund custody business.

**Mode of fund manager:** With the increase of investment, technology, management level and experience of commercial food enterprises, commercial food enterprises are not only satisfied with the custodian fees charged by carbon funds, but also to participate in the investment management of carbon fund, in order to get more benefits (Aniu, 2012). Therefore, the so-called carbon fund manager is the institution of the use of specialized knowledge and experience, the use of the assets of the management of carbon fund, according to laws and regulations, carbon fund regulations or carbon fund contract, according to

the scientific principle of investment portfolio investment decision, to seek the management of carbon fund asset value and to make carbon fund holders to obtain revenue. According to China's Securities Investment Fund Act and the commercial food enterprises of setting up fund management company pilot management approach, China's commercial food enterprises can set up a fund management company, that is, the food enterprising system fund management companies. From the legal perspective, the commercial food enterprises can as fund managers participate in the operation of the carbon fund.

At present, China's commercial food enterprises were still as fund agencies and fund custodian identity to participate in the operation of the carbon fund, failed to as the identity of the fund managers involved in carbon fund operation. The main reasons are as follows:

**The food enterprising system fund management companies are still in the exploration stage:** The ways of Commercial food enterprises to set up fund companies can be as follow: first, establish fund department in the food enterprise, to provide different fund products and fund business; second, set up a wholly owned fund management company and become the sole legal person to operate; third, establish or share fund companies and become a shareholder.

China's commercial food enterprises set up fund management companies using the way of establishment or sharing fund companies and then become a shareholder of the fund company. Among them, the China Merchants food enterprise and food enterprise of China adopted the merger of existing fund management companies, realizing holding the fund management companies' share; China Industrial and Commercial food enterprise of China, food enterprise of communications and China Construction food enterprise and other six food enterprises adopt the way of setting up a new fund management company with other companies, so as to achieve the purpose of controlling the fund management company. These eight food enterprises are fund management companies to actively issue various types of funds after the establishment of the company, to expand their business areas and accumulation of experience. But on the whole, the commercial food enterprises to participate in the operation of the fund management has just started, it is not perfect.

**Financial firewall system is not perfect:** Commercial food enterprises to participate in the operation of the fund management company, taking the fund management company into the commercial food enterprise financial group, is more prone to the formation of interest transmission, related transactions and other issues and must be involved in the establishment of the financial firewall system. The so-called financial firewall refers to the function of the financial institutions, to develop a combination of

security and rules to control the flow of two-way data access to the financial network firewall, in order to achieve the purpose of financial network security.

The main risk that the commercial food enterprises of our country is involved in the operation of the fund management companies are: first one is the risk of fraud management, namely when commercial food enterprises providing fund service will necessarily sell to customers and tie the fund management company of the fund products, or disclosure customers or other fund management company's insider information to the fund management companies, such as the conflict of interest risk. The second one is the risk linkage, that is, the food enterprise taking too much of the funds into the fund management business will affect the food enterprise's capital adequacy and liquidity, or fund management company's liquidity risk in the absence of effective risk isolation mechanism and then produce a chain reaction. There are some short-term financing behavior brings the financing risk, legal risk, etc.

As part of the laws and regulations fail to make timely updates, resulting in financial firewall system of commercial food enterprises and fund management companies is not perfect, still need to be further revised to achieve the prevention of inter-agency Financial Group flow of harmful information, to prevent information and internal generating transactions.

## CONCLUSION

Thus, with the growing number and size of carbon funds, commercial food enterprises should follow the comprehensive management trend, the need to improve the food enterprise's own asset management business, as the role of fund managers, expand the business ranging from adaptation of providing services to developing carbon funds value chain, improve their competitiveness.

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