

Reasons and Influence of the Registration System on the Chinese Securities Market

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Abstract. The Chinese securities market has evolved significantly over the past several decades, marked by numerous reforms. Among these, the recent introduction and pilot implementation of the registration system stands out as a crucial change. This reform is designed to foster a healthier market environment by streamlining the listing process and improving transparency within the market. However, the registration system has encountered numerous challenges and resistance during its implementation, leading to setbacks in its advancement. This study seeks to investigate the factors contributing to the challenges encountered by the registration system in China's securities market, as well as its implications. The research analyzes these obstacles through the lenses of policy frameworks, transparency in information disclosure, and the safeguarding of investor rights, while also assessing their effects on the overall securities market. The research finds that the obstacles to the registration system have had multiple impacts on China's securities market in terms of trading volume, corporate financing, investor behavior, and market confidence. This article assesses the effects on the securities market and explores possible future policies, with the goal of offering robust support for the sustainable growth of China's securities market.

1 Introduction

Since its inception, the Chinese securities market has experienced several crucial phases. Beginning in the early 1990s as a fledgling market, it has evolved into a robust entity through ongoing exploration and enhancements. A notable advancement in this evolution is the introduction and pilot testing of the registration-based system, which represents a key turning point. This system primarily aims to streamline the listing process, boost transparency, and ultimately enhance the efficiency of resource distribution within the market.

Although the concept of the registration system is advanced, it has encountered many challenges and resistance during the trial. First, China will bear the corresponding market risks. After the threshold and cost of listing are reduced, the quality of listed companies is likely to be uneven and they will frequently break the issue price. Secondly, the increase in information disclosure requirements has put forward higher compliance requirements for companies. Furthermore, the investor protection mechanisms are inadequate, which may

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result in potential harm to investors' interests. These issues collectively impede the advancement of the registration system.

The challenges faced by the registration system have significantly affected China's securities market, leading to pronounced reactions, including increased volatility in stock prices and substantial fluctuations in trading volumes. The number of IPOs has decreased, and the scale of investment and financing in the primary market has shrunk. Secondly, the corporate financing environment has been affected, financing costs have increased, and financing channels have been restricted. At the same time, investors' risk preferences and investment strategies have been adjusted, and market liquidity and depth have been affected to a certain extent. These changes indicate that the challenges faced by the registration system influence not only the immediate volatility of the market but also significantly affect its long-term growth trajectory. Against this background, the government and regulatory agencies have made policy adjustments in order to restore market confidence and stability and create conditions for the further advancement of the registration system.

The reform centered around a registration-based system marks a crucial turning point in the evolution of China's securities market. Researchers have extensively examined both the registration-based reform and its implications for the growth of the capital market. Using the methods of theoretical analysis and institutional comparison, Ye studied how the investor protection mechanism changed from front-end protection relying on administrative intervention to market-oriented protection centered on information disclosure during the transition from approval to a registration system. The conclusion of the study is that the investor protection system needs to be restructured to clarify the front-end information disclosure responsibility, mid-end transaction transparency, and the improvement of back-end law enforcement efficiency [1]. Through a combination of theoretical analysis and practical case studies, Qian provides a detailed examination of the progression of China's stock issuance framework, transitioning from an approval-based system to a registration system, and finally to a comprehensive registration model. The findings indicate that this all-encompassing registration system offers numerous benefits and aligns well with contemporary economic trends. Furthermore, the paper addresses potential challenges and presents recommendations for enhancing the information disclosure framework, bolstering investor protection, and refining the delisting process [2]. Luo and Hou conducted a historical review and data analysis to investigate the development of China's capital markets. Their paper examines the context, execution, and significance of the comprehensive registration system reform, as well as the challenges encountered during this process. These challenges include managing financial risks, ensuring the stable growth of enterprises, and safeguarding the rights and interests of small and medium-sized investors. The authors propose several countermeasures, such as enhancing regulatory oversight, refining market mechanisms, and innovating the valuation system [3]. Hao investigates the reform of China's stock issuance registration system by examining its processes and practical applications. Utilizing literature analysis, the study identifies various difficulties and challenges associated with the reform. The findings underscore the pressing need to enhance the quality of information disclosure, refine the delisting mechanism, and bolster protections for investors [4].

The evolution of the registration-based system has brought about legal challenges and encouraged researchers to explore different facets of investor protection. In their study, Lv and Zeng analyze the administrative penalties enforced by the China Securities Regulatory Commission on 26 issuers involved in fraudulent IPOs from 2001 to 2022. Their findings indicate that, despite the new Securities Law explicitly prohibiting fraudulent issuance, ambiguities remain in its practical enforcement. They recommend that the intention behind actions be considered a subjective criterion and that the liability limitations be clearly defined [5]. Que conducted a case analysis to examine the challenges that retail investors in Guangzhou encounter regarding the implementation of the registration system. The findings

indicate that these investors possess inadequate knowledge about the registration process, struggle to adapt their investment philosophies and exhibit a reliance on external information, which, along with a lack of trust in the market, undermines the effective execution of the system [6]. Additionally, from a law and economics standpoint, He employs case analysis to investigate the legal issues surrounding China's IPO registration system under the new Securities Law, particularly focusing on the relationship between information disclosure and market efficiency. By comparing the IPO issuance system in different stages, it is concluded that it is necessary to optimize the division of regulatory functions and focus on investor demand for information disclosure [7].

Academics have expressed worries and provided recommendations related to market efficiency and the quality of information. Chu et al. employed a mixed cross-section differential model to conduct an empirical analysis of how the reform of the registration system has influenced IPO pricing efficiency on the Growth Enterprise Market (GEM), utilizing data from August 24, 2018, to November 24, 2022. Their findings indicate that, in the short term, the reform has fueled speculative behavior, which has led to a decrease in IPO pricing efficiency. Conversely, over a longer period, the reform has contributed positively to enhancing the efficiency of IPO pricing [8]. Through discussion and case analysis, Wang and Wan studied the linkage between securities issuance and trading and the clarification of the relationship between CSRC and the stock exchange. The study found that failure to implement the market-oriented concept with information disclosure as the core is a major challenge, and recommended optimizing the division of responsibilities and promoting market-oriented and international development [9]. Wu utilized the event study methodology to analyze how the market responded to the reform of the Growth Enterprise Market (GEM) and the China Securities Regulatory Commission's implementation of the registration system. His findings revealed that, in the short term, the market exhibited a notable negative reaction to the complete rollout of the registration system, particularly among firms with subpar financial information quality. He highlighted the crucial role that the quality of information disclosure plays in shaping investors' decision-making processes [10].

2 Reason

In the actual operation process, the promotion of the registration system has encountered many challenges and resistance, which has led to its inability to be implemented smoothly. The reasons for the obstruction of the registration system can be discussed from three levels: policy, information disclosure and investor protection.

2.1 Policy

At the policy level, the way in which the government and regulatory bodies create and execute policies has a significant impact on the effectiveness of the registration system. While the primary goal of this system is to minimize the involvement of approval agencies in the process of enterprise listings, the reality is that policy uncertainties and rigorous oversight have intensified market disorder. As the government advances the registration system, it must navigate the challenge of reconciling market liberalization with the need to safeguard investor interests. One potential issue with excessively lenient policies is that they could allow numerous unqualified firms to enter the market, which may subsequently diminish the overall quality of the listed companies. At the same time, because the threshold for listing new stocks has become lower and the listing has been accelerated, IPO companies are no longer in short supply, but in oversupply, and there are more choices. If the fundamentals of new stocks are poor and the quality is low, they are easily abandoned by the market, resulting in frequent

price drops and damage to the interests of investors; on the other hand, overly strict supervision may make it difficult for companies to go public smoothly, which undermines the fundamental goals of the registration system reform and obstructs the progress of market development. In addition, the discontinuity and frequent adjustments of policies have also increased market uncertainty and affected market confidence.

2.2 Information disclosure

From the perspective of information disclosure, there are still major problems with the efficiency and Quality of corporate information disclosure, and it is difficult to ensure that investors can obtain comprehensive, true and effective information in a timely manner. In contrast to the well-established markets in Europe and the United States, China's securities market still requires enhancements in transparency and the quality of information disclosure. A significant issue of information asymmetry persists, leading to low operational efficiency within the market. On a technical front, the development of information technology and market infrastructure in China's securities market lags behind, making it challenging to fulfill the demands of the registration system. At the content quality level, the annual reports of listed companies are seriously homogenized and routine, and the annual reports disclosed by companies are getting longer and longer, and there is more and more redundant information. At the level of information authenticity, problems such as fraud and cashing out are frequent, and some institutions even conspire with listed companies to falsify and deceive investors. The introduction of the registration system encounters significant obstacles in this context. A deficiency in trust and engagement among market participants has intensified the volatility of the market.

2.3 Investor protection

From the perspective of investor protection, retail investors account for too high a proportion, and investor protection work is not in place. As of April 2024, there are 225 million investors in the Chinese market, small and medium-sized retail investors represent over 99% of the total. In contrast to developed nations, the initiation of investor education in China occurred relatively late. As a result, many small and medium-sized investors have not developed a proper understanding of risk, exhibit low levels of financial literacy, and lack awareness of risks and strategies to manage them. This situation renders their interests particularly susceptible to market volatility, leading to significant losses and a limited understanding of their rights for protection. In addition, the primary objective of the investor protection mechanism is to safeguard the legitimate rights and interests of investors, deter market manipulation and fraud, and uphold the principles of fairness and transparency within the market. While the investor protection framework in China's securities market has made some progress, various issues and shortcomings persist in its practical implementation. Market manipulation and insider trading problems still exist, and cashing out and financial fraud are frequent. This particularly undermines the interests of small and medium-sized investors. Although regulators continue to strengthen the crackdown on market manipulation and insider trading and impose continuous penalties, such illegal and irregular behaviors still occur from time to time due to the interests of market participants, causing great losses to investors, reducing investor confidence and market stability, and obstructing the effective execution of the registration system.

3 Influence

Following the disruption of the registration system, market participants, including investors, companies and other relevant parties, responded quickly to policy uncertainty and changes in future expectations.

3.1 Business fell off

The investment banking business fell off a cliff. During the implementation of the registration system, many companies originally planned to go public quickly through this approach. However, due to the obstruction of the registration system, the company had to re-evaluate its listing plan and strategy. The alteration is evident in the notable decline in IPOs. Statistics indicate that following the obstruction of the registration system, there was a substantial decrease in the number of initial public offerings, with numerous firms opting to delay or abandon their listing intentions. This trend not only influences the individual growth strategies of companies but also adversely affects the overall dynamism of the securities market. Specifically, when companies decide whether to proceed with an IPO, they consider more complex factors, including market environment, policy changes, and financing costs for some small and medium enterprises, limited financing channels have put them under greater financial pressure, and they are unable to obtain the funds required through IPOs to support business expansion and improve market competitiveness, which may cause the company to miss some market opportunities. In addition, increased market uncertainty has made companies more cautious in decision-making, leading to a further reduction in activity in the IPO market. As a result, the dynamics of the entire market have changed significantly, from a relatively active market to a more conservative and cautious market environment.

3.2 Reduced financing scale

Changes in financing scale are another important impact after the registration system is blocked. The overall market has experienced a decline in financing scale, attributed to the decrease in the number of IPOs. Following the suspension of the registration system, companies are encountering increased financing expenses and more rigorous review criteria. These factors made it more difficult for companies to raise funds in the capital market. The financing environment has particularly worsened for start-ups and small to medium-sized enterprises, making it even more challenging for them to secure funding. These companies usually rely on the capital market to obtain the funds needed for development, but the obstruction of the registration system limits their financing channels, and they have to turn to other financing methods, such as bank loans or private equity financing. However, these alternative financing methods cannot completely replace the capital support brought by an IPO, and are often accompanied by higher interest costs and stricter conditions. The shift in the financing landscape influences not only the immediate growth of the company but could also significantly alter its long-term strategic direction.

3.3 Investor behaviour

The hindrance posed by the registration system has notably influenced investor behavior. Heightened market uncertainty has led to a shift in investors' risk appetites, prompting them to modify their investment strategies in response. Many investors choose to exit or reduce their investment in new stocks in the face of market volatility and instead seek more stable investment opportunities. This shift in investor behavior has had a direct impact on the IPO market, resulting in reduced demand for new share issuances and further inhibiting

companies' willingness to go public. In addition, the decline in investor confidence has also affected market liquidity, reduced trading volume, and reduced market depth. In such a market environment, companies face greater listing pressure and risks and have to re-evaluate their listing plans. In order to adapt to changes in investor behavior, companies may need to conduct more market research and investor communication before going public to ensure that their IPO plans can be implemented smoothly and receive sufficient market support. This process requires the investment of more resources and time, further increasing the company's listing costs.

4 Conclusion

After the obstruction of the registration system, market participants, including investors, companies and other relevant parties, responded quickly to policy uncertainty and changes in future expectations. The study highlights that the challenges posed by the registration system have significantly influenced the Chinese securities market. Various aspects such as market volatility, corporate listing behavior, investor behavior, corporate financing environment, and investor protection have been affected to varying degrees. Firstly, the market's reaction to these setbacks is quite evident, as demonstrated by increased stock market volatility and significant changes in trading volume. In terms of corporate financing, the environment has become more challenging for companies, especially small and medium enterprises, after the setbacks in the registration system. Concerning investor behavior, there have been significant changes in their risk preferences and investments. Additionally, market confidence has been shaken, with the confidence index declining significantly. These changes indicate that the obstacles to the registration system not only affect short-term market fluctuations but also significantly affect the long-term growth of the market. To address these issues, the government and regulatory bodies need to continuously adjust and improve policy formulation and implementation. Meanwhile, market participants must actively adapt to policy changes and adjust strategies to cope with the changing market environment. This paper provides valuable references for further improving policies in the Chinese securities market through a comprehensive analysis of market reactions, corporate financing behavior, investor behavior, and the impact of policy changes following challenges in the registration system are critical areas of study. Future investigations could delve into how registration systems function in other nations, leveraging global experiences to offer valuable insights and support for the sustainable growth of the Chinese securities market. Ongoing research and exploration will be essential in this regard, and with policy adjustments and the joint efforts of market participants, the Chinese securities market can gradually move towards a healthier and more stable development path after facing the challenges brought by the obstacles to the registration system.

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