

Analysis on the Problems and Suggestions in the Chinese A-Share Market

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Abstract. With the rapid development of economy, A-share market, as the main stock market in China, plays a very important role. In the past, people's understanding of the decline stocks was limited to the poor economic environment, but a series of problems in the fundamental A-share market resulted in stock stagnation and other phenomena. This paper analyzes the phenomena in the a-share market in detail and finds the root of the problems in the a-share market from different angles. The internal ownership structure of the listed company is too inclined, which leads to the loss of the rights and interests of other investors, and the lack of supervision, the frequent reduction of corporate shareholders, the equity of investors, and the truthfulness of public information authenticity is not guaranteed and the protection channels for investors are not sound. Through this study, This article have a deeper understanding of the long-term issues, and use the relevant data as a theory of science, and put forward some constructive suggestions.

Keywords: A-share market; ownership structure; policy; institutional issues; market development.

1. Introduction

The A-share market is an important part of Chinese economy. First, A-share market plays an important financing function in China's economy and is an important financing channel for enterprises, providing direct financing opportunities for enterprises. Second, the A-share market plays an important role in capital allocation, providing an open and transparent trading platform, especially for large funds. It enables investors to choose suitable investment targets according to their own risk preferences and investment objectives, which helps to optimize capital allocation. Third, the A-share market plays an important role in improving the level of corporate governance and standardizing market order, because A-shares require enterprises to publicly disclose financial information, strengthen internal control and risk management, and improve the transparency and standardization of enterprises. Thus, this paper focuses on the Chinese A-share market, reviewing the current situation, discovering the problems and putting forward the potential solutions for the market.

2. Current Situation

In 1984, the China Securities Regulatory Commission (CSRC) was established to oversee the country's securities markets. On November 26, 1990, the founding meeting of the Shanghai Stock Exchange was held. On December 1 of that year, the Shenzhen Stock Exchange opened for trial operation. In 1993, the number of A-share listed companies on the Shanghai and Shenzhen Stock exchanges exceeded 100. In 1996, it broke the 500 mark. It broke the 1,000 mark in 2000. At the end of November 2022, the number of listed companies in the A-share market officially exceeded 5,000, which is a historic moment.

In the past 10 years, China's listed companies have achieved leap-forward development. Since 2019, a series of major initiatives such as the reform of the registration system have led to a jump in the number of listed companies, continuously breaking through the 4,000 and 5,000 mark, increasing from 4,000 to 5,000 in only 2 years and 2 months, and the time for each increase of 1,000 is about 10 years, 10 years, 6 years, and 4 years, respectively. By the end of 2022, the number of domestic listed

companies in China reached 5,067, and the total market value of listed companies was close to 79 trillion yuan, ranking second in the world [1] (See Fig. 1).

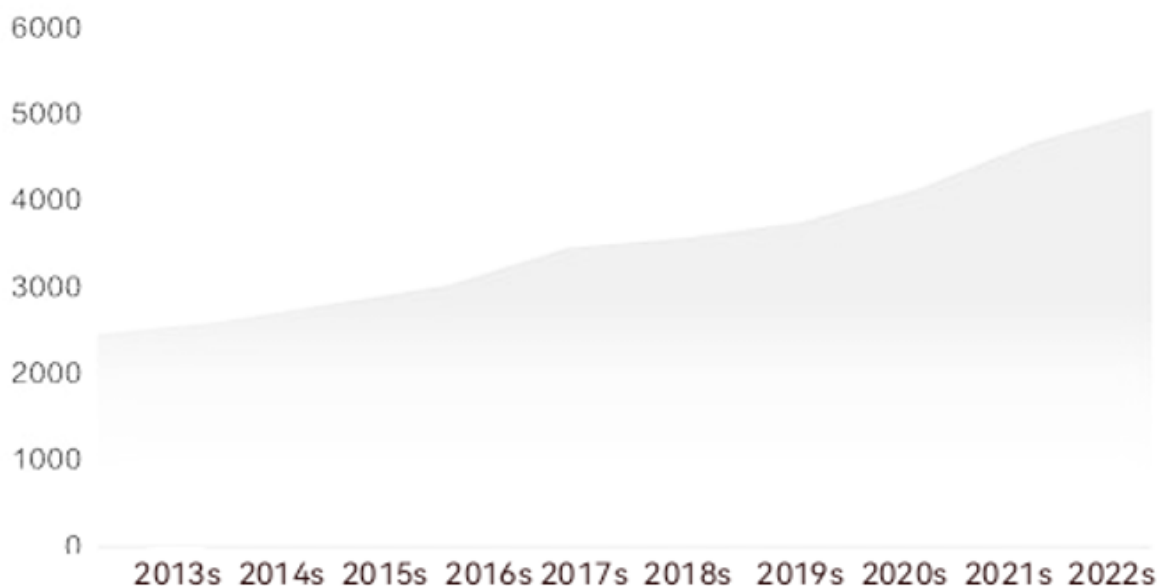


Fig 1. Numbers of listed companies.

But the rapid development is also accompanied by many problems, which are reflected in the volatility of the stock market and the change of investors' mentality. In 2023, the market rise and fall differentiation, showing a boom driven, industry structure significantly differentiated trend. As of December 27, the latest closing price of the mainstream broad base index was generally below the end of 2022 close. Wind data shows that as of December 27, the Shanghai Index, Shenzhen component index and GEM index fell by 5.65%, 16.56% and 22.88% respectively during the year. As of December 22, the total outflow of northbound funds in the past six months was 166.772 billion yuan, and the overall performance was weak [2-3]. The A-share market is currently in serious trouble, with low investor confidence and uncertainty caused by policy changes exacerbating market volatility. However, the adverse factors affecting the stock market are also more significant.

3. Problems

3.1. Ownership Structure

According to statistics, more than 70% of the 5,300 companies listed in the A-share market have large shareholders controlling shares, and the average holding of more than 45%. Among these phenomena, the listed companies have the following serious phenomena:

Major shareholders frequently reduce their holdings to cash, and some entrepreneurs take the listing as a means of personal or collective wealth appreciation, rather than a real sense of enterprise financing channels. As a result, founders and management focus on short-term stock price performance and neglect long-term development and value creation. This is a key reason for the stagnation of the stock market.

When the interests of shareholders are inconsistent, insider trading is likely to occur, which increases the investment risk of the general investors; Major shareholders disregard the rights and interests of minority shareholders, so that the interests of minority shareholders are damaged.

Equity is tilted in the hands of one party, so that the Board of Directors and Supervisors Board of this internal oversight is null and void. Lead to major shareholders continue to reduce recklessly, no one can be restricted. A large amount of capital was taken away from the A-share market, which caused a serious shortage of funds in the A-share market and affected the normal operation of the

market. It is reported that the Shanghai Stock Exchange Index of A-share market has been hovering at 3000 points for 16 years.

3.2. Regulatory System

The supervision on the reduction of major shareholders is not enough. The frequent reduction of the holdings of major shareholders of listed companies has become one of the most difficult problems in the stock market. Relevant data show that:

During the four years from 2019 to 2022, the IPO of listed companies raised 1861.8 billion yuan, and the reduction of holdings by major shareholders took off 226.91 billion yuan, which led to the shortage of funds in the A-share market and serious liquidity shortage. And because of the lack of supervision, all this cannot be effectively stopped.

Inadequate regulation of general investor protection. The annual report released by the National Social Security Fund Council showed that the investment loss of the social security fund in 2022 was 13.809 billion yuan, or 5.07 percent. (The investment yield after non-recurring gains and losses was -4.53%). In 2022, the total loss of public funds is 1.45 trillion yuan. By 2023, the A-share market will be full of stocks that have fallen badly. It also reflects a flaw in the regulatory system.

There is insufficient supervision over the issuance of listed companies. In October 2020, the State Council proposed to "fully implement and implement the securities issuance registration system step by step". According to wind data, the IPO projects issued through the registration system of A-shares in 2020 have exceeded the approval system, with the volume and the amount of financing respectively accounting for 52.8% and 61.4% of the total of the whole year [4]. The queued enterprises under the registration system account for 76% of all A-share listed enterprises. Wind data shows that in 2020, the total number of A-share IPO audit companies will reach 634 times, of which 605 have passed, and the pass rate will reach 95.43%, both of which have reached a new high in recent years. The number of failed cases was 9, with a failure rate of 1.42%, both of which were the lowest in recent years [5]. Low threshold of the quality of listed companies, financial fraud cases are not a few, Kangmei Pharmaceutical, Jiangsu Shuntian and so on are classic examples. Information asymmetry, the truthfulness and timeliness of information leakage of listed companies need to establish a sound supervision through tough system. A series of management on the loose, the supervision is not in place, at the same time also increased the investors investment error risk.

3.3. Protection Measures

This is the embodiment of the comprehensive problems of the A-share market.

First, because major shareholders only circle money, shareholders have been cut leek has become the norm, so that the majority of investors have suffered losses for years, leading investors to lose confidence in the A-share market. Large shareholders reduced their holdings to cash out, and the lack of internal checks and balances damaged the rights and interests of minority shareholders. This is caused by the behavior of most listed companies in the A-share market. It also reflects the weakness of supervision.

Second, due to inaccurate information, listed companies will appear to beautify financial statements, information asymmetry, and investors cannot understand the real market situation, which is the key reason for the majority of investors investment failure. It's a governance oversight. Third, there are loopholes in the trading mechanism. The extension of trading hours without lunch breaks means that the break time of each trading day is shortened, and there is no break in the trading day, which is conducive to improving the continuity of trading, avoiding trading congestion caused by time restrictions, avoiding excessive stock price volatility, and conducive to the release of event risks and trading emotions. These are also related to the inadequate protection measures for investors, and also to the impact of the above problems.

4. Solutions

4.1. Resist a Dominant Phenomenon

The exploitation of a dominant company, the shareholding ratio of the listed company's shareholders will be reduced to less than 30%. Avoid being unconstrained by personal power. . Anything that happens within the controlling family in a family business can have an impact on the structure of the company, the rise and fall of the stock, so having a dominant company can make that very tricky. It's an institutional question. Only by restoring the governance structure, reshaping the capital market situation, strengthening supervision and rule of law construction, and strengthening investor education and protection measures can achieve the goal of addressing both symptoms and root causes. This is of great significance for promoting the healthy development of China's capital market. On the establishment of independent directors in the company, together with the Securities Regulatory Commission and the Exchange to play a supervisory role, to maintain the stock market order. Restrict the losses caused by bad behaviors such as reduction of holdings by some entrepreneurs to the market.

4.2. Reform the Regulatory System

Reform the issuance system and strictly control the quality of listed companies. Because the listing threshold and delisting mechanism are relatively loose, the quality of listed companies cannot be guaranteed. Therefore, the listing threshold and delisting mechanism should be strictly formulated.

Strengthen the supervision over public information. Although the regulatory authorities have continuously strengthened the information disclosure requirements, the authenticity, integrity and timeliness of the public information still need to be improved. Many companies through accounting means "beautified" financial reports, misleading investors, increased the market investment risk. Fake financial affairs, information leakage, violations of laws and regulations, should be punished and the cost of violations.

Establish market-oriented trading system to avoid excessive speculation [6]. Also lifted the limit of the price limit system to the market restrictions, reduce the market can manipulate the space, avoid the omission of the mechanism and make the market organic opportunities [7].

Strengthen the supervision of enterprises and shareholders, especially the phenomenon of reducing holdings and cashing out. Increase the cost of violation reduction [8]. Many entrepreneurs go against the original intention of listing, listing that is, cash, the A-share market as their wealth "blood transfusion station", not for the company's development [9]. Therefore, to prevent the phenomenon of reducing holdings to cash in, to prevent damage to the interests of small investors; Adhering to the original intention of listing, strictly regulating the behavior of listing that is cashing out, protecting the market capital chain, and establishing a fair and healthy stock market.

4.3. Strengthen the Protection of Investors

The stock market should strengthen the authenticity and transparency of information disclosure in the market and listed companies and put an end to insider trading caused by inconsistent interests of shareholders. Reduce investment risk for investors.

Restore governance structure. The internal share structure and equity distribution of each listed company should be adjusted to avoid excessive concentration of rights in the hands of a certain party. In addition, independent directors or board of supervisors should be set up in the company to play the role of internal supervision and balance the large shareholders to safeguard the rights and interests of the small and medium shareholders. The CSRC and the Exchange should maintain market order, strengthen supervision, reduce insider trading and information asymmetry, and protect the masses of investors.

Restructure the pattern of capital markets. Build confidence for investors, encourage institutional investors to develop, and guide long-term investment behavior.

5. Conclusion

The full text studies, analyzes and explains the problems existing in the A-share market for a long time and the influence caused by them from multiple angles, puts forward corresponding solutions in combination with the development trend of the market for decades, and gives constructive opinions in theory and practice and expresses the expectation for the development of the stock market. And to China's economic development expecting.

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