

Impact of Registration System Reform on the Quality of Public Companies in China

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Abstract. As the reform of the registration system continues to advance, it's been a year since China fully implemented its Registration System Reforms. Whether the registration system reform has promoted the high-quality development of China's public companies has become a hot concern. This article systematically analyzes the impact of the registration system reform on the quality of public companies. It is divided into two parts: the impact on the quality of corporate governance and the quality of company operations. Additionally, it examines the impact of the registration system reform on the quality of information disclosure and accounting information. It also considers the positive and negative impacts on company finances and their ability to innovate. The article starts from the impact of the registration system reform on the quality of public companies, and targets the relevant recommendations of the registration system reform, to promote the high-quality development of the capital market and deepen the registration system reform.

Keywords: Registration System Reform, IPO, Quality of Public Companies.

1. Introduction

1.1. Background of the Registration System Reform

In December 2015, the Decision on “Authorizing the State Council to Adjust and Apply Relevant Provisions in the Implementation of the Reform of the Registration System for the Issue of Stocks (Draft)” was proposed in the Third Plenary Session of the 18th CPC Central Committee. The introduction of this policy formally indicates that China will steadily and continuously promote the reform of the registration system for stock issuance. After nearly six years of piloting the registration system on the three major exchanges in Shanghai, Shenzhen, and Beijing, in February 2023, the CSRC officially released the “Measures for the Administration of Registration of Initial Public Offerings” and other major institutional rules, which indicated the full commencement of the registration system for initial public offerings. This means that companies will no longer issue shares through the approval of the approving authority, but will apply directly to the market for the issuance of shares by certain conditions and procedures. The Registration System Reform puts information disclosure and risk revelation at the forefront compared to the traditional approval system, streamlines the process of stock issuance, and improves the efficiency of stock issuance.

1.2. Significance and Necessity of the Research

The quality of public companies mainly refers to the quality of governance and operation of public companies, the high level of governance quality and operation ability of public companies is conducive to the enhancement of company performance, and even to the whole social market economy, so the study of the quality of public companies should start from the quality of governance and operation quality. At this stage, the research literature on this direction is mainly from the small point of governance quality or operational capacity to analyze the impact of a particular aspect, such as Wang and Shi from the registration system reform on the disclosure quality of public companies in terms of the development of the discussion [1]; Xia is focused on the registration system reform on the quality of public companies in the study of the impact of accounting information quality [2]. The existing journal literature, on the other hand, exhibits some shortcomings in exploring the

comprehensive impact of the registration reform on the governance quality and operational quality aspects of public companies.

The quality of disclosure and the quality of accounting information are important determinants of the quality of corporate governance, while a company's financial and innovation capacity is an important indicator of the quality of operations [3-5]. Therefore, this paper combines the existing literature to provide a comprehensive analysis of the impact of the registration reform on the quality of corporate disclosure and accounting information, as well as on other important quality indicators such as corporate financial quality and innovation quality. To help readers better understand the impact of the registration system reform on the entire ecosystem of public companies, and to make relevant suggestions for the future development and improvement of China's registration system reform in light of the actual market situation.

2. Impact of Registration Reform on the Quality of Corporate Governance

2.1. Impact on the Quality of Information Disclosure

2.1.1 Positive factors affecting the quality of corporate disclosure

(1) Strengthening regulatory efforts to improve the quality of corporate disclosures

The main purpose of the registration system is to offer investors high-quality information about public companies. The implementation of the registration system reform in China aims to achieve a standardized, transparent, open, dynamic, and resilient capital market by enhancing the quality of information disclosure of public companies. At this stage, the research of domestic scholars on the disclosure of corporate risk factors under the registration system shows that the regulators have gained significant results in the supervision of corporate prospectus disclosure after the reform [6], and made companies more focused on information disclosure by increasing regulation, resulting in an improvement in the quality of corporate disclosure.

(2) Enabling companies to improve the quality of disclosure to attract more investors

According to this analysis of Deng, for investors, investors prefer to rely on the accounting information disclosed by the company to assess the market value of the company, and companies with high-quality disclosure are more attractive to investors than those with poor quality [7]. This makes some disclosure information more real and accurate, comprehensive and complete company to attract more investors to get better development, on the contrary, the enterprise will be eliminated by the market, to achieve the purpose of survival of the fittest and optimization of the market. Public companies strengthen the quality of their disclosure in order not to be eliminated.

2.1.2 Negative factors affecting the quality of corporate disclosure

At present, many domestic scholars focus their attention on China's IPO information disclosure system for public companies in four main areas, one is to compare the information disclosure system under the registration system and the approval system; the second is to study the information disclosure of A+H-share companies; the third is to compare and analyze China's registration system with the registration system in foreign countries; and the fourth is to study the content of the disclosure of information, including categorization and voluntary disclosure [8]. Chen argues that China's current information disclosure system still suffers from inadequate disclosure of risk information, low cost of violating the law, and insufficient horizontal supervision by the community [9]. These scholars believe that since China's current political and legal laws related to the quality of information disclosure are not too perfect, the cost of violation caused by the disclosure of information is relatively low, which discloses information by the enterprise has certain loopholes. Therefore, the quality of China's IPO disclosure has not reached an expected height and there are still certain problems.

2.2. Impact on the Quality of Accounting Information

2.2.1 Positive factors affecting the quality of corporate accounting information

(1) Regulatory changes to improve the quality of accounting information

With the new Securities Law, the enterprise listing system has changed from the original audit system to a registration system, which makes the listing process more streamlined. Li argues that with the implementation of the reform, the securities regulator's mode of supervision of the quality of accounting information of public companies has shifted from the "Prior Monitoring Supervision" mode to the whole process and ecological regulatory mode [10], which enhances after-the-fact supervision. This enables regulators to better exercise supervision and management and improve the quality of accounting information of public companies. Accounting robustness, as an important feature of measuring the quality of accounting information, plays a decisive role in the quality of accounting information. According to the literature, with the shift in the regulatory model of accounting information, the reform of the registration system can effectively enhance the robustness of corporate accounting [11].

(2) Changing the way corporate surplus management is carried out

When a public company undergoes an initial public offering, investors can only evaluate the value of the company's stock based on the information provided by the issuer regarding the company's operating conditions and development prospects [12]. Therefore, the company must engage in pre-IPO surplus management to address the information asymmetry between the issuer and the investor. Under the stock issuance approval system, the profitability and other indicators of enterprises are rigidly stipulated at the expense of the quality of accounting information, which may also lead to the deception of surplus management and the distortion of accounting information by enterprises to investors [13]. The study shows that as the registration reform strengthens ex-post regulation, it raises the cost for companies to implement surplus management, resulting in a significant reduction in the level of surplus management of public companies. In this case, companies are more inclined to change from accrual surplus management to real gain surplus management [14, 15], which puts more emphasis on the real trading behavior of the company's management and makes the quality of accounting information higher.

(3) Stimulating disclosure spillovers to optimize the quality of corporate accounting information

Pan, Li, and Qiu pointed out that the core of accounting information quality includes comparability, relevance, and timeliness of accounting information. The implementation of the registration reform can stimulate the spillover effect of information disclosure and can optimize the quality of accounting information of enterprises in the same industry [16]. The implementation of the registration system is aimed at enhancing the transparency of industry information and prompting public companies to improve the truthfulness, accuracy, and timeliness of their financial reports, i.e., improving the accounting quality of companies, by standardizing and strengthening the disclosure requirements. In other words, the reform of the registration system can improve the quality of accounting information of companies by enhancing the transparency of industry information and improving the competitiveness and efficiency of the market as a whole.

2.2.2 Negative factors affecting the quality of corporate accounting information

Although most online literature journals have a positive attitude towards the impact of accounting information quality of listed companies after the reform of the registration system, the reform of the registration system has more strictly required the quality of corporate disclosure to enhance market transparency and investor protection. Some small and medium-sized enterprises (SMEs) need more resources and efforts to meet market requirements. At the same time, companies are motivated by profit to generate surplus manipulation to alleviate the pressure of corporate survival and maintain corporate image and market trust [17]. This causes companies to breed the idea of irregular disclosure of accounting information, leading to a decline in the quality of accounting information.

3. Impact of Registration Reform on the Quality of Company Operations

3.1. Impact on the Finance of Public Companies

3.1.1 Positive factors affecting company finances

(1) A shorter audit cycle time improves audit efficiency and enhances the company's profitability

The profitability of a company serves as one of the key indicators of the financial quality of a company, and the higher profitability of a company also indicates the high financial quality of that company. The reform of the registration system can shorten the review cycle of a company's IPO so that the company can raise capital for listing early, which further boosts the number of IPOs and brings in more business. The shortening of the IPO review period enables companies to obtain financing quickly and go public smoothly, which is conducive to more opportunities to capitalize on market hotspots and significantly improve the profitability of the company.

(2) Increased competitive pressure promotes the company's financial performance

Zhou argues that the establishment of the Growth Enterprise Market (GEM) has lowered the standard of market access, which has stimulated more emerging enterprises to enter the market intensified the pressure of market competition, and stimulated public companies to improve the quality of their financial operations [18]. Similar to the original purpose of the establishment of the GEM, the reform of the registration system is also intended to allow more emerging enterprises to obtain financing and listing opportunities to promote the healthy development of the capital market, through the introduction of competitive pressures to encourage public companies to actively improve working capital and optimize the capital structure, to enhance the company's financial performance [19].

3.1.2 Negative factors affecting company finances

(1) Inadequate systems lead to a lack of quality assurance in the marketplace

Under the approval system, the regulator will scrutinize the company's financial status and business plan before the IPO of the issuing company, while the registration system only emphasizes the completeness and transparency of the disclosure of information without imposing hard and fast rules on the company's financial status. A large amount of academic literature has revealed the inadequacy of the current information disclosure system related to the reform of the registration system, and the failure of some companies to meet the requirements of the market and investors in terms of their financial status and information disclosure capabilities [20], which may enter the market by exploiting the loopholes in the regulatory system, affecting the overall quality of the market. The inadequacy of the regulatory system makes it impossible to guarantee the quality of the market.

(2) Impact on corporate refinancing due to increased market volatility

It has been discussed in the literature that investor psychology is more inclined to value investing after the reform of the registration system [21]. The reform of the registration system has relaxed the conditions for listing enterprises, enabling some enterprises with poor financial conditions to enter the market. As a result of uneven company quality, investors have become more cautious, and more investors are taking a wait-and-see attitude towards newly public companies, reducing the stability of the market. Liang and Dong et al. discovered that the reform of the registration system in the Ke Chuan Board's pilot registration system improved the market's price discovery efficiency. However, this led to a decrease in market liquidity and exacerbated market volatility [22]. Au and Lin analyzed the pilot registration system of the Growth Enterprise Market (GEM) and concluded that the registration system reform affects the change of investor sentiment and leads to an increase in the volatility of the stock market [23]. As the reform of the registration system will, to a certain extent, affect investor sentiment and exacerbate market volatility, it will have a dampening effect on the desire of some public companies to expand through refinancing.

3.2. Impact on the Innovation Capacity

3.2.1 Making technology and innovation investments more accessible to enterprises

Archarya V and Xu argued that the impact of a firm's IPO on the firm's innovative capacity depends on the need for external financing [24]. As the vanguard of enterprise innovation in China, small and medium-sized enterprises (SMEs) have been suffering from the problems of smaller scale, insufficient own funds, and more difficult financing, which have seriously constrained their innovative capacity [25]. Wu believes that the new stock issuance using the registration system to broaden the financing of technological innovation enterprises and small and medium-sized enterprises public channels [26], to provide a more flexible liquidity mechanism for enterprises, simplify the process of listing companies, so that public companies are more likely to obtain more opportunities for financing, this process produces a capital increase in the effect of the capital to directly enhance the scale of the enterprise's capital, to improve the enterprise's innovation of the investment in research and development [27], greatly improve the innovation ability of enterprises in China.

3.2.2 Reducing information asymmetries leads firms to invest more in innovation

Some scholars believe that information asymmetry is the main reason for the low innovation ability of enterprises [28]. Information asymmetry between investors and institutions can lead to misallocation of resources and diminish market efficiency. The essence of the registration system reform is to improve the quality of information disclosure and market transparency and to guide enterprises to enhance their core competitiveness through technological innovation by systematically monitoring their compliance and legal operations. Some scholars have pointed out that as the registration system reform has strengthened information disclosure, enterprises can obtain larger amounts of real and relevant information for comparison and optimization of their technology and innovation.

4. Improvements and Recommendations

4.1. Increase Regulatory Penalties and Raise the Cost of Information Disclosure Violations

China's registration system reform is in the initial stage and has not yet formed a complete system of information disclosure system, which is more dependent on the market's self-discipline and autonomy [29]. The model of the market's regulatory system is in the process of overshooting from ex-ante regulation to ex-post and ex-post regulation, with insufficient horizontal social oversight and inadequate penalties for corporate disclosure violations. Some enterprises may speculate and use non-compliant means to enter the market, resulting in a lack of quality assurance in the market. For this reason, in the future, Chinese registration systems should be reformed with an emphasis on improving market regulation, increasing sanctions, and making corporate disclosure breaches more costly.

4.2. Enhancing Investor Education and Improving Registration Requirements

The registration system for stock issuance does not emphasize the profitability of public companies, the unevenness of the financial status of companies in the market, and the information asymmetry of investors concerning the requirements of the registration system. With many newly public companies with poor profitability showing a downturn in earnings, most investors took a more cautious stance and the market entered a downward spiral, in stark contrast to the previous highs along the way. The government should introduce relevant policies to ensure the quality level of public companies, and at the same time strengthen investor education to realize the smooth development of the capital market.

4.3. Improvement of the Company's Internal Control System and Enhancement of the Level of Supervision by the Accounting Regulatory Authorities

Some SMEs are resistant to providing high-quality disclosure, sometimes creating incentives for surplus manipulation. Therefore, small and medium-sized public companies should establish a sound

internal control system, strengthen financial management and risk control, and reduce the opportunities and incentives for corporate surplus manipulation. It also strengthens the supervision of accounting firms and accounting regulators to ensure the truthfulness and accuracy of the company's accounting information.

5. Conclusion

According to the previous literature, the article summarizes and concludes that the impact of the registration reform on the quality of public companies has both advantages and disadvantages. The reform of the registration system can greatly improve the quality of information disclosure and accounting information of public companies, not only that, the registration system shortens the audit cycle of IPO of public companies so that enterprises can get financing faster to invest in innovation and development, and stimulate the enhancement of enterprise finance and innovation ability. This article likewise summarizes and analyzes some of the negative impacts. There are still some imperfections in the system, resulting in the quality of the market not being guaranteed, which has a certain degree of negative impact on the quality of public companies. Secondly, the implementation of the registration system has increased market volatility and made investors conservative, reducing market liquidity to a certain extent. The reform of China's registration system still belongs to the initial stage, and the relevant policy system still needs continuous progress and improvement. In the future, the government, should further improve the relevant laws and regulations, enhance the level of supervision by the accounting regulator, increase the penalties for market supervision, raise the cost of disclosure violations by companies, improve the registration requirements, and enhance investor education. Public companies, should consciously follow the laws and regulations, strengthen the disclosure of financial and operational information, and establish a sound internal control system to enhance financial management and risk control and improve the company's operational efficiency and financial transparency.

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