

Analysis of Existing Problems in Chinese A-share Market and Relevant Solutions

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Abstract. China's A-shares have developed rapidly in recent years, with huge market volume and scale, and have become an important direction for corporate financing and mass investment. There are still many problems in the A-share market, which will affect the development of the A-share market. There is a problem of slow delisting in the A-share market, which will lead to bad enterprises not being cleared in time, and the frequency of market update is not enough, which needs to be alleviated by further improving the legal system and changing policies. Some sectors of the A-share market have the problem of downward market, resulting in financing difficulties for companies in these sectors and unable to develop normally. This problem can be fixed by increasing the proportion of companies that pay dividends to attract investors. Listed companies in the A-share market may also have goodwill problems, which will seriously affect investor confidence and reduce the amount of investment. It is necessary to improve the goodwill accounting policy, so that goodwill can be correctly measured and reflected. Finally, A-share market funds have the problem of homogeneity, which leads to vicious competition in a single sector and is unfriendly to small and medium-sized enterprises. The government can mitigate such problems by encouraging innovation and regulating the market, diversifying stock development. It is necessary to study the problems of the A-share market and give solutions of the existing problems, which can make the country, enterprises and investors have a more intuitive understanding of the market so they can make corresponding responses to market changes.

Keywords: China, A-share, stock market.

1. Introduction

A-shares, also called ordinary RMB shares, are ordinary shares issued by companies registered in China. With the rapid development of China's economy in recent years, the A-share market has developed rapidly. The trading volume and transaction amount have risen sharply. Engaging in A-share market is an important channel for enterprises to obtain investment. For investors, they can get share premium from it. A-shares are also of great significance to the country. The initial purpose of A-shares is to help state-owned enterprises get out of poverty and transfer the raised funds to state-owned enterprises so that they can work for the country, guaranteeing the provision of basic services to society.

Despite the rapid development of the A-share market, there are still many problems due to the late start of China's A-share market. China's A-share market is not mature enough compared with the United States and some European countries. Among them, the A-share delisting problem, the A-share market decline problem, the A-share goodwill impairment problem and the A-share fund homogenization problem. The existence of these problems will have an impact on the A-share market. On the one hand, it will affect the stability of the A-share market, which may collapse due to corporate manipulation and investors' behavior; on the other hand, it will lead to the unhealthy development of the A-share market, in which large enterprises put pressure on small and medium-sized enterprises, making them lack investment opportunities and unable to develop, resulting in the monopoly of large enterprises.

Therefore, it is necessary to sort out and study the problems of the A-share market. This paper reviews the development history of A-share market, sorts out the existing problems, and puts forward corresponding solutions to these problems. By listing the questions, investors and companies can better understand the current environment of the A-share market and make correct judgments. By

giving suggestions, the government and the country can effectively regulate and govern the A-share market, so as to promote its healthy development and promote the economic level of the country.

2. Current Situation

Since the Shanghai Stock Exchange was established in 1991, China's stock market has developed over 30 years (See Fig. 1). Compared with Western countries, China's stock market started slowly but developed fast, and now it is developing steadily and gradually becoming an important part of the global stock market. The development of China's stock market mainly went through four stages, namely the initial stage from 1980 to 1992, the slow development stage from 1993 to 1998, the reform and innovation stage from 1999 to 2007, and the emerging market stage from 2008 to now [1].

On December 19, 1990, the Shanghai Stock Exchange officially opened for business, and the Shanghai Composite Index opened 96.05 points on that day, with A turnover of 494,000 yuan throughout the day, which was the first trading day of China's stock market. After that, by the end of 2023, there will be 5,107 A-shares listed companies on the Shanghai and Shenzhen Stock exchanges, with a total circulating market value of 63.37 trillion yuan. China's stock market has become the second largest stock market in the world after the United States.

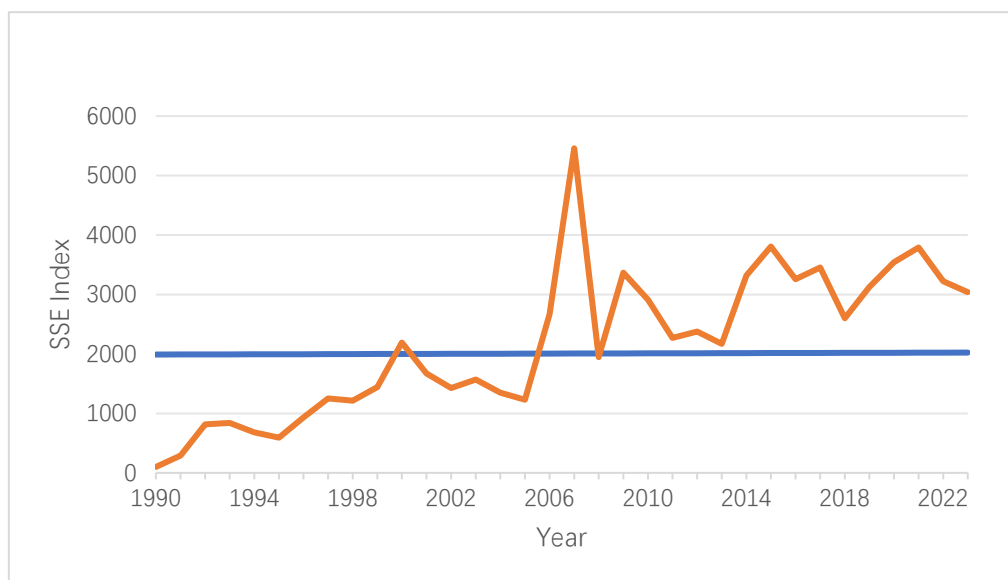


Fig. 1 The change trend of SSE Index from 1990 to 2023

According to the data recorded on the official website, it can be seen that the SSE Index has shown a rising trend since 1990, from the initial less than 100 points to the current 3,000 points, the value has increased by 30 times, indicating that its market has developed rapidly and became a relatively mature market with a very bright prospect. At the same time, the market size has gradually expanded, from 1,206 transactions per day to 530 million transactions now. The scale of China's A-shares has expanded rapidly, reflecting the rising disposable income level and investment willingness of enterprises and citizens.

A-shares have undergone many adjustments from the beginning of its' issuance to the present, including the addition of the limit up or limit down system, thereby curbing excessive speculation in the market which leads to market crash. The set of these two limits also helps to stabilize the market. Around 2002, the commercial commission and stamp duty policies were adjusted to reduce the value of commercial commission, thereby reducing the collusion between securities companies and investors. The amount of stamp duty has been greatly reduced, which leads to less impact of tax on the market, making market price changes more diversely and naturally. In addition, A-shares also set up a multi-level equity market and subdivided it, so that enterprises of all sizes can be well integrated into the stock market, which greatly strengthens the normalization, inclusiveness and openness of the market.

In spite of this, the A-share market still has room for development. The existing regulations are still not perfect, so that enterprises and investors have room to manipulate in some aspect. So, it is necessary to legalize the market as soon as possible and integrate with international standards. At the same time, the delisting system still needs to be improved, which is not only the evolution and progress of the market, but also the effective protection of small and medium-sized investors [2].

3. Problems Overview

3.1. Delisting

The current situation of low delisting ratio and difficult delisting of A-share listed companies has an adverse impact on the trend of stock prices.

The delisting system of A-share market plays an important role in the replacement of companies and the selection of winners and losers. Maintaining the delisting ratio at a high level is conducive to ensuring the dynamic market and maintaining the dynamic balance of the market [3]. From 2003 to 2019, there were 2,603 listed companies in China's A-share market, and only 81 delisted companies, with a serious imbalance in the ratio of the two. Compared with the more mature form of the US securities market, the delisting ratio in China is below 1%, which has great room for growth compared with the annual 4%-5% in the US.

Factors contributing to the low delisting rate of China's A-share market include the following: 1. There are loopholes in existing laws, and the current delisting standard is measured by net profit, so there are still loopholes for companies to exploit, and it is hard to completely expel substandard companies; 2. The value of shell resources is too high, and local governments actively participate in the "shell protection" work of companies to avoid delisting listed companies as much as possible, so as to make profits. Increasing the delisting rate of companies is an important adjustment in order to maintain market the order in the domestic A-share market [4].

3.2. Index Declining

The A-share GEM index has continued to decline in recent years, and the investment pressure on startups has increased significantly.

In 2014-2015, the A-share GEM was the main line of the market. The asset-liability ratio of listed companies was very low, after IPO financing, there was a strong leverage. Therefore, most companies participated in restructuring and mergers and acquisitions, the volume of companies increased greatly. The consequence was that their business reputation plummeted. In 2018, most GEM companies went bankrupt. The main stock line was replaced by other sections.

Based on the current market conditions and the previous successful cases of some companies, low valuations and high dividends may become the main form of the future. In the third quarter of 2022, the company named Taobo was affected by the epidemic, its sales decreased by 20-30% year-on-year. In the fourth quarter, its performance recovered significantly, mainly due to the combination of low valuation and high dividend to attract more funds [5].

Since 2022, the dividend ratio of state-owned enterprises has increased, stocks with low valuations and high dividends have been favored by investors. Coal stocks, real estate stocks and banking stocks are typical representatives, the SSE index of coal stocks rose 22.63% in the quarter, but its market valuation is only single digits, at a low level. Its profits continue to rise, and dividends are gradually rising. Real estate stocks and banking stocks also increased their dividends, generally exceeding 30%. The trend of low valuation and high dividend will be the general direction of GEM in the future, which can improve profits and favorable the prospects of companies [6].

3.3. Goodwill Issues

The impairment of goodwill of A-share companies has significantly reduced the confidence of investors and seriously affected the operation of the A-share market. As of April 2019, according to the annual reports of A-share listed companies, the goodwill impairment loss of Wanda Cinema

reached 5.575 billion yuan, ranking first, the losses of the following eight companies all exceeded 2 billion yuan, with serious impairment problems [7].

The main reason for the impairment of goodwill is that after the introduction of the policy of China Securities Regulatory Commission in 2013, a large number of enterprises carried out market mergers and acquisitions with high premiums, generating up to hundreds of billions of goodwill value. However, the collective impairment of goodwill generated by mergers and acquisitions in 2018 seriously damaged the interests of investors, reaching 5.17%. Goodwill impairment can be regarded as a form of financial information disclosure, which reflects the internal situation and future trend of an enterprise. Therefore, it is very important to attach importance to business issues and properly dealing with goodwill impairment can maintain market order and ensure the interests of investors.

3.4. Homogenization

In recent years, the homogenization of A-share stock funds has led to vicious competition, which has bad influence on the development of the whole market. For example, the mainstream fund SSE 50, CSI 300, CSI 500 and other index funds have basically the same performance in fee structure and fund net value. The establishment of index funds is subject to the dual supervision of index companies and the CSRC, rather than the decision of market entities, which weakens the independent research ability of fund managers, greatly weakens the differentiated competition in the market. According to the survey of some sample funds in the market, each fund has an average of 89.6 peer funds, and the degree of homogeneity is extremely serious [8]. This leads to a variety of problems such as excessive competitive pressure in the industry, excessive homogenized funds, which make it difficult to obtain excess returns also influence the stock price heavily. It is essential to eliminate the homogenization of funds and enhance diversified competition.

4. Relative countermeasures

4.1. The Solutions of Delisting

To solve the problem of A-share delisting, the combined use of multiple systems is necessary. First of all, governments need to improve the legal system and accelerate the phenomenon of corporate renewal through more refined, publish more enforceable and policies that are easy to supervise. Secondly, value investing should be encouraged, so that more users invest their money in valuable company shares rather than shell companies, thus reducing bad corporate shell operations. Finally, the government should also increase the promotion of the "registration system", its advantage is that it does not need substantive audit, so that a large number of companies can join in the market. To a certain extent, this can reduce the value of shell resources, further accelerate the company delisting.

4.2. Market Stabilization

In order to ensure that the behavior of low valuations and high dividends can support the inflow of funds and promote the development of the stock market, it is important to revitalize investment confidence. The country needs to take the lead in investing in enterprises and inject funds to enable enterprises to create stocks with low valuations and high dividends, further stimulate people's investment and drive the operation of funds, so as to solve the problem of company bankruptcy and stock depreciation. Enterprises themselves must also actively participate in the establishment of high-dividend stocks to ensure that investors can be attracted to participate, and sufficient funds can be injected into enterprises to operate. At the same time, they should provide consumers with sufficient information introduction and risk guarantee to avoid consumers' doubts about the stocks themselves and influence their investment [9].

4.3. Solutions of Goodwill Impairmentation

The impairment of goodwill is mainly caused by three factors, which are the initial recognition of goodwill, the subsequent measurement of goodwill and the accounting treatment of goodwill. 1. The initial recognition of goodwill is too subjective and generally adopts the income method for assessment. If the supervision is not strict enough, it is easy to cause the problem of overestimation. 2. In the follow-up measurement of goodwill, according to relevant laws, goodwill should be tested for impairment at the end of each year. However, the current accounting standards do not specify how to conduct impairment testing, which leads to the problem that the test results are greatly affected by the test method. Therefore, a detailed process plan should be developed to ensure that all accountants can carry out impairment tests in accordance with a unified standard to reduce systematic errors. 3. For the accounting treatment of goodwill, it is necessary to strengthen the supervision of information disclosure. Once the supervision of corporate goodwill information is incomplete, it will mislead investors. Therefore, it is necessary to strengthen the attention of enterprises to the supervision process of information disclosure and set up responsible departments to strictly monitor the process of it, enhancing the frequency of information disclosure is also very important [10].

4.4. Dehomogenization

There are three main solutions to the problem of solving the homogenization problem of funds. 1. Strengthen product innovation, large companies can create new funds as the leading industry to break the homogenization market, small companies can actively follow suit, thus creating a new market module and reducing homogenization. 2. Manual intervention in stock prices. Reasonable manual intervention can reduce the drastic changes in stock prices caused by intense trading, so that stock prices can be relatively stable, and the risk of market collapse can be reduced. 3. The government should strengthen the protection and supervision of the market, stabilizing the market through government departments' intervention and screening of new funds, so as to reduce the damage of homogenized funds to the market [11].

5. Conclusion

China's A-share market is developing rapidly but has many problems. This paper analyzes the four problems in the A-share market and discusses the corresponding solutions. The problems faced by the A-share market include delisting, the decline of the GEM market, the impairment of corporate goodwill and the homogenization of funds. These problems can be solved by revising and improving the relevant laws, adopting a strategy of low valuations and high dividends, setting more common audit standards, and encouraging innovation. Analyzing the problems of A-shares and providing countermeasures can make the country manage the market more conveniently. Enterprises could have more financing opportunities; investors can choose more suitable stock investment and the market can develop more healthily and comprehensively through these changes.

The existing problems of the A-share market are far more than this, and there are more detailed problems that have not been addressed, which may have an important impact on the health of the market. In addition, the countermeasures proposed in this paper do not give specific operational suggestions, which may be difficult to implement and cannot completely solve the problem. More in-depth market research and more professional theoretical analysis are needed to obtain more accurate results.

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