Research on Problems and Countermeasures for the Chinese A-share Market

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Abstract. Nowadays, the A-share market plays an important role in Chinese society and promotes China's economic development. It has strengthened the public's awareness of investment and financial management, promoted the progress and growth of many listed companies, and increased the government's fiscal revenue and credibility. Although the A-share market has accumulated lots of wealth and provided development opportunities for China, it also faces great challenges. This paper will introduce the current situation of China's A-share market, several existing problems and corresponding countermeasures and suggestions, in order to create healthy and sustainable development of the A-share market. The proposed problems are the high volatility of stock market, large number of inferior listed companies and serious illegal phenomena. Finally, the research can help investors protect their rights effectively and facilitate the work of the market supervisor.

Keywords: A-share market; high volatility of stock market; large number of inferior listed companies; illegal phenomena.

1. Introduction

A share, which stand for ordinary RMB shares, are stocks issued by companies in mainland China and issued in RMB by domestic groups or individuals (excluding investors from Taiwan, Hong Kong and Macau) since the end of 1990. It has the largest number of listed companies among all stock markets in China (including B shares, H shares, N shares, etc.), the total market capitalization and total share capital of the market. It is a worthy representative. China's A-share market has brought numerous benefits to many investors since its establishment. It has promoted the rapid development of the national economy and promoted China's steady entry into an all-round well-off society. It has improved the quality of life of the people. However, benefits and risks, opportunities and challenges always coexist. With the continuous development of China's, A-share market, its existing loopholes are gradually exposed, and the major problems it faces are becoming increasingly prominent. Although the government has made a number of reform measures through a series of methods such as questionnaire survey, expert discussion, system reference and innovation, it still cannot avoid the occurrence of disasters such as stock market crash and stock price plunge. Nowadays, it is imperative to provide reasonable precautions and solutions to ensure the sustainable and healthy development of China's A-share market and achieve considerable social benefits. This article will summarize the current situation of China's A-share market, identify several potential problems and provide feasible solutions to effectively protect investors' rights and facilitate the work of the market supervision authority.

2. Current Situation

China's A-share market is one of the world's largest securities markets and an important part of China's financial industry. From 2011 to 2022, the total assets and net assets of Chinese securities companies show an overall upward trend. At the end of the third quarter of 2022, the total assets of 140 securities companies in the country were 10.88 trillion yuan, and the net assets were 2.76 trillion yuan, both of which increased slightly. This is the result of mutual promotion between China's economic level and securities companies. It is not difficult to find from the figure below that both of

them have developed steadily and maintained a growing trend. Every year, there are more and more companies that go public and have good financial performance (See Fig. 1).

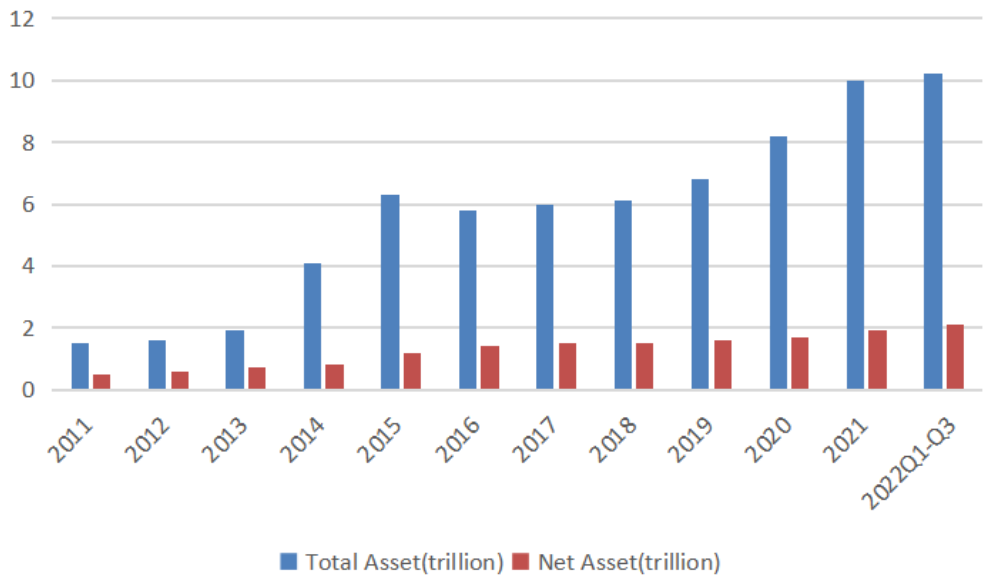


Fig. 1 Assets size of Chinese securities companies from 2011 to 2022.

China's A-share market remain volatile from 2017 to 2022. In 2018, affected by the concentrated outbreak of the accelerated decline in economic growth, financial "deleveraging policy", and the escalation of Sino-US trade friction, A-share investors were generally pessimistic. Market valuations fell across the board, and the scale of evaporation was the largest in nearly a decade. In 2022, the A-share market was depressed due to the escalation of the novel coronavirus epidemic and the cold stock issuance market. From the first to the third quarter, investment banking revenue in China's securities industry accounted for 14.66%, down 10.57% from 25.23% in 2021. The number of domestic initial public offerings (IPOs) in 2022 was 425, down 54 from 479 in 2021. About 586.8 billion yuan was raised by IPOs in 2022, up 8.8% year on year. In other years, the overall return of the A-share market has also experienced small increase or decline (See Fig. 2 and Fig. 3).

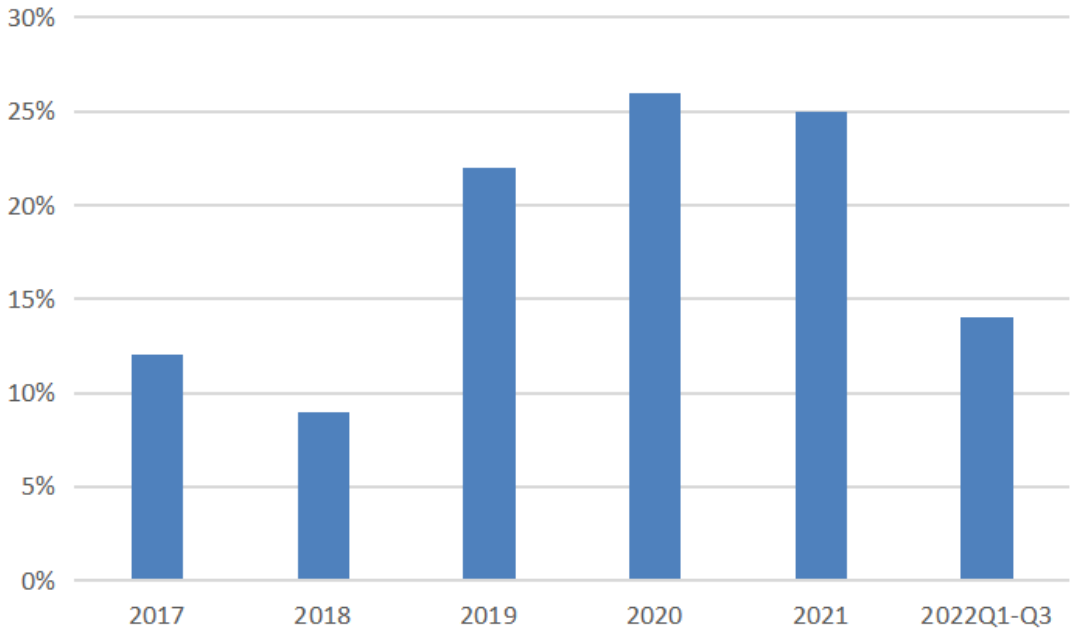


Fig. 2 Changes in the proportion of investment banking revenue in China's securities industry from 2017 to 2022.

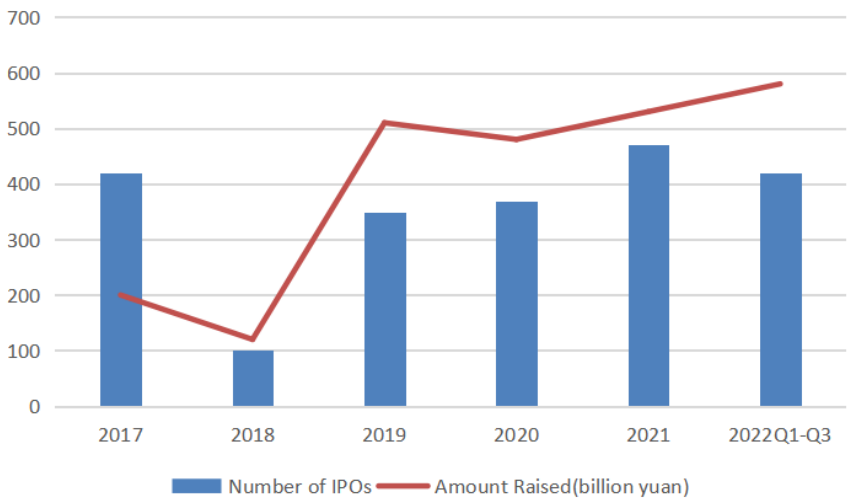


Fig. 3 Changes in the number and raised money of IPOs in China from 2017 to 2022.

3. Problem

3.1. High Volatility

Stock market volatility is the change of stock price caused by the change of investors' expectations for the market. Volatility is one of the basic attributes of the stock market. It plays the function of regulating the allocation of market resources. A certain degree of small fluctuations can promote the stable development of the stock market, but a high frequency of abnormal fluctuations will cause great harm to the stock market. Wild volatility will cause risk-averse investors to lose confidence in the market and exit the stock market. On the other hand, excessive abnormal volatility will distort the stock price signal as an indicator of resource allocation, thus increasing the systemic risk of the entire financial system.

China's A-share market is extremely volatile, and its instability is much higher than that of some mature stock markets in developed countries. According to the discounted present value theory, the price of a stock is equal to the present value of future cash inflows that may result from holding the stock. In reality, the value of a stock is mainly reflected in the equity per share ratio and investors' expectations of the company's growth. Take the "7.23 Yongwen Line especially major railway traffic accident" in 2011 as an example, the first opening day of the Chinese stock market after the incident, the railway stocks collectively plunged, staged a "Black Monday" [1]. This caused an indelible disaster to the railway industry and even some companies had to halt construction for a short time. This shows that most Chinese A-share investors are very sensitive to social news and economic dynamic information but lack rationality, which leads to great stock price fluctuations and a surge in market risks. Such crashes happen all the time. If this continues, the stock market will lose credibility and gradually weaken, while depressing the development of other sectors.

3.2. Large Number of Inferior Listed Companies

Listed companies are the cornerstone of the stock market. China's A-share market environment is disturbed by a large number of low-quality listed companies. They occupy and waste the limited market resources, so that the market share cannot be reasonably allocated. Only by truly operating according to the law of the market and giving full play to the role of survival of the fittest can promote economic development, which is the inevitable choice for the healthy development and maturity of China's A-share market.

3.3. Illegal Phenomena

Currently, there are still many markets participants favoritism and fraud, disrupt the market order, endangering the practical interests of other investors to seek their own interests. In 2022, a total of

1,072 listed companies had violations, accounting for 21.16% of all companies, an increase of 2.9% compared with 2021. The total number of violations reached 2,616, an increase of 12.03%. The CSRC inspection department handled 603 illegal cases in the stock market in 2022. Among them, 136 major cases, 123 suspected criminal cases were transferred to public security organs, which caused serious harm to the healthy development of the stock market. More robust institutional measures are needed to ameliorate this potential risk in the Chinese economy.

4. Solution

4.1. High Volatility

4.1.1. Attract Institutional Investors

It is found that institutional investors in overseas mature markets account for the vast majority. More than 80% of the US stock market is institutional investors, while in contrast, about 80% of the Chinese stock market is individual investors [2]. The research from 1999 to 2004 shows that there is a significant negative correlation between the shareholding ratio of institutional investors and stock volatility under the premise of controlling the scale of listed companies. In this stage, the volatility of stocks with high institutional shareholding has decreased significantly, while the volatility of stocks with low institutional shareholding has not decreased. It confirms the view that institutional investors have the function of stabilizing the market [3].

If the proportion of individual investors is too large, they will be easy to blindly follow the trend, chase the rise and escape from the fall constantly, and increase the disorderly volatility of the market. Stocks held by individual investors tend to be highly speculative and have high turnover rates. Its holdings are small, holding time is short, investment direction is often changed. Institutional investors with a deep understanding of the market, huge asset scale, professional and efficient investment technology, smooth and accurate information channels, can invest in stocks more rationally, not easy to be affected by market noise. It can offset the market frenzy and play an important role in stabilizing stock prices. It relies on professional researchers to assess stock values more accurately. It holds a large number of shares and holds them for a long time, and generally does not change its investment portfolio frequently, so it will not cause large-scale fluctuations in stock prices. Institutional investors also prefer companies with good financial performance, sound operation, good governance structure and strong risk resistance, which usually show low volatility [4]. China's stock market has not been established for a long time, individual investors still need to improve their investment ability and understanding of the market to obtain considerable returns. Individual investor has missed its best buying days by selecting stocks solely by tracking the funds' reported quarterly holdings. At this stage, only by attracting a large number of institutional investors can the stock market become stable and develop healthily.

4.1.2. Strengthen Supervision

Listed companies, as one of the main bodies of the stock market, represent the most outstanding enterprise groups in a country. It is a barometer of the national economy and a source of income for investors. Improving the quality of listed companies is an important measure to protect the legitimate rights and interests of investors, and plays a pivotal role in the stability of the stock market. Recently, while the total market value of A-shares has continued to grow, the average market value of shares held by each investor has shrunk significantly. Less rise and more fall have become a common phenomenon of A-shares. Many companies regard financing as the sole purpose of listing, and do not improve their operating quality and financial level. On the contrary, spreading false information leads to excessive speculation and irrational investment behavior of investors [5]. Shifting assets makes the stock market volatile. Fraud also significantly reduces market credibility. The market supervision bureau should formulate relevant policies to avoid this phenomenon, such as raising the listing threshold and strengthening the punishment for low-quality listed companies.

4.1.3. Give Chances to Correct Mistakes

Most of the mature overseas stock markets adopt T+0 trading system, which is, day rotation trading, and investors can sell stocks at any time after buying stocks. This makes trading more sensitive. Investors in the event of an emergency can be the first time to protect themselves, timely correction and stop losses, convenient risk management. This also improves the market liquidity, realizes the price discovery function, and improves the price mechanism. China's A-share market still uses an outdated T+1 trading system, with investors waiting until the next trading day to sell shares. The lack of error correction opportunities for investors will make the impact of major economic events on the stock market more significant, resulting in sharp fluctuations in the stock market [6]. However, based on the large proportion of individual investors in China, it is not feasible to fully adopt the T+0 system for A-shares.

4.2. To Solve the Large Number of Inferior Listed Companies

4.2.1. Level of Governance

Standardize the corporate governance system, clarify the boundaries of responsibilities and legal responsibilities of controlling shareholders, actual controllers, directors, supervisors and senior managers, and scientifically define the scope of their powers and responsibilities. The relevant persons in charge of stocks should actively safeguard the independence of listed companies and protect the legitimate rights and interests of investors. Improve communication channels between investors and the board of directors. To effectively improve the level of corporate governance by advocating staff putting forward suggestions, on-site inspections, urging rectification and other ways.

4.2.2. Government Encourages Listed Companies to Optimize

Government should support the listing of high-quality enterprises with good governance. It should also improve listing standards, increase inclusiveness, and promote the comprehensive development of multi-sector stock markets. It needs to promote the listing of innovative technology companies to inject new vitality into the stock market, strengthen the training and guidance, and improve the standardized professional level of the enterprises to be listed. It should improve the system of asset reorganization, acquisition, spin-off and listing. It ought to vigorously develop equity funds and enrich risk management tools. It should explore the establishment of a long-term assessment mechanism for institutional investors. It should strengthen the sharing of interests between investors and listed companies and mobilize the enthusiasm of market participants.

4.2.3. Delisting System

The delisting system of China's A-share market is still biased towards simplification and weak operability, while the delisting standards of mature foreign securities markets are richer and fuller. Diversified channels for delisting should be expanded and delisting supervision should be strict. Accountability need to be strengthened and substandard companies should be cleared out of the market in a timely manner. It should also consider appropriately extending the half-year period for delisted companies to re-apply for resumption of listing. The time frame of the current regulation is too short, which is not conducive to companies' efforts to improve their business conditions. It also provides opportunities for garbage companies to sell shells and restructure to buy shells [7].

In addition, China's delisting system also lacks protection provisions for small and medium-sized investors. Shares in delisted companies do not simply disappear, but must apply for transfer. Regulators hope the system will allow these companies to improve their health and return to the stock market as soon as possible, but the value of their shares has fallen by the daily limit, and may even be lower than the original offering price. The continuation of these stocks in the market will cause small investors to lose their money, causing huge losses. It is unfair for the risks brought about by such institutional factors to be borne entirely by small and medium-sized investors. Share transfers in the delisting system should be eliminated.

The interests of the A-share market are complicated and involve the whole body, and delisting involves the vital interests of thousands of employees, creditors and investors. The delisting process is often met with obstruction and interference from local stakeholders. Some listed companies facing delisting often end up with "blood transfusions" from relevant departments, and ultimately did not delist. There are also some major shareholders pledged shares of the company, the quality of the company will have nothing to do with themselves. In order to maximize their own interests, they have a great impulse to delist maliciously and increase market risks. This runs counter to the original intention of the delisting system. All these require regulators to carefully monitor the operation of listed companies and re-examine the delisting system. Create a good atmosphere for listed companies to move forward.

4.3. To Solve the Illegal Phenomena

4.3.1. Functions of Stock Exchanges

In China's securities market supervision system, the Securities Regulatory Commission is in the highest supervisory position and can ultimately decide whether a enterprise is forced to delist [8]. The securities law stipulates that the CSRC has the right to correct and cancel the misconduct of the Shanghai and Shenzhen stock exchanges, which further weakens the power of the two major stock exchanges that know the listed companies best. Some listed companies will transfer benefits to local governments and thus unblock the relationship between the leaders of the CSRC, and the fair trading environment in the stock market has become more and more deteriorating. At the same time, the securities law gives the CSRC too many responsibilities, and the content that needs to be regulated is too heavy to supervise all market participants one by one. Finally, it leads to the power contradiction between the stock exchange, which knows more about listed companies and has a better grasp of the legal system of the stock market, and the CSRC, which has heavy supervision tasks [9]. It is necessary to further raise the level of authority of the exchange to basically the same level as that of the SFC, to supervise each other and exchange what is needed.

4.3.2. Law Enforcement

Government should strictly implement the Securities Law and increase penalties for fraudulent stock issuance, market manipulation, illegal information disclosure and insider trading. It need to improve the criteria for identifying illegal acts, strengthen cooperation between administrative and judicial organs and speed up the investigation of criminal cases. Acts of a bad nature and serious circumstances shall be vigorously punished and their employment qualifications revoked. Significantly increase the cost of violations. Improve the transparency of punishment, publicize the content of the system to the majority of market participants, and reverse classic cases to improve deterrence and dispel the arrogance of criminal gangs. Support investors and their protection agencies to participate in litigation as representatives in accordance with the law. It is necessary for the regulator to increase the punishment of illegal and disorderly behavior to improve the efficiency of supervision [10].

4.3.3. Improve Self-regulation

The key factor of driving regulation is the restraint mechanism of the market itself. Self-regulation is an important part of securities market supervision, which can improve the securities supervision system and supplement the deficiencies of government supervision [8]. At present, there are still many deficiencies in the construction of securities self-regulatory organizations in China, which rely too much on government takeover and are difficult to play their due functions. The construction of self-regulatory organizations should be continued to be strengthened; securities self-regulation should play a complementary role to government regulation.

5. Conclusion

To sum up, solving the current problems in China's A-share market requires the participation and cooperation of the government, enterprises, organizations and the public. Together to create a good investment and financing environment, stabilize stock prices, abide by the law, and promote the healthy and sustainable development of the stock market.

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