

Reform of IPO Registration System Injects New Vitality into China's Capital Market

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ABSTRACT

This article analyzes the background of China's Science and Technology Innovation Board registration system reform. We collect the IPO pass rate of the Shanghai Stock Exchange Science and Technology Innovation Board since the implementation of the registration system, the rise and fall of IPOs, and the subsequent P/E ratio. The analysis results show that the registration system relaxes the listing conditions. The IPO pass rate has increased significantly, and the introduction of the registration system has effectively stimulated the enthusiasm of SMEs to go public and brought new vitality to the market. By comparing, the United States and Hong Kong registration systems, we put forward relevant suggestions for establishing a good securities market ecology and provide a reference for financial market reforms in other developing countries.

Keywords: *IPO, Registration system reform, China's capital market.*

1. INTRODUCTION

1.1. Reform background

China's lagging modern economic development history and today's mature international capital market economic ecology have decided to completely autonomously introduce a new securities market issuance review system that meets China's socialist national conditions. Hard as the sea fishing needle. China's stock market has experienced 30 years of development, and gradually mature. But compared with foreign mature stock market, there are still a lot of IPO lead to insufficient allocation of resources, excessive government intervention, delisting system is not perfect. To this end, China will implement registration reform, safeguard financial market fairness and justice, enhance market vitality, protect the legitimate rights and interests of investors. In 2013, the Third Plenary Session of the 18th Central Committee, China first proposed the reform of stock registration system. On July 22, 2019 and August 24, 2020, the first batch of companies listed on Science and Technology Innovation Board (STAR Market) and Growth Enterprise Market (GEM). It was announced to officially launch the pilot reform of China's stock market registration system. However, China's stock issuance system has been implemented for a long time, and the system has defects. The reform of stock issuance

registration system has become a new major issue. Until March 1, 2020, 'Securities Law' entered into force, China has finally entered the era of comprehensive securities market registration system. The implementation of registration system is an important symbol of the healthy development of China's securities market. It not only has the will to integrate with the international financial system, but also reflects the attitude of Chinese characteristics in essence.

Stock issuance systems usually include censorship, approval and registration. At present, the international mature market generally adopts the examination and approval system and registration system. The approval system is represented by the UK and France, and the registration system is represented by the US and Japan. In the 30 years since the birth of China's capital market, censorship, approval system and registration system have been implemented successively. At present, China is in the stage of comprehensive reform of registration system, and is in the stage of parallel trial of approval system and registration system. Due to the different nature of the country, China's reference and imitation of the securities market in capitalist countries is not very smooth, China as the world's second largest economy, one of the fastest growing countries, the establishment of their own securities market system is imminent.

1.2. The development history of China's securities market

After 30 years of development, China's securities market has initially formed a large scale. The development of economic market must need institutional guarantee, but also promote the development of regulatory system. In the development of China's securities market, the corresponding regulatory system is also in constant research and promotion, both to adapt to market changes, but also with the national management system coordination. On November 26, 1990, Shanghai Stock Exchange(SSE), China's first stock exchange, was established. On December 1, 1990, Shenzhen Stock Exchange(SZSE) began its trial operation. Thus, China's stock exchange market initially formed. In 1992, China Securities Regulatory Commission (CSRC) was established, which marks that China's capital market has gradually entered the era of unified supervision. Taking the establishment of Shenzhen and Shanghai Stock Exchange as the breakthrough point, reviewing the development of China's capital market after the reform and opening up, we divide China's IPO reform into the following five stages :

The first phase of 1990-2000 was the administrative approval system. SSE and SZSE, born on November 26 and December 1, 1990, marked the opening of China's capital market. At present, China's stock issuance mainly adopts the administrative approval system. During this period, many state-owned enterprises completed IPO financing through reform. At the same time, China's regulatory system is exploratory, the securities market regulatory system is more chaotic. However, with the rise of the national securities regulatory agencies, the State Council has also carried out slow temporary supervision of management. The regulatory system began to improve, providing the basis and operability for the continuous management of the market. 2001-2004, the second stage: approval system. In this stage, the company listed through various securities companies to charge help, by

the CSRC audit. In the wave of economic take-off, China's securities market is also developing rapidly, the relevant laws and regulations continue to be introduced, management tools continue to improve. At present, China's supervision system is still dominated by administration, which is closely related to the nature of China's administrative system. However, with the economic globalization and the continuous development of China's securities market, the drawbacks of the administrative examination and approval system gradually emerged. Excessive government control leads to the failure of flexible market control. The third stage, 2005-2013, inquiry. Since 2004, CSRC has introduced inquiry system to determine the issue price of new shares. That means companies and their sponsors need to ask institutional investors to determine the price of their shares .The fourth stage of 2013-2019: registration transition. CSRC held a press conference on November 30, 2013 and issued 'Opinions on Further Reform of IPO System', which changed the approval system to the registration system. It marks that China's stock issuance system has changed from approval system to registration system. At the end of 2018 and early 2019, China issued a large number of documents to promote the registration system. The fifth stage is registration since March 2019. China's stock market is constantly improving and developing in the direction of internationalization, from the mainboard, small and medium-sized board, the new third board to the GEM and STAR Market. In March 2019, the CSRC officially issued the relevant rules of the STAR Market, which was formally established. April 27, 2020, 'Overall Implementation Plan of GEM Market Reform and Registration System' was passed, the CSRC, SZSE subsequently announced the corresponding rules. In 2021, Shanghai and Shenzhen mainboard (including small and medium-sized board) will also take the lead in the reform of the registration system. China's capital market will fully enter the new era of IPO registration system. In figure 1 we show the five stages of IPO system reform.

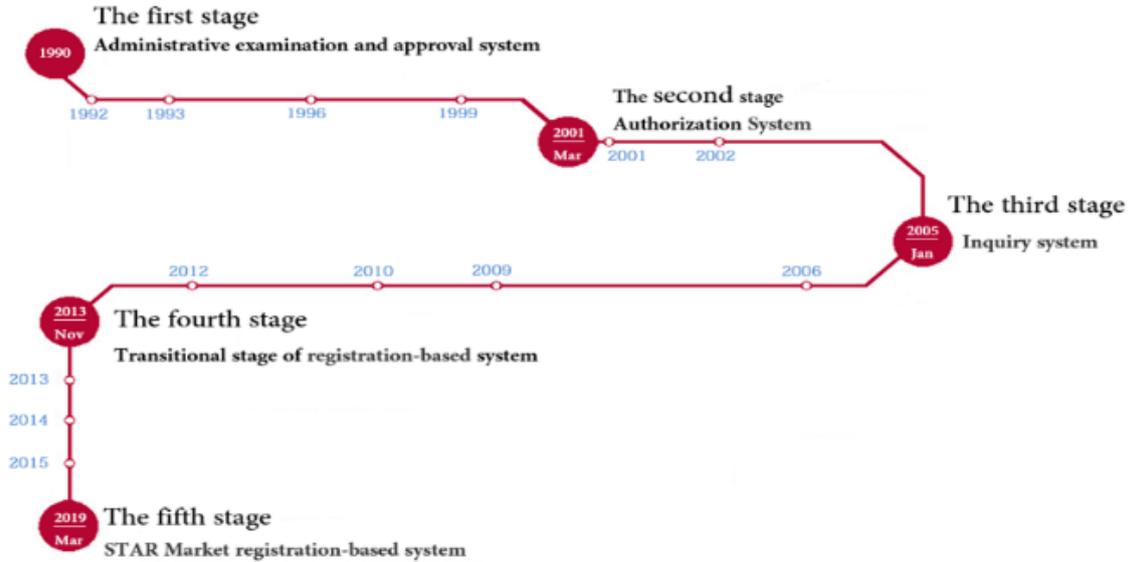


Figure1:IPO Policy Changes

This figure plots the time line of IPO market development from year 1990 to 2019. There are 5 stages. The first is Administrative examination and approval system, the second sage is Authorization System. The third is Inquiry System. The fourth is Transitional stage of registration-based system. The last is STAR Market registration-based system.

China’s stock capital market has experienced more than 30 years of development, but also experienced nine suspensions and restarts. Each IPO suspension brings new development prospects to the market. In Table 1, we show the time of nine IPO suspensions and restarts. Existing documents confirm that the suspension of IPO leads to some approved companies unable to enter the public market through IPO. This is a big blow to enterprise innovation. Enterprises cannot enter the public market within a certain period of time, but from IPO

approval to listing, the final listing has only a short normal time. Delays caused by mandatory and uncertain suspension. Enterprise innovation is cumulative and negatively affected by policy uncertainty.(Lin William Cong and Sabrina T. Howell 2018)*The background of each IPO halt is the stock market downturn. It can be seen that the government hopes to stabilize the stock market through the suspension, but each IPO suspension has different effects on the stock market. After nine IPO suspensions, the Shanghai stock index rose and fell. This shows that the suspension of IPO cannot play a necessary role in pulling up the stock index. Even if it rises, it is temporary. In the long run, the effect is not obvious. It shows that IPO suspension and restart can not fundamentally solve the stock market problem, stock market management efficiency is not high.(Ma Yifei 2019)†

Table 1:Historical IPO Suspension

Start date	Closing date	Restart date	Duration of suspension
1994-07-21	1994-12-07	1994-12-08	Five months
1995-01-19	1995-06-09	1995-06-12	Five months
1995-07-05	1996-01-03	1996-01-04	Six months
2001-07-31	2001-11-02	2001-11-02	Three months
2004-08-26	2005-01-23	2005-01-24	Five months
2005-05-25	2006-06-02	2006-06-05	Twelve months
2008-09-16	2009-06-17	2009-06-18	Nine months
2012-11-03	2013-12-30	2013-12-31	Fifteen months
2015-07-04	2015-11-06	2015-11-23	Five months

This table lists the historical IPO suspension and restart dates. From 1994 to 2019, a total of 9 IPOs were suspended. Column 2 is the start date of suspension, Column 3 is the end date of IPO suspension, and Column 4 is the restart date of IPO. In the last column of the table, we summarize the duration of the pause.

Over time, China’s capital market matures, the impact of IPO suspension on the securities market will become increasingly weak. Table 2 lists the changes of SSE mainboard index before and after 9 IPO suspensions. In summary, IPO suspension cannot fundamentally change

the development trend of the stock market. With people’s consumption habits, the effect of the suspension of new shares on the stability or promotion of the stock market will gradually weaken, which needs to be adjusted according to the laws of the stock market itself. These problems not only hinder the normal development of China’s capital market, but also bring a lot of trouble to the listed companies. Therefore, China decided to take the lead in implementing registration system reform in SSE. Over the past year, this paper has focused on the registration system reform of the SSE Innovation Board with strong policy orientation.

Table 2: 9 IPO suspended and restarted Shanghai Composite Index changes

Closing price of suspension day	Restart daily closing price	Maximum value during suspension	Increase (%)	The highest increase (%)
393.87	652.85	1052.94	167.33%	65.75%
593.64	702.62	926.41	56.06%	18.36%
620.62	542.42	792.54	27.70%	-12.60%
1956.82	1691.35	1990.7	1.73%	-13.57%
1339.78	1234.48	1496.21	11.63%	-7.86%
1073.85	1669.40	1695.58	57.90%	55.46%
2079.67	3113.93	3140.04	50.99%	49.73%
2030.29	2047.32	2444.80	20.42%	0.84%
3686.92	3590.03	4123.92	5.76%	-2.63%

This table lists the changes in the mainboard index of the SSE caused by the 9 IPO suspensions. The first two columns are the closing prices on the trading suspension day and the restart day, and the third column is the highest value during the period. The last two columns are the volatility and the highest volatility during the suspension.

In this article, we will study the impact of China’s stock market registration system reform on capital markets and corporate IPOs. The rest of this article is as follows. The second section introduces the background and literature review of the registration system reform. The third part introduces empirical strategies and data. The fourth section introduces the significance of the registration system reform. Section 5 discusses how to improve China’s current delisting system. Section VI conclusions and recommendations.

2.LITERATURE REVIEW AND INSTITUTIONAL BCKGROUND

2.1. Literature review

The increasingly fierce competition in the international financial market requires my country’s

financial industry to actively absorb the foreign experience and continuously improve the reform of my country’s capital market, not only to improve the quality of the capital market, but also to increase its efficiency. In the past 30 years, my country’s capital market has achieved breakthrough development from scratch and from small to large. Its development process is mainly divided into four stages. (Jin Yi.2020) [1]The origin of the term "registration system", has to be traced back to the access system established by the US Securities Regulatory Commission for the securities market. Three-tier market access standards from inside to outside, that is, strict review, no rejection of applications due to quality, and large investors, commercial groups and financial institutions(Wang Xiao.2013). At the Third Plenary Session of the 18th Central Committee, my country proposed the reform of the registration system for the stock market for the first time. This is under the background of a large number of retail investors in the stock market, an imperfect information disclosure mechanism, an imperfect delisting system, and inadequate investor protection. (Hao Yushi. 2020)[2],We need to learn from the successful experience of the registration system in the United States and Hong Kong, China, explore all aspects, and steadily advance the

reform of the stock market registration system. In 2019, the STAR Market became the first registration system reform pilot. In 2020, the GEM will also usher in the registration system reform. Next, the market-wide "three-step" registration system reform layout. We are exploring the formation of a registration system that meets my country's national conditions. System framework. Such gratifying progress shows that our country has initially prepared the conditions for comprehensive implementation of the registration system reform. (Zhu Jing(2021)).[3]

On the other hand, the delisting system is an important basic system in the capital market and a key step in the reform of the registration system. Previously, my country's delisting system had the problems of improper system, difficult implementation, and single delisting outcome.(Song Danchun, Shen Xiaoyan. 2021)[4],Looking back at the 4 delisting system reforms carried out by the CSRC, there are still some companies that have lost their ability to continue operations to stay in the capital market for a long time. As a result, the average annual delisting rate of A-shares has always been low, which has become a "pain point in the capital market". At the beginning of 2021, the Shanghai and Shenzhen Stock Exchanges officially issued new delisting rules. The new rules made detailed amendments to the delisting rules in terms of the improvement of listed company delisting indicators, the strict implementation of delisting policies, and the simplification of delisting procedures.(Cao Meng. 2021)[5],The further improvement of the delisting mechanism not only complements the problems encountered in the implementation of the current registration system, but also lays the foundation for the full implementation of the registration system.

2.2. Institutional and background

The core focus of the registration system is information disclosure, focusing on the transparency and disclosure of information, and when the issuer requires the issuance of stocks, all types of public documents and materials must be comprehensively and accurately reported to the securities regulatory authority. The responsibility of the securities regulatory agency is to conduct a formal review of the completeness, accuracy, reliability and timeliness of the application, not to review and judge the qualifications and value of the issuer.

The purpose of the registration system reform is to increase the inclusiveness of the A-share market, liberalize the primary market, reduce excessive management intervention and control, and give full play to the fundamental and decisive role of the market. With the allocation of resources, the core of the registration system reform is to gradually change the relationship between the government and the market. Compared with the approval system, the registration system is a more

market-oriented stock issuance system. From the perspective of the international market, the registration system is generally implemented in mature markets, that is, the right of choice is truly handed over to the market to minimize unnecessary administrative intervention. Compared with the single IPO standard of the approval system, the registration system diversifies and diversifies the IPO standards, and strictly examines the authenticity, accuracy, completeness, and adequacy of the IPO materials, but does not carry out the substantive investment value of the IPO company judge. The registration system reform respects market decisions and investor decisions. This not only makes the market more comprehensive but also gives investors great freedom, that is, the right to freely choose.

The chairman of the CSRC, Yi Huiman, proposed at the 17th National Congress of the Communist Party of China: Starting from reality, a registration system of "one core, two links, and three market arrangements" has been initially established. One core: two links: three market-oriented arrangements. (Yi Huiman.2007)

"One core" is to take information disclosure as the core, requiring issuers to fully disclose the information necessary for investors to make value judgments and investment decisions, so as to ensure that information disclosure is true, accurate and complete. The "two links" is to divide the audit registration into two parts : the exchange audit and the CSRC registration, with emphasis on each other. "Three market-oriented arrangements" is to establish multiple and inclusive conditions for issuing and listing, establish a market-oriented underwriting mechanism for issuing new shares, and build an open, transparent and predictable audit registration mechanism.

3.DATA DESCRIPTION

The main data in this article comes from the Oriental Fortune choice database.

First of all, we are interested in whether the reform of the registration system can stimulate the desire of companies to go public, and whether the registration system will increase the IPO pass rate. The mainboard IPO pass rate of China's SSE has been stable at around 80% all year round, and the number of listed companies every year is small. Many high-quality companies that want to list on the Chinese market have to go to HK, China and USA to find listing opportunities to obtain stable financing. We collected the number of IPO applications for the mainboard of the SSE from 2010 to 2020, and the number of IPO applications for the reform of the SSE STAR Market registration system.

First, we compared the number of IPO filings on the Mainboard of China's SSE from 2010 to 2020 and the number of IPO filings on the STAR Market under the background of the registration system reform. The results are shown in Figure 2.

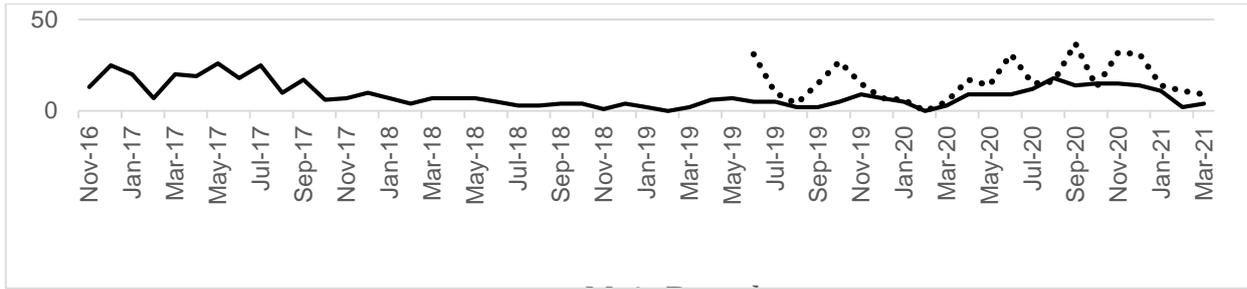


Figure 2: Comparison of IPO quantity in SSE

Figure 2 shows the time series for the total number of IPO applications between 2010 and 2020. The real line and the dotted line represent the IPO application numbers in MainBoard and STAR Market, respectively.

During the ten years from 2010 to 2020, the total number of initial IPO applications for the mainboard of the SSE was 3,276, of which 2,726 companies passed,

with an average of 272.6 passed each year, and the IPO pass rate was 83.2%. As of April 29, 2021, a total of 391 companies on the STAR Market of the SSE have first applied for IPO, and 360 have passed, with a pass rate of 92.1%. Figure 2 Comparison of IPO quantity in SSE. Figure 3 and Figure 4 show the IPO pass rate on the mainboard of SSE and the IPO pass rate after registration system reform of SSE STAR market.



Figure 3: IPO pass rate of SSE

Figure 3 shows the pass rate of Scotland and Southern Energy Corporation IPO applications from 2010 to 2020.

From 2012 to 2013, China’s securities market suspended IPO, resulting in a vacancy.

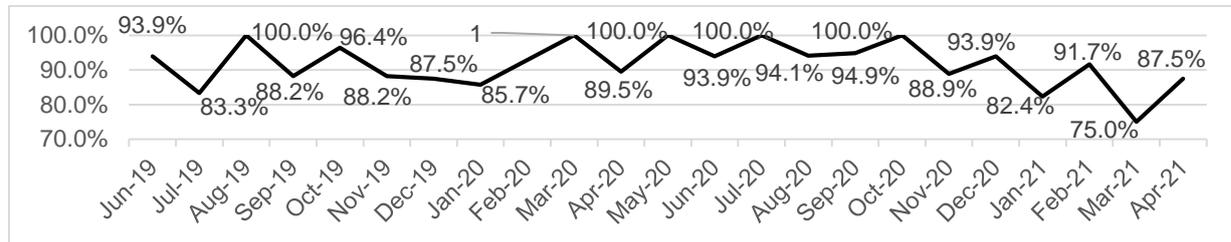


Figure 4: IPO pass rate after registration system reform of SSE STAR market

Figure 4 depicts the IPO pass rate after registration system reform of SSE in STAR market

It can be found that under the background of the registration system reform, the number of IPO applications on the STAR Market has increased significantly, and the IPO pass rate has increased by 8.9%. With the number of listings increasing year by year, the increase in the IPO pass rate will undoubtedly help the healthy development of the securities market. To promote healthy competition among high-quality enterprises. Therefore, we have concluded. After the reform of the registration system relaxed the conditions for listing, the enthusiasm of companies to go public has increased significantly.

With the reform of the registration system of the Science and Technology Innovation Commission, the price limit for the 5 trading days before listing will be removed. We believe this will bring sufficient profits to the company’s initial development. Next, we collected the IPO price fluctuation data on the first day, the 5th, the 10th, March, and June of the listed companies on the STAR Market, and then compared them with the relevant data on the mainboard of the SSE. We compared and analyzed the first day’s rise and fall on the mainboard of the SSE and the STAR Market, and found that after the registration system abolished the five-day limit before listing, the rise and fall of listed companies on the STAR Market showed a clear upward trend, with an average increase of more than 155 %, the highest increase value even reached 298.17%. Figure 5 shows IPO First day return.

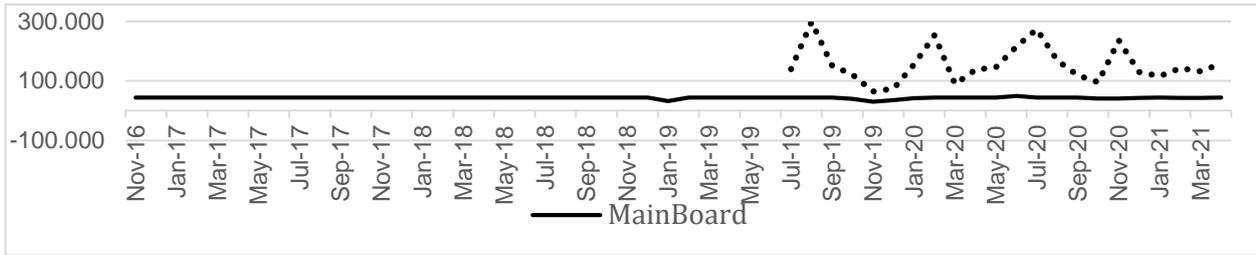


Figure 5: IPO First day return(%)

Figure 5 shows return on the first day of IPO on the mainboard and STAR Market from 2016 Dec. to 2021 Mar.

average value is 138.25%, and the highest increase is 273.89%.

Secondly, we analyzed the five-day rise and fall data after listing and found that when the time limit reached the five-day limit before listing, the rise and fall of the STAR Market listed companies under the registration system reform still maintained very good growth. The

By analyzing the data of ups and downs in the previous five days, we found that the reform of the registration system can bring huge upfront benefits to listed companies, and can effectively alleviate the financial pressure of companies due to listing. Figure 6 shows IPO 5 days return.

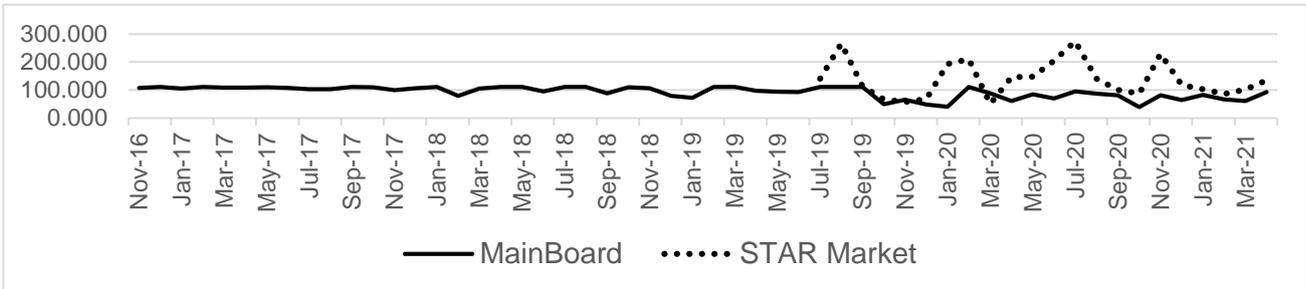


Figure 6: IPO 5 days return(%)

Figure 6 shows the 5-day return of IPO on the mainboard from 2016 Dec. to 2021 Mar. and STAR Market from 2019 Jul. to 2021 Mar.

the five-day restriction of listing, the price of listed companies on the STAR Market under the registration system reform began to approach the mainboard, and a similar cycle appeared. Figure 7 shows IPO 10 days return.

Then we analyzed the data on the price increase and decrease of the ten days after listing and found that after

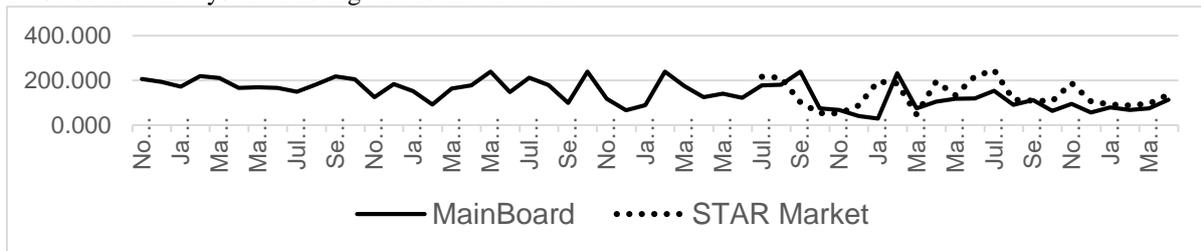


Figure 7: IPO 10days return(%)

Figure 7 depicts the 10-day return of IPO on the mainboard from 2016 Dec. to 2021 Mar. and STAR Market from 2019 Jul. to 2021 Mar.

by the registration system reform began to slowly fade, and the data of the STAR Market companies and the data of the mainboard began to fade. The same periodicity occurs. Figure 8 and 9 show the three-month and six-month IPO returns, respectively.

And by comparing the data in March and June after listing, we can find that with time, the dividends brought

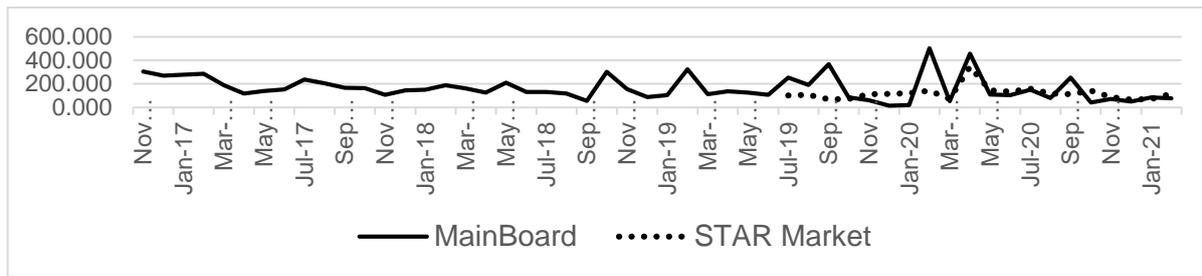


Figure 8:IPO 3 months return(%)

Figure 8 depicts the 3-month return after the mainboard IPO from December 2016 to January 2021

and the 3-month return on the STAR Market from July 2019 to January 2021.

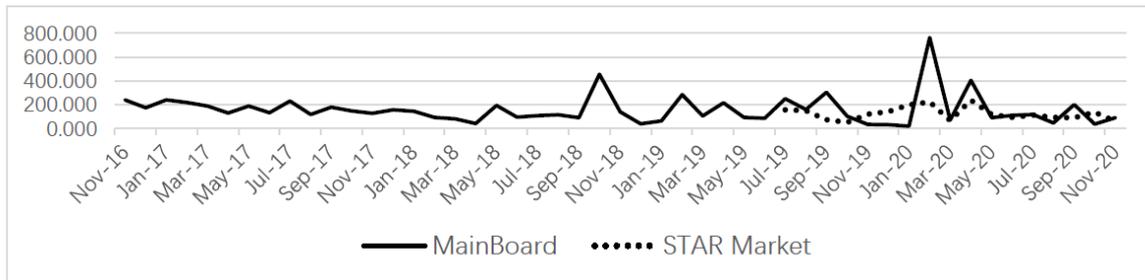


Figure 9:IPO 6 months return(%)

Figure 9 depicts the 6-month return after the mainboard IPO from December 2016 to November 2020 and the 6-month return on the STAR Market from July 2019 to November 2020.

Comparing the P/E ratios of the mainboard of the SSE and the STAR Market, the average P/E ratio increased from 4.275% to 12.511% after the reform of the registration system, but the average growth rate was the same. It is 1.241% and 1.274% on the mainboard and STAR Market, respectively. After the first five-day daily limit, we found that the share price of the STAR Market company maintained a good growth rate. After March and June of listing, with time, the stock price of the STAR Market began to stabilize until it maintained a rise and fall similar to that of the mainboard.

The results show that the registration system reform can indeed effectively promote the listing of companies and the early benefits, but with the growth of time, the dividends brought by the registration system reform will slowly fade after three to six months after listing. Therefore, the reform of the registration system will effectively increase the number and efficiency of IPOs, and at the same time bring a lot of initial benefits to enterprises.

Summary of data we found that the registration system reform reduces the listing standards, but did not make the quality of listed companies will be reduced, after the opening of the IPO, the benign competition between enterprises makes the original intention to take advantage of the opportunity to list the enterprises become less and less, effectively stimulate the vitality of the capital market, so that a large number of enterprises

with development prospects began to consider IPO. By analyzing the specific data of the rise and fall of IPOs, we find that after the registration system cancels the limit of the rise and fall of the first five days of listing, the rise of the stock price of enterprises reaches an astonishing data, which fully shows that the reform of the registration system can bring huge pre-profits to listed enterprises, which is attractive to small, medium-sized and micro enterprises that want to quickly finance through listing and alleviate financial pressure.

4.SIGNIFICANCE AND INFLUENCE OF THE REGISTRATION SYSTEM

This section first describes the significance and impact of the full implementation of the registration system. Registration reform will bring about structural changes in China's capital markets and push resources towards areas such as technological innovation. It is of great significance to comprehensively implement the registration system. It is well known that financing is a major obstacle to SMEs. Small and medium-sized enterprises are the most need for national support. After the full implementation of the registration system, more small and medium-sized enterprises will benefit from the direct financing of the capital market. It can effectively solve the problems brought by financing to small and medium-sized enterprises, and make the direct financing of small and medium-sized enterprises to obtain capital market become a common phenomenon. Other related problems arising from financing problems have been well solved. At present, one of the biggest burden of Chinese enterprises is debt. Many enterprises have good income, but a large part of the profits are given to the bank interest,

eventually leading to insufficient profits and even eventually delisting. A complete registration system implementation is like building a financing platform, which can significantly reduce the financing cost of enterprises and reduce the debt burden of enterprises. When listed companies become less difficult, capital will look for those truly valuable, long-term business, some high-quality SMEs will gradually be recognized by capital.

4.1.Problems in the Reform of Stock Issuance Registration System and International Experience

From international experience, many mature capital markets have adopted IPO registration system, but there is no specific model in the implementation and

institutional arrangements. Due to a large number of high-quality Chinese companies listed in America and HK, China under the restrictions of the approval system, we compare the registration reform of America, HK and China, hoping to get some inspiration. Table 3:Comparison of stock issuance registration systems in major countries and regions. Registration system is not without review, but when China introduces the term ‘registration’, it confuses the issuance application ‘registration’ procedure of the United States Stock Exchange and the complete sense of ‘registration system’. America is not a registration system, but an information disclosure-centered issuance review system. The Hong Kong Stock Exchange of China will also review or record the proposed listed companies, rather than just a simple written review and filing of materials.(Wang Xiao 2013)‡

Table 3:Comparison of Stock Issuance Registration Systems in Major Countries and Regions

Project	America	China(HK)	China
Registration threshold	Low	Low	Low
Auditor	Securities and Exchange Commission, state regulators, stock exchanges	Hong Kong Securities Regulatory Commission, Hong Kong Stock Exchange	China Stock Exchange, China Securities Regulatory Commission
Review content	Formal review	Substantive review	Substantive review
Review process	Acceptance, review, registration	Preliminary review, detailed review, listing hearing, approval of issuance	Acceptance, inquiry, audit, registration
Review cycle	3-4 months	4 months	STAR Market 3 months + 20 working days Second-board Market 3 months
Pricing and trading system	Cumulative order inquiry system, market maker system	Cumulative order inquiry system, fixed price mechanism, T+0 transaction	Cumulative order inquiry system, T+1 transaction
Investor	Mainly for institutional investors	Mainly for institutional investors, individual investors account for 1/3	Mainly to individual investors
Supporting policy	Complete delisting system, supporting supervisory system, and complete securities law enforcement system	Appropriate delisting channels, sound supervision system and relevant laws and regulations	Low delisting rate, imperfect supervision mechanism, imperfect relevant laws and laws

4.2.Problems with the registration system

We believe that the reform of the registration system may rapidly exacerbate the polarization of listed companies. For new listed companies, IPO may be the only financing opportunity for a long time to come. However, whether institutional investors or individual investors, will still focus on some leading large listed companies. Therefore, the ability of sustainable development enterprises is the core factor to choose investors. For many IPO companies, if they do not show the ability to continue to operate, performance improved, they may gradually be marginalized, until eliminated by the market. Looking back at history, the CSRC has successively implemented four delisting system reforms, but it has not promptly cleaned up those companies that have lost the ability to continue operations or even seriously violated the law. Therefore, the delisting rate of A-shares has been low, which is one of the "heart diseases" of the capital market. Lowering the listing standards and relaxing the number of listings does relieve the pressure on the securities market to a certain extent. However, if the supporting delisting system is not

perfected simultaneously, it will lead to market congestion and unreasonable resource allocation. Therefore, the registration Under the background of the reform of the registration system, how to improve the delisting system and establish a new delisting environment has become the top priority in the reform of the registration system.

5.PROBLEMS AND IMPROVEMENT OF THE DELISTING SYSTEM

Based on the ‘Shenzhen Stock Exchange Stock Listing Rules (Draft for Comments)’ on December 14, 2020, on December 31, the SSE issued the ‘Shanghai Stock Exchange Stock Listing Rules’ and ‘Shanghai Stock Exchange Technology Innovation’. Stock Listing Rules on the SSE, the Measures for the Administration of Stock Trading on the Risk Warning Board of the SSE, and the Implementation Measures for the Re-listing of Delisted Companies on the SSE. The delisting rules have been refined and revised.

Specifically, the SSE comprehensively revised financial indicators, transaction indicators, regulatory

requirements, and delisting standards for serious violations. As the concept of registration continues to deepen, profit is no longer the only criterion for measuring the value of a company. The original single net profit index can no longer fully reflect the sustainability of listed companies. At the same time, the delisting system abolished the initial single indicator of net profit and operating income, and added a comprehensive financial indicator that net profit is negative after deducting non-recurring gains and losses and operating income of fewer than 100 million yuan. Determine whether a company is a "shell company" through the comprehensive indicators of operating income and deducting non-net profits. At the same time, through the investigation of income management methods such as external blood transfusion and the sale of fixed assets, the company has effectively solved the problem of avoiding delisting by various means for many years.

Following the general trend of the registration system, the direction of delisting has also changed accordingly. Judging a company is no longer just to see if it is profitable. The new delisting rules will help identify the real "black sheep" in the capital market. For example, companies that have not engaged in their main business for a long time, companies that rely on government subsidies, or companies that sell asset protection shells are all facing the risk of stock delisting. Companies that face the risk of stock delisting due to profits or temporary losses in the industry cycle. There will no longer be any need to worry about the risk of stock delisting. Further improving the delisting mechanism not only supplements the problems encountered in the current implementation of the registration system but also paves the way for the full implementation of the registration system.

5.1. Problems in China's current delisting system

Lowering the listing standards and relaxing the number of listings has eased part of the pressure on the securities market. However, the supporting delisting system has not been perfected at the same time, and problems such as market congestion and unequal distribution of resources will arise. Therefore, how to improve under the registration system reform The delisting system and creating a good delisting environment has become one of the key points in the reform of the registration system.

The delisting system is imperfect and the delisting rate is low. A sound delisting system can effectively improve the efficiency of resource allocation in the securities market. The USA and HK, China will consider factors such as market value, number of shareholders and stock prices when formulating trading rules. The delisting standards are more market-oriented, the procedures are shorter, and both fairness and efficiency are considered. In recent years, due to the reform of the delisting system

and the optimization of delisting efficiency, the number of delisted companies in the A-share market has repeatedly hit new highs. According to data from Oriental Fortune Choice, since 1999, the total number of delisted companies has been less than 150. Among them, the number of delisted companies in 2020 will be the largest, reaching 16, but the overall delisting rate is less than 1%, compared with 7%-10% in mature markets. % Compared, there is a big gap between the two. Therefore, there is still much room for improvement in the number and efficiency of Chinese stock market delisting.

There are loopholes in the delisting standards, and the rigour is not high. Under the institutional framework of China's stock issuance approval system and approval system, the high value of shell resources has caused some companies to lose their development momentum after they are successfully listed. Due to the unclear and ambiguous definition of the delisting system, some listed companies use loopholes to make calculations to avoid the risk of delisting. For example, "a company with a cumulative trading volume of fewer than 5 million shares for 120 consecutive trading days will be delisted." The major shareholders and actual owners of the company can avoid the risk of delisting by increasing their shareholding of the company. For example, "If the performance of the company loses for three consecutive years, it will be suspended from listing." If a listed company loses for three consecutive years and will be suspended from trading, the listed company can use financial fraud to adjust its profits by selling fixed assets after two years of loss. "Losing two years and earning one year" to avoid delisting. In addition, the approval system focuses on the financial profitability of listed companies as the core indicator of China's stock issuance, and the delisting system focuses on the indicator of continuous losses of listed companies. It is difficult to accurately locate the problem company. If the capital market exports are blocked, and companies that meet the delisting conditions continue to stay in the stock market, it will affect the liquidity of the stock market and occupy a large number of resources, which will cause unfairness to investors.

Single delisting outcome. At present, the Chinese stock exchange market adopts different listing standards for different types of companies, mainly including the mainboard, small and medium-sized board, STAR Market, and ChiNext. However, in actual operation, due to the characteristics of low financing requirements, low financing amount, and low liquidity, after the delisting of listed companies, a large number of delisted companies flocked to the market, and there was no mutual circulation between the sectors. Therefore, when the transaction volume is difficult to increase, listed companies can only be forced to delist. Compared with the US stock market, the ratio of active delisting to passive delisting on the New York Stock Exchange is 3:1, and that of Nasdaq is 1:1.

The long-term low delisting rate has led to insufficient gold content in Chinese listed companies. Due to the long-term low delisting rate and insufficient gold content in Chinese listed companies, relevant indicators cannot effectively represent the results of economic development. The stock market is one of the manifestations of the capital market. If the relevant index cannot effectively represent the results of economic development, the securities market cannot truly play a key role in optimizing the allocation of resources in the capital market.

6. CONCLUSION

This article introduces how the registration system reform can stimulate market vitality, increase the enthusiasm of enterprises for IPO, and put forward relevant suggestions for the process of China's registration system reform, as well as suggestions for improving the registration system and optimizing the delisting system.

Optimize and improve the delisting system and improve the ecology of the capital market. Make full use of the experience in the reform of the STAR Market registration system, refer to the delisting process of mature markets such as the United States and Hong Kong, to further optimize the delisting system, simplify the mainboard delisting process, actively study new delisting indicators and delisting market conditions, and shorten the delisting time. Improve the efficiency of delisting.

Investor demand-oriented, improve the quality of information disclosure. Sort out and integrate resources related to listing rules and information disclosure, explain and refine relevant information disclosure rules in detail based on the characteristics of different industries and different companies, adjust the content of information disclosure promptly, reduce information redundancy, and improve the readability of public information. Further, improve the dynamic monitoring system for information disclosure, increase the transparency of information of listed companies, and increase penalties for violations of information disclosure. According to the needs of investors, guide the information disclosure of listed companies and further improve the communication channels with investors.

Strengthen regulatory agencies to protect the rights and interests of investors. In the past, the securities market had difficulties in delisting. The reasons included the inadequate supervision of listed companies by regulatory authorities and intermediary agencies, and turning a blind eye to corporate violations, resulting in low costs for corporate violations. Therefore, a large number of companies have speculative psychology. Therefore, legal means are used to strictly restrict the behavior of enterprises, purify the investment environment of the capital market, and effectively protect

the legitimate rights and interests of small and medium investors. We can learn from other mature capital market delisting systems. For example, the securities enforcement system in the United States consists of class actions, criminal litigation, and SEC enforcement. It can effectively combat and punish corporate deception and protect the legitimate rights and interests of investors. Draw lessons from the implementation experience of the "Consumer Rights Protection Law of the People's Republic of China" and other relevant laws and regulations, explore the construction of a diversified protection mechanism such as a punitive compensation system, increase the cost of violations of laws and regulations in the capital market, and improve the capital market's ability to protect ordinary investors.

Recommendations for developing countries to improve the capital securities market: When the capital market is established in the early stage, it is necessary to gradually improve the supporting laws and regulations to avoid inevitable errors in the development. When designating the listing criteria and delisting indicators, the economic volume of the capital market is measured and market demand is taken into consideration, to avoid overcrowding in the market or short supply.

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