

On the Evaluation of Effective Supervision of the Securities Market in China

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Abstract

Past understanding of regulation effectiveness in securities market in China are limited on the phenomenon description, or on the effect of the penalties for non-compliance, and the existing literature commonly focus on comprehensive empirical analysis for regulation effectiveness in securities market. By the questionnaire survey toward regulators, fund companies, securities firms, listed companies, this paper carried on the overall evaluation for effectiveness of China's securities regulation as well as “*The Listed Company Termination of the Restricted Stock Share Transfer Instruction Opinion*” issued by The Securities Regulatory Commission in China. The results show that all respondents to overall evaluation of the effectiveness of securities regulation and the specific evaluation of specific policy effect did not reach the level of 4 points (full score 7 points).

Keywords: regulatory effectiveness, the overall evaluation, policy evaluation, policy intentions

1. Introduction

For more than 20 years, the securities market in China has played a significant role in promoting the economic progress and development of the enterprise. However, China's securities market is just past the primary stage of development, there are a number of problems with the operation of the securities market and regulation. Therefore, starting from the actual situation of securities market, the empirical research on Chinese securities market regulation effectiveness, comprehensive evaluation of the overall effect of the supervision work, specific evaluation of the specific effect of some important regulatory policy, explore how to effectively on the basis of the securities market regulation, so as to enhance the effectiveness of China's securities market regulation, and it is the urgent to study the subject.

At present, analyzing securities market regulation effectiveness, the comprehensive evaluation on the supervisory work, specific evaluation on some important regulatory policy research results were rare. Ma & Tang etc (2007) stated that the history of stock market in China is divided into five stages, and carried on the empirical research using event study to take the market model, at the same time analyzed the policy effect the micro mechanism of the formation. Research conclusion is that the obvious effect of the policy of securities market in China; With obvious utility in China securities market policy, the lack of stable long-term mechanism, policy risks; Policy efficiency is low, the participants have different response to good and bad policy; Policy evolution of game between institutional investors and small investors; Due to a serious asymmetry of information, it is difficult to protect the interests of small and medium-sized investors and maintain the stability of the securities market. from the angle of the capital market operation Shang (2009) argued to strengthen the monitoring and early warning of the international financial crisis, to strengthen the supervision of cross-border capital flows, the implementation of major risk early warning and emergency mechanism, paying close attention to market changes and new characteristics of illegal behavior, further strengthen the market manipulation, insider trading, the indemnification punishment of violation cases and exposure, effectively maintain the normal market order. Chan (2010) through the Shenzhen violations of listed companies

empirical analysis it is concluded that, in the law enforcement under the condition of limited resources, China's capital market regulation has certain problems, its effectiveness considerations. For this purpose, the regulatory departments in the formulation, the implementation of regulatory policy at the same time, should also strengthen the construction of internal control. Zhou (2011) from the perspective of bank system of regulation that after the global financial crisis in 2008, the financial operation and management, macro-prudential policy framework has become the main direction of international financial reform after the crisis. Xu (2011) by identifying regulatory effectiveness of six standards has carried on the detailed evaluation effectiveness of China's securities market regulation. The conclusion is: the overall effect of the current regulation and the effect of specific regulatory policies are poor, did not pass the level.

Many scholars policy on the stock market and the correlation problem of empirical analysis and inspection, show that had a greater influence on the policy of the market, but the change of the market and the policy intentions of correlation is low, often appear the market change and policy intentions the opposite phenomenon. That is to say, the policies did not achieve the desired purpose. In this paper, through the study of the empirical analysis of China's securities market regulation effectiveness, trying to give regulatory effectiveness degree of quantitative conclusions, and take some corresponding improvement measures, improve the effect of China's securities market regulation.

2. Methodology and Design

2.1 Research Ideas

This paper discusses empirical China's securities market regulation effectiveness in two stages. The first phase from the two aspects of China's securities market regulation effectiveness test: one is to use questionnaire statistical method, overall evaluation of the effectiveness of China's securities market regulation is studied; The second is the questionnaire statistical method is adopted to China's securities market regulation a specific measures the effectiveness of the evaluation were studied. Past research, the securities market by the so-called public data such as yield was analyzed, and less considers the human factor. But the true nature of the securities market is a place for all kinds of market main body interaction, from the point of each main body of market performance, no matter what the main body; the participants are behind people and so ultimately one problem. People's subjective feeling and the degree of satisfaction on the development of the securities market has a very important influence, run. Therefore, the research on the related participants in the securities market and its regulation should attach importance. The participants to the evaluation of market development, and the many regulatory policy evaluation needs large sample questionnaire. Therefore, this article attempts through the large sample questionnaire survey, understand the participants the assessment of the regulatory effect on specific regulatory policy, the need to choose some typical lists in the process of policy research on the stock market policy in recent years, according to the respondents familiarity and to influence the size of the market principle, through expert interview form, select the securities regulatory commission on April 20, 2008 release of the listed company terminate the restricted stock share transfer guidelines "(hereinafter referred to as the "Guidelines"), as a representative of the concrete measures of questionnaires, for respondents answer the questions according to the result of practice. Then, analysis results are consistent. The second phase asked respondents to answer the current situation of regulation effectiveness, problems and the reasons.

2.2 Questionnaire Design

On the selection of questions in the questionnaire and determine, a combination of expert in-depth interviews with extensive questionnaire, in the process of questionnaire design, according to certain criteria to select the general and special experts. Three rounds of 51 experts are selected, including economics, law, accounting, finance professor, director of ministry and securities regulators, listed companies, securities companies, securities industry association, the related bank head through three rounds of experts in-depth interviews, to determine the content of the questionnaire and topic, determine the weight of various categories of respondents, according to the actual situation of the securities market, the questionnaire design about seven questions the effectiveness of the securities regulation fewer questions in the questionnaire, the content is simpler, questions can well represent the effectiveness of the securities regulation, also easy to answer.

Questionnaire design uses the corresponding two simple questionnaires. The two questionnaires, half topic is the same, the other half is different. First, the survey respondents to overall evaluation of the effectiveness of China's securities market regulation, another survey respondents in China securities market is a specific regulatory measures the effectiveness of the evaluation, the purpose is to avoid in the same questionnaire, survey respondents to the overall evaluation and specific measures to evaluate effectiveness of regulatory influence each other. Second, even if is the same question, also with the opposite idea on two questionnaires to ask, the purpose is to use the way the topic is there a difference on the formulation, to survey respondents view of factors influencing the effectiveness

regulation. Third, regulatory goal contains content into different problems, the purpose is to survey respondents view of regulatory objectives realization and evaluation of the effectiveness of China's securities market regulation, analyze the present situation and cause of supervision effectiveness.

Because of the sensitivity of the Chinese securities market, in the design of the questionnaire, managed to avoid the title of China's securities market regulation effectiveness evaluation, using the title of "securities market questionnaire", so as to avoid the respondents' resistance, increase the number of recycling questionnaire.

2.3 The Selection of the Sample

For regulators 50 questionnaires, and other ministries 40, commercial bank headquarters 30, another province branch 50, urban commercial Banks 60, fund company 60, brokers 70, listed companies 70, general enterprise senior general investors 80, total 570 questionnaires, recycling questionnaire 537, eliminate invalid 48 questionnaires.

Respondents answer two questionnaires respectively, in front of the Numbers in brackets below is to answer the questionnaire (the overall regulatory effectiveness evaluation), the number of the back of the figure is to answer the second questionnaire (specific regulation effect). Recycling effective questionnaire, regulators 40 (21) 3 copies of other ministries 39 (15, 24), a commercial bank head office 22 (11, 11), a commercial bank 44 (26) 16 provincial branch, city commercial Banks (25), 25, 50 fund company 50 (24, 26), brokerage, 59 (28, 31), 59 (27, 32) of the listed company, general enterprise senior 52 (17, 35), the general investors (40), 34, 74.

2.4 The Weight of Each Category of Respondents

If the different types of respondents to the same question, and considering the views of the judge, the proportion of the various categories of respondents (weighted) should be? Research design using two methods: one is the simple average method, consider all respondents, respondents were equally important, simple average weighted by number; Second, weighted average, on the grounds that, where the analyses involve different groups, the importance of the various groups are different, so should be the weighted average, in front of the questionnaire, was first issued to the special expert on weight determines the questionnaires and interview respondents views on the weighting was Regulators (23%), Retail investors (14%), Fund companies (13%), Brokers (16%), Commercial Bank (11%), listed companies (15%) and other (8%).

Regulators including the General investors, brokers and listed companies, fund managers, they have different views on the weight calculated as 24.138%, 27.58%, 25.86% & 22.44%.

3. China's Securities Market Regulation Effectiveness Analysis Results

3.1 Respondents to the Overall Evaluation of the Effectiveness of the Securities Supervision

This study proposed the question is: would you please use seven scale (1 2 3 4 5 6 7) to evaluate the overall effectiveness of China's securities regulation, very effective 7 points, effect is generally 4 points, no effect of 1 point, the grading of all respondents are shown in Table 1.

3.1.1 All Respondents to Evaluation the Effectiveness of the Securities Regulation

As Table 1 shows, all respondents to securities supervision effectiveness evaluation of the overall weighted average (according to the number of weighted) is 3.3640, not reached the standard of pass the variance analysis showed that different respondents overall evaluation scores of securities regulation have some significant differences. This means that regulation of various kinds of survey respondents were significant differences in the effectiveness of the evaluation, and this difference is systemic. Conclusion: all respondents to the securities supervision effectiveness of the overall evaluation of the weighted average (according to the number of weighted) is 3.3640, all kinds of respondents have significant differences.

3.1.2 Different Combination Respondents to Evaluation the Effectiveness of the Securities Supervision

Different combinations are calculated separately, and the respondent to overall evaluation of the effectiveness of regulation (see Table 2) the original 10 types of respondents can be incorporated into seven categories, namely, regulators, general investors, brokers and fund companies, listed companies, commercial Banks (commercial bank head office, provincial branch, city commercial Banks for the category) and other ministries.

Table 1. Respondents to the overall evaluation of the effectiveness of the securities supervision

Type	average	number	Standard deviation
Regulators	4.5438	21	1.20544
Retail investors	1.9466	34	1.91445
Top enterprise	3.2345	17	1.37678
Listed company	3.7857	27	1.38678
Other ministries	3.2457	15	1.59726
Head Office, Commercial Bank	3.0909	11	1.26356
Commercial bank branch	3.2556	25	1.54868
City commercial bank	3.2466	24	1.14467
Fund companies	4.4245	28	1.59245
Brokers	3.9674	28	1.56145
total	3.6746	229	1.50956

Commercial Banks by the commercial bank head office, provincial branch of commercial bank, city commercial Banks in three different levels of Banks, the average calculation is as follows:

The weighted average of commercial Banks = $3.09 \times 11 + 3.154 \times 25 + 3.2628 \times 24 = 3.174$.

If consider respondents in the whole different weights, can examine different combination of respondents on regulation of effectiveness evaluation of the weight of 7 kinds of respondents according to Table 1, the weight of the regulated according to Table 2, the results are shown in Table 2.

Table 2. Respondents overall evaluation of the effectiveness of the different combination of securities regulation

Different combinations	Simple weighted-average	Weighted average
Regulators	3. 3098	3. 4234

As can be seen from Table 2, 7 kinds of respondents, the regulated according to the number of simple weighted average no pass the standard, these different categories of respondents special combination of group of regulatory effectiveness evaluation is not high also. 7 kinds of respondents, the regulated according to the weight of the weighted average of all not to pass the standard, these different categories of respondents' special combination of group of regulatory effectiveness evaluation is not high also.

3.2 The Effect Evaluation of Respondents to the Listed Company Terminates the Restricted Stock Share Transfer "Guidance"

Questionnaire is made toward "the listed company terminates the restricted stock share transfer instruction opinion", and we use a. very successful (7 points); B. failure (0); C. not completely successful (5 points); D. not success (1)

3.2.1 All Respondents in the Statistical Analysis on the Different Options

The number of respondents of all kinds of different options and the ratio can be seen in Table 3. Option of different investigators score do two variance analysis, as you can see all kinds of respondents score difference whether there was a significant difference, the calculation results show that process (from), regulators in addition to the headquarters of the commercial Banks commercial Banks province branch, the difference was not significant difference with other respondents are significant.

Conclusion: all respondents to the listed company terminate the restricted stock share transfer guidance "effect evaluation, the average score is 2.82 points (total score is 7 points) their evaluation has significant difference.

3.2.2 Different Combinations of Respondents to the "Guidance" Effect Evaluation

Including seven class respondents (its components are shown in Table 4) by regulators (its components are shown in table 5) to the "Guidance" evaluation process is similar to the above analysis, the conclusion are shown in table 6 table 7. 7 class respondents to get rid of the city commercial bank (25) general enterprise high-level (35).

From the above analysis we can see that all respondents and their different combinations, "guidance" effect evaluation to 4 points (full marks for 7 points).

3.3 "Guidance" Objective Influence of the Market

Apart from the above analysis, can also according to the specific policy cause the objective change of the market to examine its actual effect, to see if consistent with the subjective evaluation.

3.3.1 Analysis on the Characteristics of Policy and Regulatory Policy Motivation

In 2008, the "non tradable share" problem has greatly on the market participants. Regulators in order to maintain stable and healthy development of securities market, has issued many policies to solve the problem of "non tradable share", in order to avoid the sudden large holdings of the impact on the market, and from the nature of policy and regulatory policies issued by the motivation analysis, are very targeted. Among them, the "Guidance" is regarded as the processing of supervision department issued ban on important policy issues.

3.3.2 Participants' Understanding of Policy and Market Reaction

Table 3. The number of all the respondents all kinds of options and ratio

Type		a	b	c	d	total
Regulators	number	3	0	11	5	19
	%	15.8		57.9	26.3	100
Retail investors	number	3	7	12	18	40
	%	7.5	17.5	30	45	100
Top enterprise	number	1	7	9	18	35
	%	2.9	20	25.7	51.4	100
Listed company	number	1	3	16	12	32
	%	3.1	9.4	50	37.5	100
Other ministries	number	1	6	8	9	24
	%	4.2	25	33.3	37.5	100
Head Office,Commercial Bank	number	0	1	7	3	11
	%	0	9.1	63.6	27.3	100
Commercial bank branch	number	2	3	11	2	18
	%	11.1	16.7	61.1	11.1	100
City commercial bank	number	3	3	8	11	25
	%	12	12	32	44	100
Fund companies	number	2	0	9	13	31
	%	3.2	19.4	35.5	41.9	100
Brokers	number	1	6	11	13	31
	%	3.2	19.4	35.5	41.9	100
total	number	17	36	102	106	261
	%	6.5	13.8	39.1	40.6	100

Table 4. 7 compositions of the respondents

Type	number	%
Regulators	41	9.45
Retail investors	40	19.9
Listed company	32	15.92
Other ministries	24	11.94
Commercial bank	29	14.43
Fund companies	26	12.94
Brokers	31	15.42
total	201	100

Table 5. Regulated the composition and ratio

the regulated	number	%
Retail investors	40	31.01
Listed company	32	24.81
Fund companies	26	20.16
Brokers	31	24.03
total	129	100

Table 6. 7 types of respondents on the evaluation of various options weighted average

Type	mean	weight	Average weighted average
Regulators	4.26	0.23	0.98
Retail investors	2.48	0.14	0.35
commercial bank	3.76	0.08	0.19
Listed company	3.09	0.15	0.46
Other ministries	2.33	0.08	0.19
Fund companies	2.85	0.13	0.37
Brokers	2.42	0.16	0.39
total	2.95	1	3.15

Table 7. Regulators on the evaluation of various options weighted average

the regulated	mean	weight	Average weighted average
Retail investors	2.48	0.24138	0.5986224
Listed company	2.42	0.27687	0.6675812
Fund companies	2.85	0.22414	0.638799
Brokers	3.09	0.25862	0.7991358
total	2.69	1	2.7041384

Participant support for regulatory restrictions lead to “non tradable share” reducing, because it avoided the stock market continuing to decline while their own losses, this starting point is consistent with the regulatory departments. But for “non tradable share” holders, when the market rose, reducing wish will be relatively low, and when the downturn in the market, because of the low cost of ownership will have a relatively large set of impulses.

After the regulators issued the guidance, high low open index, spiked down, rising less than 1%, then the market despite the short term rising, it is important because subsequent printing rate adjustment policies, and is not closely related to the guidelines. Since then, the market step by step down, more players in the market is concerned, some time after promulgation of the guidelines, the term "non tradable share" reduction resulting in a significant increase in volume, indicating that the guidance was induced by the promulgation of the "non tradable share" difficulty of reducing fear for the future, so as to boost its cash drive, which had a negative impact on the market as a whole.

The author interviewed in academia and industry-wide, including the following points: first, most participants are dissatisfied with the guidance, may in fact be appearance, the transaction cost is the real reason behind the huge gap formation. Investment impossible, as a listed company, equity release, all cash, sell, company bankruptcy and bankruptcy are not company executives and other industry issues that need serious consideration, they receive a normal operations could not obtain excess interest, stock market participants did not dare long-term investments, short-term speculation, and the speculation involves cost issues. And "non tradable share" precisely because of the very low cost, so it will have such a strong desire for cash. Second, since most "small non tradable share" stock holdings to less than 1%, so the guidelines of "small non tradable share" reducing effect is not very large, and "major" each month can also reduce 0.99% (1%, from 1%), maximum reduction of roughly a year closer to 12% shares, the number still has a big impact on the market. Third, the guidelines could change the "non tradable share" holder's original expectations and stimulate them to speed up the cash. 2008 securities market go weak, "non tradable share" whether should lifted and how lifted had suffered dispute, but regulatory sector on this long time no passed clear of policy information, participants so no formed reasonable expected guide views caused has "non tradable share" holds who negative of Lenovo and expected, they accordingly judge issued more severe of policy limit they of holdings, so short-term within sets now wishes instead has improve, using guide views of good nature sets now away from field. Finally, the guidance itself is not tight, the executable is not high, and especially for the realities of the securities market lacks a clear perception and lack of penalty clauses. For example, the guidance in the "total number of shares of the company 1%", is stating that the strange circumstances of the securities market, so this executable on the guidance of policy and the actual binding is not strong. More important is that the prohibitive provisions must be contrary to the prescribed penalty provisions. If "non tradable share" restricted stock shares contrary to the guidelines, any punishment? Is allowed to write checks, public review, to publicly condemn? Is punishable by a fine or ordered it to compensate the losses suffered by investors? The guidance does not provide instructions on drafting the guidance policy of rigor, executable do not attach on market participants' behavior, market changes and regulation of the lack of good understanding.

The guidance provides: "release restricted stock shares is expected to open within the next month the sale lifted shares of restricted stock over 1% of the total number of shares in the company shall block trading system if the transfer of shares through a stock exchange." Block trading as "non tradable share" established reduction path is correct. Because shares in the stock market now, the continued supply pressure on the market, but also will cause participants to psychological fluctuations and unrest, likely to cause the entire securities continued to fall. "non tradable share" is easy to avoid regulation. Because the guidelines are not strict: it can be divided into a few months after the release of restricted stock to cash.

This is obviously a significant omission; it shows that policymakers are not familiar with the market participant's motivation and behavior characteristics. In fact, from the executable level may provide that, if the cumulative reduction in the next three or six months at or above 1% must be big deals. Most importantly, it must be made clear, if failure to do so will be what kind of penalties (such as fines, confiscation of their proceeds, to compensate investors for losses) if through this omission, more punishing conditions, will improve the tightness of the guidance and enforceable. And then developed this guidance is also lack of prospective, did not anticipate the reaction of market participants, also did not foresee the "non tradable share" to the provisions dealing with countermeasures.

In summary, objective changes of the stock market shows that this guidance did not achieve the desired effect, the market participant does not recognize that the guidance for this and earlier empirical concluded that the guidance of the market participants' subjective evaluation is consistent with the conclusion.

4. Conclusions and Policy Recommendations

Empirical analysis shows that all respondents and their different combinations, to the overall evaluation of the effectiveness of Chinese securities market supervision and to "lift the transfer of restricted stock shares of listed companies guidance" is not highly evaluated the effect of quantitative evaluation are not up to 4 points (out of 7) show that regulation is not high.

Respondents were not satisfied with the effective supervision, and regulatory effectiveness is not high are interrelated.

During the process of supervision, attention to the participants' satisfaction, not for all participants to make a profit, because regulators have no obligation to keep participants profit, let alone let all participants profit, but to create a balanced win-win solutions as far as possible; To allow all participants to share because the implementation of regulatory policies will be to facilitate market development and interests; To give all participants the opportunity to express their interests.

Many times, the control will not ensure that all participants are profitable, but also to lead or force the participants to do things that would not do. Regulatory cannot guarantee all participants of specific interests, but must to guarantee those interests may by effect of participants has expression interests demands of opportunities, regulatory who in developed and implementation regulatory system, and policy Shi, from system Shang ensure participants of interests demands opportunities, and may by policy effect of object for consultations of program, from policy developed to introduced to carried out widely of advisory communication and hearing work.

Because the regulatory, policy formulation and implementation, involving all participants in the market, if not tight, there may be a lot of loopholes, prone to ambiguity, being misunderstood and misinterpreted, regulatory statutes, policy has lost its meaning and authority. More importantly, if the measures are not security, will be used by some participants, this will not only void the regulatory statutes, policies, also markets a great deal of injustice, because the use of regulation loopholes participants will gain huge profits, harmful to the interests of other participants. A regulatory policy more or less may have some side effects, so regulatory rigor requires that the original measure would have any side-effects, what new problems will be deep in thought. In the formulation based on effective feedback mechanisms, ponder whether market reaction after each regulatory measures enacted in line with expectations, to improve the effectiveness of supervision.

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