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A Study on the Regulation of Price Manipulation in the Chinese Stock Market

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Abstract: China's stock market was formally established in late 1990, and the regulation of market manipulation began in 1993. Both the formation of the stock market and the regulation of manipulation have a relatively short history, and there is great room for improvement. In the Chinese stock market, there is a general perception of the existence of main forces, which play a decisive role in the manipulation of stock market prices. Obviously, the existence of the principal phenomenon is extremely detrimental to the healthy development of the Chinese stock market. For the sake of market regulation and market development, market regulators wish to recognise the phenomenon of main force. Therefore, this paper examines market price manipulation and analyses its impact on the stock market so as to make recommendations in improving stock market regulations and restraining market price manipulation.

Keywords: stock market, Market price manipulation, Regulation.

1. Introduction

In developed financial markets such as Europe and the United States, the prices of financial assets are difficult to be manipulated by individual institutions or individuals due to the large number of speculators in the market and the relatively regulated market, and the prices of assets are formed by competition among market participants, i.e. non-speculative prices. In the Chinese securities market, however, the principal phenomenon is widespread and asset prices are expressed as speculative prices. These improper means of stock price manipulation have seriously affected and jeopardised the development of China's economy and caused great damage to the rights and interests of stockholders. Based on this situation, it is crucial to play the regulatory role of China's securities sector and strengthen the means of regulatory enforcement to ensure the stability of the stock market operation. Based on the problems of the regulatory system for price manipulation in China's stock market, this paper puts forward relevant suggestions for strengthening the regulation of price manipulation in the stock market.

2. The Necessity of Supervision of Price Manipulation in China's Stock Market

2.1. The importance of real stock market prices

The stock market promotes economic growth through its influence on the allocation of capital, and the price truthfulness of the stock market is the basic condition to ensure the optimal allocation of capital. Various studies have shown that the higher the degree of truthfulness of stock prices, the lower the financing costs of enterprises, and the truthfulness of stock prices is directly proportional to the efficiency of capital use. At the same time, the aim of the theoretical basis for the regulation of stock market manipulation is to ensure the truthfulness of stock prices, as price truthfulness is an important element for stock markets to perform their important economic functions. Therefore, the regulation of stock market price manipulation to ensure the authenticity of prices can enhance the efficiency of capital use and enable the stock market to perform its important economic functions.

2.2. Regulatory enhancement to ensure the effectiveness of the market

Stock market price manipulation acts as an alternative profit-making mechanism, making a portion of market participants willing to profit through manipulation, thus affecting the formation and full function of various information transmission mechanisms and the degree and progress of the development of market effectiveness. The involvement of manipulators in the market will change the market behaviour of short-term arbitrageurs in the stock market, and it is the latter that is an important acting force and an important link in the market effectiveness mechanism for the stock market to move towards effectiveness. The presence of more active information miners will increase market effectiveness by creating anti-manipulation rules and government regulation that will raise the cost of manipulation and deter manipulators from entering the market.

Not only that, the presence of manipulation directly affects the veracity of market information, increasing the cost of information processing and discrimination for market participants and correspondingly reducing returns. The manipulator's stock market manipulation makes the price deviate from the price level under the free action of the market, generating wrong information and affecting investors' judgment on the value of the company, thus affecting the market effectiveness.

3. Problems in the Regulation of Price Manipulation in China's Stock Market

The development of China's stock market started late and some institutional measures are not yet sound, thus providing the possibility for stock price manipulation. With the development of social economy, China's stock market began to pay attention to the supervision of manipulation, but due to the reason of insufficient experience, there are many problems in the supervision of stock market manipulation. With regard to the problems existing in the regulation of stock market manipulation in China at present, they are mainly manifested in the following elements.

3.1. Post-facto supervision by relevant departments

In the stock market, many stocks have been at high levels that do not match their values for a long period of time and there are abnormal trading situations, and it is obvious that there is price manipulation, but it has not been noticed and investigated by the regulatory authorities. After a significant fall in share prices, the regulator has still not taken action In addition, some cases have been opened and investigated for a long time and still no investigation results have been announced. The lagging and ex post facto nature of the judiciary's actions is partly due to the nature of the judicial process, and most of the investigations and administrative penalties imposed by China's dedicated securities market regulators on stock market manipulation are also ex post facto and lagging, which has led to an overall ex post facto and lagging nature in the regulation and punishment of stock market manipulation in China.

3.2. Failure of regulatory authorities to play a day-to-day supervisory role

Most of the market manipulation cases caused bad market impact and huge economic damage to investors, and the securities regulator did not play a professional daily supervisory role and the supervision was inefficient. Zhongtong Bus and Zhejiang Construction Investment, etc., rose continuously without huge changes in the company's fundamentals, and then fell to the bottom because of a piece of news, which produced great harm to investors' interests. The regulator should give full play to its regulatory role on a daily basis to fully protect the interests of investors. At the same time, the regulatory authorities have certain shortcomings in the legislative work on stock market manipulation, and have not been able to form an effective monitoring mechanism, resulting in the actual work process, encountered many abnormal trading behavior can not be effectively determined.

3.3. Penalties are "selective"

China's securities regulatory activities are "selective", and the penalties for the same type of violations are often unbalanced and highly arbitrary, as is the case with the regulation of market manipulation. When the market is in the doldrums, the SFC usually makes few decisions on market manipulation penalties for fear that they will further undermine the confidence of the market, while during periods of active trading in the securities market, the SFC will take corresponding measures to step up its supervision and investigate and deal with a number of illegal and non-compliant cases in a phased manner in order to regulate market behaviour. The penalties imposed by the SFC carry the intention of regulating the market trend, which is not conducive to the healthy development of the market. Securities regulators can not be wrong to use the case investigation and punishment efforts to act as a macro-control tool inspection work can not be tight at times, so as to fundamentally enhance investor confidence.

4. China's Stock Market Price Manipulation Supervision of Perfect Measures

In order to better promote the development of China's social economy, improve the socialist market economy in the process of development of the existing problems, it is necessary to strengthen the effective management of the stock market price manipulation, this paper from the regulatory departments, enterprises, investors three perspectives to put forward regulatory improvement proposals.

4.1. Establish and improve the anti-manipulation regulation system from the regulator

While the securities regulators have formulated numerous regulations and guidelines on the primary market and information disclosure of listed companies, they have only formulated a few rules after the promulgation of the Securities Law, resulting in ambiguity and hesitation in the determination of manipulation by the securities regulators.

Some areas are clearly over-regulated situations that do not address the relationship between protecting investors and maintaining market effectiveness. At present, China has adopted outright prohibitions on some trading devices and market systems, which certainly help to prevent manipulation or other violations in these areas, but the market as a whole may also pay a price in that it hinders the functioning of the market effectiveness mechanism and affects market effectiveness. Therefore, the overall trading rules should be improved through the development of safety rules for specific areas such as share buybacks and price stabilisation behaviour during the issuance process to provide appropriate room for market behaviour.

4.2. Self-regulation and press oversight from companies

Self-regulation by industry self-regulatory organisations as well as press supervision by the news media should be strengthened. All along, China's securities market has over-emphasised government supervision and dense administrative control, and has not paid enough attention to the role of industry self-regulation and press supervision. It should give full play to the role of self-regulatory bodies and press coalition bodies to form a coordinated and interactive mechanism while adhering to the premise of professional supervision. We should give full play to the self-regulatory role of the securities industry association, and use the multilateral credibility restraint function of the securities industry association to curb illegal acts of market manipulation by securities companies. At the same time, we need to play the monitoring role of the news media. News media oversight is not part of the structural system of securities market regulation, but it plays an active and unique role in the regulation of market manipulation. Studies have shown that news media oversight always contributes to the overall net benefits of securities market regulation, as most of the costs of oversight lie outside the securities market.

4.3. Improving the civil liability regime from investors

Strengthening the role of regulators should give full play to the civil liability system, which is necessary and urgent to help investors better recover their wrongful losses. The civil liability regime provides investors with an avenue to seek civil remedies, particularly financial remedies, where neither administrative nor criminal penalties can recover the financial losses of investors. The establishment of a civil liability regime will also facilitate the development of the law in the area of securities regulation. At the same time, a civil liability regime could serve as an alternative or competing mechanism for specialised regulators. The development and improvement of a civil liability regime will give investors the power and ability to counteract violations of the law, help foster respect for the rules within the market and ultimately promote the securities market as a rational investment market.

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