



The Research on China IPO Mechanism Existence Question and Countermeasure

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Abstract

As a major institutional reform, China IPO market reform in the obtained enormous result while also put in a few problems. First, contradictions between the stock market pricing and the issue of audit. Second, the sponsor closely with the interests of the issuer to issue overvalued. Third, the IPO allocation system is not reasonable inquiry agencies compete to improve the offer of new shares. Reform and perfect the system of IPO, through the system arrangement of the system to achieve. Through accelerate commercialize reform pace, gradually the practice registration system to create the conditions for the future. We should strengthen the issue of market supervision, increase irregularities punishment. The government should further improve the current IPO way of inquiry.

Key words: The IPO system; Market-oriented reforms; Problem; Countermeasures

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INTRODUCTION

The IPO has been a focus of concern to society as a whole. Premier Wen Jiabao in the national finance workshop proposed that must deepen the new stock release system marketability reform, grasps to consummate the release, to withdraw from the market and to be listed draws bonus

the system. On January 8, 2012, Securities Supervisory Association President Guo Shuqing proposed in the national negotiable securities stock supervision workshop: Continues to deepen the IPO reform, consummates the new stock price structure mechanism, the reform stock sells on consignment the means. Guo Shuqing indicated that must consummate the new stock price structure mechanism, the reform stock sells on consignment the means that causes the new stock fixed price to be connected closely with the publisher fundamental plane. The consummation discloses and the release verification information disclosure system in advance, carries out and strengthens guarantees recommends the organization, attorney and the Accounting firm and so on Facilitating agency's responsibility.

On February 1, 2012, Securities Supervisory Association first foreign public for the first time public release stock entire process. Two days later, has the problem in view of the new stock inquiry process, the Securities Supervisory Association Department concerned people in charge indicated that is studying strengthens the inquiry process supervision, urges the organization rationality quoted price. This indicated that the new stock release mechanism's consummation has not only aroused the supervision level interest, moreover is speeding up the consummation the step.

1. CHINA'S CURRENT IPO SYSTEM

The China's current IPO system has three main points: The new stock release implements going on the market to guarantee recommends the system, the new stock release fixed price implements the inquiry system, the new stock release way implements under on-line release and the net sells on ration unifies.

The new shares issued to the implementation of the Listing Sponsor System. Securities Issue Going on the Market Guarantees Recommends System Tentative Method

stipulated that the enterprise public release stock must take going on the market for the first time to guarantee recommends the system, plans publisher's going on the market by the guaranteeing and recommending person to recommend and to counsel responsibly, verifies in its release document to carry the material the authenticity, the accuracy and the integrity, assists the publisher to establish the strict information disclosure system and so on.

The new stock release fixed price practices the inquiry system. on November 1, 2010, Securities Supervisory Association, in the implementation About Deepens the New Stock Release Organizational Reform the Instruction Opinion in the foundation announced Securities Issue with to Sell on Consignment Policing Method, stipulated that the public release stock practiced the inquiry system for the first time, mainly adopted to the institutional investor inquiry way determines the new stock issue price.

The new stock release way implements under on-line release and the net sells on ration unifies. According to Securities Issue with to Sell on Consignment Policing Method the stipulation, under the net sells on ration mainly aims at the institutional investor, but on-line release mainly aims at the market investor. Under the participation accumulation bid inquiry and the net sells on ration the institutional investor must the sum total pay Shanghai to buy the fund, but has not participated in the preliminary inquiry or the participation preliminary inquiry but not effective quoted price inquiry object, do not participate under the accumulation bid inquiry and the net sells on ration. Under the participation accumulation bid inquiry and the net sells on ration the institutional investor must the sum total pay Shanghai to buy the fund, but has not participated in the preliminary inquiry or the participation preliminary inquiry but not effective quoted price inquiry object, do not participate under the accumulation bid inquiry and the net sells on ration.

2. CHINA IPO MECHANISM DEFICIENCIES

The Chinese new stock release present system is the company goes on the market implements guarantees recommends the system, the new stock release fixed price implements the inquiry system, the new stock release way practices the system which under on-line release and the net sells on ration unifies. This system was Securities Supervisory Association had issued officially from June, 2009 Guidance on Further Reforming and Improving the System of IPO, the change new stock fixed price release way before this uses marketability release reform. Implements the new stock inquiry system's goal, is must draw support from institutional investor's fixed price ability to come to the new stock release to carry on the reasonable fixed price.

As a significant system transformation, the new stock release fixed price's marketability reform, in China under

the emerging Canadian switch's market condition, has made the huge progress, has accelerated the stock market development effectively, but simultaneously also has some insufficiencies, mainly displays in:

2.1 New Stock Market Site Fixed Price and Strict Release Verification Existence Contradiction

The marketability release fixed price system will urge market each participants and so on publisher, investor, credit corroborative in both urban and rural areas, supervision organization to improve own quality and the specialized accomplishment unceasingly, and the maturer rationally participation capital market activity, achieves altogether wins in every way. The marketability release fixed price system is helpful to the new stock fair pricing, reduces first-level and the secondary market price margin, reduces a series of questions which the excessively many floating capital freezes create, thus is advantageous in the stock market is long-term, health development. This is the management carries out the new stock release marketability the original intention. But what in 2009 the new stock release carries out and continues to use until now is one kind of incomplete marketability pricing system. This kind of incomplete marketability performance is: Fixed price marketability and release verification control. At the same time, the loose inquiry system, let the primary market issue price break 20 time of market profit long-term imprisonments, distributed the new stock the fixed price basis no longer is enterprise own quality of material and it to the market pledge investment plan prospective profit, but was the market acceptable price. On the other hand, the Supervisory department is controlling the new stock release reviewing authority strictly.

This system creates the issue market and trading market coming apart. The enterprise must distribute the new stock, may, no matter issue price height, but does everything possible through the release verification difficulty. Once through the release verification, may hit the marketability fixed price advertisement smoothly, enhances the new stock the issue price, causes the market all quarters participant is specially the investor encounters awkwardly. In this kind of kind of marketability system, the Issuing company becomes the congenial lead, and obtained the considerable congenial profit under the system protection. In fact, this kind of profit has brought in the relative centralism originally from the extremely scattered market participant's pocket through the administrative method little the partial person's pocket, the investor unceasingly for the new stock release blood transfusion, fattened up the minority Issuing company's senior management public figure, was born an instruction person's dizzy wealthy man, has harmed the general investor's benefit. This kind lacked the system restraint the new stock release system to facilitate the Issuing company to encircle the money enormously, actually has harmed a market endogenous mechanism.

2.2 The Sponsor and the Issuer's Interests are Closely Issue Overvalued

BLKJ and LMXX stop distributing the incident are the events which one kind is worth going into niceties. When first BLKJ it for the first time inquiry which stops distributing, guarantees recommends the organization "the estimate" the value main center is 36.92 Yuan, when two inquiries drops to 23.09 Yuan, but its wholesale price frames is 17.11 Yuan finally. Why does BLKJ's issue price compare with the first time value main center differs so greatly? After stopping, is started the release and attains the successful LMXX, it determined finally the wholesale price is 22.44 Yuan. But is stopped that release, the main credit corroborative in both urban and rural areas gives the estimate value reports said that this stock's reasonable price in 30 Yuan to 40 Yuan, this price was higher than far at that time participated in the reference quoted price sector which the inquiry the organization gave.

Two companies guarantee recommend the estimate value which the organization gives by far to be higher than two level of market similar companies, is also higher than the estimate value which the inquiry organization gives, its behind reason is greedy besides the publisher, another important attribute lies in guarantees recommends the organization adding fuel to the flames. Although guarantees recommends the organization, in guarantees recommends in the process to maintain the objective fairness, not only need be responsible for the publisher, must be responsible for two level of market investors, but, because under the present mechanism, guarantees recommends the organization and the stock publisher becomes the benefit the related side, to realize own benefit maximization, caused to guarantee recommends between the organization and the publisher has formed the benefit community, guaranteed recommends the organization even to carry on the packing for the publisher, either exaggerated publisher's value of each contribution, either operated the new stock inquiry process, achieved the high price outstanding share the goal.

The manager distributes the work Securities Supervisory Association President assistant Zhu stressed from nine gentlemen that "fulfills responsibility, the honest code of honor is assiduously" guarantees recommends and sells on consignment the service the cornerstone. But still with difficulty prevented to guarantee recommends the organization to lose fair and the independent principle for own benefit, to plan to guarantee by any means possible recommends the object to apply rouge and power, to raise the issue price the behavior.

2.3 The New Stock Sale System Causes the Inquiry Organization to Compete Unreasonably to Raise the Quoted Price

What the Chinese new stock inquiry adopts is "the Dutch type tender" the way, the participation inquiry

organization defers to reports the purchase price to be selected proudly to the low order, until satisfies up to the predetermined emission amount, is selected the price is lowly is selected take all bidders the price as the standard, all being selected is selected the price is consistent.

A present new stock inquiry mechanism existence's obvious malpractice is inquiry mechanism quoted price unfairness and the high quoted price behavior low risk. When preliminary inquiry, the institutional investor already does not need the payment earnest money also not to need to carry on Shanghai to buy, if participation inquiry organization in preliminary inquiry time has not been selected, will lose the opportunity which under the net sells on ration, also namely loses the new stock the subscriber qualifications. Its quoted price not very strong restraint and the control, the preliminary inquiry object to obtain the initiative, but by the highest inquiry sector quoted price, enables the inquiry organization to have the empty high quoted price the phenomenon. In accumulation bid inquiry stage, because starts the preliminary inquiry raised the price, inquiry organization when accumulation bid inquiry high will further quote price, the benefit obligation will cause the institutional investor to enhance under the net to sell on ration the success ratio, but will not care about Issuing company's reasonable estimate value.

As a result of according to the quoted price sorting sale stock from high to low, in the inquiry stage on the altitude limit quoted price's organization, more can buy quantity according to Shanghai first to obtain the stock. It can be said that the inquiry stage's high quoted price is one kind of low risk behavior, because, the organization did not need to finalize a deal by the maximum valency, but sent out the maximum valency organization actually to be able first to buy on ration the new stock.

The present inquiry mechanism is the newspaper high price organization can buy the new stock from the essence, but quotes price the low inquiry organization to be unable to obtain sells on ration the opportunity, this kind of mechanism lacks to the high quoted price behavior penalty, thus lures the partial inquiry organization to present the unreasonable quoted price, even overflows the newspaper high price behavior. Thus, forms the true marketability fixed price with difficulty, the new stock release's pricing mechanism is twisted, the high price distributes the new stock the phenomenon to live from this.

The new stock release mechanism existence's malpractice, besides to the secondary market investor benefit's harm, the true harm is it to be listed quality corrosion, the distortion stock market value discovery function, reduces the stock market to the entity economy forward drive function. From this causes stock market effect's reduction, affects the capital market long-term healthy development finally.

3. IMPROVE THE MEASURES OF IPO MECHANISM

The release fixed price's marketability reform, is under a China existing market condition significant system transformation. Although the present primary market has some insufficiencies, but since overall speaking, 2009 new stock fixed price reform has been fruitful. First, realized has distributed from the fixed price to the inquiry release significant transformation, the release fixed price marketability level obviously promotes. Second, the new stock release's price and the secondary market price connect rails day by day, first-level, the secondary market price difference reduces unceasingly. Third, the credit corroborative in both urban and rural areas and institutional investor's risk awareness, fixed price ability promote gradually. The issue market fast development brings a series of new questions inevitably, we need to solve the problem in the development, further promotes the marketability reform.

In view of the present new stock release system existence's insufficiency, should try from the following several aspects to carry on the consummation:

3.1 Accelerate the Pace of Market-Oriented Reforms, to Create the Conditions for the Registration System

The Chinese new stock release existence question's primary cause lies in new stock going on the market the administrative examination system to create seeks the space, as well as creates for various reasons the related specialized investment institution cannot carry on the independence to the new stock fixed price, objectively, specialized to express the wish. Must establish the normal operation and the order movement objective mechanism, should further advance the new stock release system's marketability reform, creates the condition from the present examination system to transit gradually to the registration system. Uses the stock issue registration system, formulates the standard which by the stock market and the execution distributes and goes on the market, the Securities Supervisory Association achievement sets up a file merely the institution and the supervision organization, cancels the issue department and the release verification committee, simultaneously, gives the enterprise and the investor the stock distribution right and the fixed price power.

The registration system is the market economy, the government by law economic depth developed product, it take the enterprise good faith and legal system consciousness as the premise, needs the exchange maintains the independence and the fairness, needs the mature investor, the standard Facilitating agency, market essential factors and so on strict information disclosure system, needs to improve the corresponding judicial system and the administrative supervision system.

Regarding this, should enlarge the market mechanism the cultivation. First, must enhance when the publisher and guarantees recommends the organization legal system consciousness, the application outstanding share, must strict legally publicize each kind of material completely accurately to negotiable securities supervision organization declaration. Second, further distinguishes clearly the Supervisory department and the exchange responsibility, enables the exchange to become the organization and the surveillance securities trading truly, implements the autonomy management legal person. Third, enlarges to the investor the education, promotes investor's ability, further expands the institutional investor troop. Fourth, regulating the behavior of the intermediary agencies, strengthen the responsibility of intermediary institutions. Fifth, further strict information disclosure system, increases the market information the transparency and the authenticity. Sixth, establishes the perfect corresponding judicial system and the administrative supervision system.

3.2 To Strengthen the Level of Market Supervision, Increase Irregularities Punishment

Supervision of financial development is the guiding force and strong safeguard, scientific and effective regulation can promote the sustained and healthy development of financial.

The IPO pricing is the core of the IPO market, solve the problems of unreasonable, must cut the recommendation institution benefit chain, cut off the recommendation institution and the issuer have all kinds of connections with the connection between, make the body more responsibilities, leading institutional investors are more rational, reasonable price. At the same time, should strengthen the recommendation institution of supervision, increase penalties.

First, clarify and refine the sponsor's responsibility. The IPO process emerged in the disclosure of information is not complete and accurate behavior, sponsors should abide by the independent, objective, impartial, maintain good occupation morality and professional competence, strictly perform due diligence, increase strength to finish the substantive examination, diligence, to guarantee the information of full disclosure, effectively protect the interests of investors. The government should formulate relevant laws and regulations, clear, intermediary organizations sponsor issuer, responsibility, and in the process of strengthening the sponsor's professional quality and ethics culture, adhere to the responsibilities of both. At the same time, we need to make improvement and standardization of agency work standards and processes.

In second, the main types of supervision market, exchanges and intermediaries, to the market credit and illegal punishment, training and protection market benign and sustainable ecological. IPO pricing is based on the issuer and underwriter provide in the prospectus profit forecast, if the profit forecast a significant error, the

Underwriters in the situation of excessive packaging, issuers and underwriters should take punitive measures. Through the establishment of the system of the public inquiry, increase market transparency. Through the inquiry mechanism to track management, establish inquiry misconduct investigation system. Not only to build the sponsor representative hearing system and did not pass the audit project signing sponsor representative accountability mechanisms, to introduce the sponsor's tenure and illegal permanent ban system, increase the sponsor violating cost, reduce the moral risk.

3.3 Further Improve the Existing New Inquiry System

Inquiry system through the standardization of inquiry procedures, can the issuers, underwriters and investors to establish a relatively full communication mechanism, the pricing process more by market participants decided, reduced to some extent the pricing issue of subjectivity and arbitrariness. At the same time, the inquiry system to institutional investors, the recommendation institution and other market participants act by the market constraint, accept the market to examine, for both issuers and investors to create the conditions for issuing price.

In view of the current inquiry system deficiencies, can consider from the following several aspects to improve: The first, expand the participation of network inquiry of institutional investors. China Securities Industry Association released information shows, at present the request object is divided into seven categories, respectively is the fund, securities, insurance, trust, the qualified foreign institutional investors, financial companies and book-building participant, which recommended book-building participants include private equity, venture capital companies and private enterprises. In addition to the above seven kinds of inquiry objects, should allow more comprises an aggregate asset management plan, the securities investment fund trust, and the enterprise annuity and the qualification of an inquiry object. Second, increase the ratio of net placement agency. Ratio of net placement is too low, funds and other institutional investors to develop inquiry agency should find value and valuation of correcting function. The level of market mechanism to increase supply, can effectively improve the current retail investor structure mainly composed of. Expansion ratio of net placement, improve the mechanism of price of the seriousness and sensitivity, ease of offline placement demand than supply contradiction, let the body really taken responsibility for their actions, to find the function value. At the same time, improve the ratio of net placement means mechanism locking chip more, this is

also conducive to the stability of new two class market price. Third, increase the inquiry objects, both to extend the organization investors, investors will also take into account. According to the current inquiry system, medium and small investors cannot participate in the inquiry. Through the establishment of medium and small investors to participate in the inquiry voting system, choice of investors most centralized price, let investor according to certain weight involved in net quoted price and the placement of new shares.

CONCLUSION

The IPO reform is a complex systematic project, only through continuous reform, strive to improve the stock price formation mechanism, reform stock underwriting approach, in order to make the new pricing and the issuer fundamentals in close association. At present, solve Chinese IPO issues most effective path is through the institutional arrangements, coordination of the issuer, the recommendation institution and broad investor relations. Must speed up the marketability reform step, is the new stock release implements the registration system to create the condition. Must strengthen the issue market the supervision, enlarges the issue market illegal activities punishment dynamics. Further consummation present new stock inquiry system. Through the systematic reform, can the better display capital market to the economical promotion effect.

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