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The Impact of Full Registration System on IPO Pricing Efficiency

Mengze Li

School of Economics and Management, Nanjing University of Science and Technology, Nanjing, China

Abstract

Registration system is an important measure of capital marketization reform in China, which has a significant impact on IPO pricing efficiency. Based on the change of main board from approval system to registration system, we find that registration system can significantly reduce IPO underpricing rate and improve IPO pricing efficiency. The registration system has a moderating effect on the level of information disclosure and the pricing utility of intermediaries. The results show that the registration system reform is conducive to alleviating the problem of high IPO underpricing rate in China's capital market Registration system, improve the capital market resource allocation ability has accumulated certain experience.

Keywords

Main Board; The Registration System; Level of Information Disclosure; IPO Pricing Efficiency.

1. Introduction

In December 2019, the revised draft of the new Securities Law was approved, making it clear that China's capital market will fully implement the registration system. In order to improve the design of capital market system and broaden the financing channels for enterprises, especially high-tech enterprises, the Shanghai Stock Exchange has set up a science and technology innovation board and carried out the pilot work of registration system. The reform of GEM registration system reduces the listing threshold, focuses on the establishment of detailed and perfect information disclosure rules, not only for the application process of listed companies, but also for listed companies, and establishes strict post-supervision and delisting rules to restrict their information disclosure behavior, so as to give full play to the decisive role of the market in optimizing resource allocation.

At the beginning of the formation of the capital market, due to the imperfect market mechanism and the lack of a mature mechanism system, the stock issuance was subject to the government-led examination and approval system. With the deepening of the transformation of market economy, in order to solve the problem of market resource allocation, the stock issuance system is changed to the approval system. First of all, under the approval system, the government regulatory department has to conduct substantive review on the application materials of the company to be listed, so the efficiency of issuance and listing is low, and the responsibility of intermediary agencies is weakened. Secondly, the companies to be listed need to meet the listing requirements such as profitability and equity structure, which leads to the refusal of some companies with development potential, and the listed companies make whitewashing statements and fraudulent issuance in order to meet the listing conditions. In order to solve a series of problems caused by the approval system, our country sets about implementing the registration system. The registration system strengthens the responsibility of intermediary agencies, the government regulatory departments pay more attention to the performance of the information disclosure obligation of the company to be listed, and simplifies the listing requirements. Based on the above analysis, this paper compares the IPO pricing efficiency of

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GEM approval system and registration system companies, deeply analyzes the impact and action path of GEM registration system on IPO pricing efficiency, and uses the samples of China's A-share listed companies in 2022-2024 to explore whether the registration system reform alleviates the problem of low IPO pricing efficiency in China's capital market. We find that the comprehensive registration system can significantly reduce the IPO underpricing rate and improve the IPO pricing efficiency. The results show that the comprehensive registration system reform affects IPO pricing efficiency mainly by reducing the degree of information asymmetry between investors and issuers.

2. Theoretical Analysis and Empirical Research

2.1. Theoretical Analysis

Compared with more mature foreign capital markets, IPO underpricing exists in China's capital market, and the high IP0 underpricing rate means that IPO pricing efficiency is low. The academia believes that one of the reasons for the high IP0 underpricing rate is information asymmetry. First, there is the problem of information asymmetry among different investors, which leads to the emergence of informed investors and uninformed investors. In order to avoid this situation, better implement the reform of GEM and pilot the registration system, in 2020, Shenzhen Stock Exchange issued the Listing Rules of GEM of Shenzhen Stock Exchange (2020 It is clear in the Annual Revision) that listed companies and relevant information disclosure agents shall publicly disclose material information to all investors at the same time to ensure that all investors have equal access to the same information, shall not implement differential treatment policies, and shall not separately disclose, disclose or disclose undisclosed material information to specific objects in advance. In terms of institutional design, it protects the legitimate rights and interests of investors, reduces the degree of information asymmetry among different investors, which is conducive to reducing IPO underpricing rate and improving IPO pricing efficiency.

Second, there is information asymmetry between issuers and investors. Issuers understand the investment value of the company better than investors, while investors have information disadvantage and cannot make accurate judgment on the investment value of the company. There are many reasons for this problem. On the one hand, under the GEM approval system, the listing threshold is high, and the government regulatory department is responsible for substantive examination of the application materials of pre-listed companies. The responsibility of intermediary agencies is weakened, and the collusion of intermediary agencies and listed companies to whitewhiteize and falsification information is repeatedly prohibited The IPO pricing efficiency is too low. On the other hand, after the pilot registration system of GEM, the hard conditions for listing have been reduced. Listed companies only need to meet the basic conditions such as going concern before they can apply for listing. Government regulatory authorities have given the power of substantive review to exchanges and intermediaries, paying more attention to the performance of listed companies' information disclosure obligations Quantity has made meticulous and complete requirements; In case of illegal acts such as information fraud or fraudulent issuance, listed companies and intermediaries need to bear the liability for compensation, which promotes listed companies and intermediaries to improve the authenticity and integrity of disclosed information, reduces the degree of information asymmetry between issuers and investors, and the stock price can more accurately reflect its investment value, which is conducive to the improvement of IPO pricing efficiency.

Prior to listing, the Company is required to pre-disclose relevant documents of the issuance and listing on the official website of the CSRC and the designated website according to the relevant regulations of the CSRC; The level of detail of information disclosed in these documents will have an important impact on investors' investment judgments. Specifically, the more comprehensive and sufficient the information disclosure is, the more accurate the investors' valuation of the enterprise and the prediction of the enterprise's future earnings are, the more accurate the stock price reflects its real value, and the higher the IPO pricing efficiency is.

After the reform of GEM registration system, China Securities Regulatory Commission (CSRC) and the stock exchange have put forward higher requirements on the level of information disclosure of companies to be listed. Companies to be listed are required to disclose their business model, business policies and investment of raised funds based on the needs of investors. At the same time, since the GEM registration system does not set the listing threshold such as profit, if the company to be listed fails to achieve profit when applying for listing, it is necessary to explain the reasons for the unprofit. These system designs reflect that GEM registration system puts forward higher requirements for the comprehensiveness and adequacy of interpretation of information disclosed by companies to be listed than approval system. Compared with the approval system, the information disclosure of companies to be listed under the GEM registration system is more comprehensive and sufficient, investors will make more accurate investment judgments, stock prices will reflect their true value more accurately, and IPO pricing efficiency is higher.

2.2. Research Design

Taking the main board listed companies as the research object, this paper compares the IP0 pricing efficiency of listed companies under the main board approval system and the main board registration system, and investigates the impact of the main board registration system reform on the PO pricing efficiency. In order to ensure the reliability of the results, the specific processing is as follows: firstly, the samples of financial industry, missing data, PT, ST and 'ST are eliminated; Secondly, the continuous variables are winnosed by 1%, and 508 IPO samples are obtained. Taking the comprehensive registration system reform as the boundary, there are 255 IP0 samples from January 1,2022 to April 10, 2023; April 10, 2023 to December 5, 2024, a total of 150 IPO samples. The data come from the official website of the stock exchange and the database of CSMAR.

In order to test the direct impact of the comprehensive registration system reform on IPO pricing efficiency, this paper constructs the following model for empirical test:

$$PEit = \beta_0 + \beta_1 postit + \sum controls + Industry + Year + \varepsilon_{it}.$$

2.3. Empirical Research

The empirical results show that the post coefficient is significantly negative, indicating that the full implementation of the registration system will significantly reduce the IPO underpricing rate and improve the IPO pricing efficiency

3. Literature References

The full implementation of registration system is the next development direction of our country's capital market. First of all, the registration system needs to set up an effective stock listing screening and value judgment mechanism to ensure that investors do not suffer from the interests of the registration system reform, and ensure that the institutional design of the registration system can achieve the expected goals." As for how to implement the registration system, it is believed that there should be a transition period from the audit system to the registration system, which should be implemented step by step. Li Anlan and Chen Jiali proposed that the reform of registration system in China's capital market should set up a transition period, a trial period and a comprehensive implementation period.

In the comparative analysis with the approval system, GEM is very different from the approval system in accounting information disclosure, financing threshold and violation cost after the registration system reform, which enhances the vitality of the investment end of the securities market and boosts the confidence of investors; The reform of registration system reduces administrative intervention and allows the market to screen the quality of the company, providing more space for the development of small and medium-sized enterprises. Moreover, it is found that enterprises with poor information quality have a stronger negative reaction to the comprehensive implementation of registration system. To some extent, this shows that the reform of registration system will have a great impact on the level of information disclosure.

Foreign scholars believe that the reasons for the high IPO underpricing rate include information asymmetry and market irrationality. In addition, research on China's capital market has found that there are many other factors affecting IPO pricing efficiency The front-end control of issuance audit has important reference significance for the next step of the construction of self-discipline mechanism of China's capital market. The construction of self-discipline mechanism can reduce the adverse impact of administrative intervention on IPO pricing efficiency. Wei Zhihua et al analyzed the price restriction measures on the first day of IPO issued by Shanghai and Shenzhen Stock exchanges at the end of 2013, which were originally intended to restrain investors from "speculation" and improve IPO pricing efficiency. However, the result of the implementation backfired and reduced the IPO pricing efficiency, which indicates that the government's method of improving IPO pricing efficiency by restricting the price of new shares on the first day of listing cannot work. By analyzing the personal data of the sponsor representative, Lyu et al. found that if the sponsor representative had undertaken the sponsor business under the approval system, the IPO pricing efficiency of its customers on the Science and Technology Innovation Board would be significantly improved, which to some extent indicated that listed companies should choose experienced intermediary agencies to provide services for themselves. For GEM, the pricing efficiency of the primary market is not the same as that of the secondary market.

In terms of the issuance system, some scholars believe that the implementation of the registration system has significantly improved the pricing efficiency of the market, especially for the newly listed concept stocks, technology stocks and stocks hyping by the media, the inhibitory effect is more obvious. Liang Peng proposed that the effect of the registration system on PO pricing efficiency is greater for firms with worse analyst earnings forecasts and higher proportion of senior executives participating in the placement. Xie Chaohua and Liu Lingshan found that the effect of registration system on IPO pricing efficiency was more obvious in the Science and Technology Innovation Board, and there was almost no market underpricing in the primary market of the Science and Technology Innovation Board, while there was a certain degree of primary market underpricing in the main board and small and medium-sized board of Shanghai Stock Exchange We find that the underpricing rate of foreign underwriters is significantly lower than that of domestic underwriters, which provides a reasonable basis for the deregulation of securities market from the perspective of IPO pricing efficiency.

4. Summary

Based on the implementation of the comprehensive registration system, this paper examines the impact of the implementation of the registration system on IPO pricing efficiency by using the samples of the main board companies in 2022-2024 In addition, the registration system improves the level of information disclosure and the pricing effect of intermediaries, indicating that the implementation of the registration system improves the role of information disclosure and intermediaries in IPO pricing. The research in this paper shows that the market-oriented

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reform plays a role in promoting the long-term and healthy development of China's capital market.

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