

## A RESEARCH ON THE CAUSES OF PRICE MANIPULATION IN CHINA'S STOCK MARKET

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### ABSTRACT

Price Manipulation refers to the principle that individual or organization deviates from the free competition and supply and demand of the market, manipulates the price of the securities arbitrarily, attracts others to participate in the securities transaction and obtains the private interest. The market manipulation is an important part of the securities fraud. Market manipulation has seriously restricted the stock market to play the basic function of the competitive market, distorting the response of the stock price to the actual value of the stock, making the price discovery function weakened, the market resource allocation efficiency is reduced, the fluctuation is aggravated, weakening the stock market investor's confidence and participation enthusiasm. Based on the actual situation in China, this paper analyzes the reasons of the market manipulation behavior in China's stock market, including the high quality of listed companies in four aspects, the manipulation intention of the major shareholders after the reform of the split share structure, the functional deviation of the government in the stock market False information and information asymmetry.

**Keywords:** China's stock market; price manipulation; manipulation consciousness; function deviation; information deviation.

### INTRODUCTION

Financial market is a trading platform for financial assets, which plays a very important role in the development of real economy. First of all, the establishment and development of financial markets is conducive to the most effective solution to the contradiction between supply and demand of funds to achieve the optimal allocation of resources. Second, the financial market is conducive to gathering market idle funds, expand the scale of the real economy to meet the needs of the modern economy to expand the reproduction. Third, the existence of financial markets is conducive to the implementation of the central government monetary policy to achieve the national regulation and control of macroeconomic needs. Finally, the financial market in the realization of optimal allocation of resources at the same time, its competitive mechanism is also conducive to encourage enterprises to strengthen management, improve economic efficiency. Stock market is an important part of the financial market, with the mobilization of funds, the allocation of resources, the important role of risk diversification is a country's economic development barometer.

China's stock market was established in late 1990, experienced the Southeast Asian financial crisis and the subprime mortgage crisis and other international economic and financial situation changes and irrational investor sentiment caused by the ups and downs of the baptism, the current total market value of China's stock market has surpassed Japan, Become the world's second largest securities market. In contrast to other securities fraud, although the number of market manipulation cases is not large, but cannot be determined in the securities

market in the market manipulation is not serious. On the contrary, China's securities market there are a lot of "do Zhuang" and other insider information and manipulation based on the abnormal behavior, although not identified as the market manipulation, but also the normal operation of the securities market has a great impact. So to some extent, market manipulation in our country is widespread and serious. But for the market manipulation of the discrimination, because the means are often very subtle, such as the dealer in order to hide its true intention to use multiple accounts for stock trading, and trading data is too large, so in order to frequent, large number of market transactions. It is very difficult to identify these behaviors. It is difficult for investors to identify whether there is market manipulation in the process of investment, which is not conducive to investors' rational investment and value investment behavior. Not only that, due to the market manipulation of the hidden and complexity of the increase in the regulatory body of the market manipulation of such illegal acts of regulation more difficult, how to strengthen the regulation of market manipulation is the development of the securities market in the process of urgent problems to be solved. Based on the actual situation in China, this paper discusses the reasons for the existence of market manipulation in Chinese stock market.

### **The low quality of listed companies**

The quality of listed companies is the cornerstone of the stock market. In the commodity market, the quality of the product is the fundamental survival of enterprises, then the quality of listed companies is the survival of listed companies, the stock market can really stable the fundamental. But the Chinese stock market listed companies from birth, management to the final operation, always demonstrated a unique characteristics of China's unique. Some companies listed before the company is a poor performance, but some recommended institutions for their own interests, its false packaging, its operating conditions and prospects of false description, the company and the financial audit department jointly prepared false financial statements muddle through. Some companies listed on the same year, the loss of the following year, the third year of net assets is negative proof.

Most companies are in the original group divestiture of an asset listed, the real corporate governance structure simply cannot talk about. Two sets of brands show that the listed company is difficult to get rid of the fact that the group control. Listed companies operating poor, the majority of declining, operating profit rise less. The original idea of the reform through the shareholding system to achieve the mechanism, but in reality most companies only pay attention to financing, do not attach importance to the financing of capital operation, the conversion mechanism of the target has not been achieved. State-owned listed companies operating mechanism, operating conditions and the general gap between state-owned enterprises, the general problems of state-owned enterprises in listed companies have.

The quality of listed companies can also be fully understood from the process of their dividend payments. Dividends are cash dividends, property dividends, stock dividends and stock repurchases. In terms of China's actual situation, cash dividends and stock dividends show the following characteristics: First, the proportion of non-distribution of the company in recent years increased year by year, the distribution of cash dividends in the company for the commonly used. In a mature market, cash dividends are more popular, and in an immature market, listed companies tend to transfer bonuses to dividends, so that not only can save the company's cash, but also can reduce the company's stock prices to meet the stock Of mobility. Generally speaking, the dividend distribution of Chinese listed companies declined

year by year, and the stability and continuity were lacking. Thirdly, the distribution of stock dividends was cooled, but still played an important role in the distribution of dividends.

The existing delisting system is also a problem, and now the delisting system is more than three consecutive years of loss before delisting, regardless of the amount of loss, net assets is negative or negative. So, some companies in order not to withdraw from the market, in the continuous loss of two years later, the third year inflated a little profit, or by the local government subsidies to achieve low-profit, you can muddle through, and then mixed for three years. These factors, the company and other junk stocks increased year by year, seriously affecting the overall quality of listed companies.

The quality of listed companies is not high, and the dividend payment policy is unstable, making it difficult for small and medium investors to enjoy the company's earnings growth due to performance, so short-term to the stock market through the willingness to increase, which for institutions and large investment People to provide the conditions for price manipulation.

In addition, the ownership of listed companies is over-concentrated. This centralized ownership structure also creates the conditions for stock manipulation. Ownership focused on the prominent characteristics of listed companies in China, as of the end of the year, my state-owned listed companies, the largest shareholder of the proportion of the average holdings, which exceeded the home. While the second largest shareholder of the average shareholding ratio is only less than the largest shareholder. Among the controlling shareholders of the listed company, the above is the state-owned shareholder. State-owned shares tend to occupy an absolute dominant position, while the legal person shares, especially the proportion of outstanding shares. This kind of capital structure makes the appearance of our listed companies similar to the modern enterprise system, with advanced organizational structure, but the essence is a typical planned economy mode of operation, executive will, bureaucracy, only "state-owned shares" dominance. Corporate governance in the performance of the government's most vividly, the interests of small investors is difficult to be protected. It can be said that the vast majority of listed companies in China in the mechanism of conversion with the general state-owned enterprises are not very different.

In recent years, part of the private sector listed, a dominant phenomenon is also more serious. Such as the date of the listing of Kangmei Pharmaceutical's largest shareholder of the family directly and indirectly hold the proportion of equity reached, the date of the listing of the wife of medicine, the proportion of higher. One of the consequences of the high concentration of equity is the control of the board of directors. China Securities Regulatory Commission recently a survey shows that the current board of directors in the board of directors from the major shareholders. In a considerable number of listed companies, the board members at the same time as the managerial positions in the Commission's investigation, the directors are "insiders" as. This concentration of equity and insider control of the status quo for the insider trading to provide the soil, so that large shareholders and companies insiders engaged in insider trading.

### **The enhanced manipulation intention of the major shareholders**

Before the split share reform, non-tradable shareholders mainly focus on the net assets of listed companies, because the net assets per share is the basis for the valuation of the part of the stock price, only refinancing, the major shareholders will pay attention to the stock price

Through the earnings management to manipulate the stock price to get higher capital reserves. After the split share, the situation becomes different, because the original non-tradable shares all become tradable shares, the secondary market stock prices become the majority of shareholders holding the valuation of the only standard, before and after the two valuation standards change, But also a profound impact on the behavior of large shareholders.

The majority shareholder due to the existence of the following three possible behavior, therefore, there may be price manipulation.

### **1. Cash behavior**

As mentioned earlier, before the listing, the major shareholder in the proposed value of the shares of listed companies is generally in accordance with the net assets to the discount, that is, net assets converted into the corresponding share of the score. But in the stock after the listing, since China's stock market stocks are generally premium distribution, in accordance with the provisions of the premium part is included in the capital reserve, since it is capital reserve, then the shareholders are equal to enjoy, and because, after the stock market, The stock price is higher than the issue price is a common phenomenon, therefore, after listing, there will be a lot of premium, the total add up, the general market, the largest shareholder of the premium space can be achieved to times. At this time, if the original shareholders want to recover the investment, then the holdings of a small amount of shares can be done, in addition, you can also leave half of the shares to continue to earn income. However, the existing laws and regulations have also been provided for the reduction, the proportion of shareholders above the shareholding in the year after the maximum reduction in equity, the second year can reduce the stake, the third year after all the circulation, there is no limit. Then in order to lock the vested income, large shareholders tend to cash in cash, in the process of cash, pulling the stock price significantly beneficial to the major shareholders, in the process, the stock manipulation may occur.

### **2. Financing and issuance of stock behavior**

Before the equity change, if the major shareholders want to finance, then he can use the equity of the listed company to finance the financing, the amount of financing is estimated in accordance with the net assets, and the amount of credit also in the estimated total price to play a certain discount. After the equity change, the corresponding bank will be in accordance with the major shareholder holding the market value of the stock to calculate the amount of loans, then the stock price is relatively high, earnings management obtained better results, the largest shareholder of the financing amount of the more High, it can be said that another way to recover funds.

There is also a way of investment recovery, that is, large shareholders through the directional issuance of shares to the listed companies to inject new assets, before the issuance, they by depressing the stock so that the same amount of assets into the number of shares can be more, and in the additional, If you want to hand out the stock recovery funds, you can raise the stock price by the additional capital gains.

### **3. The acquisition of mergers and acquisitions**

After the reform of the share-trading reform, the market for the control of the enterprises was initially formed, because the transfer of control after the circulation of shares became more convenient. For those enterprises with poor management and low performance, the best way to reform One is through the transfer of control to optimize the corporate governance.

Because the process of mergers and acquisitions, and so on are related to the interests of major shareholders, so in the process, there will be a major shareholder manipulation of the reasons for the stock price.

Mergers and acquisitions referred to as mergers and acquisitions, mergers, also known as absorption and merger, it is an important way to acquire between listed companies. For both parties, if you can increase their share price, then you can use the same shares in exchange for each other more shares, that is, the company's major shareholders through the transfer of less proportion of control, you can acquire all or most of the shares of the other party.

Acquisition means that an enterprise buys shares or assets of another enterprise in cash or securities in order to acquire ownership of the entire assets or assets of the enterprise or control of the enterprise. In order to protect the interests of small and medium investors and to prevent the manipulation of the stock price of the large institutions, the Securities Law stipulates that when a listed company has issued a listed company, it shall notify the relevant department on the date of the acquisition to inform the listed company and To be announced, and to fulfill the corresponding obligations, the industry called "placards." In the secondary market, the acquirer, in order to maintain its own interests, would like to raise its own share price, and that even before the exact placards were given, the listed company would reduce the placard May be the stock price manipulation to enhance the stock price.

## **Government's functional bias in the stock market**

### **1. The government vague policy orientation**

Government as the stock market managers are mainly to develop policies to avoid the ups and downs of the stock market. Government management of the stock market should take economic measures, policy guidance and other measures to avoid administrative intervention. But in fact our managers in the stock market's performance is not good.

The specific performance of the first, the entry and exit of listed companies to take a variety of restrictions, making many high-quality enterprises difficult to enter, many poor companies are rotten and immortal, but many high-quality enterprises to recapture the value of the city's "shell" resources. The essence of the government's monopoly resources shows that the government is still continuing the management of the planned economy.

Managers take too many non-market tasks. In the stock market, the government not only as a regulator to the public interest as the goal, to maintain the smooth operation of the stock market to protect the interests of investors, and the government is as a special interest in the main body, because the relationship between government and state-owned enterprises, managers To help state-owned enterprises to solve the problem, to improve aggregate demand as a primary goal, to protect the interests of investors on a secondary position. This starting point requires someone to do the market, you need a large institutional investors to help the government, to help the Commission. So to achieve the norms of the market, the interests of small and medium investors to protect the purpose cannot be achieved.

The government's behavioral function is also dual. In the mature stock market, the government's function is mainly to regulate the market to provide basic services, which is mainly the function of the market itself. China as a post-hairstyle stock market, therefore, the government involved in the stock market in addition to the exercise of the stock market norms, but also to ensure the stable development of the stock market. Norms and

development, although the two do not exist in the inherent conflict, because the purpose of the norm is to develop, and the development of the premise must be the market norms. But in reality, referees and athletes, after all, can not be served by a person at the same time.

The government in the treatment of the strategic thinking of the stock market is more vague, is the development of standardized market behavior or standardize the process of development of the market, recognition is not clear, the action will be contradictory. Year stock market, policy wavering, the stock market ups and downs. Many of the measures and controls are based on commentary articles, editorials, personal speeches as a tool in dealing with such issues as the GEM listing, the withdrawal of shares, the reduction of state-owned shares and other major issues, the SFC senior leadership speech contradictory, which is actually induced blind speculation.

## **2. The typical "policy city" is more conducive to the manipulation of stock prices**

As the market regulation of the stock market in the role of their own should be unclear, so that the current Chinese stock market is basically a "policy city", the so-called "policy city" refers to the operation of the stock market is not according to their own laws, but with the "policy "Changes and changes," policy "to become the benchmark for the operation of the stock market. Because it is the policy-led market, so who can get the news from the government the first time, who will take the initiative in the market. Therefore, whether it is a large capital of institutional investors, or ordinary retail investors, from the China Securities Regulatory Commission and other management trends have maintained a high degree of concern, every time the market fluctuations, investors are most concerned about Or the policy of what changes, but in a weak position of ordinary investors in the reception of policy information and some large institutions are unmatched, large institutions are generally with the government departments have close ties, and some institutions are even state-owned Holding, they are faster than ordinary investors, more and more accurate access to the relevant policy changes, have a strong information advantage. Therefore, they are foresight, faster than ordinary investors, action decisive, quickly. They can rise in the rising market in advance to buy, to obtain profits in the decline in the market can be shorted in advance clearance, to avoid risks.

For example, a management announced the stock market open to domestic investors the day before, a large number of stocks on the market to pay, the volume of rapid amplification, a large area of stock changes, as well as the exchange had to terminate the transaction, ahead of the closing. Obviously, institutional investors are suspected of manipulating the market, but cannot find illegal factors, because it is the government's approach to provide them with a convenient way. Ordinary investors are due to information asymmetry in the weak position, the information lag so that they are always passive in the market beaten. They did not dare to buy in the market rose, when the fall cannot be thrown out, the interests of the policy risk under the damage.

## **Stock market in the false information and information asymmetry**

Information is closely related to the effectiveness of our capital markets. In an efficient market, all new information is quickly understood by market participants and is immediately reflected in the market price. The stock price will fully respond to all available information and form a real stock price. One of the goals pursued by the modern stock market is to achieve efficiency as much as possible. In order to achieve this goal, in the information disclosure will control the source of information, disclosure and acceptance of information

object. The main source of information is listed companies, government, disclosure of the legal way is designated by the government specialized media, the object of information is the subject of securities investors. If the disclosure of the problem, the information is true, timely, reliable will be destroyed. It is precisely the so-called good news of many listed companies before being formally disclosed to be leaked to some individuals or institutions in order to allow the so-called bankers to stock hoarding, pulled up, and other good news after the official disclosure, it is the operator to get out The time.

Some listed companies in order to cooperate with the operation of the organization, man-made to create a variety of bad, bullish news, fabricated false statements, buried, inflated profits, while through informal channels to disseminate gossip, investors are the so-called information transfer cloud, It is difficult to make a reasonable decision, in particular, when some manipulators are difficult to get out, they will be involved in fashionable projects on the listed companies face to face, to seek the guise of departure. Therefore, in the case of non-standard information disclosure, small and medium investors have only to hearsay, seeking insider information, seeking the so-called banker.

Some developed countries have put forward some countermeasures for this situation, for example, to improve the transparency of the market, to reduce the inequality of information between individual investors and institutional investors, to enhance investor confidence, the United States since the date From the listed companies to prohibit listed companies to securities analysts and institutional investors selective information disclosure, requiring the disclosure of the same time to all the market participants to disclose substantive information. Is aimed at improving information transmission on the market by strengthening information disclosure.

Investors in the stock market in advance to know the information can be profitable in two ways to know the good news in advance to buy at low prices, to be published after the announcement of high prices in the case of bad news in advance to sell at high prices , To be announced after the news at low prices to buy open positions. The latter way is through the short selling mechanism, the term "short selling" refers to the sale of securities that investors do not own, or any sale that the investor uses to complete the delivery of the loan with his own account. As China's stock market is not allowed to short, which makes insider trading more around the good news.

The securities market is an important part of the market economy and a barometer of the economic and social development of the country. An ideal securities market can be in the "open, fair and just" principle, to achieve capital financing, market pricing, resource allocation and risk diversification and other functions. The government should implement a series of effective reform and policy measures to improve the Chinese stock market, only a healthy stock market can really play a role in reflecting the macroeconomic barometer.

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