

Research on the Economic Consequences of S Company's Fraudulent Issuance in Refinancing Under the Registration System

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Abstract: In the process of the capital market's comprehensive shift from the approval system to the registration system, the focus of supervision has moved from ex-ante examination and approval to in-process and ex-post supervision, and "taking information disclosure as the core" has thus become the core logic of the reform. Against this background, the importance of the construction of corporate integrity and the quality of information disclosure of listed companies has become increasingly prominent, which is not only related to the effective operation of the capital market, but also has a significant impact on the in-depth advancement of the registration system reform. This paper selects the fraudulent issuance incident in S Company's refinancing after the implementation of the registration system as the research object to investigate the economic consequences caused by such behavior. The study finds that in the refinancing process, S Company misled the market through means such as fabricating transactions and concealing risks, resulting in direct damage to investors' interests, abnormal stock price fluctuations, and the company itself falling into operational difficulties with a sharp decline in reputation. The incident has impacted the market order of the medical informatization industry and also put the regulatory efficiency under the registration system to the test. It can be seen that improving the regulatory system of the registration system and strengthening the protection of investors' rights and interests are the key paths to promoting the steady progress of the registration system reform.

Keywords: registration system; fraudulent issuance; economic consequences

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1. Introduction

With the comprehensive transformation of China's capital market from the approval system to the registration system, the focus of supervision has shifted from ex-ante examination and approval to in-process and ex-post supervision, and "taking information disclosure as the core" has become the core logic of the reform. In this context, the integrity construction of listed companies and the quality of information disclosure are directly related not only to the effective operation of the capital market, but also to the continued advancement of the registration system reform. Against this institutional background, S Company's fraudulent refinancing issuance did not merely constitute an individual violation. It also undermined market fairness, weakened the effectiveness of the registration system, and posed practical challenges to in-process and ex-post supervision as well as accounting supervision. From the industry perspective, the medical and health care sector is characterized by high R&D investment, long project cycles, and strong refinancing demand. At the same time, under the combined influence of medical insurance supervision and special rectification, compliance risks in this field have become increasingly prominent. Therefore, the fraudulent refinancing incident of S Company has certain representativeness for examining the economic consequences of disclosure violations during a period of institutional transition.

Regarding the economic consequences and governance measures of fraudulent issuance, existing studies mainly focus on the negative effects caused by fraudulent issuance and the exploration of corresponding governance paths. Wang Zhixiang (2025) distinguished the circumstances of fraudulent issuance and the issuance of documents with serious inaccuracies, thereby providing support for clarifying legal boundaries and liability identification in institutional implementation. The case of Devon Archer being sentenced for fraudulently issuing and selling more than 60 million US dollars of bonds, as recorded in Department of Justice (DOJ) Documents / FIND

(2022), also reflects the seriousness with which such conduct is treated in an international context. In addition, Wang F S et al. (2024), in their research on refinancing risk, earnings management, and stock returns, pointed out that earnings management under refinancing pressure affects stock prices, and that fraudulent issuance not only intensifies the market trust crisis and raises financing costs, but also distorts resource allocation. On this basis, they proposed governance measures such as strengthening information disclosure supervision, implementing dynamic monitoring of refinancing risks, improving internal control mechanisms, and refining the punishment system. Wang Zhaohuan (2025) further suggested incorporating fraudulent issuance into the scope of financial fraud crimes so as to consolidate the institutional foundation of the registration system reform and investor protection. A review of the existing literature shows that current studies have already formed a relatively solid basis for understanding fraudulent issuance from the perspectives of system design, legal regulation, intermediary responsibility, and consequence governance. However, there are still two shortcomings. First, there are relatively few special studies on fraudulent refinancing issuance under the registration system, as most existing research focuses on the IPO stage and lacks targeted discussion of the refinancing link. Second, studies on the economic consequences of individual fraudulent refinancing cases remain relatively scattered, and systematic analysis of the transmission of such consequences is still insufficient. Based on the existing research results at home and abroad, this paper focuses on the fraudulent issuance problems exposed in S Company's refinancing process. Combined with the industry characteristics of the medical technology sector and relevant financial data, the paper examines the economic consequences of the case from the perspectives of information disclosure distortion, agency conflict, and governance failure. On the one hand, this study seeks to enrich the discussion on information disclosure violations and corporate governance failures under the registration system framework. On the other hand, it aims to

provide a more case-oriented reference for improving the regulatory mechanism and protecting investors' rights and interests.

2. Description of S Company's Fraudulent Issuance Incident in Refinancing

2.1 Background and Financing Status of the Refinancing Project

From 2020 to 2021, S Company planned and carried out refinancing by issuing convertible corporate bonds to unspecified objects on the ChiNext Market. The intended use of the raised funds announced by the company was mainly for the "Internet of Things Smart Medical Traceability Management Project" and supplementing working capital, with a promising project prospect depicted. In 2021, S Company successfully issued convertible corporate bonds with a total par value of 817 million yuan (bond abbreviation: Sichuang Convertible Bonds), which were listed and traded on the Shenzhen Stock Exchange in July 2021. At that time, this financing was an important financial support for the company to expand its smart medical business.

2.2 Means of Fraudulent Issuance and Problems of Information Disclosure Violations

The superficial success of S Company's financing was essentially built on systematic financial fraud. According to the facts ascertained in the Administrative Penalty Decision later issued by the Zhejiang Regulatory Bureau of the China Securities Regulatory Commission (CSRC), S Company engaged in systematic financial fraud and illegal information disclosure behaviors in the process of issuing these convertible bonds, whose core means include the following aspects:

(1) Inflating revenue and profits, mainly through fictitious business activities. From 2019 to 2020, S Company carried out the so-called "commercial project cooperation" with several external companies through its wholly-owned subsidiaries. Investigations revealed that such cooperation had no real commercial substance, nor corresponding logistics and capital flow. By virtue of these

fabricated transaction contracts, the company directly recognized a large amount of sales revenue and profits.

(2) There were also illegal advance recognition of revenue. In some real transactions, S Company failed to abide by the provisions of the Accounting Standards for Business Enterprises on the timing of revenue recognition, and artificially recorded the relevant revenue in advance when the control of goods had not been transferred or the services had not been completed. It can be seen that the scale of operating income and profits in the reporting periods of 2019 and 2020 was significantly exaggerated, and the financial performance was seriously false.

(3) Directly leading to false records in issuance documents. The above-mentioned financial fraud behaviors directly resulted in serious inaccuracies in the financial data disclosed by S Company in key issuance documents and periodic reports such as the Prospectus for the Issuance of Convertible Corporate Bonds to Unspecified Objects on the ChiNext Market (2020 and 2021 annual reports). After verification by the CSRC, the company accumulated inflated operating income of more than several hundred million yuan through the above means in 2019 and 2020, with a huge proportion of inflated profits. Among them, only from January to September 2020 (the key reporting period for the issuance of convertible bonds), the amount of inflated profits accounted for as high as 56.81% of the total disclosed profits in the current period. This means that most of the "profitability" presented by the company to investors and regulatory authorities for judging its issuance conditions was essentially a castle in the air.

2.3 Regulatory Investigation and Subsequent Penalties

The truth will eventually come out. Under the continuous supervision system of the registration system with "information disclosure as the core", regulatory authorities have strengthened the review and on-site inspection of annual reports and refinancing matters of listed companies. The

abnormal financial data of S Company finally attracted regulatory attention, and the company received the Notice of Case Filing from the CSRC at the end of 2022 and was placed under investigation on suspicion of illegal information disclosure.

In 2024, after an in-depth investigation, the Zhejiang Securities Regulatory Bureau officially issued the Administrative Penalty Decision. The documents disclosed by S Company in the process of convertible bond issuance were found to contain false records, constituting the fraudulent issuance behavior stipulated in the Securities Law. Severe administrative penalties were imposed on the company and relevant responsible persons, including the then chairman, general manager, chief financial officer and others. A huge fine was imposed on S Company, a number of responsible persons were given warnings and fined different amounts; in addition, some personnel were subject to market access restrictions, and were not allowed to hold the positions of directors, supervisors and senior managers of listed companies or engage in securities-related businesses within a limited period. It can be seen that regulatory authorities hold a zero-tolerance attitude towards illegal information disclosure behaviors. Examples show that such penalties have become an important means to standardize the order of the capital market. Due to the serious nature of the case and suspicion of a crime, the case was transferred to the public security organ in accordance with the law. The relevant criminal investigation procedures are currently under way, and the responsible persons may face criminal liability, which shows the seriousness of the situation.

3. Analysis of the Causes of S Company's Fraudulent Issuance in Refinancing

The fraudulent refinancing issuance of S Company was not the result of a single compliance failure. Rather, it emerged from the interaction between internal governance defects and external monitoring constraints under the registration system. In essence, the case reflects the joint operation of

governance failure, incentive distortion, and insufficient supervisory restraint.

3.1 Internal Causes

3.1.1 Severe Defects in the Corporate Governance Structure Constituted the Fundamental Internal Condition for the Fraudulent Refinancing Issuance

Effective corporate governance depends on institutionalized checks and balances among management, the board, internal audit, and supervisory bodies. In S Company's case, however, this internal restraint mechanism was substantially weakened. The independent directors failed to raise effective objections to aggressive financial practices, the internal audit function did not identify or stop the manipulation of financial information, and the board of supervisors failed to perform meaningful oversight. As a result, key financial information related to refinancing was dominated by management and became vulnerable to intentional distortion. Therefore, the problem was not merely the existence of inaccurate disclosure, but the breakdown of the internal governance structure that should have prevented management from using financial reporting as an instrument for refinancing objectives.

3.1.2 Profit Incentives and Refinancing Pressure Directly Intensified the Motivation for Managerial Manipulation

When a listed company faces capital demand, expansion pressure, or performance shortfalls, management may have strong incentives to present an improved operating picture in order to satisfy refinancing conditions and stabilize market expectations. In the case of S Company, financial manipulation appears to have served more than one purpose. It helped create the appearance of profitability required for convertible bond issuance, while also supporting the stock price and thereby protecting the interests of controlling shareholders and management in matters such as share reduction, equity pledge, and equity incentive exercise. In this

sense, fraudulent issuance was not simply a temporary accounting irregularity, but a strategic response to financing pressure and self-interested managerial incentives under performance constraints.

3.1.3 The Lack of Integrity Culture and Compliance Awareness Lowered the Internal Moral and Institutional Threshold for Fraud

Fraudulent issuance on this scale is difficult to explain only by short-term financial pressure. It also reflects a deeper weakness in the company's internal culture. The core management team showed insufficient legal awareness and weak commitment to truthful disclosure, and the fraudulent conduct displayed collective and systematic characteristics rather than isolated personal misconduct. This suggests that the company had not established a compliance culture in which false disclosure would be identified and rejected at an early stage. Instead, fraudulent behavior was tolerated or even implicitly accepted in pursuit of financing and performance goals. Under such conditions, the probability of disclosure violations increased substantially, because the internal environment no longer provided either normative restraint or organizational resistance.

3.2 External Causes

3.2.1 The Transitional Regulatory Environment Under the Registration System Increased the Difficulty of Timely Identification of Fraudulent Refinancing Behavior

The registration system places greater emphasis on continuous supervision and the truthfulness of information disclosure, but in the early stage of institutional transition, regulatory capacity, technological support, and accumulated enforcement experience may not yet fully match the complexity of new forms of fraud. Concealed practices such as fabricated transactions and other non-transparent arrangements make fraudulent disclosure more difficult to detect through routine review alone. In S Company's case, the misconduct

continued over a period of time and was not exposed until after the completion of the issuance, which indicates the practical difficulty of identifying sophisticated financial fraud in a timely manner under a disclosure-centered regulatory framework. Therefore, the case reflects not the failure of the registration system as such, but the tension between the logic of ex-post supervision and the reality of increasingly concealed fraudulent practices.

3.2.2 The Failure of Intermediaries to Perform Effective Gatekeeping Functions Weakened External Verification of Disclosed Information

Under the registration system, intermediaries such as sponsors, accounting firms, and law firms are expected to serve as important external verifiers of issuer information. Their role is not limited to formal participation in the issuance process, but extends to substantive due diligence and risk identification. In the case of S Company, however, the intermediaries involved in the convertible bond issuance failed to identify or disclose the large-scale fraud in a timely manner. This suggests that their verification procedures either lacked sufficient depth or failed to penetrate complex transaction arrangements. As a result, the gatekeeping mechanism that should have filtered out false information before or during refinancing did not function effectively, thereby facilitating the completion of the fraudulent issuance.

3.2.3 The Deterrent and Timeliness of the Legal Accountability Mechanism Still Need to Be Strengthened

Although the revised Securities Law has increased the penalties for fraudulent issuance and introduced mechanisms such as representative litigation, the practical deterrent effect of the legal system still depends on the certainty, severity, and speed of enforcement. If the expected cost of violation remains lower than the potential benefits of successful refinancing, some issuers and responsible individuals may still be tempted to take risks. In S Company's case, the relatively long interval between

the misconduct, investigation, and final penalty exposed the lag of accountability to some extent. This weakens the immediate restraining effect of the law and reduces its preventive function in similar cases. Therefore, the problem is not only whether penalties exist, but whether the accountability system can form a sufficiently prompt and credible deterrent against fraudulent issuance.

4. Economic Consequences of S Company's Fraudulent Issuance in Refinancing Under the Registration System

The economic consequences of S Company's fraudulent refinancing issuance were not limited to direct corporate losses. Rather, they were transmitted across multiple levels, including the company itself, investors, intermediaries, and the broader securities market, forming a cumulative chain of financial, governance, and market effects.

4.1 Negative Impact on the Company's Financial Performance

For the issuing company, fraudulent refinancing issuance does not only create short-term legal and reputational risks. Once the misconduct is exposed,

it may further trigger financial deterioration, liquidity pressure, governance instability, and even listing risk, thereby transforming an earlier financing strategy into a long-term operational burden.

4.1.1 Sustained Decline in Cash Flow

From the perspective of financial consequences, the short-term financing effect created by fraudulent disclosure lacked a sustainable operating foundation. Once the violation was investigated and penalized, the company faced direct cash outflows such as administrative fines, as well as indirect liquidity pressure caused by reputational damage, tighter external financing conditions, and subsequent compliance costs. The cash flow ratio data from 2019 to 2024 reflects this process clearly. The ratio rose briefly to 0.09% in 2021, during the peak period of the fraudulent issuance, but fell sharply to -0.084% in 2022 after the violation was verified, indicating a significant net cash outflow. Although slight fluctuations appeared from 2023 to 2024, the indicator remained at a relatively low level. This suggests that the misconduct did not merely lead to one-time financial punishment, but produced a sustained weakening of the company's liquidity position and capital reserve capacity.

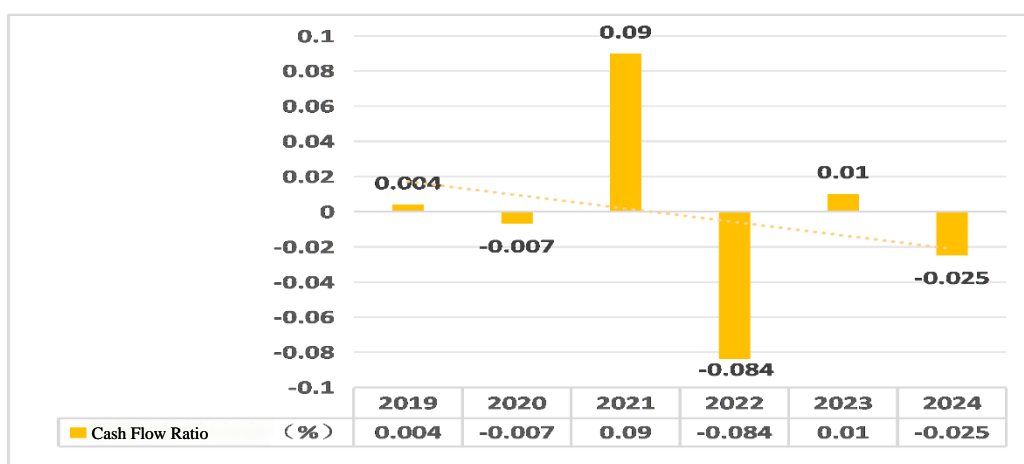


Figure 1. Changes in S Company's Cash Flow Ratio from 2019 to 2024

Data source: East Money Information Co., Ltd.

4.1.2 Triggering a Debt Crisis

After fraudulent refinancing behavior is exposed, the company may face a rapid deterioration in its external financing environment. Credit institutions tend to become more cautious, commercial counterparties may tighten transaction conditions, and potential investor claims further increase expected liabilities. Under these combined pressures, liquidity strain can gradually evolve into broader debt pressure, and the firm's going-concern capacity may also be affected. The changes in S Company's financial performance indicators before and after the fraudulent issuance illustrate this process.

Table 1 shows the intuitive deterioration process of financial performance before and after fraudulent issuance. In 2019, before the occurrence of fraudulent behaviors, the company's operating income and net profit indicators performed well, with an asset-liability ratio of only 30.58%, and the financial situation was relatively healthy. By 2020, the implementation stage of fraud, the operating

revenue dropped to 1.375 billion yuan, the net profit plummeted to 15 million yuan, and the asset-liability ratio rose to 38.17%. In 2021, when the violation was initially exposed, the operating revenue further dropped to 963 million yuan, the net profit turned into a huge loss of -685 million yuan, and the asset-liability ratio exceeded 50% to 55.96%. After the administrative penalty was issued in 2022, the net profit loss expanded to -878 million yuan, and the asset-liability ratio climbed to 65.23%. In 2023, the company was put under delisting risk warning, and the asset-liability ratio soared to 80.41%, almost on the verge of insolvency. During the continuous loss in 2024, the operating revenue was only 691 million yuan, the net profit still recorded a loss of -502 million yuan, and although the asset-liability status slightly rebounded, it still remained at a high level. These indicators show that the fraudulent issuance was followed by a continuous weakening of profitability and a rising debt burden, indicating that the economic consequences of the misconduct extended well beyond regulatory punishment itself.

Table 1. Changes in Key Financial Performance Indicators of S Company from 2019 to 2024

Year	Operating Income (100 million yuan)	Net Profit (100 million yuan)	Asset-Liability Ratio (%)
2019 (Before Fraud)	15.39	1.14	30.58
2020 (Fraud Implementation Period)	13.75	0.15	38.17
2021 (Initial Exposure of Violation)	9.63	-6.85	55.96
2022 (After Administrative Penalty)	11.16	-8.78	65.23
2023 (Delisting Risk Warning Period)	10.06	-8.74	80.41
2024 (Continuous Loss Period)	6.91	-5.02	73.11

Data source: East Money Information Co., Ltd.

4.1.3 Leading to Going Concern Difficulties

The chain impact caused by fraudulent issuance is confirmed by this series of data: a significant reversal of performance, a sharp decline in net profit, and even sustained huge losses are all clearly visible. The market value evaporation caused by the sharp drop in stock price further erodes the company's net assets, leading to operational and financial difficulties.

Devastating damage to market reputation and brand value. Labeled as a "fraud subject", S Company's commercial reputation almost collapsed due to its involvement in fraudulent behaviors. The trust relationship with customers and suppliers was broken, and business cooperation came to a standstill. In the medical industry, which is highly sensitive to reputation, the revenue of its smart medical sector dropped by more than 40% in 2022, and the number of cooperative hospitals decreased

from 120 to less than 50, which shows the actual impact of the lack of trust.

Prolonged chaos in operation and management. The former chairman was detained in criminal custody, the core management was severely punished, and three independent directors were subject to market access restrictions, resulting in a serious shortage of management personnel. It can be seen that there has been a drastic change in the company's senior personnel. Relevant examples show that there is an obvious fault in the corporate governance structure. The new management team took eight months to rebuild the internal control system. During this period, the "Regional Medical Cloud Platform" project came to a standstill, the R&D investment of 12 million yuan in the early stage was basically lost, and the overall strategic promotion rhythm of the company was completely disrupted.

4.1.4 Impact on Listing Qualification

According to the listing rules of the stock exchange, fraudulent issuance is a major illegal and irregular act, which may trigger the mandatory delisting clause. At present, S Company has been placed under investigation by the CSRC. If the final punishment determines that it constitutes a major violation, it will directly face the risk of delisting, and the status of the listed subject is in jeopardy.

4.2 Triggering an Investor Trust Crisis

Among the external parties affected by fraudulent refinancing issuance, investors are the group that most directly bears the consequences of distorted disclosure. Their losses are reflected not only in the decline of asset value, but also in weakened trust in market information and the practical difficulty of obtaining effective compensation after the misconduct is exposed.

4.2.1 Sharp Drop in Stock Price

The most direct consequence after the punishment for fraudulent issuance is a sharp drop in stock price. From the emergence of fraud suspicions in 2021 to the official punishment by regulatory authorities in 2022, S Company's stock price plummeted from a high of 14.25 yuan per share to 2.86 yuan per share, with an overall drop of nearly 80% (see Table 2). Estimating the losses of individual investors, if a small and medium-sized investor bought 10,000 shares at a high of 14 yuan, the floating loss in the account exceeded 110,000 yuan after the regulatory punishment was issued, and the principal loss was also nearly 80%. The performance of "Sichuang Convertible Bonds" was the same: the price of bonds with a par value of 100 yuan plummeted rapidly from 120 yuan to 45 yuan, and the floating loss per share for holders exceeded 60%.

Table 2. Annual Stock Price Changes of S Company from 2019 to 2024 (Yuan)

Year	Opening Stock Price	Closing Stock Price	Annual Highest Price	Annual Lowest Price	Annual Price Change Range
2019	8.18	12.88	14.41	8.07	+57.46%
2020	11.03	9.05	14.25	7.55	-17.95%
2021	9.05	7.38	9.08	5.98	-18.45%
2022	7.38	4.96	8.42	3.58	-32.79%
2023	4.96	4.49	6.18	3.52	-9.48%
2024	4.49	4.13	5.76	2.86	-8.02%

Data source: Financial Market Quotation Database.

4.2.2 Weakening the Foundation of Market Trust

S Company's fraudulent issuance incident has seriously shaken the overall market confidence. It has also exacerbated the information asymmetry between investors and the company. According to

the information asymmetry theory: if the authenticity of financial information cannot be verified, it is difficult for investors to distinguish the quality of companies. They either choose to withdraw from the market or demand higher risk

compensation. Market data can also confirm this impact. In the third quarter of 2022, the average daily turnover of the medical and health sector decreased by 23% compared with the first quarter. Many institutional investors have significantly reduced their allocation ratio of medical technology stocks. For example, a fund company reduced its holdings of such stocks from 15% to 8%. Individual investors have also expressed their views on public platforms. They generally questioned the quality of information disclosure of ChiNext companies.

This trust crisis also has obvious contagion. Even in the same sector, the stock prices of three medical informatization enterprises not involved in violations were still dragged down in the month when the incident was exposed, with their cumulative decline exceeding 10%. This shows that the fraud in a single case will weaken the credit foundation of the entire market, and investors will adopt an evasive attitude even towards compliant enterprises.

This case shows that once the information disclosure mechanism fails, market trust will collapse rapidly, which in turn will distort the resource allocation function of the market and make compliant enterprises also bear valuation pressure.

4.2.3 Highlighting the Lag of the Shareholder Rights and Interests Protection System

The case of S Company's fraudulent issuance exposes the significant deficiencies in the implementation of China's securities investor protection mechanism. Although the class action system has been incorporated into the Securities Law, in practice, investors' rights protection is often trapped in difficulties of proof, long cycles and low compensation, and the protective effect of the system has not been fully realized.

More than 200 investors filed a class action in this case. Due to the difficulty in proving the direct causal relationship between the fraud and investment losses, it took as long as 11 months from case filing to the first court session. In the end, only 37 investors were compensated, and the total

compensation amount was less than 30% of the actual losses.

Even under the new institutional framework, the rights protection procedure is still complicated and time-consuming. In this case, more than 60% of the damaged investors voluntarily gave up their rights due to cumbersome procedures and high time costs, which fully shows the obvious gap between the system design and its actual operation.

From the perspective of information asymmetry and corporate governance, the lag of the investor protection mechanism is likely to lead to lower illegal costs and weakened regulatory deterrence, thus shaking the market's trust in institutional guarantees. It can be seen that the current mechanism urgently needs to be optimized to improve the efficiency of rights protection, enhance the effectiveness of compensation, and effectively safeguard the legitimate rights and interests of investors.

4.3 Holding Derelict Intermediaries Accountable

In fraudulent refinancing issuance cases, intermediaries are not only external participants in the issuance process, but also important bearers of subsequent economic and reputational consequences when their gatekeeping functions fail. Once a major fraud is exposed, the resulting losses are transmitted to sponsors, accounting firms, and other service institutions through reputational damage, legal liability, and increased compliance costs.

4.3.1 Damage to Reputation and Brand

The exposure of S Company's fraudulent refinancing issuance also damaged the professional reputation of the intermediaries involved in the transaction. As the lead underwriter, audit institution, and other service providers failed to identify or disclose the large-scale irregularities in a timely manner, the market began to question not only their professional judgment, but also the reliability of their due diligence procedures. In financial service industries, where credibility is closely linked to future business opportunities, such

reputational impairment may weaken client confidence, reduce competitiveness in subsequent project acquisition, and impose a longer-term negative effect on brand value. Therefore, the consequence for intermediaries is not limited to temporary criticism, but may extend to a sustained weakening of market trust in their professional services.

4.3.2 Legal Liability and Economic Penalties

In addition to reputational loss, intermediaries involved in the issuance may also face substantial legal and economic consequences. When regulatory authorities determine that sponsors, accounting firms, or other service institutions failed to perform their duties with due diligence, these institutions may be subject to administrative penalties such as warnings, fines, business restrictions, or even suspension of relevant qualifications. At the civil level, they may also become co-defendants in investor compensation litigation and bear corresponding compensation liability. These legal consequences are likely to generate direct financial losses and indirect cost increases, including litigation expenses, compliance rectification expenses, and higher future risk-control input. From this perspective, the fraudulent issuance of a listed company may transform an intermediary's professional failure into a broader operational burden.

4.4 Pushing up the Operation Cost of the Securities Market

The consequences of S Company's fraudulent refinancing issuance were not confined to the firm and its direct counterparties. Once such misconduct enters the public and regulatory domain, it may also impose broader costs on the operation of the securities market by weakening the credibility of the disclosure system, increasing supervisory pressure, and reducing the efficiency of market resource allocation.

4.4.1 Eroding the Integrity Foundation of the Registration System Reform

The effective operation of the registration system depends on the credibility of information disclosure and on the expectation that most market participants will comply with disclosure obligations in a truthful manner. In this sense, major fraudulent refinancing cases such as that of S Company may weaken the credibility foundation on which the registration system relies. When a serious case of false disclosure occurs during the refinancing process, market participants may begin to question whether disclosure-based regulation is sufficient to identify high-risk issuers in a timely way. The resulting doubt does not necessarily negate the institutional value of the registration system itself, but it does increase the difficulty of maintaining confidence in a disclosure-centered market framework. Therefore, one important market-level consequence of the case lies in the weakening of confidence in the effective operation of the disclosure regime.

4.4.2 Exacerbating the Implementation Pressure of the Regulatory System

Another broader consequence of fraudulent refinancing issuance is the increase in supervisory and compliance costs across the market. After a major fraud case is exposed, regulatory authorities often need to devote additional enforcement resources to case investigation, post-event verification, investor protection coordination, and the review of similar risk patterns in other issuers. At the same time, listed companies and intermediaries may also face a stricter compliance environment, with higher disclosure verification costs and more cautious transaction review procedures. Although these responses may help reduce future risks, they also indicate that fraudulent issuance imposes external costs on the operation of the market as a whole. In this sense, the harm of the case is not limited to the violating firm, but extends to the increased regulatory and

compliance burden borne by the securities market system.

4.4.3 Fraudulent Issuance Distorts the Capital Market's Resource Allocation

Fraudulent issuance will distort the resource allocation function of the capital market and weaken the core efficiency of the market. The core value of the capital market is to guide funds to gather to high-value subjects, but fraudulent issuance will misallocate scarce financial resources to inferior subjects engaged in financial fraud, while high-quality enterprises operating in compliance may miss financing opportunities due to capital diversion, forming a "bad money drives out good money" effect.

4.4.4 Fraudulent Issuance Pushes up the Overall Operation Cost of the Market

S Company's fraudulent issuance has significantly raised the overall operation cost of the capital market. Investors have initiated large-scale civil claims due to the sharp drop in stock price from 15.20 yuan to 2.80 yuan, thus increasing judicial litigation costs. Intermediaries have also seen a substantial rise in compliance costs. CITIC Securities is a case in point — it received a regulatory warning for failing to perform its due diligence obligations, leading to the ratio of the industry's due diligence costs to project income rising from 13.30% to 20.70%. To prevent financial fraud, investors have invested more resources in information screening, with the proportion of research costs increasing from 12.30% to 18.50%. The regulatory resources consumed in case investigation, administrative punishment and subsequent system construction are also huge. The process from case filing to criminal investigation has gone through multiple stages, with continuous increase in public expenditure. The above costs are ultimately shared by all market participants. What the case of S Company's fraudulent refinancing issuance reveals is that the consequences of the incident are systematic and chain-like. Its profound impact confirms the practical warning of the information asymmetry and

principal-agent theory in the registration system environment. With the new institutional logic taking information disclosure as the core, fraudulent behaviors not only directly plunder investors' wealth, destroy corporate value and punish derelict intermediaries through information manipulation, but also seriously erode the trust foundation of market operation at the macro level. The information gap between investors and issuers is thus exacerbated, principal-agent conflicts are amplified, the risk of adverse selection rises, the operation cost of the entire market is pushed up, and ultimately the resource allocation efficiency of the capital market is distorted.

5. Countermeasures and Suggestions for Preventing Fraudulent Issuance by Listed Companies

The foregoing analysis shows that the economic consequences of S Company's fraudulent refinancing issuance were transmitted through several interconnected channels, including internal governance failure, investor losses, intermediary dereliction, and increased market-wide operating costs. Therefore, the response to such misconduct should not remain at the level of general policy advocacy. Instead, it should be designed in a way that directly corresponds to the specific mechanisms through which the case generated harm.

5.1 Optimizing the Legal Accountability and Investor Compensation Mechanism

As shown in the S Company case, one important reason why the consequences of fraudulent refinancing issuance continue to expand lies in the limited timeliness of accountability and the practical difficulty of investor compensation. Therefore, the legal response should focus not only on increasing formal penalties, but also on improving compensation effectiveness and the credibility of liability enforcement.

5.1.1 Further Improve the Securities Civil Compensation System

The S Company case shows that investor protection in fraudulent issuance cases depends not only on the recognition of liability, but also on the practical accessibility of compensation mechanisms. For this reason, the operation of special representative litigation should be further regularized, and the threshold and cost of investor rights protection should be reduced. At the same time, a more effective diversified dispute resolution mechanism for securities disputes should be developed so as to improve compensation efficiency in cases involving a large number of affected investors. In addition, the scope of joint and several compensation liability of controlling shareholders, actual controllers, senior executives, and intermediaries in fraudulent issuance cases should be further clarified, so as to enhance the effectiveness and predictability of investor compensation.

5.1.2 Strengthen the Connection Between Administrative Law Enforcement and Criminal Liability

Another issue revealed by the S Company case is that the deterrent effect of legal accountability depends not only on the severity of sanctions, but also on the timeliness and coordination of enforcement. For fraudulent issuance cases suspected of constituting crimes, administrative enforcement and criminal justice should be connected more effectively, so that relevant cases can be transferred for criminal investigation in a timely manner where necessary, rather than being handled only through administrative penalties. In addition, judicial standards for the identification of key elements such as materiality in criminal cases of fraudulent issuance should be further clarified, so as to improve the consistency and predictability of legal accountability. Where new forms of refinancing fraud or new questions of liability identification arise in practice, relevant legal rules and judicial interpretations should also be updated

in a timely manner to preserve the adaptability of the accountability system.

5.2 Improve Corporate Governance and Cultural Construction

As indicated by the S Company case, fraudulent refinancing issuance cannot be explained only by external regulatory deficiencies. More fundamentally, it is rooted in weak internal checks and balances, distorted managerial incentives, and an insufficient compliance culture. For this reason, prevention at the corporate level should focus on strengthening governance structure, correcting short-term value orientation, and embedding integrity and compliance into daily management.

5.2.1 Improving the Corporate Governance Structure and Strengthening Internal Checks and Balances

The S Company case shows that when the board of directors, the board of supervisors, and internal audit fail to perform substantive oversight, management may gain excessive control over financial reporting and refinancing decisions. Therefore, listed companies should further improve their governance structure and strengthen internal checks and balances. In particular, the genuine independence and effective performance of duties of the board of directors and the board of supervisors should be better secured. The proportion of independent directors with financial and legal expertise may be appropriately increased, and their rights to information and supervision should be effectively guaranteed. At the same time, the authority and independence of the internal audit department should be strengthened, so that it can report directly to the board of directors or the audit committee and identify material risks in a timely manner. Internal control should also be reinforced in key areas such as financial reporting, fund flows, and related-party transactions.

5.2.2 Establish a Long-Term Value Orientation and Reducing Short-Term Incentive Distortion

Another lesson of the S Company case is that fraudulent refinancing is often closely linked to excessive short-term performance pressure and financing incentives. When management places too much emphasis on maintaining stock prices, meeting aggressive targets, or securing refinancing approval within a limited period, the probability of financial manipulation increases significantly. Therefore, listed companies should establish a stronger long-term value orientation and avoid governance arrangements that overemphasize short-term market performance. Correspondingly, performance appraisal systems should be adjusted to reduce unrealistic short-term targets and to place greater weight on sustainable operation, compliance quality, and long-term value creation. In this way, the incentive basis for fraudulent disclosure can be weakened at the source.

5.2.3 Cultivating an Organization-Wide Integrity and Compliance Culture

The case also suggests that fraudulent issuance on a large scale is difficult to sustain without a permissive internal environment. Therefore, integrity and compliance should be incorporated into the company's routine governance logic rather than treated as symbolic values. Listed companies should strengthen legal awareness and professional ethics training for directors, senior executives, financial personnel, and other key employees through regular training and case-based warnings. At the same time, whistleblower protection and internal reporting mechanisms should be improved so that employees are encouraged to identify and report irregular conduct at an early stage. A more credible internal compliance culture would help form organizational resistance to fraudulent behavior before it escalates into systematic disclosure violations.

5.3 Improve the Investor Rights and Interests Protection Mechanism

The S Company case shows that investor losses caused by fraudulent refinancing issuance are not limited to market value decline. In practice, affected investors also face difficulties such as high rights-protection costs, lengthy procedures, and limited compensation coverage. Therefore, the investor protection mechanism should be improved not by placing excessive responsibility on individual investors, but by reducing the institutional barriers to relief and increasing the efficiency of compensation.

5.3.1 Reducing the Cost and Threshold of Investor Relief

A major problem exposed by the case is that many affected investors may choose not to pursue claims because of complicated procedures, long cycles, and uncertainty of outcome. Therefore, the investor relief mechanism should be designed to reduce the cost and threshold of participation. In particular, more accessible procedural arrangements should be provided for small and medium-sized investors in fraudulent issuance cases, so that rights protection does not depend excessively on individual litigation capacity. This would help narrow the gap between formal rights and actual remedies.

5.3.2 Improving the Efficiency of Collective Compensation Mechanisms

Given that fraudulent issuance often affects a large number of investors simultaneously, collective compensation mechanisms should play a more central role in post-event relief. On the basis of existing arrangements such as special representative litigation, the procedures for investor registration, evidence recognition, and loss calculation should be further streamlined. At the same time, the coordination between administrative findings and subsequent civil compensation should be strengthened, so that investors can rely more effectively on already established facts of violation when pursuing compensation. Improving the

efficiency of collective relief would help increase the actual coverage and timeliness of investor compensation.

5.3.3 Restoring Investor Confidence Through Clearer Liability Allocation

The case also indicates that effective investor protection depends on clear and credible liability allocation among issuers, controlling shareholders, senior executives, and intermediaries. Where the scope of liability remains unclear or fragmented, compensation recovery becomes more difficult and investor confidence is further weakened. For this reason, the rules on compensation liability in fraudulent issuance cases should be made more transparent and predictable, especially with regard to the joint responsibility of key actors involved in false disclosure. A clearer accountability structure would not only improve post-event compensation, but also contribute to restoring investor trust in the fairness of the market.

5.4 Strengthening Continuous Supervision and Gatekeeping Restraint

The S Company case also shows that under a disclosure-centered regulatory framework, the effectiveness of prevention depends not only on formal rules, but also on the timeliness, penetration, and deterrent force of supervision in practice. Therefore, continuous supervision should be strengthened together with intermediary restraint and enforcement efficiency.

5.4.1 Strengthening Continuous Supervision Centered on Information Disclosure

Since fraudulent refinancing often relies on the concealment of abnormal financial and transaction information, continuous supervision centered on disclosure should be further strengthened. In particular, data-based monitoring tools may be used more effectively to identify suspicious signals such as abnormal financial indicators, unusual media exposure, and sharp stock price fluctuations. At the same time, on-site inspections should become more targeted and risk-oriented, so as to improve the

capacity to identify complex and concealed fraud in a timely manner.

5.4.2 Promoting a Normalized Penetrating Supervision Mechanism for Intermediaries

The failure of intermediaries in the S Company case suggests that disclosure-based regulation cannot function effectively unless gatekeeping institutions are also subject to sustained supervision. For this reason, a more normalized penetrating supervision mechanism should be established for sponsors, accounting firms, and law firms involved in refinancing projects. Where intermediaries fail to perform their duties, penalties should not be limited to economic sanctions alone, but may also include qualification-based measures and corresponding individual accountability for directly responsible persons. In addition, a longer-term linkage between practice quality evaluation and market access should be developed, so that intermediaries face continuous incentives to maintain professional diligence.

5.4.3 Promoting a More Timely and Credible Enforcement Mechanism

Another issue revealed by the case is that the deterrent effect of supervision depends heavily on the timeliness and credibility of enforcement. If serious violations such as fraudulent issuance are punished only after a long delay, the preventive effect of the law is weakened. Therefore, enforcement procedures and inter-agency coordination should be further optimized so as to shorten the investigation and punishment cycle where possible. At the same time, diversified accountability tools, including economic penalties, market access restrictions, criminal liability, and integrity records, should be applied in a coordinated manner to increase the real cost of violation. A more timely and credible enforcement mechanism would help transform formal regulatory authority into effective market deterrence.

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