

Regulator plans steps to plug IPO loopholes

BEIJING, July 29 -- The securities watchdog is mulling further measures to plug the loopholes that showed up in the latest round of initial public offerings (IPO), according to Shang Fulin, chairman, China Securities Regulatory Commission (CSRC).

The CSRC is generally satisfied with the results of the recent reforms, but also identified a number of areas that need to be improved.



People watch the index screen at a stock market in Shanghai, China, July 1, 2009. The CSRC said it is planning to take steps to safeguard individual investors' interests. (Xinhua Photo)

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One of these areas is the lack of a provision to block institutional investors from taking advantage of the new allotment system by masquerading as personal investors in their IPO applications.

"Some institutional investors were known to have circumvented the subscription limits on their accounts by making applications through personal investor accounts opened with borrowed ID cards," said Lu Junlong, analyst, China Finance Online. "Stockbrokers keen on earning commission fees usually turn a blind eye to such irregularities," he said.

This has defeated, to some extent, the primary objective of the reform, of increasing the allotment of new shares to personal investors. In the past, the deluge of applications from well-financed institutional investors had largely crowded out applications from individual investors.

Because of the loophole, the ratios of allocation of newly issued shares to personal investors in the past several IPOs were still deemed too low.

For example, the ratio of allocation in the IPOs of Guilin Sanjin Pharmaceutical, one of the first companies to obtain a stock exchange listing after the lifting of the IPO suspension, was only 0.17 percent.

The ratio of allocation in the Sichuan Expressway IPO was 0.26 percent, while it was 2.83 percent for China State Construction Engineering Corp's public float.

"The ratio of allocation to subscription is at a low level, similar to the lottery system in the past," said Zhu Hongbin, an investor with over 10-year experience in the market.

Considering the wide price gap between the primary and secondary markets, many institutional investors borrowed heavily from banks to subscribe for new shares.

Easy credit and cheap money have given institutional investors a much greater edge over small investors in the fight for IPO allotments.

"As long as the interbank seven-day repurchase rate stays below 3 to 4 percent, we can make profits by subscribing to new shares," a Shanghai-based fund manager said, who refused to be named.

The investors' feverish penchant for newly listed stocks saw Sichuan Expressway Co soar 202 percent on debut. The bourse suspended trading in the scrip for two times to allow for a cooling off period on the first day.

The company's issue price was 3.6 yuan, nearly 20 times the PE (price-to-earnings) ratio. After collective bidding, the opening price soared to 7.6 yuan and the shares finally closed at 10.9 yuan after touching a high of over 15 yuan.

The high price was beyond the expectation of many analysts.

According to the reports from 23 securities firms, most analysts thought the reasonable price could be around 5 yuan. Guotai Junan Securities Co was the most optimistic, which estimated the shares could be worth around 7 yuan.

The shares subsequently began to slump and closed at 9.81 yuan, with many individual investors burning their figures.

According to the Shanghai Stock Exchange, individual investors were the main buyers for the new shares of Sichuan Expressway on its first trading day. Among the 74,000 accounts that bought shares on that date, about 99.9 percent was personal accounts. Institutional investors, including fund managers, securities firms and insurance companies, did not join the speculation.

According to CSRC Chairman Shang Fulin, the regulators are working on a plan to educate individual investors and also exploring effective mechanisms to protect investors' rights.

(Source: China Daily)