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Original Paper

Can Regulating Major Shareholders' Share Reductions Effectively Suppress Stock Price Volatility?—An Empirical Study Based on the 2023 New Share Reduction Rules

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Abstract

In order to regulate the reduction of holdings by major shareholders and ensure the sound operation of the capital market, the China Securities Regulatory Commission (CSRC) issued the document Further Regulation of Share Reduction Behavior by the CSRC on August 27, 2023. This paper focuses on this new reduction regulation and employs a fixed-effects model to empirically examine its impact on stock price volatility in the overall A-share market, as well as in the Shanghai and Shenzhen stock exchanges, during the period from January 4, 2023, to December 31, 2024. The empirical results show that: (1) The new reduction regulation has a mitigating effect on stock price volatility in both the overall market and the Shanghai and Shenzhen stock exchanges. (2) The inhibitory effect of the new reduction regulation on stock price volatility is more pronounced in companies with higher ownership concentration.

Keywords

New Reduction Rules, StockPrice Volatility, Reduction of Holdings by Major Shareholders

1. Introduction

Since the split share structure reform in China in 2007, a significant number of listed company shareholders, particularly some original shareholders, have engaged in share reductions in the capital market. These original shareholders, who acquired shares at relatively low costs, have been able to realize substantial wealth by selling their holdings. Consequently, once the lock-up periods expire, these original shareholders often exhibit a strong inclination to reduce their holdings. Additionally, company insiders possess inherent advantages in accessing private information and assessing company valuation. By manipulating information disclosure, they can facilitate share reductions at elevated stock

prices (Piotroski & Roulstonem, 2005). Deepening the reform of the financial system, establishing a modern central banking system, strengthening and improving modern financial regulation, reinforcing the financial stability safeguard system, bringing all types of financial activities under supervision in accordance with the law, and preventing systemic risks are critical priorities (Zhang, Jing, & Su, 2019). In recent years, regulatory authorities have introduced a series of regulations to standardize the reduction of holdings by major shareholders. On January 9, 2016, the China Securities Regulatory Commission (CSRC) issued the Provisions on Share Reduction by Major Shareholders, Directors, Supervisors, and Senior Executives of Listed Companies, which set rules on information disclosure and the volume of share reductions, while also encouraging shareholders to stabilize stock prices through share repurchases. On May 27, 2017, the CSRC further introduced new reduction rules (Document No. 9), which refined the regulatory framework for "bridge reductions" through block trades and established norms for share reductions following the lifting of restrictions on non-publicly issued shares.The new reduction rules issued on August 27, 2023, further tightened the conditions for share reductions. These rules prohibit controlling shareholders and actual controllers from reducing their holdings via the secondary market if the company's stock price falls below net asset value or its IPO issue price, or if the cumulative dividend payments over the past three years are less than 30% of the average annual net profit during the same period. The new regulations not only impose stricter restrictions on share reductions but also take into account the practical interests of minority investors. Furthermore, they provide guidance for corporate development, encouraging major shareholders to abandon short-term market arbitrage strategies and instead focus on growing and strengthening their companies to reward investors with legitimate returns. However, from a practical perspective, the 2017 reduction rules (Document No. 9) were found to significantly increase overall volatility in the A-share market (Wu, Chen, & Zhang, 2020). Moreover, these rules did not effectively reduce the number or proportion of irregular share reductions by controlling major shareholders (Finnerty, 1976).

This paper begins by examining market volatility before and after the introduction of the new reduction rules, empirically testing whether these rules have a mitigating effect on stock price fluctuations. The findings aim to provide effective recommendations for enhancing the implementation of such regulations and serve as a reference for further refining the rules on share reductions.

2. Literature Review

2.1 Major Shareholders' Share Reduction Behavior

2.1.1 Motivations for Major Shareholders' Share Reductions

The motivations for major shareholders to reduce their holdings generally fall into three categories:First, speculative reductions driven by insiders seeking excess profits under conditions of information asymmetry. Insiders of listed companies can achieve abnormal returns by purchasing their company's stocks in both the short and medium-to-long term (Cohen, Malloy, & Pomorski, 2012). Cohen (2012) found that an investment strategy based on opportunistic insider trading generated

abnormal returns of 82 basis points per month on a value-weighted basis (or 180 basis points on an equal-weighted basis) (Seyhun, 1992). Such speculative reductions primarily occur for the following reasons: insiders possess informational advantages, enabling them to better assess company valuations and sell (or buy) when the company is overvalued (or undervalued) (Rozeff, 1998; Ali, Wei, & Zhou, 2011; Wu, Z. C., & Wu, W. L., 2018). Additionally, insiders may manipulate information disclosure to sell at elevated prices, thereby securing capital gains differentials and minimizing the costs of tunneling (Yi, Pan, Mao, & Li, 2017; Huang, Zhou, & Xie, 2009; Cai, 2012; Lou & Yao, 2008). Second, companies may require cash flow due to strategic adjustments, expansion needs, or other reasons. When effective financing methods are unavailable in the short term, share reductions may be pursued (Hellstrom, Kallunki, & Nilsson, 2009).

Third, reductions may be driven by the need to optimize corporate equity structure. Major shareholders may reduce their holdings to dilute equity or lower management costs (Malcolm & Jeremy, 2003).

2.1.2 Impacts of Major Shareholders' Share Reductions on Enterprises

From a corporate perspective, reductions in holdings by major shareholders also impact company development to some extent. For companies facing high financing constraints, such reductions lead to a decline in stock prices, preventing these firms from leveraging overvalued shares to alleviate financing pressures. Consequently, investment opportunities are reduced (Shen & Chen, 2020), thereby exacerbating the company's financing constraints and contributing to situations where short-term loans are used for long-term investments (Xia & Li, 2009). In companies where major shareholders reduce their holdings, the sensitivity of corporate investment scale to investment opportunities is significantly weaker compared to companies without such reductions. This indicates that reductions by major shareholders diminish corporate investment efficiency (Yi, Pan, Mao, & Li, 2017).

2.1.3 Market Reactions to Major Shareholders' Share Reductions

Domestic scholars' research on the market reaction to major shareholders' share reductions has largely focused on the correlation between reduction announcements and stock price volatility as well as stock price crash risk. Simultaneously, studies have explored the relationship between major shareholders' reductions and stock price crash risk from the perspective of corporate governance. Xia and Li (2009) found that the market exhibits abnormal stock price movements on the announcement day of share reductions. Yin and Zhang (2018) discovered that the scale of reductions by senior executives positively contributes to stock price crash risk, and this correlation becomes more significant when the CEO participates in the reduction transactions. Zhang Chengrui, Wang Hua, and Liang Sining (2016) [20] observed significant abnormal fluctuations in stock prices around the announcement of share reductions. Specifically, stock prices rose significantly and peaked before the reduction by original shareholders, followed by a sharp decline after the reduction. Chen and Wu (2013) argued that reduction behaviors by senior executives and major shareholders convey negative information to the market, leading to stock price declines, with the impact from shareholders being significantly greater than that from executives. Wang et al. (2015), through studying the relationship between major

shareholders' shareholding ratios and stock price crash risk, found a significant negative correlation between the shareholding ratio of the largest shareholder and future stock price crash risk. This negative correlation becomes more pronounced when principal-agent problems exist between major shareholders and executives, and the monitoring effectiveness of minority shareholders is weak. Wang and Zhang (2016), using the event study methodology, found that the cumulative abnormal returns (CAR) after reduction announcements were significantly negative, indicating a clear adverse effect of reductions on stock prices. These studies collectively reached similar conclusions, demonstrating that major shareholders' share reductions exert a negative impact on the stock market.

3. Research Design

3.1 Research Sample and Data Source

This study employs daily data from A-share main board listed companies in China between January 4, 2023, and December 31, 2023, as the initial sample. The following treatments are applied to the raw data: first, excluding samples labeled as ST or *ST; second, removing samples from the financial sector; and third, eliminating samples with missing critical data. The final dataset consists of 574,483 observations in panel data format. All data used in this study are sourced from the CSMAR database.

3.2 Variable Selection

To measure stock price volatility, this study draws on the methodology of Li et al. (2015) by using the amplitude of stock prices to gauge volatility. The specific calculation is as follows:

$$Wave_{i,t}=(high_{i,t}-low_{i,t})/close_{i,t-1} \quad (1)$$

where $high_{i,t}$ and $low_{i,t}$ represent the highest and lowest transaction prices of stock i on day t, respectively, and $close_{i,t-1}$ denotes the closing price of stock i on day t-1.

The selection of control variables in this paper follows the approach of Zhang et al. (2019), incorporating the following variables:

(1) Price-to-Earnings Ratio (PE): This is the ratio of the stock's market price per share to its earnings per share. Song and Sun (2017) proposed a stock valuation model based on industry PE ratios and empirically demonstrated its effectiveness in assessing stock value.

(2) Price-to-Book Ratio (PBV): This is the ratio of the market price per share to the book value per share. Liu and Song (2011) found that company size and PBV significantly influence stock returns. Moreover, compared to the Price-to-Sales Ratio (PS) and Price-to-Cash Flow Ratio (PCF), PBV exhibits greater stability, making it a suitable control variable.

(3) Turnover Rate: Lin (2013) demonstrated that fluctuations in the turnover rate significantly affect the compound returns of stocks over the following six months. A higher turnover rate indicates more frequent trading of a company's stock in the market, which is often associated with greater stock price volatility.

(4) Circulating Market Value (CMV): Studies suggest that company size exerts a stable influence on stock performance (Liu & Song, 20111). Therefore, circulating market value is included as a control

variable.

(5) Trading Volume (DEAL): Trading volume is a driving force behind price fluctuations and serves as a leading indicator of price changes. To mitigate its impact on stock price volatility, individual stock trading volume is selected as a control variable.

(6) Daily Volatility of the CSI 300 Index (VOL): Individual stock price volatility is often influenced by overall market movements. Thus, the daily volatility of the CSI 300 Index is introduced as a control variable. *Rdr*

Table 1. The Specific Variable Selections Summarized

Variable Name	Variable Code	Variable Definition
Stock Price Volatility	*Wave*	(Daily Highest Price - Daily Lowest Price) / Previous Day's Closing Price
New Reduction Rules	*D*	Policy dummy variable, equal to 0 before August 27, 2023, and 1 thereafter
Price-to-Earnings Ratio	*PE*	(Current Closing Price × Total Share Capital) / Profit Attributable to Owners of the Parent for the Previous Year (End of Period)
Price-to-Book Ratio (P/B Ratio)	*PBV*	(Current Closing Price × Total Shares Outstanding) / Total Equity Attributable to Owners of the Parent at the End of the Prior Fiscal Year
Turnover Ratio	*Turnover*	Daily Trading Volume / Float-Adjusted Shares Outstanding
Public float market value	*CMV*	The Product of a Stock's Public Float and Its Closing Price
Trading Value	*DEAL*	Total Trading Value
Daily Volatility of the CSI 300 Index	*Vol*	(Today's High Index - Today's Low Index) / Previous Day's Closing Index

表 1 变量定义

3.3 Model Construction

This paper conducts an empirical study using firm-level panel data, and the model is specified as follows:

$$Wave_{i,t}=\alpha+\beta D_{i,t}+\gamma X_{i,t}+u_{i,t}+e_{i,t} \quad (2)$$

where is the volatility measure for firm i on day t. The policy dummy $D_{i,t}$ equals one for the post-event period (after August 27, 2023) and zero otherwise. The vector $X_{i,t}$ includes a set of firm-level control variables that may affect volatility, namely turnover, *PE* ratio, *PBV* ratio, float-adjusted market

capitalization, trading value, and the *CSI* 300 index volatility. Firm fixed effects $u_{i,t}$ are included to absorb time-invariant firm-specific heterogeneity. $e_{i,t}$ is the error term. Standard errors are clustered at the firm level to account for potential serial correlation in the residuals.

4. Empirical Results and Analysis

4.1 Descriptive Statistics

From the amplitude trend charts of the CSI 300 Index, Shanghai Composite Index and Shenzhen Composite Index, the overall A-share market volatility was not effectively suppressed immediately after the policy issuance on August 27, 2023, and sharp fluctuations occurred on August 28. The new rules boosted investor confidence, with the Shanghai Composite Index opening up 5.05%, but irrational exuberance led to a pullback, and the index finally closed up 1.13%. The Shenzhen Composite Index and CSI 300 Index showed a similar trend. Intuitively, the policy's short-term suppression effect on market volatility is not significant, which is inconsistent with expectations, requiring further empirical tests for reliable conclusions.

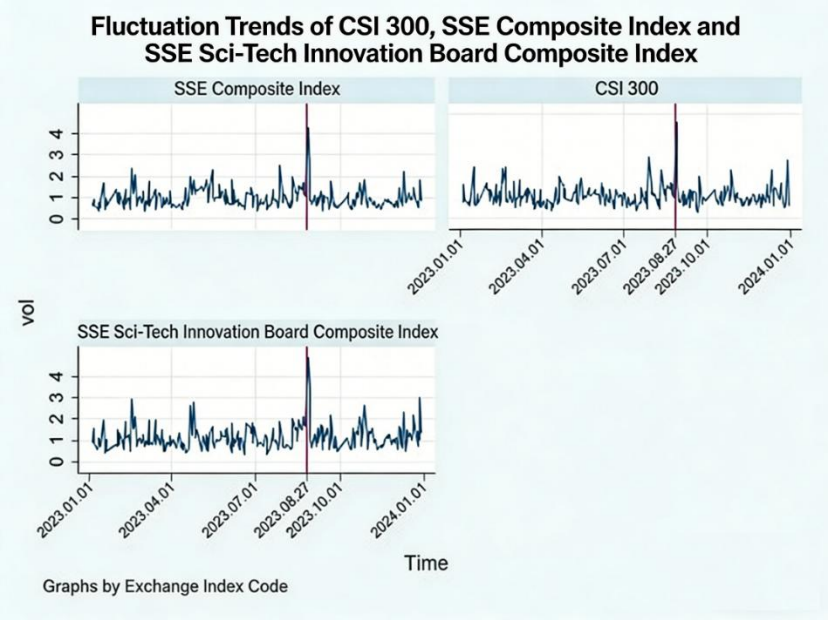

Figure 1. Trends in the Amplitudes of the CSI 300, SSE Composite, and SZSE Component Indices

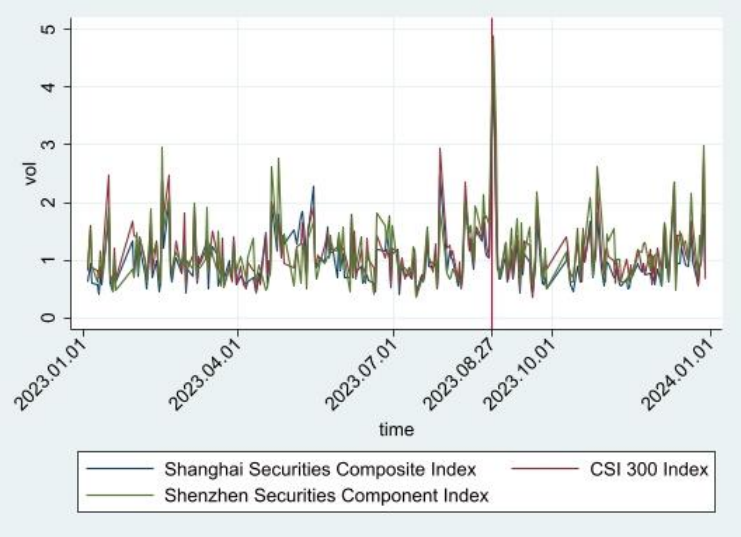

Figure 2. Amplitude Trends of the CSI 300, SSE Composite, and SZSE Component Indices (Overlaid)

We next present the descriptive statistics for all control variables in Table 2. The results show that PE, PBV, and DEAL have relatively large standard deviations, reflecting substantial heterogeneity across firms in terms of valuation multiples and trading activity. These variables exhibit considerable market-level volatility, and their inclusion as controls helps to isolate the effect of the policy shock. In contrast, the other control variables display much smaller standard deviations, indicating that they are relatively stable and less sensitive to policy changes.

Table 2. Descriptive Statistics for Control Variables

Variable type	COUNT	Mean	Sdv	Min	Median	Max	25th Percentile	75th Percentile
PE	574483	65.4259	124.739	1.0009	30.0244	2472.7589	17.8530	57.2529
PBV	574483	2.8463	3.373	0.1627	2.1324	134.7654	1.3954	3.3051
Turnover	574483	0.0208	0.037	0.0003	0.0103	0.8500	0.0058	0.0203
CMV	574483	0.1988	0.803	0.0014	0.0625	24.0298	0.0327	0.1437
DEAL	574483	1.8666	4.005	0.0041	0.7168	192.2534	0.3432	1.7475
vol	574483	1.1015	0.486	0.3600	1.0061	4.6107	0.7813	1.3101

Table 3 presents the descriptive statistics for stock price volatility (Wave) before and after the implementation of the Shareholding Reduction Rules. We find that the mean volatility declined in the full sample as well as in both the Shanghai and Shenzhen subsamples following the regulatory change, consistent with the rules' intended objective of stabilizing price fluctuations. This result aligns with the

notion that restricting major shareholders' unregulated selling curbs speculative trading, bolsters investor confidence, and reduces excessive volatility. Turning to other distributional characteristics, the maximum volatility increased across all three markets in the post-regulation period. The standard deviation of volatility rose in the overall market and the Shanghai market but experienced a modest decrease in the Shenzhen market.

Table 3. Descriptive Statistics for Stock Price Volatility

	Before the implementation of the new rules				After the implementation of the new rules			
	Max	Min	Mean	Sdv	Max	Min	Mean	Sdv
All A-shares	167.38	0.00	2.9434	1.968	181.89	0.00	2.31	2.033
Shanghai Stock Exchange (*SSE*)	167.38	0.00	2.41	1.960	181.89	0.00	2.29	2.086
Shenzhen Stock Exchange (*SZSE*)	147.60	0.00	2.49	1.975	168.46	0.00	2.34	1.969

4.2 The Impact of the New Share Reduction Rules on Stock Price Volatility

Table 4. The Impact of Shareholding Reduction Rules on Stock Price Volatility

Market	All A-shares	All A-shares	SSE	SSE	SZSE	SZSE
Variable type	wave	wave	wave	wave	wave	wave
D	-0.0453***	-0.1259***	-0.0316*	-0.0981***	-0.0714***	-0.1586***
	(-4.0416)	(-7.9572)	(-1.9141)	(-4.4139)	(-4.6283)	(-7.0900)
PE	-0.0003		0.0005		-0.0005	
	(-0.4101)		(0.4915)		(-0.6611)	
PBV	0.0111		0.0053		0.0019	
	(0.7021)		(0.2657)		(0.0521)	
Turnover	29.4691***		32.5382***		27.2176***	
	(27.4779)		(18.1176)		(21.0930)	
CMV	-0.1756*		-0.0938		-0.8398***	
	(-1.6942)		(-0.9096)		(-3.5649)	
DEAL	0.1560***		0.1746***		0.1421***	
	(11.3776)		(8.9622)		(7.5693)	
vol	0.4736***		0.4615***		0.4839***	

	(102.2398)		(72.6120)		(72.1626)	
_cons	1.5170***	2.9502***	1.4681***	2.9029***	1.6448***	3.0059***
	(34.9316)	(531.8598)	(27.7158)	(371.9875)	(18.0378)	(383.8997)
N	574483	574483	310711	310711	263772	263772
adj. R^2	0.389	0.001	0.380	0.001	0.408	0.002

[*] *Note*. *t* statistics in parentheses,* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 4 reports the regression results for the impact of the Shareholding Reduction Rules on stock price volatility. In the full sample of A-share firms, the coefficient on the policy dummy D is -0.0453 and is significant at the 1% level, indicating a strong negative effect. When partitioned by exchange, the coefficients for the Shanghai and Shenzhen markets are -0.0316 (significant at 10%) and -0.1586 (significant at 1%), respectively. These results suggest that while the rules reduce volatility in both markets, the effect is substantially larger in magnitude for Shenzhen-listed firms. Turning to the control variables, turnover, trading value (DEAL), and CSI 300 volatility (VOL) all enter with positive and significant coefficients, implying that higher trading activity and market-wide volatility exacerbate stock price fluctuations.

4.3 Empirical Results of Listed Companies with Different Equity Concentration

"Tunneling" describes the expropriation of corporate resources by controlling shareholders for private gains (). Such tunneling activities allow large shareholders to extract value at the expense of minority investors. To assess whether the Shareholding Reduction Rules curtail these behaviors and safeguard minority interests, we conduct subsample analyses based on ownership concentration. Specifically, we classify firms as having concentrated ownership if the aggregate shareholding of the top five shareholders is 50% or more; firms with less than 50% are considered to have dispersed ownership.

Table 5. Empirical Results by Ownership Concentration

Market	SSE (Concentrated)	SZSE(Concentrated)	SSE（Dispersed）	SZSE（Dispersed）
Variable type	wave	wave	wave	wave
D	-0.0013***	-0.0010***	0.0003	-0.0004*
	(-4.8862)	(-3.1459)	(1.2535)	(-1.8990)
PE	-0.0000	-0.0000	-0.0000	-0.0000
	(-0.9904)	(-1.3943)	(-0.8172)	(-0.2326)
PBV	0.0005	0.0009*	0.0002	-0.0001
	(1.2101)	(1.7495)	(0.7302)	(-0.3184)
Turnover	0.6022***	0.5447***	0.2858***	0.2569***
	(16.9578)	(10.0134)	(15.8567)	(20.4896)

CMV	-0.0001	-0.0040***	-0.0057**	-0.0183***
	(-0.0687)	(-2.6743)	(-2.2126)	(-3.5439)
DEAL	0.0014***	0.0013***	0.0016***	0.0013***
	(6.0804)	(4.8748)	(6.3919)	(6.9454)
Vol	0.4414***	0.4689***	0.4782***	0.4860***
	(48.4963)	(36.8251)	(54.8658)	(62.6857)
_cons	0.0135***	0.0144***	0.0153***	0.0171***
	(12.8699)	(7.6356)	(26.7571)	(16.9927)
N	149371	67571	160034	195099
adj. R^2	0.430	0.432	0.361	0.409

**Note*:*t* statistics in parentheses,* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

表 5 股权集中度不同上市公司实证检验

Table 5 reports the regression results for subsamples partitioned by ownership concentration and exchange. For firms with concentrated ownership, the coefficient on the policy dummy D is negative and statistically significant at the 1% level in both the SSE and SZSE markets, indicating that the Shareholding Reduction Rules significantly reduce stock price volatility in these firms. However, for firms with dispersed ownership, the coefficient is insignificant across both exchanges. These findings are consistent with the tunneling hypothesis: major shareholders in firms with concentrated ownership possess greater control rights and are more likely to engage in opportunistic share reductions at the expense of minority investors. By restricting such behavior, the Shareholding Reduction Rules help protect minority shareholder interests and stabilize stock prices.

5. Robustness Tests

5.1 Alternative Time Windows

To assess the robustness of our main findings, we re-estimate the baseline model using an alternative time window around the event date. Keeping August 27, 2023, as the policy implementation date, we restrict the sample to the period from May 27, 2023, to November 27, 2023 (i.e., three months before and after the event). The results, reported in Table 6, indicate that the coefficient on the policy dummy remains negative and statistically significant for the full A-share sample *(*p <0.01), the Shanghai market ($p < 0.05$), and the Shenzhen market ($p < 0.01$). These findings confirm that our main conclusions are not sensitive to the choice of the event window.

Table 6. Robustness Test Results: Shorter Time Window

	All A-shares wave	SSE wave	SZSE wave
D	-0.0608***	-0.0403**	-0.0881***
	(-5.3398)	(-2.3093)	(-5.8939)
PE	-0.0012	0.0004	-0.0013
	(-1.1022)	(0.2566)	(-1.0869)
PBV	0.0261	0.0158	-0.0079
	(0.9157)	(0.4532)	(-0.1227)
Turnover	29.7230***	33.1798***	27.0633***
	(21.5898)	(13.7957)	(17.8116)
CMV	-0.2683*	-0.0411	-1.3215***
	(-1.7769)	(-0.2953)	(-3.3979)
DEAL	0.1652***	0.1747***	0.1602***
	(10.2333)	(6.5785)	(8.3316)
Vol	0.5527***	0.5419***	0.5616***
	(93.9991)	(67.2704)	(65.2872)
_cons	1.4504***	1.3350***	1.6938***
	(20.2950)	(16.2850)	(10.9185)
N	294194	159164	135030
adj. R^2	0.394	0.382	0.417

**Note*. *t* statistics in parentheses,* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

5.2 Alternative Control Variables

To assess whether our findings are robust to alternative specifications of control variables, we replace the original trading value (DEAL) with the log of trading volume (DEAL2), keeping the event window unchanged. Table 7 presents the corresponding results.

Table 7. Robustness Test: Alternative Control Variables

	All A-shares wave	SSE wave	SZSE wave
D	-0.0749***	-0.0953***	-0.0572***
	(-7.3849)	(-6.7912)	(-3.9194)
PE	-0.0021***	-0.0020**	-0.0018**
	(-3.5261)	(-2.5296)	(-2.2797)
PBV	0.0360**	0.0510***	-0.0284

	(2.4554)	(2.9097)	(-0.8890)
Turnover	16.2928***	18.0464***	15.4142***
	(16.4084)	(10.4116)	(13.4581)
CMV	0.2960***	0.2597***	0.5978***
	(3.8305)	(3.3255)	(3.1118)
DEAL1	1.4019***	1.4189***	1.3671***
	(50.6019)	(33.9921)	(36.6113)
Vol	0.3702***	0.3561***	0.3857***
	(80.7336)	(56.8967)	(57.5618)
_cons	2.7071***	2.8024***	2.6641***
	(55.0807)	(42.8701)	(28.2514)
N	574483	310711	263772
adj. R^2	0.476	0.468	0.487

* *Note*. *t* statistics in parentheses,* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 7 reports the robustness test results using alternative control variables. The coefficients on the policy dummy remain negative and statistically significant at the 1% level across all specifications—for the full A-share sample, the SSE, and the SZSE. These findings provide additional evidence supporting the robustness of our main conclusions.

6. Conclusions and Policy Recommendations

6.1 Basic Conclusions

This study examines the impact of the Shareholding Reduction Rules on stock price volatility using a sample of 2,412 A-share main board listed companies and a fixed effects model. We analyze the policy's effects across different event windows and test for heterogeneity across markets and ownership structures. The empirical results show that the implementation of the rules significantly suppresses stock price volatility in the overall A-share market. When disaggregated by exchange, we find that the suppressing effect is present in both the Shanghai and Shenzhen markets but is considerably stronger in the latter. Furthermore, the policy's effectiveness varies with ownership concentration: the reduction in volatility is significant only for firms with concentrated ownership, consistent with the tunneling hypothesis that restricting major shareholders' selling behavior mitigates price volatility in firms where expropriation risk is higher. These findings are robust to alternative event windows and control variable specifications.

6.2 Policy Recommendations

Although the new regulations on shareholder reductions only extend the timeline of such actions, thereby playing a certain role in stabilizing the capital market, they have not fundamentally eliminated the negative impact of major shareholder reductions on the market. Instead, these rules merely

transform what would have been a one-time shock from major shareholder reductions into multiple, distributed impacts on the market over time.According to data from the CSMAR database, a total of 3,710 reduction events occurred in the A-share market prior to the issuance of the new restrictions on shareholder reductions on August 27. In the three months following the issuance of these rules, only 636 reduction events were recorded, representing an average of 212 per month. However, in the period from November 27 to December 31—i.e., the three months after the new regulations took effect—402 reduction events took place. This indicates that while the new rules had a certain constraining effect in the short term, major shareholder reductions continue to negatively affect the market over the long run. Simply limiting the volume and frequency of large-scale reductions does not genuinely eliminate the bubbles that exist in the capital market. Moreover, in recent years, the relatively high frequency of adjustments to the regulatory framework on shareholder reductions has, to some extent, stabilized the market. Yet excessively frequent changes to these rules may erode major shareholders' confidence in the regulatory environmen's stability. This could, paradoxically, intensify their motivation to reduce holdings—particularly through outright exits or "clearance" sales—as they become more eager to seize opportunities to cash out when such windows present themselves. In turn, this behavior exacerbates stock market volatility. Greater emphasis should be placed on strengthening the foundational institutional framework of China's capital market. Following the implementation of the split-share structure reform, corresponding institutional measures should be established to address the lingering issues left by the reform. While the reform provided strong protection for the rights of non-tradable shareholders, it conversely increased their incentive to cash out in the secondary market—an outcome detrimental to both corporate development and the stability of the securities market. With a view to fostering the stable development of the capital market, a portion of the proceeds from major shareholder reductions could be appropriated, in accordance with relevant regulations, to establish a capital market development fund. A dedicated institution could be set up to manage the fund with the aim of maintaining market stability. These retained funds could also be used to provide dividend-like compensation to investors. The establishment of such foundational mechanisms may help fundamentally alleviate the negative impact of major shareholder reductions on the market, thereby contributing to a healthier and more stable development of the capital market.

2. Research indicates that major shareholders, as corporate insiders, may undermine the rights and interests of minority investors through their shareholdings reductions. By reducing their holdings, major shareholders realize substantial cash proceeds, which are, in essence, derived from minority shareholders. These minority shareholders invest in the capital market with the expectation of contributing to the development of the enterprises they invest in. However, statistics indicate that the proceeds from major shareholder reductions are often channeled into assets such as antiques, calligraphy, paintings, and real estate. This diversion of social capital away from the real economy hinders efficient resource allocation. This underscores the need for a robust investor protection mechanism. While the financing function of the capital market is critical, its investment function must

not be overlooked. Only by safeguarding the interests of investors at large—particularly minority shareholders—can investor confidence be sustained. Without such participation, the financing role of the capital market would be untenable. Strengthening investor protection mechanisms is thus a cornerstone of stable and healthy capital market development. Protecting minority investors requires a two-pronged approach: improving corporate governance internally, and strengthening legislative and enforcement frameworks externally. In terms of corporate governance, internal oversight should be reinforced—for instance, by increasing the number of supervisory board members or independent directors, or by facilitating board re-elections. On the external enforcement front, regulations must be strictly implemented; failure to rigorously enforce new rules may lead investors to exploit legal loopholes, thereby undermining the regulatory intent.

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