

## Original Paper

# Study on the Tort of Misrepresentation in the Inter-bank Bond Market--Taking Case No. 1 of the Beijing Financial Court as an Example

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### **Abstract**

*Chinese interbank bond market dates back to June 1997, when the People's Bank of China decided to open an interbank bond trading business at the National Interbank Lending Center, which was formally established. In the following years, this market developed relatively fast, and in June 2002, the bond counter market of commercial banks began to operate, which to a certain extent made the interbank bond market, which institutional investors dominate, expand through the counter trading for all kinds of investors in the whole society.*

*In recent years, applying direct financing tools such as corporate bond issuance has become increasingly widespread. This paper takes Beijing Financial Court Case No. 1 as an example to study in detail the important reasons for the emergence of this type of infringement, focusing on the obligations and responsibilities of each participant, including the issuer Dalian Machine Tool Group, the intermediary bank Industrial Bank, and the investor Bluestone Capital Management. This paper aims to sort out the obligations and responsibilities of each participant in the inter-bank bond market to find out the reasons for the emergence of the phenomenon of misrepresentation and to explore the issues that appear to be suitable for this paper to find out the causes of misrepresentation, explore the operation rules and risk prevention measures of the interbank bond market that are suitable for China's national conditions, to solve the problems of misrepresentation, standardize the obligations and responsibilities of all parties, and promote the development of China's interbank bond market.*

### **Keywords**

*Interbank bond market, Misrepresentation, Duty liability*

## 1. Background of the Study

In recent years, China's capital market has developed rapidly, and China's bond market is already the second largest in the world, with a stock size exceeding 140 trillion yuan, forming interbank and exchange markets. In terms of overall scale and trading activity, China's interbank bond market is still the most dominant component, with over 80% of the market's custodial balance, and it is the main liquidity market for treasury bonds, policy financial bonds, and interbank certificates of deposit and other securities.

However, at present, there are cases of infringement due to misrepresentation in the inter-bank bond market, which leads to the development of China's bond market being hindered, which is not conducive to the development of the country's economic market, so to the future development of the economy is sustainable, the trend of steady growth, we must seek a breakthrough in the following two areas.

The first aspect is to find the causes leading to misrepresentation infringement. Firstly, we can start with the participants, some behaviors of issuers, intermediaries, and investors will induce the misrepresentation events, and we can start with the participants to find the root cause of the infringement. The second aspect is to study the loopholes in China's capital market. The bond market itself has regulatory deficiencies, especially the imperfect regulatory requirements for information disclosure. The second aspect is to explore solutions based on the problems that have arisen. In addition to proposing solutions based on the obligations of the participating entities, we should comply with the current market development and make good use of new ways to solve these problems, combining the regulation of participants' behavior with the improvement of relevant laws and regulations, to achieve the purpose of regulating the inter-bank bond market.

This article will take the case of Beijing Financial Court No. 1 as an example to solve the problems faced in the process of the infringement of misrepresentation in the bond market for the entry point, the trial ideas and adjudication methods of the case were discussed in depth, and combined with the relevant laws and regulations and judicial practice to put forward suggestions for improvement, giving the relevant information on how the Chinese inter-bank bond market should be constructed to solve the existing and potential problems and promote the comprehensive development of China's capital market in its view. It also gives its own views on how the Chinese interbank bond market should be built to solve the existing and potential problems and promote the comprehensive development of China's capital market.

## 2. Literature Review

First of all, we note that the bond market is an important part of the financial market, an important tool of monetary policy, and the infrastructure of the financial market. The interbank bond market plays an important role in the bond market systems of various countries, and its level of development and regulation directly affect the development of the bond market as a whole. Secondly, there are deficiencies in the interbank bond market, and market participants have a greater incentive to take

advantage of market loopholes to make profits. In recent years, under the regulation and promotion of the regulatory authorities, the relevant legal system of the interbank bond market has been improving day by day. Against this background, the information disclosure and other activities carried out by bond issuers and underwriting organizations for the issuance of bonds have attracted increasing attention, which has triggered a series of infringement disputes relating thereto.

### *2.1 Relevant Overseas Studies*

George J. Stigler (1987) argues that the existence of information costs leads to losses from lack of information as some participants are unable to bear the costs because the collection of information consumes a certain amount of money. Paul L. Davies (2003) argues that if the buyer carries out the monitoring, it will result in the benefits being shared by a large number of participants, making the monitoring system constructed by the investors have various loopholes. Zhou Yunfeng (2013) pointed out the lack of innovation in the interbank bond market and proposed that risk supervision should be unified, self-regulation should be strengthened, supervision system should be improved and innovative products should be developed. These views in general, illustrate the inter-bank bond market certainly exists in the risk of vulnerability, but is also not conducive to the interests of investors, which is the focus of this paper and needs to be resolved.

Concerning the liability of participants in the interbank bond market. Joel Seligman (1995) argues that securities underwriters are subject to the same liability obligations under securities law as they are under ordinary law. George J. Benston (2012) argues that the existence of financial intermediaries is largely because financial intermediaries can reduce the transaction costs in financial markets. In general, these views believe that all participating entities need to fulfill their responsibilities and obligations to make the interbank bond market develop smoothly and healthily. The following is a summary of the views expressed in this paper.

### *2.2 Relevant Domestic Studies*

Li Zhihao and Li Qin (2023) argue that the new misrepresentation rules apply to misrepresentation cases in the interbank bond market and point out that the judicial system needs to strengthen its supervision of the interbank bond market. Zhang Baosheng, Zhu Yuanyuan and Fu Qiang (2022) point out that due to the special characteristics of the participants in the interbank bond market, it cannot be shown that investors' investment decisions are affected by misrepresentation behavior. Xing Hui-Qiang (2022) argues that the interbank bond market is private, so the securities law does not apply to this market, and the market should be researched and clarified in terms of its jurisprudential nature to create non-conventional rules. Zhang Qi (2022) points out that the current market does not apply to securities law. Zhang Chi (2022) pointed out that the current development of the bond market and the diversity of its risks require active management to strengthen the protection of investor rights and interests, and at the same time require the continuous optimization of the default and risk disposal mechanism. As for the responsibilities and obligations of intermediaries, Long Jianquan (2021) points out that investment banks are the most important intermediaries in the securities market, which are the bridge between

issuers and investors and play an important role in guaranteeing the quality of issuers and safeguarding the interests of investors, and that the study of advanced experiences of the relevant countries in the realization of the diligence obligations of investment banks and their legal liability system will help to solve the problems in China and make China's investment bankers to be more responsible for their obligations and to be able to protect the interests of investors. The study of the advanced experience of the relevant countries in the realization mechanism of the duty of diligence of investment banks and the legal liability system will help to solve the problems existing in China, promote the intermediaries such as Chinese investment banks to fulfill their obligations to the fullest extent and promote the healthy development of Chinese securities market. Ai Xinyao (2022) argues that banks need to establish an internal credit rating system, set up a sound emergency response mechanism, and improve the comprehensive business level of relevant personnel in the process of underwriting securities to reduce the risk potential of their bond underwriting business. These measures are the basis of this paper on the interbank bond market. These are all for this paper interbank bond market misrepresentation infringement research broadens ideas to provide help.

Through the reference of domestic and international literature, we can understand the research on the construction of the interbank bond market done by the academics and official governmental agencies of different countries, and thus summarize the main problems faced by the interbank bond market, to study the response policies applicable to our own country by referring to the development experience of other countries. As a big economic country, Chinese scholars have done more research on the interbank bond market, and they have analyzed the development status, problems, and development path of the market from different angles. Based on the research of domestic and foreign scholars on the risks of the interbank bond market, this paper takes the case of Beijing Financial Court No. 1 as a case study to conduct an in-depth research and put forward relevant suggestions on the infringement of misrepresentation in the interbank bond market.

### **3. Analysis of the Tort of Misrepresentation in the Interbank Bond Market**

The interbank bond market involves the issuance and circulation of many bonds (Table 1), and there are many reasons for the infringement of misrepresentation in the interbank bond market, including not only the lack of fulfillment of the obligations of the participating entities at the micro level, but also the imperfections of the intermediary institutions' internal business procedures, and at the macro level, the inadequacy of relevant laws and regulations and their regulatory measures, which allows the participants to take advantage of the loopholes in the market to make profits.

**Table 1. Bonds Covered in the Interbank Bond Market**

regulator	Bond Variety
Central Bank and CBIRC (China Financial Supervision and Administration)	Financial bonds, interbank certificates of deposit, specialized financial bonds (e.g., three agricultural), capital replenishment instruments for insurance companies, etc.
NDRC	Corporate bonds (including renewable corporate bonds and SME pooled bonds); green bonds; various types of special bonds, etc.
Ministry of Finance	Treasury bonds, local government bonds, and government agency-backed securities (essentially railroads).
Dealer Association	Medium-term notes and short-term or ultra-short-term financing bills, pooled notes, credit risk mitigation instruments, etc.

In response to the case of Beijing Financial Court No. 1, the results of the case trial: A. Industrial Bank did not fully fulfill its due diligence obligation of due diligence and independent judgment on the financial information of the enterprise issued, especially the four high-value pledged receivables in the case, which constituted a misrepresentation; B. It also did not fulfill its obligation of prudent checking and necessary investigation and review on the annual audit report issued by the accounting firm as well as the Legal Opinion Letter issued by the law firm. The failure of the accounting firm to exercise professional judgment and maintain professional skepticism in the auditing process, and the lack of diligence and due diligence in its auditing process constituted a misrepresentation; C. The failure of the law firm to verify the authenticity of the accounts receivable according to the requirements of the industry to determine whether the bonds in question had obtained legal and effective credit enhancement, and then to issue the Legal Opinion Letter, constituted a misrepresentation; D. It was determined by the law that the credit rating agencies did not breach their obligations under the law in respect of the information rating agencies. The credit rating agency was found not to have violated its obligation to disclose information and was found not to have committed misrepresentation.

The outcome of the case also shows that the participants failed to fulfill their respective responsibilities and obligations, and the lack of obligations of the participants also shows that the supervision of the participants in the market is not perfect, and there are loopholes in the market system. We analyze the problems we found as follows.

### *3.1 Misrepresentation of Information by Dalian Machine Tool Group*

In the case of Beijing Financial Court No. 1, it is the issuer Dalian Machine Tool Group that the misrepresentation of financial information, guarantee and credit enhancement measures, etc., has not been disclosed, which the intermediary institution involved, Industrial Bank, issued incorrect information data when introducing the bonds to investors, and the investor, Bluestone Capital Management, is a professional institutional investor and a rational investor, which resulted in the

investment decisions made by it being influenced to a certain extent by the false information disclosure. The false information disclosure was influenced to a certain extent by the false information disclosure. Issuer misrepresentation in the inter-bank bond market refers to the fact that a securities issuer, when issuing securities, violates the provisions on information disclosure and makes untrue disclosure of the issued securities in terms of issuance conditions, price, time and manner, etc., which misleads investors to make investment decisions. The main manifestations of misrepresentation by the issuer of securities: First, misrepresentation of the price of the stock, misleading investors to make investment decisions. For example, false records, misleading statements, material omissions, etc.; the second is the securities issuer's own asset quality, business conditions, or other significant matters such as misrepresentation, misleading investors to make investment decisions. Borrowing from the business cases resolved by Beijing Huicheng Law Firm, we realize that there are many cases of infringement due to the issuer's misrepresentation in China, which are illustrated in the following cases.

This shows that misrepresentation of information by issuers in the inter-bank bond market is a serious violation of securities laws and regulations, which not only seriously harms the interests of investors but also jeopardizes the stability of the capital market. Misrepresentation does not affect only a single investor, but negatively affects the sentiment of the entire stock market, causing unnecessary panic and turmoil among other investors, thus dragging down the development of the market.

### *3.2 Failure of Intermediaries to Exercise Due Diligence*

Among the intermediaries involved in the case of Beijing Financial Court No. 1, Industrial Bank failed to conduct sufficient investigation into the financial information of the bond-issuing enterprise, which constituted a misrepresentation; the accounting firm involved in the auditing process failed to fulfill its duty of responsibility, which constituted a misrepresentation; and the law firm involved in the issuance of the bond failed to fulfill its duty of responsibility in verifying the receivables, which constituted a misrepresentation. This ultimately led to hundreds of millions of dollars in losses for the investor, Bluestone Capital Management.

Intermediaries are indispensable and important players in the bond issuance process, providing enterprises with a channel for capital financing under the premise of ensuring an open, fair, and lawful market. However, in reality, we have seen some victims suffer financial losses as a result of securities underwriting intermediaries failing to fulfill their obligations of diligence and due diligence.

First, securities underwriting intermediaries should fulfill their information disclosure and review duties to prevent misrepresentation. In the stock issuance filing procedure, the securities underwriting intermediary should have a comprehensive understanding of the enterprise's situation, fully assess its true and accurate issuance documents, verify and review the important information disclosed by the issuer, and conduct an objective and detailed analysis and assessment of its financial status and operating condition trend. If such an intermediary has omissions in approval, fails to review carefully, and fails to detect any misrepresentation, resulting in investor losses, it should assume the responsibility it should bear.

Secondly, securities underwriting intermediaries should also fulfill their information transfer and communication responsibilities by distributing true and complete information to investors. This requires securities underwriting intermediaries to publicize the disclosure of information to investors promptly, in conjunction with the existing regulatory guidance to carry out comprehensive and standardized publicity work. If the securities underwriting intermediaries violate the silence and fail to fully disclose the known true situation to investors, investors will lose investment profits or even the principal, securities underwriting intermediaries should also bear the corresponding responsibility.

Finally, in the process of securities underwriting, securities underwriting intermediaries should also have legal advice, representation and rights and other duties, urge the issuer to carry out the right to information, respect for the rights and interests of investors, such as intellectual property rights infringement and contractual disputes can provide investors with legal support to help them safeguard their legitimate rights and interests. If a securities underwriting intermediary fails to fulfill the above duties, thus causing investors' economic losses, then the securities underwriting intermediary should also bear the corresponding responsibility.

Through the case we can also see that the intermediary institutions for investors have quite a big impact, the reason is because investors in the investment market obtain investment information mostly from intermediaries, and transactions are also carried out through intermediaries, especially investment banks, once the phenomenon of misrepresentation of the eventual damage to the investor, and ultimately affect the development of the market's confidence, hindering the development of China's capital market.

### *3.3 Bluestone Capital Management has an Irrational Speculative Motive*

In Beijing Financial Court Case No. 1, the investor, Bluestone Capital Management, insisted on purchasing "16 Big Machine Tools SCP002" even though the issuer, underwriters, and rating agencies had issued successive risk alerts of failure to pay, and the behavior of the investor was somewhat irrational. "There is a certain irrational investment tendency in this behavior.

The investment behavior of bond capitalists can be divided into two motives: rational investment and irrational speculation. Among them, rational investment refers to the investment behavior of investors who consider risks and returns comprehensively in the expectation of obtaining long-term stable returns; while irrational speculation refers to the pure pursuit of short-term high returns, often with factors such as emotions and prejudices.

For the bond market, the irrational speculative motives of bond capitalists are mainly manifested in the following situations:

First, investment decisions are made after observing the behavior of other investors or hearing certain news. This behavior is also known as the herd effect, in which individual investors make their own investment decisions based on the behavior of the masses, ignoring the importance of independent judgment. For example, in September last year, a stand-up comedian in the "Talk Show Congress" mentioned ST Intercontinental (600759) in his performance, and on the second day of the show

broadcast ST Intercontinental opened with a one-word halt.

Second, overconfident investors. These investors tend to exaggerate bond returns based on their own experience and analysis. They will readily deny the analysis and recommendations of other investors and generally believe that they can achieve higher returns. However, market changes are often beyond the scope of such investors' perceptions, leading to their investment mistakes.

Third, emotions constitute investment decisions. This motivation can take various forms, such as panic and greed. In times of stress, the bond market can produce significant declines in a short period causing investors to panic. In times of instability, rapid rises can also make some investors greedy to buy high-risk bond products. It can be seen that emotional factors greatly influence the decision-making behavior of bond investors.

In conclusion, in reality, irrational speculative motives still occupy an important place. When investing in bonds, investors need to strictly comply with relevant regulations and rules, and at the same time focus on fundamental analysis of the market and the ability to think independently, to avoid overly following the wrong decisions of others.

#### *3.4 Inadequate Risk Prevention Measures at Industrial Bank*

In Beijing Financial Court Case No. 1, the risk prevention measures of Industrial Bank, as a securities underwriter, were not sound. It did not have sound risk response measures to protect investors' rights and interests promptly when it discovered the infringement of misrepresentation, and it did not have corresponding measures to curb the further development of the crisis after it occurred.

Financial institutions are an important force in safeguarding the property of the public, yet the risk of misrepresentation has become a serious challenge for financial institutions. In the process of bond issuance, financial institutions need to take a series of precautionary measures to protect the rights and interests of various stakeholders, including investors, issuers, and intermediaries.

However, the reality is that there are several risk prevention measures missing in the bond issuance process by the issuing financial institutions.

First, financial institutions have insufficient supervision of the loopholes in the use of electronic signatures. In the process of bond issuance, all aspects of the operation need to use the electronic signature, so the supervision of the electronic signature in the relevant process is particularly important. However, in reality, many financial institutions do not have perfect electronic signature management regulations, resulting in the use of the seal there is a great risk, which may lead to the transaction malicious tampering or counterfeiting.

Secondly, some financial institutions have loopholes in their standards for disclosure of securities information. In the process of bond issuance, disclosure of securities information is one of the keys, and the public transparency of relevant information is an important factor affecting bond prices. However, in reality, in some financial institutions in the process of disclosure of securities information, for the improper use of generalized language, the content of the format is not standardized, and other issues rarely improve.



Furthermore, financial institutions are more concerned about protecting their interests than safeguarding the rights and interests of investors. In bond issuance, some financial institutions only clarify the distribution of rights and interests and the penalties for breach of contract through the text of the contract, while neglecting to set up real channels for investors to lodge complaints and defend their rights. This will lead to the emergence of complex debt relationships and the rights and interests of investors being jeopardized, further affecting the normal operation of the entire bond market.

Although financial institutions need to take a series of measures to prevent risks in bond issuance, we can still see that there is a lack of scientific and effective preventive measures. Therefore, financial institutions should further improve the relevant risk response measures and gradually promote the implementation of various systems. At the same time, the financial regulator should also strengthen the supervision and management of the issuer, for illegal and irregular behavior to effectively combat, create a better issuance environment, and safeguard the safety of investor rights and interests. Only in this way, bond issuance can better promote the balance between economic development and the healthy and stable development of the financial market.

### *3.5 Inadequate Regulatory System in the Interbank Bond Market*

The interbank bond market is an important part of China's bond market, and an imperfect regulatory system for the interbank bond market will affect the normal operation and development of the capital market. At present, although China's financial market has shown a rapid development trend, the regulatory mechanism of the interbank bond market is still not perfect, there are many problems. This paper analyzes in-depth the problems of the imperfect regulatory system of the inter-bank bond market at this stage.

#### *3.5.1 Dispersal of Regulatory Points*

The interbank bond market involves several regulatory bodies, including the People's Bank of China for monetary policy, the Securities and Futures Commission (SFC) for securities trading regulation, China Clearing House for central clearing, and the National Small and Medium-sized Enterprises Stock Transfer System (NSSETS) for information disclosure, making the regulatory system for the interbank bond market overly complex and more difficult to regulate. It is more difficult to regulate and is prone to creating complementary positions and regulatory gaps.

#### *3.5.2 Mismatched Laws, Regulations, and Regulatory Policies*

Problems in the regulation of China's interbank bond market also include the mismatch of laws, regulations, and regulatory policies. At present, the legal system of inter-bank bond market regulation is not yet complete, and the relevant legal system needs to be further established and revised. The formulation of regulatory policies needs to strictly follow the laws of the market and be more detailed and specific.

#### *3.5.3 Lack of Transparency in Information Disclosure*

The interbank bond market has a large number of trading parties and a large amount of information, and the lack of transparency in information disclosure is one of the important factors affecting the

development of the interbank bond market. At present, there is still the phenomenon of "inside information" circulating in the inter-bank bond market, so timely disclosure of transaction information and related approvals is a necessary step in preventing insider trading and information leakage.

#### 3.5.4 Weak Market Risk Management Systems

The risk management system of today's interbank bond market is not perfect, and there are still certain deficiencies in market risk monitoring, which may lead to insufficient ability to recognize and effectively deal with market risks. Frequent bond defaults have also had a great negative impact on the interbank bond market.

#### 3.5.5 Low Market Access Standards

The opening of the interbank bond market to inferior market access thresholds can easily breed unqualified institutions or individuals to participate in bond market transactions, among other things, thereby exacerbating the risks in the interbank bond market. Therefore, there is a need to strengthen the qualification examination of entrants and to improve the operability and effectiveness of supervision and management.

To summarize, although the regulatory system of China's interbank bond market has been initially established, there are still some deficiencies. For this reason, it needs to be improved promptly. When formulating laws and regulations, it is necessary to scout the problems arising from the development of the financial market and pay attention to listening to the actual demands of the market. At the same time, it is also necessary to further improve the degree of openness and inclusiveness in accepting new ideas and to create a universal and practical monitoring model to ensure the smooth and healthy development of the market for a long time.

### 4. Policy Recommendations

#### 4.1 Improving the Information Disclosure System

In response to misrepresentation, in China, the relevant authorities and organizations have established a strict system of laws and regulations to regulate the order of the securities market. The Securities Law of the People's Republic of China provides for a code of conduct for securities market participants to follow in securities transactions, such as truthful, accurate and complete disclosure of information to investors. The Measures for the Administration of Securities Issuance and Underwriting and other supporting regulations specify the disclosure obligations and responsibilities of securities issuers, and the regulatory authorities have also formulated corresponding rules and regulations by relevant laws and regulations to regulate market behavior and increase penalties for misrepresentation.

Improving the information disclosure system is of great significance in protecting the interests of investors, maintaining market stability and enhancing the transparency and openness of the securities market. Currently, China has made a lot of progress in improving the information disclosure system, but there are still many problems and challenges.

To better improve China's information disclosure system, the following reforms are needed:

#### 4.1.1 Strengthening Regulations and Institutions

About the design and regulation of information disclosure systems, collaboration at the national level should be further strengthened to establish high-standard information disclosure guidelines that are in line with internationally accepted practices. A sound system of basic systems involving information dissemination and auditing should be established to realize full-process management.

#### 4.1.2 Further Optimization of Disclosure Content

Improve the financial reporting and accounting system, establish a system of information disclosure standards comparable to the needs of investors, improve the truthfulness, accuracy and timeliness of market information, and provide investors with adequate, objective and reliable information.

#### 4.1.3 Promoting the Diversification of Information Disclosure Channels

Enhance the breadth and depth of information disclosure and provide investors with fast and intuitive access to information. Realize information disclosure and sharing with the help of Internet technology and other information technology means.

#### 4.1.4 Strengthening Regulatory Efforts

Strengthening the effectiveness of regulation of disclosure information to ensure that the market is fair and reasonable. For example, by improving the regulatory mechanism and administrative penalties, and by establishing audit and investigation agencies, violations are penalized, market credibility is enhanced, and investor confidence is strengthened.

#### 4.1.5 Active Promotion of Information Feedback Mechanisms

A sound information communication and feedback mechanism has been established to encourage investors to give full play to their right to know, to participate in the operation and supervision of the market, and to promote the transparency and effectiveness of the market.

The implementation of the above reform measures will take time and resources, but against the backdrop of the current increasingly mature and competitive interbank bond market, strengthening and improving the information disclosure system is an indispensable means of safeguarding the stability of the market and the rights and interests of investors. It is also conducive to reducing unnecessary market friction and vicious circles and creating a more robust and efficient capital market.

### *4.2 Regulating the Internal Business Processes of Intermediaries*

A securities issuance intermediary is a financial service organization whose main business includes underwriting, sponsorship, and other related services. To improve the internal business processes of securities issuance intermediaries, it is necessary to establish a sound management system, comply with various laws and regulations, and ensure the operation of the company and the interests of clients.

#### 4.2.1 Intermediaries in Securities Offerings Should Establish Specialized Approval Procedures

All offering reports and materials must be reviewed internally and documented accordingly. The approval process should include internal reviews and audits to ensure that all materials comply with relevant regulations and adhere to the company's trading policies and standards.

#### 4.2.2 The Need for Securities Issuance Intermediaries to Establish Comprehensive Due Diligence Mechanisms

Ensure the authenticity and viability of the issuance project with the help of this mechanism. This mechanism should cover due diligence paperwork, risk warnings, etc. These steps can effectively minimize transaction risks and provide better service to clients.

#### 4.2.3 Establishment of a Client Information Management System

In this system, every customer's information should be handled with care and be used and stored reasonably. In addition, there should be some internal monitoring mechanisms in the system to ensure that the interests of the clients are protected to the fullest extent.

#### 4.2.4 Increase Operational Awareness

To ensure that the company develops well and gains more success stories in the market, the intermediary in the issuance of securities needs to carry out marketing activities to increase public awareness and credibility. For example, activities such as organizing demonstrations of products and services.

In summary, securities issuing intermediaries need to establish sound internal business processes to ensure that all operations are conducted in a transparent, secure and efficient environment. In this way, they can improve client satisfaction and company performance and win more business opportunities, thereby promoting the overall sound development of the interbank bond market.

### 4.3 *Influence through Markets Irrational Speculation*

The bond market, as a legitimate and stable investment area, needs to develop smoothly and transparently. In such an environment, problem-solving through the market has become a common tool aimed at avoiding irrational speculative behavior by investors to ensure a stable and balanced market.

Influencing irrational speculation through the market is achieved through constructive intervention through a range of instruments such as disclosure of information, regulation of participants and anti-manipulation. Among other things, anti-manipulation aims to combat the use of various ways by large investors and manipulators to influence market prices and to maintain the normal operating order of the market. At the same time, comprehensive information disclosure is strengthened so that each participant has the same, correct reference information and the basis for reducing the risk of misleading the market.

#### 4.3.1 Increased Public Awareness of Market Conditions

To this end, relevant policies and regulations can be introduced, a trust system can be established, and professional integrity assessment organizations can be introduced to ensure that data transmission in the market is complete and reliable.

#### 4.3.2 Utilize Markets to Publish More Timely and Accurate Market Data

Investment decisions can only be better guided by access to complete and realistic market conditions. This can be ensured by introducing information management tools such as market intelligence systems and knowledge bases.

#### 4.3.3 Use of Markets to Enhance Regulation and Penalization of Irrational Investments

This segment is mainly used to track problematic behavior, detect and document possible manipulation or deception promptly, and crack down on it by the law, to maintain an environment in which the market faces sustainable development.

Market control is necessary in the field of financial investment as it helps to maintain a normal market order. The bond market, as a very important category in the overall financial market, requires a higher authority and scrutiny to watch over the market to achieve a state of equilibrium. Overall, the use of market control in the bond market is effective in reducing risk and ensuring that irrational speculative behavior does not disrupt market operations, thus keeping the market in a stable period and helping to maximize returns.

#### 4.4 Establishment of Risk Response Mechanisms

The establishment of risk response mechanisms by financial institutions is a necessary measure. Against the backdrop of increasingly fierce competition in the financial market, financial institutions need effective risk management strategies to cope with various potential risks. Financial institutions need to establish the following risk response mechanisms:

##### 4.4.1 Understanding and Assessing Risk

Financial institutions should have a clear understanding of the various types of risks that they may encounter in their business and should measure and categorize risk ratings through risk assessment tools. By identifying and assessing different forms of risk, they can establish corresponding risk response mechanisms. For example, in the case of lending business, loan vetting standards should be established and strict verification of capital and repayment ability, etc. should be carried out to reduce the risk of bad debts.

##### 4.4.2 Development of Emergency Response Plans

Financial institutions need to respond to emergencies promptly, for example, in the event of a misrepresentation case, they should immediately make appropriate contact with the relevant regulatory bodies, legal institutions, etc., to minimize losses. Therefore, it is crucial to establish contingency plans. Detailed contingency plans are in place to ensure an immediate and effective response to risk events when they occur.

##### 4.4.3 Monitoring and Feedback

To ensure the stable operation of the entire risk response mechanism, financial institutions need to monitor and provide feedback on the entire system. Through the continuous collection of feedback and the implementation of appropriate adjustments, problems identified can be detected and corrected promptly. At the same time, they actively participate in the formulation and release of industry standards to maximize the standardized development of the financial market.

To summarize, financial institutions should take a series of preventive measures against the risk of bond misrepresentation to protect investors' rights and interests. Strengthening due diligence on bond issuers, establishing a strict internal approval system and investment risk assessment system, and

strengthening the monitoring of market changes and information are all areas where financial institutions can make improvements.

#### *4.5 Improvement of the Comprehensive Operational Level of Relevant Personnel*

The comprehensive business level of interbank securities practitioners is directly related to the stability and sustainable development of the entire market. The following section describes how to improve the overall business level of interbank securities practitioners.

##### *4.5.1 Strengthening Specialized Knowledge Training*

As an interbank securities practitioner, first of all, you need to continuously learn new financial products, investment concepts, regulations and policies and other related knowledge through various means. For interbank securities practitioners, the mastery of professional skills is the key to effectively improving their business. Therefore, it is recommended that interbank securities companies and other relevant institutions organize and promote various training and seminar activities promptly so that relevant personnel can participate in them and constantly update their professional knowledge and hard skills. In addition, through social media platforms, financial information websites and other channels, it is possible to obtain information on understanding the latest market dynamics and trends at home and abroad, which is also helpful in maintaining the overall competitiveness of securities practitioners.

##### *4.5.2 Focus on Risk Management*

In the inter-bank securities market, risk management is a very important task, accurately identifying and fully refining the relevant operational and interactive processes, rules and regulations, as well as taking effective risk prevention measures can effectively safeguard assets and client interests. Usually, more appropriate practice methods include formulating risk control programs for each specific product, categorizing and managing the business credit of investment personnel and traders, and other methods. By strengthening risk management efforts, the comprehensive business level of interbank securities practitioners can be effectively enhanced.

##### *4.5.3 Enhanced Teamwork*

Excellent collaboration of a strong team is crucial for a business to influence the success of an interbank securities firm. The interbank securities industry focuses more on teamwork than other industries because these complex financial transactions require complex and efficient collaboration between various departments. The overall working ability and overall competitiveness of interbank securities practitioners can be improved through enhanced teamwork.

##### *4.5.4 Focus on Industry Dynamics*

The development of financial markets is affected by the domestic and international macroeconomic environment as well as geopolitics, and interbank securities firms need to follow relevant industry developments. If necessary, it is necessary to pay attention to the central bank's monetary policy, new regulations of the regulatory authorities, etc. News of the active market is an indispensable rule to promote enterprises to make the right strategic decisions, and deeper social contacts are beneficial to the development of the industry and shorten the time gap of cooperation and communication between

enterprises.

In conclusion, improving the comprehensive business level of interbank securities practitioners requires long-term efforts and training, and needs to be in line with national regulations and the real situation of market trends. Through the improvement of practitioners' business level to promote the development of the interbank bond market, China's capital market will realize further development with the participation of high-caliber practitioners.

#### *4.6 Strengthening Supervision and Management of the Interbank Bond Market*

##### *4.6.1 Strengthening Inter-industry Supervision and Management*

In the interbank bond market, there are some regulatory loopholes and irregularities, which may adversely affect the operation of the market. Therefore, it is essential to strengthen inter-industry supervision and management.

First, effective measures are taken to prevent risks. The interbank bond market comprises many different types of bonds, including corporate bonds, financial bonds and so on. The quality and credit ratings of these bonds vary, and in the event of a default risk, it may cause a greater chain reaction of risks. Therefore, there is a need to formulate scientific and reasonable credit rating standards and publicize the rating results in the market for investors' reference. At the same time, a strict liquidity management mechanism should be established to ensure smooth market operation.

Second, optimize the business model and build a healthy market ecology. Currently, many brokers and securities firms are active in the interbank bond market. Their trading activities involve a wide range of different bonds and assets, some of which may have problems such as poor liquidity and information asymmetry. At this point, the regulator should establish a comprehensive set of operating rules to clarify the legitimate business of each organization, while requiring compliance, transparency and soundness, so as not to confuse the market and a loss of trust in the industry.

Finally, data sharing and risk identification should be strengthened. Risks are unavoidable in the modern financial market, so early detection and resolution of risks can ensure the long-term sound operation of the market. Therefore, the management should collect, analyze and share the industry data of the interbank bond market, organize regular risk screening and business inspections, detect and stop illegal and improper behaviors, and ensure the fairness and transparency of the market.

Overall, the supervision and management of the interbank bond market requires greater vigor and sustained attention. Various regulators must work closely together to establish a synergistic supervisory mechanism, relying on reasonable policy support and effective operational actions, to promote a healthier and more orderly development of the interbank bond market, and to lay a solid foundation for the long-term sound development of China's capital market.

##### *4.6.2 Give Full Play to the Role of the Financial Courts*

Due to the complexity and specificity of the market itself, as well as the limitations of the regulatory bodies' management in the securities field, some doubts and disputes will inevitably arise in the inter-bank bond market. At this point, the Financial Court, as an independent judicial body, has a more

important duty and mission and needs to actively promote the healthy and orderly operation of the inter-bank bond market in terms of improving the legal system and strengthening judicial protection.

First, financial courts can increase consultation and cooperation with regulators. Regulators and financial courts each have different resources and means, which can complement and promote each other. For example, in terms of credit rating standards and default risk management, when regulators discover misconduct, they should take the initiative to inform the financial courts so that they can prevent and deal with it promptly. In addition, through the sharing of information and data, it is also possible to optimize the effectiveness of comprehensive governance within the industry and achieve rapid and accurate risk identification and response.

Secondly, financial courts can participate in the formulation and improvement of relevant policies. In response to the problems in the interbank bond market, the Financial Court can, based on its own practical experience in case adjudication and mediation, put forward reasonable and scientific policy recommendations, which will provide important references for the regulators and other relevant departments. More importantly, by judicially pursuing responsibility and cracking down on malpractices, it will also send a strong wake-up call to stakeholders in the interbank bond market and create a strong deterrent effect.

Lastly, the Financial Court can strengthen market supervision by, among other things, hearing cases. Over a long period of market operation, some financial institutions may suffer from improper risk control, irregular information disclosure, irregular operation and other problems, resulting in the loss of customers' rights and interests. At this point, strong and effective judicial support is needed to protect the legitimate rights and interests of clients and prevent the recurrence of similar incidents. Financial courts can actively conduct trials and investigations of securities civil or criminal acts and severely punish violations, while also actively drawing on experience and lessons learned based on the problems and risk points embodied in individual cases, to provide a good reference for other participants in the industry.

In summary, the influence of the Financial Court on the interbank bond market cannot be ignored. Upholding the legal spirit of impartiality, independence and objectivity, the Financial Court should play its greatest role in maintaining the healthy and orderly operation of the interbank bond market and protecting the public interest.

#### 4.6.3 Use of Media Power to Monitor Market Development

As the market continues to grow and change, the media can use its unique resources to help oversee the development of the interbank bond market.

First, the media can increase financial market transparency. Good information disclosure is crucial for investors. Transparency in the financial market should include all levels and allow all relevant parties to fully understand and know the market situation, the more comprehensive and true information disclosure, the more conducive to the development of the interbank bond market. When problems arise in the market, such as irregular operations or other events that jeopardize the rights and interests of



investors, the media can make timely reports to reveal the actual situation in the market, and make market regulation more efficient and accurate through rich and diversified information channels.

Second, the media can also contribute to the standardization of the market. There are many self-regulatory organizations in the inter-bank bond market, which need to work together with the regulators to enhance their capacity for better self-regulation through the development of a code of practice, standards and financial regulation. The media can investigate and report on these institutions, actively pointing out the problems in the market and urging and encouraging these institutions to correct their wrong practices promptly. As the market becomes more standardized, it will operate in a more orderly manner, and risk prevention will be more firmly established.

Finally, the media can increase general public awareness and investor risk perception. Since the interbank bond market was initially established with a relatively advanced audience and has now gradually penetrated the lives of everyday people, any unethical business behavior will cause righteous indignation, and investors should learn about securities thus clarifying the market operation process and learning investment skills to make rational and efficient investment decisions and pursue long-term value returns. Therefore, the media should give full play to its advantages of wide audience coverage and easy understanding to convey relevant information or professional knowledge to the public, so that market participants can continuously raise their awareness of risk prevention and reduce undue risks in all aspects.

To summarize, it is very important to use the power of the media to monitor the development of the interbank bond market. By paying more attention to market transparency, standardized operation and investor education, the media can help alleviate a series of problems faced by the interbank bond market and promote a more stable and healthy development of the market.

## 5. Conclusion

Starting from Beijing Financial Court Case No. 1, this paper is based on the purpose of solving the problem of misrepresentation infringement in the inter-bank bond market and understanding the importance of the inter-bank bond market. According to the current domestic economic situation, risk response mechanism, financial market regulatory deficiencies and other aspects found in the existing problems and potential problems, put forward their respective response programs. Let us realize that the interbank bond market is of great practical significance to China's capital market, which raises funds to support the business activities of enterprises and promotes the development of the economy through the issuance of bonds. At the same time, the interbank bond market also provides a new type of financing tool for banks to help them better support the development of the real economy. Therefore, we should properly solve the problems of the inter-bank bond market, help the market to realize the steady improvement of China's capital market economy, and the benign development of the financial system to seek a better way out!

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