

Multiple Rounds of Audit Inquiries and IPO Performance under the Registration System

- Taking Bright Power Semiconductor as an Example

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Abstract: Under the continuous development of the economic situation, the economic environment is more complex. To cater for development needs of the capital market, the registration system has emerged and developed continuously. The registration system adopts the method of audit and inquiry to conduct multiple rounds of inquiries on issuers, sponsors and accounting firms. Analyse the relationship between the number of inquiries and the performance of IPO. This paper selects Bright Power Semiconductor as the main case for discussion, and compares it with Chipown in the same industry to analyze the relationship between multiple rounds of inquiries and IPO performance. The main contents of this article presents the context and significance of research, content and research methods., and the registration system audit inquiry and related concepts. Then the background and development of registration system audit inquiry and the case company and analyzes the IPO process and motivation of Bright Power Semiconductor. Analyzes the information disclosure, stock impact and development of Bright Power Semiconductor after several rounds of IPO inquiries and compares it with Chipown. Finally, summarizes the conclusions of this paper and puts forward suggestions and shortcomings. The conclusion is that under multiple rounds of inquiries, the quality of the company's information disclosure has been significantly improved and has a favorable impact on the company's IPO performance.

Keywords: registration system, audit inquiries, IPO performance

1. Introduction

1.1. Research Background and Significance

1.1.1. Research Background

Under the continuous development of China's economy, the continuous evolution of the securities market and the continuous exposure of the shortcomings of the approval system, at the same time, the Securities Regulatory Commission promulgated the measures for the registration and administration of initial stock issuance on the science and technology innovation board (Trial), and the registration system on the science and technology innovation board was formally implemented. Subsequently, the Shenzhen Stock Exchange promulgated a series of audit rules and Listing Rules

for the gem, so as to stabilize the smooth operation of the gem, and the registration system came into being. Registration transfers the right to list companies from the government to the market without undermining the government's regulatory role. Secondly, the registration system takes information disclosure as the core, which reduces the degree of information asymmetry of all kinds of investors in the securities exchange market.

This paper analyzes the relationship between audit inquiries and IPO performance by discussing Bright Power Semiconductor, a science and technology innovation board company that has undergone three rounds of inquiries in the process of IPO audit.

1.2. Research Significance

This paper has certain practical significance through the research of Bright Power Semiconductor. First, we should improve the information disclosure behavior of listed companies, improve the integrity of information disclosure, improve regulatory efficiency and reduce corporate fraud. Second, promote the implementation and improvement of the registration system, and promote the internationalization of the registration system. The United States implemented the registration system in 1933, while China implemented the registration system in 2019. The research of this paper can promote the development of registration system to a certain extent and provide some experience and summary for the implementation of registration system. Third, improve the performance impact after multiple rounds of inquiry IPO. By comparing Bright Power Semiconductor and Chipown, this paper analyzes the reasons for the difference in performance after several rounds of inquiries, so as to provide valuable experience for the listed stock price of enterprises.

1.3. Research Content and Methods

1.3.1. Research Content

This paper introduces the background and research significance of the registration system audit inquiry, and then introduces the overall content and layout of this paper, analysis theory and methods used. Also, this paper introduces the concepts of audit inquiry and IPO performance under the registration system and collates the relevant literature in the past. Thirdly, the background analysis of audit inquiry under the registration system. The new share issuance system and IPO audit system are introduced and analyzed. Fourthly, Bright Power Semiconductor company is introduced and analyzed in detail, and the IPO process is described and analyzed. Fifth, the impact of multiple rounds of inquiries on corporate performance after IPO is analyzed mainly through information disclosure, stock price changes and performance. Through the comparison with the same enterprise Chipown after several rounds of inquiries. The conclusions of this paper are summarized, and the future applications and shortcomings are analyzed.

1.3.2. Research Method

This paper uses the analysis of the main cases and the comparative analysis of the same cases. Bright Power Semiconductor is selected as the main case study, through the analysis of the company's situation, IPO motivation, IPO process and stock price after multiple rounds of inquiries, compared with the stock price after multiple rounds of inquiries of Chipown, analyzed the reasons for the different stock price results caused by multiple rounds of inquiries, and analyzed the shortcomings and put forward suggestions.

Through a large number of inquiries about the IPO inquiry literature, a lot of relevant materials are sorted out and summarized by using Zhiwang, Database and Google academic. To understand the

development of this field and clarify the relevant concepts will lay the foundation for the research ideas and writing of this paper.

2. Concept Definition and Literature Review

2.1. Registration Concept

Registration system refers to the transformation of approval system into filing system in the stock issuance system, which is comprehensively reviewed by regulators, emphasizing information disclosure and independence, while protecting the interests of investors and market stability. For listed companies, the registration system can shorten the listing time, and put more emphasis on the regulatory responsibility in the middle and later period, improve the information disclosure of enterprises and improve the safety of investment through inquiry letters. At the same time, the registration system allocates some rights to issuers and intermediaries.

2.2. IPO Performance

IPO performance refers to the economic consequences of enterprises on their economic behavior through decision-making and investment, self-regulation and operation of the market after IPO. Through the analysis of the stock price after several rounds of inquiries of Bright Power Semiconductor, this paper draws a conclusion by using the operating capacity, development capacity and stock yield of enterprises.

2.3. Literature Review

2.3.1. Inquire about Regulatory Research

The supervision of inquiry letters takes the exchange as the main body of inquiry and will issue inquiry letters the related parts that fail to meet the standards in the announcement of the audit of listed companies, requiring them to increase the content and quality of the company's information disclosure, so as to ensure the operational efficiency of the capital market and prevent financial risks. China's inquiry supervision system began in 2013, which began late compared with foreign countries, and the relevant research is still in the initial stage of development. Some scholars believe that when there are defects in the company's internal control, tax evasion and other acts, it is easier to be questioned. At the same time, when the internal governance of the company is poor, the financial statement is unclear, the business is complex and difficult to show, the profitability is poor, and the accounting firm is small, inquiry letters are more likely to be received by companies listed. [1]. At the same time, in terms of the basic characteristics of the company, companies with large scale, long establishment time and complex business environment are more likely to receive inquiry letters [2]. On the other hand, companies with low quality internal control are more likely to receive inquiries [3]. At the same time, if accounting firms are punished more by regulators, their affiliated IPO customers will receive more inquiries [4]. Chen et al. used China's year-end sample analysis to conclude that companies with higher political connections are more likely to receive letters of inquiry on whether companies have political connections and if businesses with political links are more likely to receive survey letters. [5]. The main reason is that if companies commit violations, they may seek political connections to resolve them, thus avoiding regulation and reducing the probability of inquiry [6]. At the same time, Heese and Khan believes that due to the political relevance of enterprises, they are more likely to receive inquiries from regulatory authorities [7].

2.3.2. Research on the Impact of Inquiry Regulation

As regulatory inquiries will cause certain market fluctuations, companies that have been consulted and regulated will be affected to a certain extent. The market generally has negative sentiment towards the announcement of inquiry letter receipt, while the announcement of reply letter has become more positive [8]. The inquiry letter also plays a positive role in stabilizing the stock price. Zhang shows that the annual report inquiry letter enhances the transparency of enterprise information and can effectively reduce the likelihood of a stock price collapse [9]. In terms of the impact of corporate behavior, Chen found that the effectiveness of supervision will be affected by the nature of property rights and the information environment, so the inquiry letter can effectively restrict earnings management behavior.[10]. On the other hand, the risks in mergers and acquisitions can also be identified by the inquiry letter, and can effectively alleviate the problems caused by information asymmetry [11]. Fu said that the receipt of inquiry letters in M&A transactions will also lead to a negative market reaction to the initial announcement, affecting the success rate of M&A [12]. Zha Yuanyuan and Wan said that the number and detail of the company's delayed response to inquiry will have an impact on the regulatory role of the letter of inquiry [13]. The more delayed the response, the more vague the response to the letter of inquiry, and the higher the probability of failure.

2.3.3. Research on IPO Performance

From the perspective of earnings management, Tao and Ren believed that the company will use earnings management to improve profits in order to go public for IPO, but this only changes the distribution of profits in different accounting stages, and then it will still show a decline in performance [14]. At the same time, the greater the management's earnings management, the greater the performance volatility of enterprises after listing [15]. On the other hand, Wang Maolin and others believe that the lower the principal agent cost of an enterprise with a high proportion of Management Holdings, the more efficient the use of funds raised by enterprises is, the less likely it is that earnings management will occur, which will reduce the possibility of declining enterprise performance [16].

From the perspective of investor sentiment, Derrien and Ljungqvist et al. believe that the reason the issue price is higher than the intrinsic price of stocks is the rise of investor sentiment [17]. The higher investor sentiment, the higher the issue price of new shares. Cornelli and others found that when some investors are optimistic, they will participate in the pre issuance market of new shares, and their excessive demand for new shares will lead to their issuance value higher than their intrinsic value [18]. On the other hand, Hesaid that when management lacks self-confidence and is in a negative state, it will reduce the investment efficiency of enterprises [19].

3. Background Analysis of Audit Inquiry under Registration System

3.1. New Share Issuance system

Establishing and developing the capital market is a major strategic decision and practical exploration to deepen reform and opening up and establish the socialist market economic system. Over the past 30 years, China's capital market has achieved historic breakthroughs and leapfrog development. In 1990, the Shanghai and Shenzhen stock exchanges were established showed the formation of China's capital markets. In the early stage of the establishment of China's capital market, affected by the planned economy environment, the initial stock issuance system had a strong administrative color. Under this system, the primary condition for enterprises to issue shares is to obtain indicators and quotas. This system has obvious disadvantages, scarce resources and can not meet the continuous development of the country, so the index management system came into being in 1966. For resolving quota issues, management leading to the influx of a lot of small scale enterprises into the capital

market, the Securities Commission of the State Council issued the opinions on the work arrangement of securities and futures in 1966, and the index management began to be implemented. Index management has led to the emergence of a number of high-quality representative large and medium-sized enterprises in the capital market. However, because the full strength of examination and approval of listing is in the hands of the Securities Regulatory Commission, in the context of the share reform of state-owned enterprises, the Securities Regulatory Commission chooses more state-owned enterprises, resulting in artificial interference in the market mechanism. And the delisting system was not perfect at that time, which led to many backdoor listing phenomena.

3.1.1. Approval System

With China transformed into an economical market system., in order to meet the development of China's capital market, the Securities Regulatory Commission established and implemented the channel system in March 2001. Although the channel system still has the element of administrative control, the channel system has given securities companies a formal voice in investment banking. Through the trial implementation of the channel system, the Securities Regulatory Commission marking the birth of the sponsorship system by promulgating rules. The sponsorship system strengthens the quality and content of enterprise information disclosure, increases the responsibilities of securities companies, requires securities companies to constantly supervise listed enterprises, and further weakens the full strength of administrative examination and approval. However, the listing audit right of enterprises is grasped by the Securities Regulatory Commission, the listing threshold is too high, and the long-term rate of the audit cycle is low, which increases the difficulty of listing enterprises.

3.1.2. Registration System

The registration system is centered on information disclosure. When applying for stock issuance, issuers must disclose the company's information truthfully, accurately and completely according to law, and declare all kinds of materials to be disclosed to the stock exchange. The registration system has a high degree of marketization, which does not make a specific judgment on the issuer's company, but leaves it to market investors to judge. On the morning of April 10, 2023, the Shanghai and Shenzhen stock exchanges held the listing ceremony of the first batch of enterprises under the main board registration system, and a shares entered the era of comprehensive registration system.

3.2. Regulatory Inquiry System

Since the implementation of the registration system in China's science and technology innovation board in 2019, in order to increase information disclosure and improve the quality of listed companies, there has been an audit inquiry letter. When the Shanghai Stock Exchange accepts the issuer's business, it begins to examine and inquire about the issuer, and the examination and inquiry letter is sent by the stock exchange to conduct extensive and multiple rounds of inquiries about the issuer, sponsor and intermediary institutions. On August 24, 2020, the registration system was implemented on the gem, and the Shenzhen Stock Exchange has the right to issue an audit inquiry letter.

4. Company Profile and Inquiry Process

4.1. Overview of Bright Power Semiconductor Enterprise

Bright Power Semiconductor is one of the leading power management driver chip design enterprises in China, whose main business is the design, development and sales of analog semiconductor power management chips. The company belongs to the integrated circuit design industry.

4.2. Overview of Chipown

Chipown was listed on July 22, 2020. Chipown Microelectronics (Chipown) is a high-tech enterprise focusing on the research and development of power semiconductors. The company was founded in 2005, headquartered in Wuxi, Jiangsu Province. The company has the leading research and development strength in China, especially in the aspect of high and low voltage integrated semiconductor technology, it has the industry's leading research and development team.

4.3. Reasons for Selecting Bright Power Semiconductor

Firstly, Bright Power Semiconductor is one of the leading power management driver chip design enterprises in China, and is the leading LED driver chip enterprise in the world, with a market share of 28%. It was listed on October 14, 2019, which is an earlier listed enterprise with certain representativeness and reference.

Secondly, Bright Power Semiconductor has experienced three inquiries in the IPO audit inquiry, and finally successfully listed, with a large number of inquiries, a wide range of inquiries, and a high stock price when listed, so as a case of this paper.

4.4. Motivation of Bright Power Semiconductor IPO

With the continuous development of enterprises and the expansion of business, enterprises in order to broaden financing channels to obtain funds to invest in R&D, market occupation, mergers and acquisitions, so as to carry out IPO. At the same time, more and more enterprises seek to be listed on the science and technology innovation board. This paper summarizes the motivation of Bright Power Semiconductor's listing:

Due to the rapid development of China's economy and the continuous emergence of high-quality enterprises, these enterprises need to be listed for the sake of enterprise development, shareholder interests and their own interests. However, due to the imperfect listing system before 2019, the market system is relatively chaotic. At the same time, because listing in the United States can bring greater enterprise value, many high-quality enterprises go to the United States for listing, resulting in damage to interests and increased costs. In 2019, the implementation of audit inquiry under the registration system of science and technology innovation board created conditions for Bright Power Semiconductor's IPO listing.

After years of rapid development, Bright Power Semiconductor has strong industry competitiveness in the field of LED lighting driver chips. On the one hand, in order to become a diversified analog and hybrid chip company, the company creates more enterprise value in the subdivision field. On the other hand, the company is a high-tech company, which needs a lot of R&D funds and attracting talent funds to strengthen product R&D and talent retention. At the same time, in order to occupy the international market and expand market share, IPO fund-raising has been a necessary road.

4.5. IPO Audit Inquiry Process

4.5.1. Inquiry Process

Bright Power Semiconductor submitted a prospectus for its initial public offering to the Shanghai Stock Exchange on October 13, 2017. After that, he went through the reform of registration system and changed his prospectus. Then in April 2019, the law firm provided a legal opinion and Guangfa Securities provided a listing sponsor. Then there were three inquiries from April 2019 to August 2019, namely, to issuers, sponsors and accountants. Finally, the IPO was successful in October 2019.

4.5.2. Inquiry Content and Analysis

On April 15, 2019, the Shanghai Stock Exchange launched the first round of inquiries about Bright Power Semiconductor, which mainly involved 47 questions, such as ownership structure, business issues, core technology and financial statements, and asked issuers, applicant accountants and sponsors to reply. On June 30, the issuer, sponsor and accountant of Bright Power Semiconductor responded to the audit inquiry at an interval of 75 days. Because the company did not fully disclose all the questions, the Shanghai stock exchange then launched two more rounds of inquiries, a total of 14 questions in the second and 4 questions in the third.

5. Performance Impact Analysis after Multiple Rounds of Inquiry IPO

5.1. Disclosure impact

5.1.1. Impact of Information Disclosure Consistency

The principle of consistency of information disclosure refers to whether the information disclosed by the issuer is consistent, reasonable and logical. The indicators of consistency can be set as reasonable financial data checking, consistent with the actual situation of the issuer, reasonable interpretation of changes in financial data and reasonable interpretation of differences in the same industry.

Table 1: Change of terms in prospectus.

	Declaration	Conference draft	Registration draft
Difference	77	95	99
Business accounting	75	20	20
Basis	65	39	39
Conform	137	93	94
Same industry	78	71	62

For whether the financial data is reasonable, there will be a word of “accounting” in the prospectus, a word of “difference” will appear for whether the changes in financial data or the differences with companies in the same industry can be reasonably explained, and a word of “compliance” will appear for whether it is in line with the actual situation of the issuer. Bright Power Semiconductor completed the declaration draft after one inquiry, the meeting draft after the second inquiry, and the final registration draft after the third inquiry. By comparing the vocabulary changes of the three manuscripts, it proved the impact of multiple rounds of inquiries on the consistency of information disclosure.

It can be seen from Table 1 that after three rounds of inquiries, Bright Power Semiconductor’s information responded to the inquiries, and the information disclosure was uneven, but the interpretation of changes in financial data and the differences in the same industry, the actual situation of the issuer has been fully disclosed, which is in line with the principle of consistency.

5.1.2. Impact of Information Disclosure Adequacy

After three rounds of inquiries, Bright Power Semiconductor carefully responded to each inquiry letter and revised and supplemented the prospectus.

Table 2: Changes of page number in Prospectus.

Manuscripts	Pages	Growth
Declaration	459	
Conference draft	419	-8.7%
Registration draft	434	3.5%
Total		-5.4%

As can be seen from Table 2, Bright Power Semiconductor deleted the irrelevant parts of the prospectus after the second round of inquiry, mainly the business and technology parts, same industry competition, related party transactions and senior executives, and made a detailed reply to the inquiry letter. After the third round of inquiries, it increased by 3.5%, but also considering that the registration draft includes feedback from the SFC.

5.2. Impact of Stock Price Changes

5.2.1. Bright Power Semiconductor Stock Trend

This paper analyzes the stock price situation of Bright Power Semiconductor within two months after IPO, on the grounds that within two months after IPO, investors only obtain information through audit inquiries and performance during IPO, excluding external interference factors, such as politics and environment, which can better reflect the results of multiple rounds of inquiries.

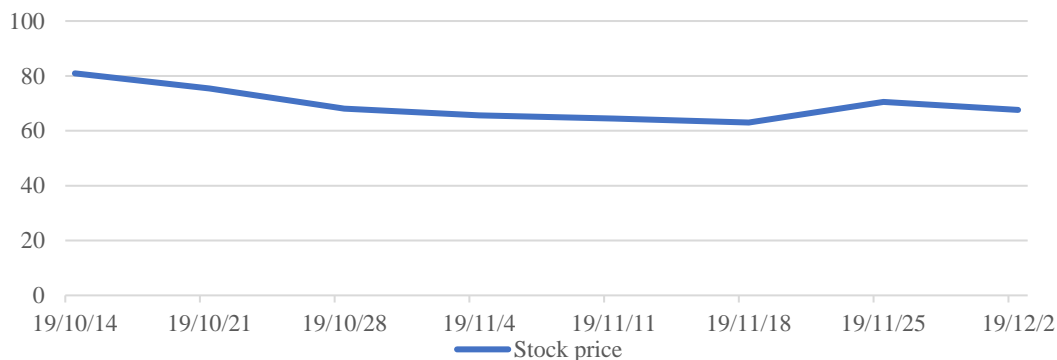


Figure 1: Stock price trend of bright power semiconductor.

As can be seen from Figure 1, the IPO price of Bright Power Semiconductor is high, but it belongs to a downward state within one month, and then an upward trend. This trend proves that investors do not trust Bright Power Semiconductor at the beginning. Through signal transmission theory, it proves that Bright Power Semiconductor's reply to the inquiry letter and information disclosure are not perfect. But, After one month, its stock price had a upward trend, it indicates that investors trust Bright Power gradually, and increase the investing.

5.2.2. Comparison with Chipown

This paper selects the stock price trend of Chipown within two months after IPO to analyze, its opening price is 102.

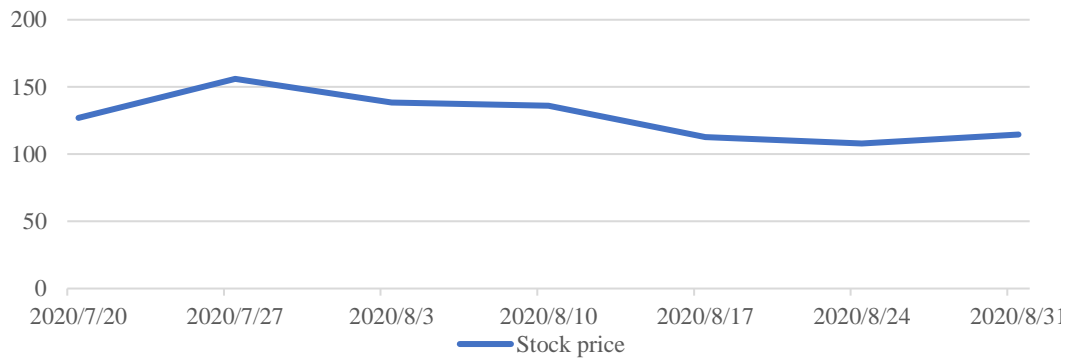


Figure 2: Stock price trend of Chipown.

From Figure 2, it shows the stock price of Chipown has shown a overall downward trend after the IPO, indicating that investors' trust and sentiment in Chipown are decreasing, thus reflecting the low quality of information disclosure of Chipown. Chipown has suffered two rounds of inquiry, it was less than Bright power. Compared with Bright Power Semiconductor, at the first time, the stock price has a upward trend, which is better than Bright Power. Afterward, the stock price continuous drop, it is different with Bright Power. After November 18, the stock price has a upward trend of Bright Power, it is obviously better than Chipown.

5.3. IPO Performance

5.3.1. Capacity Analysis

This paper selects total asset turnover, inventory turnover, accounts receivable turnover and current asset turnover to analyze the operating capacity of Bright Power Semiconductor, its IPO time is on October 14, 2019.

Table 3: Indicators change before and after IPO.

Index	Pre IPO (9. 30, 2019)	After IPO (9. 30, 2020)
Total asset turnover	0.55	0.30
Inventory turnover	2.12	2.49
Accounts receivable turnover	2.90	3.21
Turnover rate of current assets	0.58	0.30

As can be seen from the Table 3, after the IPO, the turnover rate of total assets and current assets of Bright Power Semiconductor decreased, while the inventory turnover rate and accounts receivable turnover increased. It shows that the operating capacity of Bright Power Semiconductor company has decrease overall. Bright Power has sold more inventory at high frequency, and has more accounts receivable, which indicates that Bright Power has better capacity analysis.

5.3.2. Developmental capability analysis

The development ability of enterprises is related to the future development trend and development ceiling of enterprises. The development ability of enterprises can be judged by the scale, operating income and profit of enterprises. This paper selects the growth rate of total assets, operating profit, net profit and operating income to judge the development ability of Bright Power Semiconductor.

Table 4: IPO development capacity indicators.

Index(%)	Pre IPO (9. 30, 2019)	After IPO (9. 30, 2020)
Total asset growth	41.74	143.36
Operating profit growth rate	0.00	36.26
Net profit growth rate	0.00	35.92
Operating income growth rate	0.00	20.24

Table 4 shows that the total asset turnover rate of Bright Power Semiconductor after IPO increased by 243.45%, the operating profit growth rate increased by 36.26%, the net profit growth rate increased by 35.92%, and the operating income growth rate increased by 20.24%. It shows that after the IPO of Bright Power Semiconductor, the scale of the enterprise has expanded, the development ability is strong, and the development trend is good.

5.3.3. Comparative Analysis with Chipown

Table 5 shows that the growth rate of total assets of Chipown has increased significantly, while the development capacity indicators have increased in an all-round way and the increase is very high, indicating that Chipown has strong development capacity. As far as operational capacity is concerned, the total asset turnover rate and current asset turnover rate have declined after IPO, indicating that the company's asset liquidity has decreased, but the overall operational capacity has increased.

Table 5: Summary of Chipown technology indicators.

Index		Pre IPO (6. 30, 2020)	After IPO (6. 30, 2021)
Operating capacity	Total asset turnover	0.28	0.23
	Inventory turnover	1.42	2.35
	Accounts receivable turnover	2.03	2.93
	Turnover rate of current assets	0.29	0.25
Develop capabilities	Total asset growth	2.92	5.26
	Operating profit growth rate	14.40	119.66
	Net profit growth rate	19.69	119.93
	Operating income growth rate	7.37	109.07

Compared with Bright Power Semiconductor, in terms of operating capacity, Bright Power Semiconductor's operating capacity is better than Chipown, but the gap is not large. For the development capacity, the growth rate of Bright Power Semiconductor after IPO is more than that of Chipown, indicating that Bright Power Semiconductor has greater potential, it has a overall increase.

6. Conclusion

Through the analysis of the impact of several rounds of inquiries by Bright Power Semiconductor company on the IPO performance of enterprises, this paper draws some conclusions from the comparison of Chipown, a company in the contract industry. First, audit inquiry can fully increase the consistency and adequacy of enterprise information disclosure, so as to improve the quality of enterprise information disclosure. Through multiple rounds of inquiries about issuers and intermediaries, the content of the prospectus of enterprises is improved and the quality of the disclosure content of the prospectus is improved. Second, audit inquiries can have a beneficial impact

on enterprises. Through multiple rounds of audit inquiries and positive replies from enterprises, the quality of information disclosure of enterprises can be improved, so as to improve the trust of investors in the capital market in enterprises, and ultimately stimulate the growth of stocks.

The prospectus is an important document for enterprise information disclosure and an important reference for regulatory examination and inquiry. From the research of this paper, the prospectus of enterprises in the future can disclose enterprise information more widely and accurately, so as to improve the efficiency of listing and interrogation. Secondly, enterprises should improve their own prospectus, shorten the response time interval of inquiry letters, improve the response efficiency and improve the quality of information disclosure. There are still imperfections in this paper, there are fewer selected cases, the analysis is not comprehensive enough, and further research and improvement are needed.

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