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**SELECTIVE ENFORCEMENT OF REGULATION OF SECURITIES REGULATORY ORGANISATIONS:
INVESTIGATION STAGE OR PUNISHMENT STAGE?
(BASED ON DIFFERENT SCALES OF LISTED COMPANIES)**

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ABSTRACT

In this paper, using data from A share of Shanghai and Shenzhen securities exchanges, we explored the relation between firm scale, different work stages of security market regulatory authorities. We find that security regulatory authorities tend to investigate small scale firm, but they will not make a difference between large and small scale firms when they punish the violators. Further study finds that after "the 18th national representative meeting of the CPC", the fairness of enforcement of security regulators increases, but violations of the violators do not reduce obviously after they are punished.

KEYWORDS

selective enforcement of law, firm scales, securities regulatory organisations.

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1. INTRODUCTION

The legal system plays a pivotal role in the effective operation of the capital market and even the whole economic development (La Porta et al., 2002). For emerging and transitional economies, effective law enforcement is more critical (Johnson et al., 2000). In transition and emerging countries, because of the imperfection of legal system, selective law enforcement regulation plays an important role (Glaeser et al., 2001). Securities market regulation is the necessary mechanism to solve the market failure and improve the market efficiency, China has formed a securities regulatory system which mainly bases on "one Commission and two Exchanges"¹, the current securities regulatory system has played a major role in securities market regulation, but in recent years many violations of market regulations broke out, and this means the securities regulatory supervision still has some defects. Among them, the fairness of market supervision is has become an important issue, and the differentiated law enforcement behavior by regulatory agencies is an important factor which leads to low regulatory efficiency (Chen et al., 2012)

About the research on selective law enforcement, most studies pay attention to the impact of the law enforcement environment and the political cost of law enforcement, less attention has been paid to the internal working mechanism and procedures of the regulatory agencies, thus the internal causes of the problems cannot be found. In fact, the selective law enforcement is made by the securities regulatory authorities², and in-depth research on each link of law enforcement process is needed. From a practical point of view, the supervision process of law enforcement agencies consists of two stages: investigation stage and punishment stage. Selective law enforcement may occur both in the investigation stage and in the punishment stage. Current research mainly focuses on the punishment stage of the selective law enforcement, little attention has been paid to the investigation stage. Selective law enforcement in the investigation stage and the punishment stage not only has completely different reasons, but also different extents of damage on social injustice, and the "Criminal law not applying to senior officials and the etiquette not applying to common people"³ will cause greater injustice. Therefore, to study the different stage of law enforcement of regulatory agencies can give an overall inspection on the justice of the enforcement, thus can find the inner cause of selective enforcement and make out targeted measures.

In view of the above considerations, this paper explores the influence of firm scale differences on regulatory selective law enforcement in the two work stages: investigation and punishment. We choose firm scale as research perspective to examine the selective law enforcement because current literature found that firm scale is one of the important factors which relates to regulatory selective law enforcement, and also because firm scale is a comprehensive feature of enterprises, which affects the property rights, political cost and political background of the enterprise.

In contrast to the existing studies, The possible contribution of this paper may be as follows: (1) this paper conducts an in-depth analysis of the selective law enforcement of securities regulators from the two stages of investigation and punishment, and finds that selective law enforcement mainly appears in the investigation (i.e. case-filing stage) ; (2) this paper evaluates the impact of objective factors such as enterprise scale on the selection of regulatory agencies from the perspective of resource constraints and work objectives of regulatory agencies, and reveals the internal reasons for the securities regulators' selective law enforcement on large-scale enterprises, so our paper enrich the research paradigm of the existing literature which assess the behavior of regulatory agencies mainly through the social consequences of administrative penalties. (3) this paper also points out that the feasible path to reduce the selective law enforcement of securities regulators is to increase the regulatory investment and team building to reduce the constraints on the supervision work of securities regulatory agencies.

2. LITERATURE REVIEW AND THE OBJECTIVES OF THE STUDY THEORETICAL ANALYSIS, AND RESEARCH HYPOTHESES

2.1 LITERATURE REVIEW

Many studies have demonstrated the existence of selective law enforcement by regulators, especially in transitional economies (Pistor et al., 2000). For example, Han and Chen (2002) found that the amount of punishment imposed by fraud companies and their senior managers is not related to the amount of fraud, and the

¹ 'One Commission' represents 'China Securities Regulatory Commission' (hereafter 'CSRC'), "Two Exchange" represents Shanghai Stock Exchange and Shenzhen Stock Exchange.

² The securities regulatory authorities including: CSRC, the branches of CSRC in each province of China (these branches of CSRC has the authority and responsibility to supervise listed companies under their jurisdiction).

³ A famous saying of Confucius

fairness of the punishment is questioned. Dai and Yang (2006) found that law enforcement agency will handle the similar cases with different speed, and fine different amount in different periods. There are many factors which influent selective law enforcement, and scholars mainly study such factors as firm's political background, nature of equity, firm size, performance and local government intervention. The main conclusions are as following: (1) When securities regulatory authorities punish violators, state-owned/holding companies are punished relatively light (Gan, 2007; Yang, 2009; Cai et. al. 2016, Chen et. al. 2016). (2) Listed companies with political background are punished more strongly for violations than listed companies with no government background (Zhang et. al, 2013), (3) Securities regulators often impose lighter penalties on larger businesses to reduce political and social impact (Zhang et. al, 2013; Cai et. al. 2016) (4) Compared with listed companies with high performance, regulators will give more priority to choosing listed companies with poor performance to check their information disclosure (Yang, 2005). In China, there is a "selective bias" in regulatory penalties, and regulatory penalties are mainly aimed at companies that send "bad news" (Song, 2010).

Current studies have found the phenomenon of selective law enforcement, and explored some characteristics of selective law enforcement by securities regulatory authorities, which provides a theoretical basis for subsequent research. But there are still some problems to be explored. Firstly, current studies focus on the selective law enforcement in the punishment stage, and ignore the selective law enforcement in the investigation stage. Case investigation is the basis of the punishment. In contrast to selective law enforcement in the punishment stage, selective law enforcement in the investigation stage has a qualitative impact on judicial fairness (investigation or not investigation), while the selective law enforcement in the punishment stage has a quantitative impact on judicial fairness (light punishment or heavy punishment). Obviously, the negative effect of selective law enforcement in the investigation stage is greater than that in the punishment stage. Secondly, in analyzing the reasons for selective regulatory law enforcement, current research focuses on the possible economic and social consequences of punishments, ignores the impact of law enforcement costs, administrative performance evaluation and other internal factors on the behavior of regulatory agencies, and these intrinsic factors may be the decisive factors.

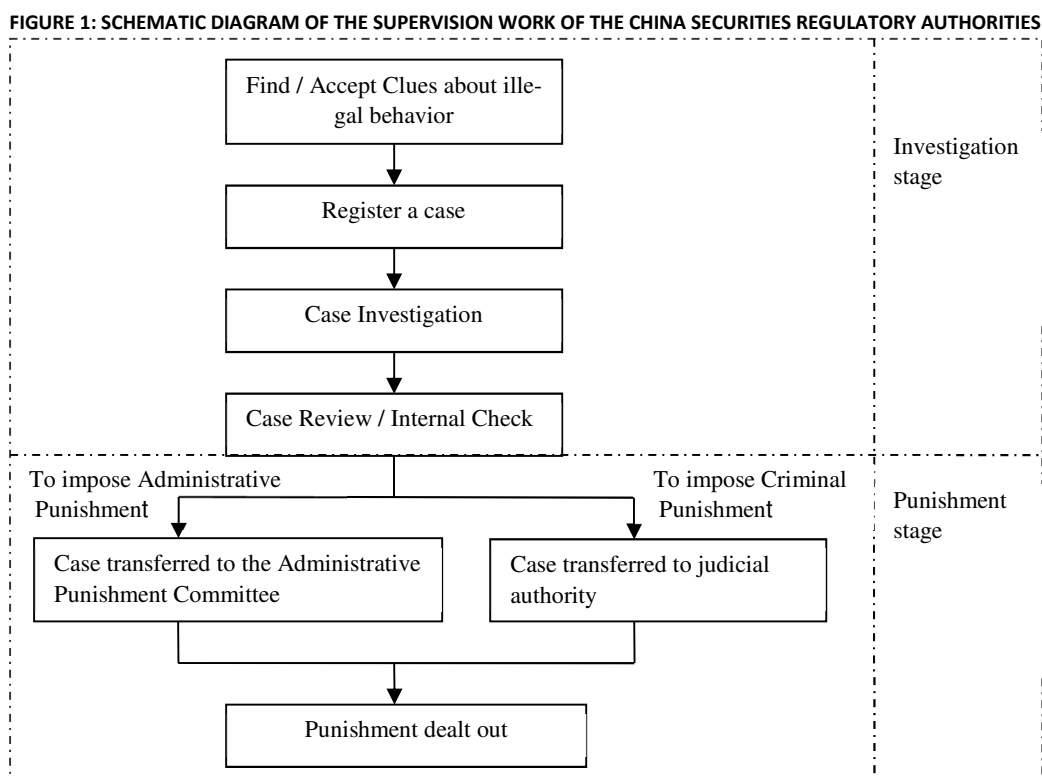
2.2 OBJECTIVES OF THE STUDY

Considering the above imperfection and potentialities about current research, we conduct our research. The objectives of our study can be expressed as follows: (1) to seek the internal cause of selective law enforcement in security regulations, to give a further explanation why larger companies are "sheltered" by regulators. (2) to check the results of elective law enforcement in security regulations, to find out whether the punished companies reduce their illegal behavior after punishment.

3. THEORETICAL ANALYSIS AND RESEARCH HYPOTHESES

3.1 ANALYSIS OF SELECTIVE LAW ENFORCEMENT IN THE INVESTIGATION STAGE

According to the China Securities Regulatory Commission's 2014 annual report⁴, the regulatory working process of securities regulators on the regulatory objects is shown in the following figure:



As shown in Figure 1, the regulatory working process of securities regulators is divided into two stages: investigation stage and punishment stage. In investigation stage, securities regulators mainly investigate violators' behavior in each case and confirm violation of law. The supervision of listed companies mainly includes investigating of these companies, analyzing data, and confirming the violations of violators. As a government department, the behavior of perform duties by securities regulators is affected by the following factors:

(1) The objective of regulatory behavior

From the perspective of the responsibilities of the securities regulatory authorities, in the investigation stage, the main task of regulatory authorities is to discover the behaviors of listed companies which violate security regulations. In China, due to large incidence of listed companies' violations, to discover violation behavior as more as possible is the preliminary task for regulatory authorities. Secondly, regulatory work should be carried out with efficiency, that is, "if violation confirmed, then punishment made", to improve the closing rate of cases. So, it is the main objective for securities regulatory authorities, to discover the listed companies which violate securities regulations as many as possible, and to confirm the nature of violation.⁵

⁴ See "China Securities Regulatory Commission 2014 Annual Report", China Finance and Economic Press, April 2015, p. 31.

⁵ For example, in its 2019 annual work report, China Securities Regulatory Commission reported that it accepted 544 effective clues about violations of laws and regulations in 2019, launched 395 investigations, registered 344 new cases, and completed 344 cases. Throughout the year, 86 listed companies or related subjects were registered, and the number of cases increased by 28 cases compared with 2018. See China Securities Regulatory Commission in 2019, China Finance and Economic Press, May 2020, p. 50.

(2) Resource constraints

Securities regulatory authorities need resources to carry out supervision work, and financial resources and human resources are the two important resources. Financial resources are mainly the expenditures used by the securities regulatory authorities for the registering and investigating the violation behavior of listed companies. The securities regulatory department belongs to the government department, and it has strict budget restrictions on all kinds of public service expenses, and it also has strict restrictions on the expenses used for the investigation of listed companies. The personnel of securities regulatory departments are civil servants, and the number of personnel for each security regulatory authorities is limited. Thus, the working time to be used for investigation of listed companies is also limited. The restrictions on the expenditures and working time used for the investigation of listed companies form the necessary condition for regulatory agencies to conduct selective law enforcement in the investigation stage of listed companies.

In order to confirm the above views, we have collected the departmental final accounts of the CSRC in 2011-2019, and counted the main expenses related to the regulatory work. See the table below:

TABLE 1: STATISTICAL TABLE OF FINANCIAL INSPECTION AND CASE PROCESSING EXPENDITURE OF CSRC IN 2011-2019⁶ (unit: 10 000 RMB yuan)

Year	Budget	Real expenditure	Budget completion
2011	--	5449.08	NA
2012	5500	5396.34	98.12
2013	5500	5879.4	106.90
2014	5650	6684.3	118.31
2015	6150	6338.13	103.06
2016	8356.66	8501.22	101.73
2017	7210.51	7430.54	103.05
2018	6835.25	6745.1	98.68
2019	8426.36	7027.1	83.39

According to Table 1, the financial inspection and case handling expenditure of securities regulators have a specific budget. As for the implementation of the budget, in 2014, the real expenditure exceeded budget by 18.31% (maximum over expenditure) and the real expenditure in 2013-2017 exceeded the budget, while in 2012, 2018 and 2019 real expenditure did not exceed the budget, indicating that the budget constitutes a certain binding force.

(3) Analysis framework of selective law enforcement in the investigation stage

In this part, we use the linear planning method to study the behavior of securities regulators in the investigation stage. Because the main work in the investigation stage is to investigate listed companies and collect data about violation, the data about the investigation are not published to the public, so the local government of investigated companies will not intervene, and public media could not report on such work. The main influent factors are within regulators themselves. Assuming that the total amount of funds used by a securities regulatory authority (such as a stock exchange, a local branch of CSRC or CSRC itself) to investigate listed companies within one year is C, the total working time of the investigators responsible for investigating the enterprises is T. There is n listed companies under their jurisdiction, whose assets are a₁, a₂, ..., a_n respectively. Assume that the expenditures and working time consumed on investigating each company are positively proportional to the size of the company⁷. The regulator's expenditure and working time for investigating each unit of asset is p and q respectively.

First, we establish the constraints functions for the linear programming. Due to insufficient working hours and funding, we have the following constraints functions:

$$\sum_{i=1}^n pa_i > C$$

$$\sum_{i=1}^n qa_i > T$$

That is to say, if all the listed companies under jurisdiction are to be investigated, not only regulators' funds are insufficient, but also, they will face the problem of insufficient working hours.

In order to confirm the above arguments, we collected the investigation data of the securities regulatory authorities in 2011-2019, as shown in the Table 2.⁸

TABLE 2: STATISTICS OF CSRC INVESTIGATION DATA ON VIOLATION OF LISTED COMPANIES IN 2011-2019

Year	Number of listed companies	Total shares (100 million)	Clues accepted	Companies Investigated	Companies Investigated/Total listed companies (%)	Newly registered cases	Cases closed
2011	2342	29745	290	262	11.19	---	---
2012	2494	31833	380	316	12.67	---	82
2013	2489	33822	611	442	17.76	190	86
2014	2613	36795	678	488	18.68	205	163
2015	2827	43024	732	---	---	345	196
2016	3052	48750	603	551	18.05	302	198
2017	3485	53746	625	478	13.72	312	335
2018	3584	57581	678	536	14.96	268	244
2019	3777	61739	544	395	10.46	344	316

According to the data in the table above, from 2011 to 2019, the total number of listed companies in China increased by 61.27%. Correspondingly, the number of listed companies under investigation and newly registered cases also have a growing trend, but the increase has gradually slowed down or even decreased. The highest ratio of companies investigated (Companies Investigated/Total listed companies) appeared in year 2014, 18.68% of listed companies were under investigation. As the number of listed companies and the number of total shares in the market increases, the pressure of supervision of listed companies continues to increase, and the ratio of companies investigated gradually went down. In 2019, the ratio of companies investigated dropped down to 10.46%, indicating that there is not enough resources to satisfy comprehensive regulatory needs.

Secondly, as a branch of government department, the securities regulatory authorities have a specific goal in the investigation stage of listed companies, which is to supervise listed companies as many as possible and to improve the case closing rate. Assume the number of listed companies to be investigated within a year is n* (n* < n), then the objective function of the securities regulatory authorities is:

$$y = \max(n^*)$$

The range of its feasible solutions is:

⁶ According to the notes to the final accounts, the expenditure on financial inspection and case handling refers to the expenditure used for the investigation and punishment of illegal cases in the securities and futures market.

⁷ Normally, the larger the company, the more economic activities, the more time and expenditures regulators will spend on to investigate the company.

⁸ The blank items in the table are unpublished data, according to the annual report of CSRC in 2011-2019

$$\sum_{t=1}^{n^*} pa_t \leq C$$

$$\sum_{t=1}^{n^*} qa_t \leq T$$

According to the work objectives and the range of its feasible solutions, it is not difficult to see that for the regulatory authorities, in order to get the highest n^* , investigation priority must be given to the companies with relatively small size⁹. In this way, the regulatory authorities can supervise the of listed companies as many as possible within limited funds and working time to optimize its performance.

3.2 ANALYSIS OF SELECTIVE LAW ENFORCEMENT IN THE PUNISHMENT STAGE

The work of the securities regulatory authorities in the punishment stage is to determine the punishment schemes for the violations according to the investigation and analysis results in the investigation stage. Although China's securities laws and relevant laws and regulations have penalties for different violations of listed companies, most of these penalties have discretion space. The securities regulatory authorities will make a punishment scheme for the violators according to the punishment discretion space.

Considering that the regulatory authorities have completed the investigation of the violators in the investigation stage, the subsequent investigation expenditures and working times of the regulatory agencies in punishment stage are relatively small. There will be no selective law enforcement due to insufficient funds and working time. The social consequences of different punishment schemes are important factors which regulators should give enough consideration.

(1) The positioning of securities regulatory function

Different from the emergence of securities markets in western countries, China's securities market was established in the period of economic transformation. Its preliminary objective is to help state-owned enterprises solve problems and to transfer the burden of state-owned banks. It is not spontaneously produced in the development of market economy (Yang, 2009). Therefore, China's securities market has shouldered the double responsibilities of maintaining macroeconomic stability and cultivating an orderly and effective financing market. In the 2019 annual report, CSRC clearly pointed out that: "adhere to the work guidance of seeking improvement with stability ..., to support the development of the economy"¹⁰. It means that maintaining macroeconomic stability and development is the primary responsibility of the CSRC. In this case, to punish the large-scale enterprises is not conducive to the stability and development of the macro economy. Therefore, under this functional positioning, the regulatory authorities will not tend to give severe punishment to large-scale enterprises.

(2) The impact of local government intervention on the punishment of regulatory agencies

Local government intervention in the economy is a characteristic phenomenon in China. One of the key indicators of government performance assessment is the level of local economic development, and the performance of large-scale local enterprises often largely determines the local economic status, thus the economic interests of large enterprises are aligned with the political interests of local government officials (Zhu, 2004). Therefore, before regulators determine the punishment scheme, local governments will try to shelter large-scale enterprises, and regulators often do not easily cut the "big cheese" of local governments.

(3) The impact of media reports and public opinion on punishment by regulators

Media reports and public opinion are important social forces to promote judicial justice (Zhou, 2016). With the development of traditional news media and emerging media such as the Internet, punishment to listed companies made by securities regulators will soon be known to the public. Cu and Li (2012) found that after the violations of the listed companies are announced, the negative media reports of the violators will attract the attention of the regulatory authorities and the public. Under social pressure, regulators will actively enforce the law. As large-scale enterprises receive more media and public attention (McCombs, 2003), regulators will tend to strictly enforce the law when formulating punishment schemes for large-scale enterprises to maintain their own authority.

Summarize the impact of the above two different directions, it can be seen that in the punishment stage, the regulatory punishment of large-scale enterprises is affected by different directions, and the relationship between selective law enforcement and the scale of the punished enterprises is not obvious.

Considering the different influencing factors and selection tendencies of the securities regulators in the investigation and punishment stages, we propose the hypothesis: *In the investigation stage, securities regulatory authorities, restricted by funds and working time, will be inclined to choose small-scale enterprises for investigating; In the punishment stage, influenced by the positioning of regulatory functions, the intervention of local government, media and public opinion pressure, the scale of enterprises has little influence on the selective law enforcement of securities regulatory authorities.*

4. RESEARCH DESIGN

4.1 REGRESSION MODEL

To test the correctness of our hypothesis, we set the following regression model:

$$\text{Offend}_{i,t} / \text{Tmax}_{i,t} = \alpha_0 + \alpha_1 \text{Scale}_{1,t} + \alpha_2 \text{Control}_{i,t} + \varepsilon_{i,t} \quad (1)$$

4.2 VARIABLE DEFINITION

(1) $\text{Offend}_{i,t}$, it represents whether the regulatory authorities investigated firm i in year t , it is a dummy variable. We draw on the study of Chen (2012), when the regulatory authorities announced illegal behavior of a certain listed company i in year t , the value of $\text{Offend}_{i,t}$ is 1, otherwise the value is 0.

(2) $\text{Tmax}_{i,t}$, it represents the punishment imposed on the listed company i in year t , it is a dummy variable. We draw on the study of Xin et. al. (2013), values for each type of punishment of the listed company are assigned according to the severity of the type of punishment. If the types of punishment are "public criticism," "warning," "fine," "condemnation" and "market ban", the punishment value are 1,2,3,4 and 5 respectively. If company i suffers various types of punishment from the CSRC in year t , the value of the heaviest punishment is set to $\text{Tmax}_{i,t}$ in that year. If the listed company i is not punished by the CSRC in year t , $\text{Tmax}_{i,t}$ value is 0. If company i and its senior executives are punished at the same year, the corresponding values of the two punishments will be added as the value of $\text{Tmax}_{i,t}$.

(3) $\text{Scale}_{1,t}$, it represents the scale of company i in year t . It is measured as natural logarithm of the total assets of company i at the end of year $t-1$.

All the definitions of other variables used in the model are shown in Table 3:

⁹ In order to improve the case closing rate, some law enforcement departments deliberately divided big case into small cases, or take the initiative to undertake small cases, delay big cases. See Deng MiaoMiao: Compared with split cases, more absurd is blindly pursue closing rate[J]. Honesty outlook, 2018, August (the first half), page 13

¹⁰See China Securities Regulatory Commission in 2019, China Finance and Economic Press, May 2020, p. 5

TABLE 3: VARIABLES DEFINITION TABLE

Variable name	Variable explanation	Variable measurement
Tem _{i,t}	earnings management degree	The sum of the accrued earnings management and the real earnings management of company i in year t-1
Pc _{i,t}	Political background	If the chairman of directors, general manager or CEO of company i is a member of the People's Congress or of the CPPCC, or now or once served in the government department, its value is 1, otherwise its value is 0
Top1 _{i,t}	Stockholder concentration	The shareholding proportion held by the largest shareholder of company i in year t.
State _{i,t}	Nature of equity	If the real controller of firm i is the state in year t, its value is 1, otherwise its value is 0
Dual _{i,t}	The ratio of independent directors	The number of independent directors divide by the number of the board of directors for company i in year t
Listage _{i,t}	The age of listed company	The time from the company going public till 2018 for company i in year t
Roe _{i,t}	The ratio of net income to net equity	Net income of year t divide by net equity at the end of year t for company i
Ap _{i,t}	Audit opinion	For company i in year t, if the audit opinion in the audit report is unqualified opinion, its value is 1, otherwise its value is 0
Big4 _{i,t}	Auditor selection	If the audit reporting is made by the "Big Four", its value is 1; otherwise its value is 0
ibr _{i,t}	CEO Duality	For company i in year t, if the chairman of the directors is also the CEO of the company, its value is 1, otherwise its value is 0
Mp _t	monetary policy	First, for each year, $Mp = M2 \text{ growth rate} - GDP \text{ growth rate} - CPI \text{ growth rate}$. Then, we get the median of MP from 2008-2018. For year t, if $MP > \text{median}$, its value is 0, otherwise its value is 1.
Q _{i,t}	Tobin's Q	The market value of company i at the end of year t/the total assets of the company at the end of year t
Market _{i,t}	Marketization index	Marketization index of the region where company i registered in year t. the data from "Marketization index of China's Provinces: NERI report 2018" by Wang et.al
Loss _{i,t}	loss	If the net profit of company i in year t is negative, its value is 1, otherwise its value is 0.
Growth _{i,t}	Growth ability	The annual growth rate for company i in year t
Short _{i,t}	Current liability ratio	Current liability divides by total liability for company i in year t
Debt _{i,t}	Debt ratio	Total liability at the end of year t/total assets at the end of year t for company i
Tra _{i,t}	Total assets turnover	Total revenue in year t/total assets at the end of year t for company i
Ocf _{i,t}	Net cash flow from operating activity	Net cash flow from operating activity of year t for company i
Year	year	control
Ind	industry	control

4.3 SAMPLE SELECTION AND DATA SOURCES

We select A-share listed companies in 2008-2018 as the initial sample, the financial data of these companies are collected from Data Base CSMAR. We delete financial and insurance companies' samples, ST and *ST samples, and samples which some of the variables are omitted. We finally get 17435 samples. The data of punishment of listed companies imposed by securities regulatory authorities are collected from data base CSMAR. We use STATA 15.0 to analyze all the data. To avoid the effect of extreme values on the regression results, the main variables were winsorized by 1%

5. EMPIRICAL RESULTS AND ANALYSIS

5.1 DESCRIPTIVE STATISTICS OF FULL SAMPLE

The descriptive statistics of the main variables of the model (1) are listed in Table 4. The mean of Offend is 9.2%, it means that 1604 companies had been investigated by securities regulatory authorities during 2008-2018. The mean of Tmax is 1.57, it means that most kind of punishment imposed on the companies are "public criticism".

TABLE 4: DESCRIPTIVE STATISTICS OF THE MAIN VARIABLES IN THE REGRESSION MODEL (1)

Variable	Samples	Mean	Standard deviation	Minimum	Maximum
Offend	17435	0.092	0.289	0	1
Tmax	2583	1.57	2.74	0	10
Scale_1	17435	22.138	1.340	18.842	25.740
Tem_1	17435	0.164	0.28	-0.332	1.386
Top1	17435	34.63	15.088	8.447	74.976
State	17435	0.468	0.499	0	1
Dual	17435	0.371	0.052	0.308	0.571
Market	17435	8.234	2.001	2.87	11.8
Listage	17435	12.246	5.803	3	25
Ap	17435	0.989	0.106	0	1
Big4	17435	0.06	0.237	0	1
lbr	17435	0.21	0.407	0	1
Mp	17435	0.476	0.499	0	1
Roe	17435	0.057	0.144	-0.809	0.418
Q	17435	2.146	2.072	0.199	12.552
Loss	17435	0.11	0.313	0	1
Growth	17435	0.216	0.613	-0.616	4.501
Short	17435	0.812	0.185	0.247	1
Debt	17435	0.503	1.394	-0.195	138.378
Tra	17435	0.169	0.122	0.013	0.687

5.2 SUB-SAMPLES STATISTICS

We divide the full samples into 6 groups according to the enterprise size, and compare the different treatment of companies with different size. See Table 5 for details

TABLE 5: ANALYSIS TABLE OF THE INVESTIGATION AND PUNISHMENT OF COMPANIES OF DIFFERENT SCALE

Scale_1	Offend (mean)	Scale_1	Tmax (mean)
18.84-20.73	0.099	18.76-20.60	2.46
20.74-21.31	0.089	20.61-21.18	1.36
21.32-21.79	0.088	21.19-21.71	1.32
21.80-22.32	0.083	21.72-22.19	1.44
22.33-23.13	0.079	22.19-22.96	0.97
23.14-25.74	0.072	22.97-24.84	1.05

The column 2 of the table above reflects the probability of companies of different sizes in the investigation stage. We can see that smaller listed companies have a higher probability of being investigated, and the highest probability is 0.099. As the scale of the companies goes up, the probability of being investigated goes down. Column 4 of Table 3 reflects the average intensity of punishments for companies of different sizes. Except the smallest size group, the mean of Tmax of other groups ranges between 0.97 and 1.44, there is no clear relation between company scale and Tmax. All the results agree with our hypothesis.

5.3 CORRELATION ANALYSIS

The Pearson and Spearman correlation coefficients among the regression model variables are reported in Tables 6 and 7. we can see that Scale_1 is inversely associated with the Pearson and Spearman correlation coefficients of Offend and Tmax (The level of significance is 0.01), that also agree with our hypothesis

TABLE 6: CORRELATION COEFFICIENT AMONG THE MAIN VARIABLES OF THE REGRESSION MODEL (1) (dependent variable: Offend)

	Offend	Scale_1	Top1	State	Dual	Market	Listage	Ap	Big4	Ibr	Mp	Roe	Q	Growth	Debt	Tra
Offend	1	0.020***	0.034***	0.034***	0.006	0.065***	0.021***	0.066***	0.039***	0.021***	0.038***	0.085***	-0.013*	0.028***	0.064***	0.024***
Scale_1	0.027***	1	0.193***	0.336***	-0.004	0.025***	0.350***	0.050***	0.294***	0.171***	0.063***	0.098***	0.628***	0.025***	0.439***	0.027***
Top1	0.033***	0.238***	1	0.233***	0.022***	0.006	0.089***	0.061***	0.134***	0.053***	0.035***	0.138***	0.126***	0.010	0.054***	0.106***
State	0.034***	0.339***	0.232***	1	0.069***	0.178***	0.398***	0.028***	0.139***	0.279***	0.048***	0.044***	0.350***	0.107***	0.299***	0.065***
Dual	0.004	0.025***	0.038***	0.063***	1	0.014**	0.028***	-0.014*	0.021***	0.098***	-0.010	0.024***	0.052***	0.007	0.020***	0.051***
Market	0.060***	0.030***	0.000	0.173***	0.009	1	0.097***	0.024***	0.054***	0.106***	0.191***	0.066***	0.103***	0.015**	0.104***	0.034***
Listage	0.021***	0.284***	0.079***	0.389***	0.029***	0.092***	1	0.040***	0.065***	0.209***	0.027***	0.088***	0.276***	0.143***	0.375***	0.038***
Ap	0.066***	0.060***	0.058***	0.028***	-0.014**	0.024***	0.039***	1.000	0.012*	-0.002	0.003	0.069***	0.034***	0.046***	0.069***	0.050***
Big4	0.039***	0.378***	0.146***	0.139***	0.038***	0.055***	0.064***	0.012*	1	0.069***	0.001	0.089***	0.171***	-0.008	0.102***	0.038***
Ibr	0.021***	0.162***	0.059***	0.279***	0.102***	0.106***	0.201***	-0.002	0.069***	1	0.028***	0.011	0.177***	0.049***	0.148***	0.040***
Mp	0.038***	0.059***	0.036***	0.048***	-0.007	0.179***	0.034***	0.003	0.001	0.028***	1	0.001	0.060***	0.091***	0.039***	0.020***
Roe	-0.006	0.020***	-0.004	-0.008	0.005	-0.009	0.007	0.022***	0.000	0.012*	-0.001	1.000	0.149***	0.330***	0.051***	0.266***
Q	-0.002	0.063***	-0.006	-0.008	0.004	0.000	0.000	-0.001	-0.003	-0.003	0.008	0.001	1	0.072***	0.584***	0.034***
Growth	0.000	0.030***	0.007	0.007	-0.005	-0.011	0.008	0.001	-0.002	-0.002	0.007	0.000	0.000	1	-0.007	0.187***
Debt	0.007	0.023***	0.000	0.035***	0.005	0.022***	0.072***	0.090***	0.011	0.018***	0.013*	0.000	0.731***	0.001	1	0.114***
Tra	-0.008	0.034***	0.082***	0.067***	0.040***	0.032***	0.027***	0.024***	0.029***	0.041***	0.014**	-0.001	-0.008	0.007	0.010	1

Lower-triangular cells report Pearson's correlation coefficients, upper-triangular cells are Spearman's rank correlation
 *** p<0.01, ** p<0.05, * p<0.1

TABLE 7: CORRELATION COEFFICIENT AMONG THE MAIN VARIABLES OF THE REGRESSION MODEL (1) (dependent variable: Tmax)

	Tmax	Scale_1	Top1	State	Dual	Market	Listage	AP	Big4	lbr	MP	Roe	Q	Growth	Debt	Tra
Tmax	1	-0.040***	-0.052***	-0.030***	0.013*	-0.018**	0.039***	-0.088***	-0.023***	0.007	-0.006	-0.074***	0.029***	-0.034***	0.035***	-0.040***
Scale_1	-0.038***	1	0.193***	0.336***	-0.004	0.025***	0.350***	0.050***	0.294***	-0.171***	0.063***	0.098***	-0.628***	-0.025***	0.439***	0.027***
Top1	-0.045***	0.238***	1	0.233***	0.022***	0.006	-0.089***	0.061***	0.134***	-0.053***	0.035***	0.138***	-0.126***	0.010	0.054***	0.106***
State	-0.026***	0.339***	0.232***	1	-0.069***	-0.178***	0.398***	0.028***	0.139***	-0.279***	0.048***	-0.044***	-0.350***	-0.107***	0.299***	0.065***
Dual	0.012*	0.025***	0.038***	-0.063***	1	0.014**	-0.028***	-0.014*	0.021***	0.098***	-0.010	-0.024***	0.052***	0.007	-0.020***	-0.051***
Market	-0.016**	0.030***	0.000	-0.173***	0.009	1.000	-0.097***	0.024***	0.054***	0.106***	-0.191***	0.066***	0.103***	0.015**	-0.104***	0.034***
Listage	0.032***	0.284***	-0.079***	0.389***	-0.029***	-0.092***	1	-0.040***	0.065***	-0.209***	0.027***	0.088***	0.276***	0.143***	-0.375***	-0.038***
AP	-0.080***	0.060***	0.058***	0.028***	-0.014**	0.024***	-0.039***	1	0.012*	-0.002	0.003	0.069***	-0.034***	0.046***	-0.069***	0.050***
Big4	-0.019***	0.378***	0.146***	0.139***	0.038***	0.055***	0.064***	0.012*	1	-0.069***	0.001	0.089***	-0.171***	-0.008	0.102***	0.038***
lbr	0.008	-0.162***	-0.059***	0.279***	0.102***	0.106***	-0.201***	-0.002	-0.069***	1	-0.028***	0.011	0.177***	0.049***	-0.148***	-0.040***
MP	-0.011	-0.059***	0.036***	0.048***	-0.007	-0.179***	0.034***	0.003	0.001	-0.028***	1	0.001	0.060***	-0.091***	0.039***	0.020***
Roe	-0.008	-0.020***	-0.004	-0.008	0.005	-0.009	0.007	0.022***	0.000	0.012*	-0.001	1	0.149***	0.330***	-0.051***	0.266***
Q	0.000	-0.063***	-0.006	-0.008	0.004	0.000	0.000	-0.001	-0.003	-0.003	0.008	0.001	1	0.072***	-0.584***	-0.034***
Growth	-0.001	-0.030***	0.007	0.007	-0.005	-0.011	0.008	0.001	-0.002	-0.002	0.007	0.000	0.000	1	-0.007	0.187***
Debt	0.006	-0.023***	0.000	0.035***	0.005	-0.022***	0.072***	-0.090***	0.011	-0.018***	0.013*	0.000	0.731***	0.001	1	0.114***
Tra	-0.018***	0.034***	0.082***	0.067***	-0.040***	0.032***	0.027***	0.024***	0.029***	-0.041***	0.014**	-0.001	-0.008	0.007	0.010	1

Lower-triangular cells report Pearson's correlation coefficients, upper-triangular cells are Spearman's rank correlation

*** p<0.01, ** p<0.05, * p<0.1

5.4 RESULTS OF THE MULTIPLE REGRESSION ANALYSIS

The results of the multiple regression analysis are shown in Table 8. To further observe the relation between Offend, Tmax and Scale_1, we divide our sample into two group: Big Size group and Small Size group. That is, if a company's total asset is larger than the median of full sample, it is included in the Big Size group, otherwise in Small Size group. In Panel A, we can see that Scale_1 is significantly negatively associated with Offend (The level of significance is lower than 0.05) in full sample, and Scale_1 is negatively associated with offend (The level of significance is lower than 0.01) in the Big Size group, but Scale_1 is not significantly related to offend in Small Size group (the absolute value of T is less than 1.60). All these mean that the larger the company scale, the lower the possibility to be investigated by regulators, and this effect does not exist in small-scale companies. In Panel B, each column shows that Tmax is negatively or positively related to Scale_1, but the relation is not significant (each absolute value of T is less than 1.60). It shows that there is no obvious relationship between the punishment intensity and the scale of the punished object. All these results confirm our hypothesis.

TABLE 8: MULTIPLE REGRESSION ANALYSIS OF ENTERPRISE SIZE AND REGULATORY LAW ENFORCEMENT

	Panel A (Dependent variable: Offend)			Panel B (Dependent variable: Tmax)		
	Full sample	Big Size group	Small Size group	Full sample	Big Size group	Small Size group
Scale_1	-0.025** (-2.06)	-0.029* (-1.71)	-0.002 (-0.12)	-0.017 (-1.39)	0.014 (0.90)	-0.025 (-1.25)
Tem_1	0.050*** (5.21)	0.054*** (3.91)	0.048*** (3.51)	0.036*** (3.52)	0.021 (1.50)	0.049*** (3.28)
Top1	-0.006 (-0.76)	0.005 (0.45)	-0.019* (-1.70)	-0.015* (-1.84)	-0.011 (-0.88)	-0.021* (-1.94)
State	-0.027*** (-3.05)	-0.033*** (-2.72)	-0.019 (-1.47)	-0.024*** (-2.72)	-0.007 (-0.60)	-0.036*** (-2.95)
Dual	0.003 (0.47)	0.003 (0.26)	0.009 (0.74)	0.007 (0.92)	-0.003 (-0.38)	0.015 (1.25)
Market	-0.030*** (-3.60)	-0.040*** (-3.47)	-0.017 (-1.32)	-0.017* (-1.84)	-0.012 (-0.99)	-0.018 (-1.33)
Listage	0.006 (0.66)	-0.007 (-0.56)	0.018 (1.18)	0.009 (0.97)	-0.006 (-0.47)	0.015 (1.03)
Roe	-0.032*** (-2.63)	-0.015 (-0.91)	-0.044** (-2.52)	-0.056*** (-3.05)	-0.028 (-1.05)	-0.071*** (-2.90)
Ap	-0.041*** (-3.56)	-0.034** (-2.17)	-0.048*** (-2.88)	-0.053*** (-3.06)	-0.054** (-2.15)	-0.052** (-2.20)
Big4	-0.010 (-1.55)	-0.007 (-0.74)	-0.012 (-1.49)	0.001 (0.19)	-0.004 (-0.36)	-0.010*** (-2.61)
lbr	0.016** (1.99)	0.020* (1.78)	0.013 (1.10)	0.003 (0.38)	0.005 (0.41)	0.003 (0.24)
Mp	0.176*** (13.58)	0.184*** (9.92)	0.168*** (8.60)	0.083*** (5.93)	0.095*** (4.37)	0.080*** (3.96)
Q	0.012 (1.08)	0.020 (1.45)	0.016 (0.97)	0.053*** (3.70)	0.032* (1.83)	0.039** (2.03)
Loss	0.032*** (2.83)	0.037** (2.32)	0.027* (1.70)	0.019 (1.42)	0.042** (2.13)	0.001 (0.04)
Growth	0.011 (1.30)	0.014 (1.10)	0.012 (0.92)	0.011 (0.91)	0.015 (1.00)	0.007 (0.42)
Short	0.005 (0.61)	-0.002 (-0.18)	0.012 (0.95)	0.020** (2.05)	0.034*** (2.77)	0.007 (0.48)
Debt	0.082*** (8.15)	0.096*** (6.81)	0.071*** (4.95)	0.047*** (3.83)	0.039** (2.43)	0.047*** (2.82)
Tra	-0.035*** (-3.54)	-0.052*** (-3.75)	-0.022 (-1.55)	-0.036*** (-3.62)	-0.039*** (-2.84)	-0.038*** (-2.70)
Ocf	-0.027*** (-3.94)	-0.036*** (-3.35)	-0.011 (-0.75)	0.003 (1.15)	-0.005 (-1.08)	0.010 (1.44)
Industry	controlled	controlled	controlled	controlled	controlled	controlled
Year	controlled	controlled	controlled	controlled	controlled	controlled
adj. R ²	0.040	0.044	0.034	0.023	0.015	0.028
N	18458	10165	8293	18458	10165	8293

As to other control variables, both Tem_1, debt was significantly positively correlated with Offend and Tmax, this means that the greater the degree of earnings management and the larger the debt ratio, more likely to be "poor" companies, and the more likely to be subject to regulatory investigation, and the more severe punishment. State has significantly negative associations with both Offend and Tmax, indicating that state-owned listed companies are "sheltered" by regulatory authorities in the investigation and punishment stage. Market is significantly negatively associated with both Offend and Tmax, indicating that law enforcement is relatively lax in highly marketized region. Roe, Ap, Tra, and Ocf are all significantly and negatively associated with Offend, indicating that companies with good performance, good audit opinions, fast asset turnover speed, and large cash flow of operating activities belong to "good" companies, they are given preferential treatment in investigation stage by the regulatory authorities.

5.5 ENDOGENEITY TEST

Due to the reciprocal causation relationship between firm size and the regulatory investigation, endogenous problems may arise in the regression analysis. To observe the effect of this endogenous problem on the results of this study, we examine the effect in two ways. First, we use Propensity Score Matching method (PSM), divide the full sample into groups by industry, the median of Scale_1 (scale_m). After matching we conduct regression analysis, the results are shown in table 9. Scale_m is significantly negatively associated with Offend. Second, we use instrumental variable method, take industry average scale as instrumental variable and conduct regression analysis. The results are shown in Table 9, the scale of companies is significantly negatively associated with Offend (the level of significance is lower than 0.1). All these results indicate that endogeneity does not affect the validity of our hypothesis.

TABLE 9: THE ENDOGENOUS TEST RESULTS OF COMPANY SCALE AND REGULATORY ENFORCEMENT

	Dependent variable: Offend	
	PSM	instrumental variable method
Scale_m	-0.020** (-2.17)	
Scale_1		-0.345* (-1.78)
Other variables	controlled	controlled
adj. R ²	0.035	
N	16931	17435

5.6 ROBUST TEST

We use the natural logarithm of sales revenue of listed companies to measure the size of the companies, and conduct regression analysis, the results are shown in Table 10. the results are similar to that of Table 8, this again confirms our hypothesis.

TABLE 10: ROBUSTNESS TEST- REPLACE THE MEASUREMENT OF FIRM SCALE

	Panel A (Dependent variable: Offend)			Panel B (Dependent variable: Tmax)		
	Full sample	Big Size group	Small Size group	Full sample	Big Size group	Small Size group
Scale_1	-0.027** (-2.30)	-0.040*** (-2.97)	-0.005 (-0.26)	-0.012 (-0.88)	0.017 (1.25)	-0.033 (-1.56)
Tem_1	0.065*** (6.77)	0.060*** (4.21)	0.064*** (4.98)	0.044*** (4.21)	0.038** (2.40)	0.044*** (3.20)
Other variables	controlled	controlled	controlled	controlled	controlled	controlled
adj. R ²	0.035	0.036	0.034	0.022	0.013	0.026
N	18458	10085	8373	18458	10085	8373

6. FURTHER RESEARCH

6.1 THE IMPACT OF POLICY CHANGE ON THE SELECTIVE ENFORCEMENT OF REGULATIONS

The law enforcement behavior of regulatory authorities is not only affected by their own function positioning, local government intervention and the scale of regulatory objects. Because China's securities supervision is a governmental behavior, the policy and guidance of the Communist Party of China (CPC) and government have an important influence on the law enforcement behavior. The 18th CPC Congress held at the end of 2012 required the securities regulatory authorities to speed up the transformation of their regulatory functions and strengthen their supervision and law enforcement and this signal to the regulators of "strengthening law enforcement" in the new era. In order to strictly enforce the implementation of CPC policies, CPC committees at all levels have conducted multiple rounds of inspections of subordinate government departments and public institutions, requiring "beat both flies and tigers". In other words, violators of different sizes should be treated equally. In order to test the impact of this policy on the regulatory enforcement behavior of regulatory authorities, we divide our samples into two groups: Before 2013 and After 2013, and observe the relationship between the size of enterprises and investigation behavior of the regulatory authorities around 2013. we conduct multiple regression on both sample groups, the results are shown in Table 11:

TABLE 11: MULTIPLE REGRESSION ANALYSIS OF POLICY CHANGES, ENTERPRISE SIZE AND REGULATORY FILING

Dependent variable: Offend	Full sample		Big Size group		Small Size group	
	After 2013	Before 2013	After 2013	Before 2013	After 2013	Before 2013
Scale_1	0.006 (0.43)	-0.065*** (-4.06)	-0.010 (-0.54)	-0.061*** (-2.83)	0.014 (0.59)	-0.055** (-2.05)
Tem_1	0.090*** (6.68)	0.032** (2.26)	0.079*** (4.17)	0.038* (1.78)	0.095*** (4.92)	0.020 (1.11)
Other variables	controlled	controlled	controlled	controlled	controlled	controlled
adj. R ²	0.033	0.042	0.028	0.047	0.038	0.033
N	10696	7762	5878	4287	4818	3475

It can be seen from Table 11 there are significant negative correlations between company size and regulatory investigations (The level of significance is lower than 0.01) before 2013 in full sample and both big and small size group, but the relationship between company size and investigation is no longer significant in full sample and both big and small size group after 2013. This shows that under the influence of the "fair law enforcement" of the CPC Central Committee, regulatory authorities enforce law more just in the investigation stage.

6.2 POST-PUNISHMENT EFFICIENCY ---BASED ON THE EARNINGS MANAGEMENT BEHAVIOR

The purpose of the punishment is to "learn from past mistakes to avoid future ones, to cure the disease to save the patient". Therefore, whether the violation behavior of companies decreases after regulatory punishment is an important aspect of regulatory efficiency. Mao (2014) found that after being investigated by the regulatory authorities, larger companies often receive lighter penalties under the "shelter" of law enforcement agencies, and has a relatively weak incentive to correct violation behavior afterwards. There are also some studies find that investors are very concerned about larger companies' violations after they were investigated and punished by regulators. The stock price of companies that are punished for violations are easier to fall sharply, as a result, punished companies tend to correct violations to avoid investors from "voting with their feet"(Chen and Gao, 2005). To sum up, there are no agreed conclusions about whether the violations are corrected after punishment by regulators. We carry out further analysis of the change of earnings management after the listed company is punished, to study the effect of regulatory enforcement. We set the following model:

$$EM_{i,t+1} = \beta_0 + \beta_1 Tmax_{i,t} + \beta_2 Scale_{i,t} + \beta_3 Tmax_{i,t} \times Scale_{i,t} + \beta_4 Control_{i,t} + \epsilon_{i,t} \quad (2)$$

In above model (2), EM_{i,t+1} measures the earnings management degree of each of the listed company i in year t+1 (both accrued earnings management "DA" and real earnings management "RM" are used as dependent variable). Tmax_{i,t} is the dummy variable reflecting whether company i is punished in year t, if punished Tmax_{i,t} is 1, otherwise it is 0. Scale_{i,t} measures the size of company i in year t. We use interaction term Tmax_{i,t} × Scale_{i,t} to measure how company scale affect earnings management after the company is punished. The regression results are shown in Table 12.

TABLE 12: RESULTS OF MULTIPLE REGRESSION OF REGULATORY PUNISHMENTS AND EARNINGS MANAGEMENT

	DA	RM
Tmax _{i,t}	0.054 (0.36)	0.201 (1.58)
Tmax _{i,t} × Scale _{i,t}	-0.042 (-0.28)	-0.187 (-1.49)
Other variables	controlled	controlled
Intercept	0.147*** (7.11)	0.132*** (2.32)
adj. R ²	0.117	0.351
N	17768	16264

We can see from Table 12 that the degree of earnings management is not significantly changed after the company is punished by the regulators (both DA and RM are not significantly related to Tmax_{i,t} or Tmax_{i,t} × Scale_{i,t}, this may because the management of small-scale companies may feel that the securities regulatory authorities is unfair in law enforcement and treat small-scale companies more severe than large companies, so they have little incentive to rectify violations to reduce the punishment.

7. RESEARCH CONCLUSIONS

We use the data of 2008-2018 of A-share listed companies in Shanghai and Shenzhen as research sample, and study the impact of company scale on selective law enforcement in different work stages of regulatory authorities. We get the following conclusions: (1) In investigation stage, due to financial constraints, regulatory agencies are inclined to choose small companies to file an investigation; in punishment stage, influenced by the supervision of the media and public opinion, the regulatory authorities make punishment relatively fairly. (2) Under the influence of the policy of the 18th CPC National Congress, the fairness of law enforcement has been significantly improved. (3) Companies do not reduce their earnings management activities after receiving regulatory punishments.

Selective enforcement of law destroys the justice of the law, and encourages the speculative activity of violators, and brings adverse impact on the healthy development of the securities market. Considering the conclusions of our paper, we give following advice: (1) We should improve relevant laws and regulations. The selective law enforcement of the regulatory authorities is related to the lag of the laws and regulations related to the securities market development in China. With the continuous development of the securities market, more and more regulatory loopholes appear, and the applicability of existing laws and regulations is weakening. Therefore, it is suggested that relevant regulatory departments and legislative departments should sort out existing laws and regulations, take into account the new situation and new problems in the securities market, and make amends to current laws and regulations, to increase the applicability of regulations and reduce the scope of selective law enforcement. (2) We should improve the allocation of resources of regulatory departments. An important reason for the selective law enforcement behavior by regulators is the lack of regulatory law enforcement resources. As the securities market continues to expand, more and more groups participate in the securities market activities, which makes the regulatory workload increases sharply. Therefore, the regulatory departments should continue to expand the law enforcement team, ensure enough funds, to reduce the constraints of the regulatory work. (3) We should improve regulatory methods, use new information technologies and methods such as big data and the "Internet plus" to dynamically assess the abnormal trends of regulatory targets, find signs of violations, and improve the pertinence and timeliness of investigations. Also, Regulatory agencies can cooperate with the work teams of audit and discipline inspection departments to share relevant survey data, reduce duplication of work to improve work efficiency. (4) We should increase supervision by the media and public opinion to encourage regulatory agencies at all levels to maintain a prudent attitude, handle cases fairly, and reduce the arbitrariness of law enforcement.

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