

Research on Short-selling Mechanism and Market Impact from the Perspective of Information Disclosure of Listed Companies

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Abstract. According to the perspective of information disclosure of listed companies, the "short selling" mechanism means that investors borrow shares and sell them, and then buy them back at a lower price. The research on the influence of "short selling" mechanism on the market is quite controversial. Supporters believe that it helps to correct the overvaluation and bubbles in the market and makes the management of the company more cautious and transparent. However, critics worry that the "short-selling" mechanism may lead to excessive stock price decline and market panic, resulting in loss of investor confidence and increased systemic risks. In addition, some people also pointed out that there is a risk of abuse and manipulation in the "short" mechanism, which may bring unfair blows to the company. This paper finds the relationship between short-selling mechanism and information disclosure of listed companies through case analysis, and studies the role and specific path of short-selling mechanism in improving the quality of information disclosure of listed companies, which has certain reference significance for the innovation of supervision methods to improve the quality of information disclosure in the market.

Keywords: Information Disclosure; Short Selling Mechanism; Market Influence.

1. Introduction

Information disclosure of listed companies refers to the behavior of listed companies to publicly disclose their business, finance, operating conditions, risks and other important information to investors and the public according to relevant laws and regulations and the requirements of exchanges [1]. The background can be traced back to the requirements of transparency and fairness in financial markets and the need to protect investors' rights and interests [2]. The purpose of information disclosure is to provide investors and the public with comprehensive, accurate and timely information so that they can make rational investment decisions [3]. Through information disclosure, investors can know the financial status, business strategy and risk management measures of listed companies, so as to better evaluate the value and risk of the company. The contents of information disclosure of listed companies usually include: financial information, operating conditions, information of senior management and board of directors, major events and risk warnings, corporate governance structure, etc. Financial information, including annual and quarterly financial statements and audit reports, can reflect the company's profitability, financial stability and cash flow [4]. The operating status involves the information of the company's main business, competitive advantage and market share, which helps investors to understand the company's core business and development prospects. The information of senior management and board of directors can reflect the ability and decision-making level of the company's management. Major events and risk warnings include events that may have a significant impact on the stock price and risk factors faced by the company [5]. The corporate governance structure involves the composition of the board of directors, the internal control system and the protection of shareholders' rights and interests, which is very important for investors to evaluate the corporate governance level and the protection of shareholders' interests [6]. In order to ensure the effectiveness of information disclosure, regulators and exchanges will supervise and audit the information disclosure of listed companies to ensure the truthfulness, accuracy and completeness of the information.

Information disclosure of listed companies and "short selling" mechanism are two related but independent concepts in the financial market [7]. There is a certain connection between these two



concepts. Information disclosure is very important for investors, because it provides the basic information needed for investment decision. In the "short" transaction, investors usually carefully study and analyze the relevant information disclosure of listed companies to judge their value and risk, and decide whether to choose to short the stock [8]. At the same time, information disclosure also provides certain supervision and constraints for the "short selling" mechanism. By requiring listed companies to disclose true, accurate and complete information, regulators can improve the transparency of the market, reduce the existence of asymmetric information, and prevent manipulation and abuse of the "short selling" mechanism from adversely affecting the market [9]. However, it should be noted that information disclosure is not directly related to the "short" mechanism. The mechanism of "shorting" is an investment strategy, which aims at profiting from falling prices. Information disclosure is an institutional arrangement to provide investors with open and reliable enterprise information [10]. Both of them play an important role in the financial market, but they are not causal. Information disclosure provides investors with necessary data and information, and "shorting" mechanism is an investment strategy, and the content of information disclosure may be considered in investment decision-making. Together, they contribute to the transparency, fairness and investor protection of financial markets.

2. Short Selling Mechanism

2.1. The Concept of "Shorting"

"Short-selling" mechanism refers to an investment strategy in which investors borrow shares and sell them in the hope of buying back and returning the lent shares at a lower price when the price falls in the future, so as to obtain the profit from the difference. It is a short selling operation mode in the market. The mechanism of "shorting" can provide market liquidity and diversification, because it allows investors to participate in trading when the market is bearish and enjoy profit opportunities when prices fall. This makes the market reflect a more comprehensive relationship between supply and demand and investors' different judgments on different stocks. "Short" mechanism plays an important role in the market. It can make the market price reflect the company's value and performance more reasonably. When some investors in the market think that a stock is overvalued or risky, they can express their views through the "short" mechanism and participate in the price formation process. However, the "short" mechanism also has certain risks and controversies. First of all, the "short" operation itself has certain risks, because if the stock price rises rather than falls, investors will face losses. Secondly, when the market sentiment deteriorates or panic intensifies, a large number of "short" transactions may lead to a further decline in the stock price and may lead to systemic risks. In addition, the abuse of "short selling" mechanism may also lead to market manipulation and malicious dissemination of false information, which will have a negative impact on market order and company reputation. Therefore, when using the "short" mechanism, investors need to be cautious and strictly abide by relevant laws and regulations. Regulators should strengthen the monitoring and supervision of the market to prevent manipulation and abuse of the "short-selling" mechanism from adversely affecting market stability. At the same time, listed companies should strengthen information disclosure and improve transparency to reduce uncertainty and information asymmetry in the market. In a word, the "short" mechanism, as a part of the market mechanism, promotes the effective operation of the market and the timely reflection of information to a certain extent. However, it also needs careful application and effective supervision to maintain market stability and fairness. Only on the basis of a reasonable investment environment and sufficient information disclosure can the "short-selling" mechanism play an active role and promote the healthy development of the market.

2.2. "Short" Process

"Shorting" is an investment strategy, which aims to make a profit by selling borrowed stocks or other assets, and then repurchasing and returning the lent assets when the price falls. The following are the

general steps in the process of "shorting": **Borrowing assets:** Investors first need to borrow the required assets, usually stocks or other financial instruments. This can be achieved through a loan agreement signed with a broker or financial institution. **Short selling:** investors sell the borrowed assets immediately and trade at the market price or a slightly higher price. In this way, investors can benefit from falling prices when the market is bearish. **Waiting for the price to fall:** investors will hold short positions and wait for the price to fall. If the price does fall, investors will be able to buy assets again at a lower price. **Buy back assets:** When the price falls to the level expected by investors, investors will buy back the same amount of assets at a lower price and return them to the lender. **Profit calculation:** investors determine their own profits by calculating the difference between short selling and repurchasing assets. If the price falls more than the cost of short selling, investors will make a profit. The process of "shorting" is shown in Figure 1.



Figure 1. The process of "shorting"

It should be noted that there are certain risks in the process of "shorting", because the price may also rise, resulting in losses for investors. In addition, different countries and regions may have different laws, regulations and restrictions on "short selling", and investors should conduct relevant transactions on the premise of complying with local laws. "Short" strategy is usually used by professional investors and institutional investors, who will carefully analyze the market and individual stocks and establish corresponding risk management measures. For ordinary investors, participating in "short" trading requires careful consideration, sufficient knowledge and experience, and strict compliance with relevant regulations and risk management principles.

3. From the Perspective of Information Disclosure of Listed Companies, The Impact of Short Selling on the Market.

3.1. Price Discovery and Risk Management

From the perspective of information disclosure, information disclosure with high transparency and quality plays a positive role in the "short" mechanism. When listed companies fully and accurately disclose information related to their business, finance and risks, investors can more accurately evaluate the value and risks of the company, and thus conduct "short" transactions more rationally. Therefore, the transparency and quality of information disclosure is very important to provide

investors with the basic information needed for decision-making. At the same time, "short" behavior will also have a certain impact on the market. The influence of "shorting" on the market is shown in Figure 2.

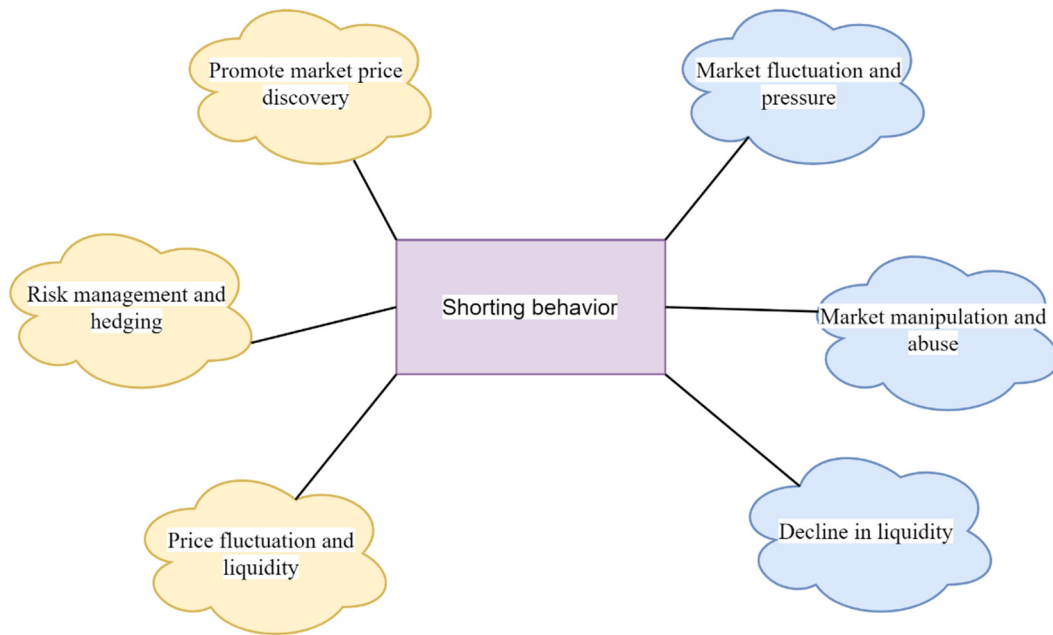


Figure 2. "Short" behavior on the market

Price discovery and risk management are two important aspects in the financial market, which are closely related to "short selling". Price discovery refers to the process in which the supply and demand sides decide the asset price through transactions in the market. "Short" behavior can promote more accurate price discovery. When investors participate in "short" trading, they express their bearish views on a specific asset or market. This provides multiple perspectives and helps the market to reflect the real value and risks of assets more comprehensively. Through the interaction between the participants of "short" trading and bullish investors, it is helpful to promote the price adjustment to a more reasonable level and improve the effectiveness of the market. "Short" trading is of great significance in risk management. For investors, "short" trading provides a tool to hedge risks. When some positions in the portfolio face downside risks, investors can make profits by "shorting" related assets to partially offset the losses. "Short" trading can increase the diversity of portfolio and the degree of risk diversification, and provide more flexible risk management strategies. This helps investors to reduce the risk of a specific position or market, and improve the balance between return and risk of the overall portfolio. It should be noted that although "short" trading has advantages in price discovery and risk management, it also has certain risks and restrictions. Investors should carefully assess market risks and their own capabilities when conducting "short" transactions, and abide by relevant regulations and legal requirements. "Short" trading plays an important role in price discovery and risk management in financial markets. It promotes more accurate price formation and more effective risk management by introducing multiple perspectives and providing risk hedging tools. However, both investors and regulators need to participate in and supervise "short" transactions rationally on the premise of fully understanding the related risks.

3.2. Market Stability, Market Transparency and Supervision

Market stability refers to the relative stability of market prices and trading activities. A stable market helps to build investor confidence and promote capital flow and economic development. "Short-selling" behavior plays a certain role in market stability. First of all, moderate and reasonable "short-selling" behavior is helpful to correct the overheated sentiment and investment bubble in the market. When the market is overly optimistic and overvalued, the "short" mechanism allows investors to express bearish views and participate in trading. This can remind other investors to pay attention to

risk factors and avoid unreasonable price increases in the market. Thereby helping to prevent excessive fluctuations and crashes in the market. Secondly, "shorting" can reveal potential problems and risks, and help the market reflect the true value of the company more comprehensively. By participating in "short-selling" transactions, investors can deeply analyze and evaluate the company and reveal possible financial misconduct, corporate governance problems or other risk factors. This will help to improve the effectiveness of the market and make the price more accurately reflect the relationship between supply and demand and investors' real evaluation of the company's prospects. In addition, market transparency and supervision also play an important role in market stability. Transparency refers to the openness and accessibility of market information, while supervision is to regulate and supervise the behavior of market participants. Full market transparency and sound supervision mechanism can improve investors' confidence in the market and reduce the occurrence of uncertainty and manipulation. At the same time, the regulatory authorities need to formulate relevant rules and restrictions to prevent the abuse of "short selling" and market manipulation. Generally speaking, market stability, transparency and supervision are closely related. Reasonable and moderate "short-selling" behavior is conducive to the smooth operation of the market and effective capital allocation, but it needs to be carried out within the framework of transparency and supervision. Regulators should strengthen the supervision and enforcement of the market, ensure the accuracy, timeliness and fairness of market information, and maintain the order and stability of the market.

4. Conclusion

The mechanism of "short selling" and its market impact from the perspective of information disclosure of listed companies is an important research field. In order to deal with the "short-selling" attack, listed companies need to provide more accurate, complete and timely information so that investors can conduct a comprehensive evaluation. By participating in "short-selling" transactions, investors can conduct in-depth analysis and evaluation of listed companies, thus revealing possible financial misconduct, corporate governance problems or other risk factors. This will help to improve the effectiveness of the market and make the price more accurately reflect the relationship between supply and demand and investors' real evaluation of the company's prospects. However, it should be noted that the "short" mechanism also has certain risks and challenges. Abuse of "short-selling" behavior may lead to abnormal fluctuations in stock prices and even manipulate the market. Therefore, the regulatory authorities need to formulate relevant rules and restrictions to prevent the abuse of "short selling" and market manipulation. At the same time, investors also need to abide by relevant regulations and legal requirements when making "short" transactions to ensure the fairness and stability of the market. The research on "short selling" mechanism and market impact from the perspective of information disclosure of listed companies shows the positive effect of "short selling" behavior on the market. It helps to improve market efficiency and stability by promoting the transparency and quality of information disclosure, revealing potential problems and risks, and reminding market participants to pay attention to the operating conditions of enterprises. However, it needs to be carried out under the framework of supervision and to prevent its abuse and improper operation.

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