

A Review of Research on the Exercise of Rights by the China Securities Investor Services Center and Corporate Debt Default Risk

Yu Li

China-ASEAN School of Economics, Guangxi University, Nanning 530004, China

ABSTRACT

As China's corporate bond market continues to expand, corporate debt defaults have gradually become common events. Leveraging capital market institutions to improve corporate credit risk prevention and control mechanisms holds significant practical value for maintaining financial market stability. Existing studies have primarily examined the corporate governance and market reaction effects of the China Securities Investor Services Center's exercise of rights, confirming its role in regulating listed firms' behaviors and optimizing the capital market governance ecosystem. While its external governance value has been verified from perspectives such as information disclosure, agency governance, and financing constraints, systematic research on how the Center's exercise of rights affects corporate debt default risk remains limited. This paper systematically reviews relevant literature, analyzes the governance logic of the Center's exercise of rights on corporate debt default risk through multiple channels, summarizes the shortcomings of existing research, and proposes future research directions. It aims to provide implications for capital market credit risk governance and related academic research.

KEYWORDS

Investor protection; Debt default risk; Investor Services Center; Corporate governance; Capital market risk

1. INTRODUCTION

With the rapid development of China's multi-tiered capital market, the corporate bond market has expanded continuously, and debt defaults have gradually shifted from extreme incidents to routine risk events. Against this background, reducing corporate debt default risk and enhancing financial system stability through institutional design and improved corporate governance has become a key concern for both academia and regulators.

Investor protection remains a global challenge for capital markets, in both mature Western markets and emerging economies with weak investor protection. Although China has made substantial efforts in administrative supervision and self-regulation, its mechanisms for protecting small and medium-sized investors still exhibit structural defects and functional obstacles, limiting the effectiveness of self-regulatory practices.

The China Securities Investor Services Center (ISC) was formally established on December 5, 2014. With its dual identity as a public institution and a public-interest shareholder, the ISC exercises rights through market-oriented and legal means, including inquiries, recommendations, voting, proxy solicitation, and litigation support. It guides minority shareholders to participate in corporate governance, thereby becoming a public-interest external governance force in China's capital market.

The implementation of the new Securities Law in 2020 introduced a representative litigation system for securities disputes, granting investor protection institutions clearer legal standing for exercising rights and litigation. This has enhanced the practicality and deterrence of minority shareholders' rights enforcement. In practice, the ISC's activities mainly target governance issues such as fund misappropriation, unauthorized guarantees, unfair related-party transactions, and information disclosure violations—key drivers of corporate credit risk and debt defaults. However, most existing studies focus on the stock market reactions or corporate violations associated with the ISC's actions. Systematic empirical evidence on whether and how such actions affect corporate debt default risk remains lacking.

This paper reviews the mechanisms through which the ISC's exercise of rights influences corporate debt default risk. The topic reflects a clear policy context and institutional shock, offering an opportunity to deepen understanding of the links among investor protection, corporate governance, and financial risk prevention.

2. CONCEPT OVERVIEW

2.1. Investor Services Center

To improve the system for protecting minority investors in China's capital market and safeguard their legitimate rights, the China Securities Investor Services Center (ISC) was established in Shanghai in December 2014. It is a specialized, permanent investor protection institution within the capital market regulatory innovation framework.

Operating as a limited liability company, the ISC has a dedicated shareholder rights exercise department and standardized mechanisms for daily operations and exercising rights, focusing on protecting retail investors' interests. Authorized by the China Securities Regulatory Commission (CSRC), the ISC has built a multi-dimensional rights exercise system covering shareholding-based, special-purpose, and routine rights exercise. It fulfills its duties through diverse market-oriented and legal measures, such as holding shares in listed firms, participating in shareholder meeting decisions, conducting inquiries, and addressing governance issues.

The ISC effectively addresses market gaps, including minority investors' lack of expertise, limited channels for rights protection, and low willingness to exercise shareholder rights. By curbing non-compliant governance practices, maintaining orderly capital market operations, and boosting minority investors' confidence, the ISC has become a core component of China's A-share investor protection regulatory framework.

2.2. Corporate Debt Default Risk

Corporate debt default risk, or credit risk, is a core risk in capital market credit sectors. It refers to the uncertainty that creditors face when a firm—due to internal operational difficulties or external shocks such as cash flow shortages, deteriorating asset quality, or financial imbalances—fails to repay principal and interest in full and on time as stipulated in debt agreements, or violates debt terms, resulting in creditor losses.

This risk fundamentally reflects uncertainty about a firm's ability and willingness to repay debt. Its causes include internal factors such as weak governance and profit volatility, as well as external factors such as macroeconomic cycles, industry conditions, and policy adjustments. In modern financial research, default probability metrics are commonly used to quantify this risk, with models such as the Altman Z-score, Merton model, and KMV model applied for risk assessment and early warning.

Debt default risk directly affects bond pricing, credit ratings, and corporate investment and financing decisions. It is a critical indicator for preventing credit risk and maintaining financial market stability.

3. CHANNELS THROUGH WHICH THE ISC'S EXERCISE OF RIGHTS AFFECTS CORPORATE DEBT DEFAULT RISK

3.1. Financing Constraints

Legal and financial theories suggest that stronger investor protection helps reduce corporate financing costs and risk-taking [1]. Firms pursuing aggressive financing require ample capital; without stable long-term funding, they often rely on short-term borrowing to finance investments. However, heavy short-term debt repayment pressure increases future default risk.

The ISC's exercise of rights tends to curb aggressive financing behaviors and lower debt financing costs [2], while influencing bond market pricing and credit spreads through signaling effects [3]. Li et al. (2025), using a large sample of Chinese listed firms, find that minority shareholder activism significantly reduces debt financing costs. The ISC's actions increase minority shareholders' participation in shareholder meetings [4], encouraging activism and lowering financing costs. This helps secure stable debt funding and alleviate financing constraints.

Given China's financing structure, financing constraints are widely viewed as a key factor weakening debt repayment capacity and raising default risk. Severe financing constraints significantly increase default probability [5]. In particular, short-term debt used to finance long-term investments—a common financing imbalance—amplifies liquidity mismatches and cash flow disruption risks, weakening repayment capacity [6] and increasing default risk.

3.2. Information Environment

Information disclosure quality serves as a critical channel for communication between firms and external stakeholders. Information asymmetry theory suggests that creditors facing information disadvantages tend to shorten financing terms or increase risk premiums to mitigate potential losses. Inadequate disclosure may lead creditors to misjudge firm risk, raising risk premiums, increasing financing costs, intensifying operational pressure, and hindering long-term development.

Existing research indicates that the ISC's exercise of rights helps improve information quality. Internally, it compels management to enhance disclosure by directly inquiring about violations, concealed material events, and opaque related-party transactions, triggering regulatory follow-ups [7] and litigation [8]. Externally, it attracts media and analyst attention, increasing external supervision pressure on listed firms [9, 10], restricting opportunistic behavior and improving accounting information quality.

Scholars note that greater information asymmetry and lower disclosure quality raise default risk. Conversely, improved disclosure quality can reduce default risk via two channels: curbing inefficient investment and alleviating financing constraints.

Enhanced accounting information quality reduces agency conflicts, increasing firm value and lowering the likelihood of value-destroying management decisions [11]. It also mitigates information asymmetry, reducing adverse selection and uncertainty premiums, improving financing access and lowering costs [12, 13], and boosting cash flow [14], thereby reducing default risk.

Earnings manipulation impairs third-party rating agencies' ability to assess true risk, potentially leading creditors to lend to low-efficiency, low-credit firms and increasing default risk. Xu and Zhou (2016) find that financing-driven earnings manipulation significantly raises credit risk and bond default rates [15]. Misleading disclosures and earnings manipulation allow insiders to conceal

financial risks and delay default exposure. While this masks short-term repayment capacity, it substantially increases long-term default probability [16].

3.3. Corporate Governance

Traditional corporate governance theory holds that external governance mechanisms reduce firm risk by constraining management and controlling shareholder behavior. However, retail investors face high costs of exercising rights and coordination difficulties, limiting effective oversight [1].

The ISC acts as a new oversight mechanism, addressing minority investors' supervision gaps. It enhances minority shareholder participation in meetings, strengthens procedural constraints, increases media attention and reputational pressure, and raises litigation and regulatory risks for violations. This increases the likelihood of detection and accountability, raises non-compliance costs, limits manipulation scope, and exerts notable governance effects on management and controlling shareholders' opportunistic behavior, reducing listed firm violations.

The ISC's actions help curb controlling shareholders' asset stripping by increasing minority participation and media oversight [4], and restrict controlling shareholder equity pledges (especially non-supportive pledges), reducing related-party transactions and increasing cash dividends [17]. For management, it curbs opportunistic behavior, reducing short-term debt for long-term use, leverage manipulation, earnings management, and financial restatements [18-20], while improving internal control quality [21].

Management and controlling shareholder opportunism—including related-party transactions, fund misappropriation, unauthorized guarantees, and self-dealing—directly undermines asset security and debt repayment capacity, increasing default risk [22]. Firms with weak governance and internal control deficiencies are more prone to financial distress [23, 24]. Jensen (1986) argues that governance failures and weak internal oversight allow insiders to pursue private gains at creditors' expense, actively increasing default risk [25]. Conversely, firms with high-quality internal controls exhibit lower default risk [26]. Sound governance and robust internal controls restrain aggressive investment, improve operational efficiency, reduce cash flow shortages, enhance repayment capacity, and lower default risk.

3.4. Operational Performance

Existing research shows that the ISC's exercise of rights has positive effects on firm operations. Excessive investment increases costs [27], while the ISC's actions help mitigate inefficient investment and underinvestment in labor [28]. By reducing information asymmetry and agency costs, it directs capital to high-efficiency projects, improving labor investment efficiency [29].

In mergers and acquisitions (M&A) and restructuring, the ISC's actions improve acquirer M&A performance [30], reduce target asset appreciation rates to address "three highs" issues (high valuation, high goodwill, and high performance commitments) [31], extend performance commitment periods, and lower goodwill impairment risks [32]. It also enhances listed firms' capital market pricing efficiency [33, 34].

Overall, the ISC's exercise of rights positively impacts firm operations, improving performance and risk management capabilities. In recent years, digital transformation, new quality productive forces, and fintech development have enhanced operational capabilities and cash flow generation by improving resource allocation efficiency and transparency, reducing volatility. This strengthens sustainable repayment capacity, lowering default risk [35, 36].

3.5. Institutional Environment

Institutionally, the 2020 new Securities Law strengthened the legal foundation and deterrence for minority shareholders' exercise of rights, amplifying the ISC's effectiveness in mitigating default risk.

Legal and financial theory holds that stronger investor protection improves governance and reduces financing costs and risk-taking [1]. Higher non-compliance costs and a refined representative litigation system mean firms committing major violations face regulatory penalties, class-action lawsuits, and reputational damage, with lasting impacts on future financing and risk expectations.

4. CONCLUSIONS AND OUTLOOK

4.1. Research Conclusions

This paper systematically reviews the core concepts and existing literature concerning the ISC's exercise of rights and corporate debt default risk. It analyzes the multi-faceted transmission channels at play and clarifies the inherent logical relationships among investor protection, corporate governance, and financial risk prevention. As a unique public-interest external governance entity in China's capital market, the ISC addresses the insufficient oversight capacity of minority investors through its routine and professional exercise of rights mechanisms, thereby exerting multi-dimensional risk governance effects.

The ISC's actions help mitigate corporate debt default risk through a series of interconnected pathways. It optimizes corporate financing structures and alleviates financing constraints, effectively avoiding capital misallocation and cash flow disruptions. It also improves the overall information environment and enhances disclosure quality, curbing risk concealment and mitigating credit risk at its source. Additionally, the ISC restrains insider opportunistic behavior and strengthens internal control systems, rectifying corporate governance deficiencies and building robust risk prevention barriers. By optimizing investment and financing decisions, it further improves operational performance and cash flow generation, enhancing firms' sustainable debt repayment capacity. Moreover, leveraging the institutional empowerment brought by the new Securities Law, the ISC strengthens regulatory deterrence and amplifies the overall effectiveness of risk governance.

The ISC's exercise of rights represents a pivotal institutional innovation for optimizing investor protection, improving corporate governance, preventing credit risks, and maintaining financial stability in China's capital market. Nevertheless, existing research still has notable limitations. Studies on the economic consequences of the ISC's exercise of rights predominantly focus on superficial market performance and the governance of regulatory violations. Research exploring the underlying links between the ISC's actions and corporate debt default risk remains fragmented, lacking systematic theoretical integration and robust empirical support.

4.2. Research Outlook

Future research can be expanded along several meaningful and promising dimensions. A key direction is to deepen heterogeneity analysis, which involves distinguishing the differentiated governance effects of shareholding-based, special-purpose, and routine exercise of rights. Incorporating contextual factors such as firm ownership structure, industry attributes, regional marketization levels, and internal control quality will help clarify the specific applicable scenarios and boundary conditions under which the ISC's exercise of rights mitigates debt default risk.

Subsequent studies may also move beyond short-term static governance effects to explore the long-term dynamic impacts of the ISC's exercise of rights over time. This line of research aims to uncover complex transmission mechanisms, including those involving chain and moderating intermediaries, to reveal how the ISC's influence evolves and persists.

Integrating emerging real-world contexts represents another important extension. By incorporating developments in the digital economy, corporate digital transformation, and the advancement of new quality productive forces, researchers can examine how digital supervision reshapes the ISC's governance effectiveness. This integration will enrich the theoretical and practical research framework for capital market risk prevention in the contemporary era.

Finally, under the institutional framework established by the new Securities Law, future research can strengthen investigations into multi-stakeholder collaborative governance. This involves exploring the synergistic governance effects between the ISC's exercise of rights and other regulatory forces, including administrative supervision, judicial litigation, and market oversight, while analyzing practical collaborative pathways for preventing and controlling corporate debt default risks.

REFERENCES

- [1] La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2006). What works in securities laws? *The Journal of Finance*, 61(1), 1–32. <https://doi.org/10.1111/j.1540-6261.2006.00828.x>
- [2] Gan, Y., & Li, Z. F. (2023). The exercise of rights by the China Securities Investor Services Center and controlling shareholders' interest misappropriation: Evidence from related-party transactions. *Financial Research*, 49(11), 80–94.
- [3] Ni, B. L., Li, X., Xiao, S. F., & Xia, N. (2025). The exercise of rights by the China Securities Investor Services Center and bond credit spreads. *Contemporary Finance*, (1), 1–16.
- [4] Chen, K. J., Jiang, L., Xiong, X., et al. (2024). Can minority shareholders monitor major shareholders? Evidence from "regulatory minority shareholders". *Accounting Research*, (1), 152–163.
- [5] Wang, S. L., & Lai, L. Q. (2024). Does the expansion of the central bank's collateral framework affect corporate debt defaults? *Credit Reference*, 42(12), 62–76.
- [6] Liu, Y. Y., & Guo, S. J. (2022). Short-term borrowing for long-term investment, bank-firm linkages, and corporate debt default risk. *Finance and Economy*, (10), 69–78.
- [7] Chen, Y. S., Yuan, W., & Li, Z. (2021). Effectiveness of regulatory minority shareholders' rights exercise: Empirical evidence from the China Securities Investor Services Center. *Management World*, 37(6), 142–158, 9, 160–162.
- [8] Tang, X. D., Chang, H. X., Ren, B. Z., & Peng, Z. (2023). Regulatory minority shareholders and stock price crash risk: Evidence from the China Securities Investor Services Center's rights exercise. *Systems Engineering Theory and Practice*, 43(6), 1610–1629.
- [9] Chen, K. J., Xiong, X., Yang, G. C., & Zhang, W. (2022). The China Securities Investor Services Center's rights exercise and alleviation of investors' information disadvantage: Evidence from stock price crashes. *The World Economy*, 45(9), 204–228.
- [10] Ma, Y. Q., & Chen, W. Z. (2025). Can minority shareholder activism improve analysts' earnings forecast quality? *Nankai Management Review*, 28(7), 173–184.
- [11] Zhang, Y. C., Sun, G. G., & Yuan, Y. (2022). Can accounting information comparability mitigate corporate debt default risk? *Journal of Central University of Finance and Economics*, (7), 48–60.
- [12] Zhi, X. Q., & He, T. R. (2010). Relationship between disclosure quality and equity cost. *China Soft Science*, (12), 125–131.
- [13] Zhao, H. Q., & Chen, X. G. (2015). Disclosure quality and debt financing costs: Evidence from China's securities market. *Accounting Friend*, (16), 66–70.
- [14] Zhang, W. F., & Jin, X. Y. (2018). How does information disclosure affect corporate innovation: Evidence and mechanisms. *World Economic Review*, (6), 102–119.
- [15] Xu, Z. H., & Zhou, Z. F. (2016). Impact of financing-driven earnings management on corporate credit risk. *Management Review*, 28(7), 12–21.
- [16] He, Q., & Yang, S. H. (2023). Information disclosure quality, financing constraints, and corporate debt default risk. *Finance and Accounting Bulletin*, (18), 45–52.
- [17] Yu, N. T., Miao, R. C., & Zhang, H. Y. (2024). Has the China Securities Investor Services Center protected minority shareholders' interests via shareholder rights exercise? Evidence from controlling shareholders' equity pledges. *Accounting Research*, (6), 87–101.
- [18] He, H. H., & Fang, J. X. (2021). Governance effects of regulatory minority shareholders: Evidence from financial restatements. *Management World*, 37(12), 176–195.

- [19] Xiong, J. C., & Tong, D. M. (2022). The China Securities Investor Services Center and investor protection: Evidence from information disclosure. *Journal of Jiangxi University of Finance and Economics*, (1), 32–46.
- [20] Yu, N. T., Su, C., Wang, H., & Miao, R. C. (2025). Impact of the China Securities Investor Services Center's shareholder rights exercise on corporate leverage manipulation. *Contemporary Finance and Economics*, (8), 139–151.
- [21] Wu, H. G., Liu, J., Gao, X. Y., & Gao, C. Y. (2025). Can the China Securities Investor Services Center's shareholding and rights exercise improve corporate internal control quality? *Audit and Economic Research*, 40(4), 74–83.
- [22] Cheng, X. K., Yu, H. P., Sun, Q., & Liu, W. (2025). Do high default risk firms pay higher cash dividends? Evidence from major shareholders' expropriation of creditors' interests. *Accounting Research*, (7), 92–104.
- [23] Yeh, Y. H., & Lee, T. S. (2010). Corporate governance and financial distress: Evidence from Taiwan. *Corporate Governance: An International Review*, 12(3), 378–388. <https://doi.org/10.1111/j.1467-8683.2010.00792.x>
- [24] Li, L. (2018). Internal control deficiencies, corporate governance structures, and financial distress. *Accounting and Finance Bulletin*, (3), 103–107.
- [25] Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76(2), 323–329.
- [26] Li, M., & Wang, J. (2020). Internal control quality and corporate debt default risk. *International Finance Research*, (8), 77–86.
- [27] Xu, Z. H., & Zhou, Z. F. (2016). Internal control, overinvestment, and corporate credit risk. *Chinese Journal of Management Science*, 24(9), 21–27.
- [28] Yuan, M. S., & Wei, C. L. (2024). Minority investor protection institutional innovation and mitigation of listed firms' inefficient investment: Evidence from the China Securities Investor Services Center's shareholder rights exercise. *Securities Market Guide*, (8), 37–47.
- [29] Zhou, D. H., & Xu, Y. L. (2024). Does the China Securities Investor Services Center's shareholder rights exercise affect corporate labor investment efficiency? Evidence from Chinese listed firms. *Journal of Beijing Technology and Business University (Social Sciences)*, 39(4), 88–99.
- [30] Li, W., Liao, W., & Tang, X. S. (2025). Can the China Securities Investor Services Center's shareholder rights exercise improve corporate M&A performance? *Journal of Zhongnan University of Economics and Law*, (6), 50–62.
- [31] Li, X. J., Chen, S. P., & Xiao, S. F. (2025). Investor protection effects and spillovers of the China Securities Investor Services Center's rights exercise: Evidence from major asset restructurings. *Journal of Beijing Institute of Technology (Social Sciences)*, 27(4), 148–161.
- [32] Luo, J. H., & Li, Y. (2025). Governance effects of regulatory minority shareholders: Evidence from M&A performance commitments. *Accounting Research*, (8), 62–73.
- [33] Chen, K. J., Xiong, X., Yang, G. C., & Zhang, W. (2023). Minority investor protection institutional innovation and capital market pricing efficiency: Evidence from the China Securities Investor Services Center's rights exercise. *Economics (Quarterly)*, 23(6), 2297–2314.
- [34] Ren, H., & Zhao, X. Y. (2023). Minority shareholder activism and capital market pricing efficiency: Evidence from the China Investor Service Center's rights exercise. *Modern Economic Exploration*, (12), 39–51, 82.
- [35] Ding, Z. G., Liu, X. M., & Jin, L. (2023). Fintech and corporate debt default risk: Impacts, mechanisms, and heterogeneity. *Journal of Xi'an Jiaotong University (Social Sciences)*, 43(3), 16–28.
- [36] Hua, F. T., & Sun, S. S. (2025). Can firms' new-quality productivity mitigate debt default risk? Evidence from A-share listed companies. *Contemporary Economic Research*, (7), 111–128.