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Improvement Path of China's Secondary Market Resilience Governance Under the Coupling of Heterogeneous Risks

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Abstract: After the implementation of the comprehensive registration-based system, the market-oriented reform of China's securities secondary market has continued to deepen. Market trading participants, trading modes, and capital scenarios have become increasingly diversified. The traditional single-risk management-and-control model can no longer meet development requirements. At present, heterogeneous risks such as secondary market price fluctuations, liquidity differentiation, investors' irrational trading, and external market shocks are intertwined, forming typical characteristics of heterogeneous risk coupling. Such risks tend to trigger abnormal market movements, liquidity swings, and market sentiment panic, and impair the stable and high-quality operation of the market. Starting from micro-trading scenarios of the secondary market, this paper defines core research concepts. Drawing on relevant financial theories, the paper analyzes the characteristics of heterogeneous risks and manifestations of risk coupling, and identifies deficiencies in current market resilience governance. Proceeding from links including pre-risk prevention and control, dynamic monitoring, process buffering, sentiment guidance, and post-event recovery, this paper puts forward implementable improvement paths for resilience governance, so as to optimize the risk governance system of the secondary market, improve the market's capacity to resist shocks and achieve self-recovery, and guarantee the sound and stable development of the capital market.

Keywords: Secondary market; Heterogeneous risk; Risk coupling; Market resilience; Governance improvement

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1. Introduction

1.1. Research background

Following the implementation of the comprehensive registration-based system, China's securities secondary market has entered a period of deepening market-oriented reform. Compared with the approval-based system, the registration-based system delivers more stable stock supply, more detailed trading rules, and a more

diverse investor base. Trading frequency, sector rotation speed, and intensity of capital games have risen markedly, effectively invigorating market vitality. Nevertheless, the deepening market-oriented reform has reshaped forms of market risks. Risks have evolved from single price volatility risks into a compound risk system featuring multi-type, cross-field and transmissible risks [1].

The current secondary market serves as a composite reflection of capital flows, investor behaviors, policy signals and international market sentiment. Internal risks, including liquidity stratification and irrational trading risks, together with external risks such as cross-border capital volatility and international market turbulence, couple and resonate with one another, forming a new risk landscape. Such coupled risks are characterized by fast transmission, wide coverage, and difficult recovery. They frequently lead to abnormal market movements, local liquidity crunches, and extreme sentiment, and constitute major hidden dangers hindering the stable operation of the capital market [2]. Therefore, breaking away from the single-risk governance mindset and attaching importance to risk coupling characteristics to improve market resilience governance constitutes a major subject for the high-quality development of the capital market.

1.2. Research status and deficiencies

Domestic research on capital market risks mostly focuses on macro-systemic risks and overall risk management and control of the financial system, mainly covering top-level institutional design and overall risk prevention and control. Some scholars have studied single risks such as secondary market liquidity, investor behaviors, and external input risks. Most of them only analyze the causes and countermeasures of individual risks, while in-depth research on the coupling-and-resonance mechanism of multiple heterogeneous risks is insufficient [3]. Existing studies on market resilience are mostly conducted from a macro perspective. Research on resilience improvement paths that target micro-trading scenarios of the secondary market and fit practical operation demands is scarce, failing to satisfy the governance requirements for compound risks, with poor pertinence and practical operability.

1.3. Research significance and innovations

This paper carries strong practical significance. Different from traditional macro-risk research, it focuses on micro-trading scenarios of the secondary market. Starting from the core characteristics of heterogeneous risk coupling, it analyzes risk evolution logic and governance shortcomings, and constructs a whole-process resilience-governance system of “pre-event early warning, in-event buffering and post-event recovery.” The research outcomes can provide operational references for regulatory authorities to improve micro risk management-and-control mechanisms and curb irrational market fluctuations, and help enhance the market’s capacity for shock resistance and self-recovery.

This paper has two innovations. The first is the innovation in research perspective: it breaks the single-risk research perspective, analyzes the transmission and resonance of various risks from the perspective of heterogeneous risk coupling, and conforms to the features of the new-type risk landscape under the registration-based system. Second is the practical-oriented research content: starting from practical pain points in market trading, it abandons empty macro analysis and builds a closed-loop governance system to improve the practical value of the research.

2. Relevant concepts and theoretical basis

2.1. Definition of core concepts

The research scope of this paper is the securities secondary market, namely the stock circulation and trading market. It mainly studies micro-behaviors including individual stock trading, price formation, capital games and sentiment transmission, as well as risk evolution and governance within market circulation links.

Heterogeneous risks refer to various trading risks in the secondary market with great differences in sources, forms, transmission paths, and impacts. They fall into internal trading risks and externally-imported risks, and serve as basic units constituting compound market risks.

Risk coupling means that various heterogeneous risks do not exist in isolation. They superimpose, amplify, and resonate with one another in the trading process. The outbreak of a single risk may easily trigger associated risks, bring about compound risk shocks, and aggravate evolutionary patterns of market fluctuations [4].

Market resilience represents the core stability capacity of the secondary market. It reflects the market's capacity to resist internal and external risk shocks, weaken fluctuation impacts, maintain trading order, and achieve rapid self-recovery after suffering shocks. It also mirrors the maturity of market governance.

Governance improvement refers to the process of optimizing whole-process mechanisms for risk identification, monitoring, early warning, and recovery, perfecting the regulatory governance system, and systematically raising the market's risk-resisting capacity in accordance with evolutionary laws of market risks.

2.2. Theoretical basis

This paper conducts research based on four core theories. The financial fragility theory points out that market transactions and capital flows are pro-cyclical, and there exist underlying logics for the generation, spread, and amplification of secondary market risks. The market microstructure theory mainly studies influences exerted by trading mechanisms, liquidity supply and demand, and investor behaviors on prices, and provides support for analyzing micro-risk characteristics. The risk contagion theory elaborates mechanisms for cross-sector and cross-market risk transmission, and serves as the theoretical foundation for understanding risk coupling and resonance. The governance theory emphasizes multi-agent, whole-process, and systematic governance, and offers guidance for constructing a closed-loop resilience governance system and addressing shortcomings of fragmented governance.

3. Characteristics and coupling manifestations of heterogeneous risks in China's secondary market

3.1. Main types of heterogeneous risks in the secondary market

After the registration-based system reform, the trading environment of the secondary market has become increasingly complex, generating four major types of heterogeneous risks with different characteristics and transmission logics.

First, price volatility risk. As a basic micro-risk, it mainly arises from market theme speculation and structural capital games. At present, A-share markets witness rapid sector rotation and frequent shifts in hot themes. Large-scale short-term capital outflows trigger drastic price swings of individual stocks. Small-cap theme stocks lack performance support and are vulnerable to capital manipulation, featuring sharp rises and

falls that disrupt the market valuation system.

Second, liquidity stratification risk. Under the registration-based system, the number of listed companies keeps rising, and liquidity differentiation in the market becomes more prominent. Large-cap blue chip stocks and stocks in core tracks enjoy sound liquidity and active trading, while a large number of small-cap and tail-end stocks see thin trading and poor liquidity. Inflows and outflows of small-volume capital can trigger wide-ranging price fluctuations and fragment the market valuation system [5].

Third, investor behavior risk. The A-share market is dominated by retail investors, who generally have limited professional competence and risk awareness and tend to trade sentiment-driven. Irrational behaviors such as chasing rises and cutting losses, following market speculation, and panic stampedes constitute major human-driven factors behind short-term market fluctuations.

Fourth, externally-imported risks. With deepening opening-up of the capital market, the A-share market maintains increasingly close links with international markets. External factors including sharp swings in northbound capital, turbulence in US and Hong Kong SAR stock markets, overseas monetary policy shifts and geopolitical conflicts spill over into domestic markets and generate imported risks [6].

3.2. Main manifestations of risk coupling in the secondary market

Various heterogeneous risks interact and superimpose on one another, producing four typical coupling patterns.

First, superposition-based risk coupling. A single risk may trigger associated risks and bring compound shocks. For instance, northbound capital outflows push down market indices and then trigger panic selling among investors, which tightens market liquidity. A single external risk gradually evolves into market fluctuations driven by multiple superimposed risks.

Second, cross-sector spillover. Risks feature strong cross-sector spillover effects. Local risks in a single industry or for a single stock spread across the whole market alongside risk-aversion sentiment, turning structural fluctuations into overall market turbulence.

Third, sentiment-amplified coupling. Investor sentiment acts as a major medium for risk amplification. Risk outbreaks arouse market panic and further fuel more irrational transactions, forming a vicious cycle of "risk outbreak-sentiment panic-risk aggravation."

Fourth, internal-external linked coupling. Externally-imported risks interact with endogenous risks such as domestic liquidity stratification and theme speculation. Compared with single-risk shocks, they trigger more violent and prolonged market turbulence and increase difficulty in risk disposal [7–8].

4. Existing shortcomings in resilience governance of China's secondary market

4.1. Insufficient refinement of risk identification

Existing identification systems only focus on macro-risks, without clear judgment criteria for micro-trading-end heterogeneous risks. They cannot accurately distinguish differences and root causes among price risks, liquidity risks, sentiment risks, and external shocks. Differentiated management-and-control measures are insufficient, resulting in poor pertinence of governance [9].

4.2. Lagging monitoring and early-warning mechanisms

Current monitoring mainly targets single risks, lacking dynamic monitoring capacity for coupled and

resonating multi-risks. The prevention-and-control model focuses on post-event disposal, failing to detect early signs of risk superposition in advance. Pre-judgment and proactive prevention-and-control capacities are weak.

4.3. Weak risk-buffering mechanisms

The market lacks flexible intraday liquidity adjustment and risk-hedging tools to cope with extreme scenarios such as liquidity crunches of tail-end stocks and concentrated sell-offs. The proportion of medium-and-long-term stable capital is low. Market capital shows obvious short-term orientation, leading to poor risk-resisting capacity [8].

4.4. Absence of sentiment and expectation governance

Governance work emphasizes trading supervision yet neglects sentiment guidance. Regular investor education boasts narrow coverage and poor pertinence and cannot effectively curb irrational trading. In case of market fluctuations, public-opinion guidance and expectation responses are slow, and panic sentiment tends to keep spreading [10].

4.5. Imperfect regular governance system

Current governance features fragmentation. It prioritizes post-event disposal, gives insufficient weight to pre-event prevention and in-event buffering. Links of risk prevention-and-control are poorly connected, market-recovery mechanisms remain imperfect, and a closed-loop, regular resilience-governance framework is absent.

5. Improvement paths for resilience governance of China's secondary market

5.1. Establish an accurate classified identification system for heterogeneous risks

Build differentiated judgment mechanisms targeting the four major types of risks. Accurately monitor price risks such as theme speculation and individual stock abnormal movements, track market liquidity stratification, identify retail investor trading behaviors, judge sentiment risks, and keep track of cross-border-capital and peripheral-market fluctuations, so as to realize classified and precise management-and-control [11].

5.2. Improve the dynamic early-warning mechanism for risk coupling

Break barriers of single-risk monitoring, construct a dynamic monitoring model featuring cross-risk, cross-sector, and internal-external linkage, and predict risk transmission trends in advance with big data quantitative technologies [12]. Optimize the early warning grading mechanism, adopt prevention-and-control measures in advance, and shift risk governance from post-event remedy to proactive pre-event prevention-and-control.

5.3. Optimize the liquidity buffering and stabilization mechanism

Implement stratified liquidity adjustment strategies to address liquidity crunches of tail-end stocks. Enrich derivative-instrument-based hedging tools to mitigate pressures brought by extreme market swings. Continuously guide long-term capital such as social security funds and insurance funds to enter the market, optimize the capital structure, and consolidate the safety bottom line of market liquidity.

5.4. Strengthen regular governance of investor sentiment and expectations

Carry out regular and targeted investor education to reduce irrational trading behaviors. Perfect the information disclosure system for listed companies and the system for clarifying false information to stabilize market expectations [13-14]. Build a rapid public opinion response system to calm extreme sentiment in a timely manner and avoid sentiment-amplified coupling effects.

5.5. Construct a whole-process regular governance closed loop

Integrate prevention-and-control resources and build the closed-loop system of "pre-event early warning, in-event buffering and post-event recovery." Realize source-end control via accurate identification and early warning in the pre-event phase; mitigate risk shocks through liquidity adjustment and sentiment guidance in the in-event phase; improve the market's capacity for self-stabilization and self-recovery with trading-, confidence-, and valuation-recovery mechanisms in the post-event phase [15].

6. Conclusion

To sum up, against the background of the comprehensive registration-based system reform, risk structures in China's secondary market have undergone major changes. Heterogeneous risk coupling and resonance constitute the dominant risk feature, which raises higher requirements for market-resilience governance. This paper sorts out characteristics of four types of heterogeneous risks and four coupling mechanisms, identifies five major defects in existing governance systems, and puts forward whole-process and implementable improvement paths for resilience governance. Starting from micro-trading pain points in the market, it can provide references for regulatory authorities to improve the compound-risk-governance system and promote the sound, stable, and high-quality development of the capital market. In future research, quantitative empirical studies shall be continuously conducted on the effectiveness of the resilience-governance system so as to steadily raise risk-management-and-control standards.

Disclosure statement

The author declares no conflict of interest.

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