Chinese stocks listed in the United States are short-selling research—Take New Oriental as an example

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Abstract: With the development of China's economy, more and more Chinese companies have begun to seek new financing channels through overseas listings. However, since 2010, Chinese concept stocks have been shorted by foreign short-selling institutions with stock prices plummeting and the Crisis of the Chinese breaking out. Through the analysis of a series of short-selling events, it can be found that the differences in the accounting information disclosure systems between China and the United States have led to many problems in the accounting information disclosure of Chinese stocks. Taking New Oriental as a case and using the event research method, this paper analyzes the development process of New Oriental's listing in the United States, the changes in the stock price of New Oriental when it is shorted, and how to fight back in the face of menacing short-selling institutions. At the same time, this paper expounds on the difference between the basic theory of information disclosure and the information disclosure requirements between China and the United States, which analyzes the deep-seated reasons for the illegal information disclosure of Chinese stocks. What's more, compared with companies listed overseas but facing the choice of privatization and delisting after shorting, the necessity of studying the motivations for similar listed companies like New Oriental to choose to stay in overseas markets is proposed.

1. Introduction

Chinese stock refers to the collective name of all Chinese stocks listed overseas by overseas investors. At the beginning of the 21st century, China's rapid economic growth has made many Chinese companies choose to list in overseas markets and become a member of the Chinese stock company. But before 2010, the listing of Chinese companies in the United States was a boom and bust. Chinese stocks flocked to the U.S. capital market and achieved huge gains, causing more later companies to compete for imitation. However, the good times are not long. While a large number of Chinese stocks have been listed intensively, many problems have also emerged, and the crisis has also quietly arrived. Chinese companies listed in the United States often encounter attacks from short-selling institutions. For example, Tomorrow Advancing Life and Luckin were shorted by Muddy Water Research. These short-selling Chinese stocks are often hit hard and choose to delist voluntarily. As more and more Chinese stocks are frequently shorted, the glorious years of the past are gradually fading. Through the analysis, we can find that the crisis in Chinese stocks is closely linked to the illegal disclosure of reports by Chinese stock companies.

This paper studies the existence of information disclosure of Chinese companies listed in the United States and combines the example of short-selling new Oriental by Muddy Water Research to discuss the issue of frequent short-selling and information disclosure violations of Chinese stocks in the United States.

This article is divided into six parts, which are described as follows; Part one introduction: It is an overview of the background significance of this article, and also covers the framework and specific content of this article. Part two: the literature review section, the literature review research short-selling mechanism, and information disclosure. Part three: related concepts and theoretical foundations section, the definition and the development history of Chinese stocks, the short-selling mechanism, and compared to short-selling other enterprises in the Muddy Waters Research. Part four: Case Introduction Section. Part five: Case Studies Section. Part six: Conclusions and Outlook.

2. Literature review

2.1 Literature review of short-selling mechanisms

Since the existence of financial markets, short-selling mechanisms have emerged. The short-selling mechanism of Western developed countries was allowed to appear in the capital market as early as the 18th century, and as China's economy continued to accelerate, the short-selling mechanism was formally established in the Hong Kong capital market, and its system was more standardized. This paper studies the short-selling mechanism from different angles or methods based on the domestic and foreign scholars laying a foundation for the subsequent research.

By assuming shorting's another constraining effect on the management of the company, they are prompted to reduce their profits. And using the number of enterprise's short-selling incidents from the year 2002 to 2009 in thirty-three countries, it confirms the clear negative correlation between short-selling threats and corporate profit management. Through the test of instrumental variable theory and exogenous regulatory experiments, evidence is presented for the causal link between short selling and surplus management [1]. According to the findings, the constraints on the behavior of managers can also be improved through external governance short-selling mechanisms, thereby increasing the value of the entire enterprise.

The short-selling mechanism in the context of the Chinese economy has played a corresponding role in the external corporate governance of corporate value. By using the panel data analysis of Chinese listed companies and applying the PSM-DID method, the annual observation data of 22,468 companies on the Shanghai and Shenzhen exchanges from 2009 to 2019 was examined to alleviate the self-selection and endogenous problems caused by the uniqueness of China's short-selling mechanism [2]. According to the findings, companies' increase in their own value is closely linked to deregulation and short-selling tendencies. In addition, the study also found that because short selling has a strong external governance effect on non-family enterprises in developing countries facing short-selling mechanisms, it can be used as effective external governance to better create corporate value. China's stock market established margin trading on March 31, 2010, marking the formal emergence of the short-selling mechanism, the bilateral trading model entering the public vision, and the unilateral market launching a historical stage. The relevant provisions and implementation progress of margin trading will obviously affect the stable development of China's capital market. However, for China's stock market, the short-selling mechanism is a nascent market system. There is no systematic research conducted by scholars at home and abroad, and there is no definite conclusion on whether the short-selling mechanism plays a positive role or a negative impact. Through empirical analysis, the corresponding conclusions are drawn that the general application of the long-term stable cointegration relationship between the variables is still applicable to the margin trading volume and market liquidity and volatility. The shorting of Chinese stocks has a huge impact on the company, and short selling is divided into buy short selling and sell short, but at this stage, short trading contributes more to the market than short selling. The turbulence of the market is not necessarily related to the emergence of short-selling mechanisms, but the emergence of short-selling mechanisms has greatly enhanced the liquidity of the market [3].

The coordinated performance of the short-selling system and the stable operation of the stock market are inextricably linked. The lack of ability to cope with the market short-selling system and the existence of obvious market uncertainties at the same time is one of the important factors in the increasing risk of operating in China's stock market. The introduction of credit trading and stock index futures trading to improve the short-selling system is not only a certain basic requirement but also an inevitable requirement for the development of the market economy [4].

2.2 Literature review of information disclosure

The realism, accuracy, completeness, and timeliness of information disclosure are undoubtedly the fundamentals of short-selling. At this time, whether it is a financing banking institution, a short-selling organization, or other financing organizations, accounting firms, and other relevant organizations, they will focus on disclosure and think that it is the entry point. In contrast, the foreign capital market mechanism is also relatively perfect, especially the European and American capital markets have already established a perfect short-selling mechanism, so Chinese stocks will face a larger and more complex stock market environment after overseas listing. In order to avoid the emergence of major short-selling events, the most effective means for enterprises is to improve the quality of information disclosure of enterprises themselves. At the same time, regulators, market intermediaries, and investors also need to further discover the regular problems in the short-selling events of Chinese stocks and use capital as a reference, so as to continuously promote the maturity and soundness of China's capital market [5].

Chinese stocks are highly vulnerable to short-selling institutions, and Alibaba's class-action lawsuit against securities market fraud shortly after its listing reflects its failure to comply adequately with U.S. information disclosure regulations. Therefore, it is necessary to supplement the lack of enterprise supervision by improving the information disclosure mechanism and further improving the social supervision function of enterprise information disclosure. Therefore, it is necessary to supplement the lack of enterprise supervision by improving the information disclosure mechanism and further improving the social supervision function of enterprise information disclosure. Listed companies need to improve the enterprise information disclosure mechanism from various paths such as the main body of enterprise information disclosure, the social commitment mechanism, and the internal and external supporting elements of the enterprise, so as to give full play to the effect of enterprise supervision [6].

Corporate environmental information disclosure has also become the focus of current research, and most of the company's environmental protection information disclosure focuses on the government disclosure system, but there is less research on the informal system. From the perspective of combining formal management system and informal system, empirical research is carried out by using the environmental protection information disclosed in the financial statements and independent statements of China's heavy polluting industries from 2007 to 2012. The traditional cultural value of informal management system and the impact of the environmental management system of formal management system on the disclosure of environmental protection information of companies are discussed respectively [7]. The study found that the improvement of the information disclosure system of the environmental management system and the corresponding impact with the information disclosure system of the informal management system provide an important empirical basis in the company's information disclosure process.

3. Related Concepts and Theoretical Basis

3.1 Introduction to Chinese Stocks

In the Hong Kong securities market in the 1990s, in the context of financial reforms, many Chinese companies obtained overseas investment by listing overseas. Such company stocks, which are based on the assets or revenues of the Chinese mainland as the main component, are called "China concept stocks" [8].

3.2 Development history of Chinese stocks

In 1992, china's first overseas listed stock was officially listed, Brilliance Auto successfully traded on the New York Stock Exchange in the United States, oversubscribed, raised tens of millions of dollars, and was very popular on Wall Street. In the years of the times, Chinese stocks have experienced 30 years of ups and downs, and a number of outstanding Chinese enterprises in various industries have gone to overseas markets for listing and become members of many Chinese stocks. It is precise because of the existence of many Chinese stocks that China's economy is developing rapidly, and Chinese stocks have also become the beginning of overseas capital to understand China's economy.

Chinese stocks are not only closely related to China's economy but also connected with thousands of ordinary investors in China.

3.3 Short and Short-selling mechanism

Short selling is a mode of operation for investors to carry out financial assets, which borrows stocks first, and then quickly sells them for cash. with the ups and downs of stock prices in the stock trading market, it chooses a self-serving time and then pays a large amount of cash to buy shares for return, from which to earn the price difference.

The short-selling mechanism is an operation method that investors take to protect their own interests and take advantage of the opportunity to obtain a large number of benefits for the current or future entire stock market or individual stocks.

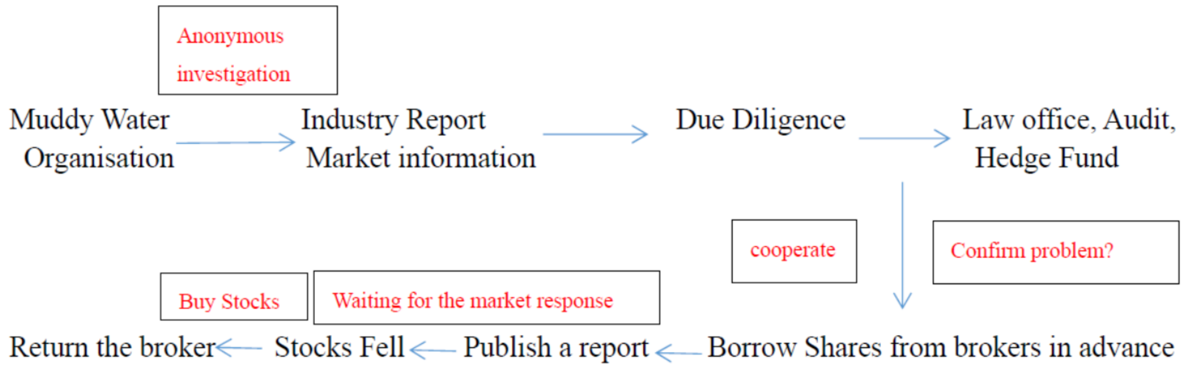

Figure 1. The short-selling mechanism

The short-selling mechanism is an operation method that investors take to protect their own interests and take advantage of the opportunity to obtain a large number of benefits for the current or future entire stock market or individual stocks. Short-selling is closely related to the short-selling mechanism, and the emergence of the short-selling mechanism has played an important role in the development of the entire stock market and individual stocks, that is, it can protect its own interests and promote the development of the market.

The short-selling mechanism of China's stock market is relatively imperfect, and there is very little ability to actively short-sell, only the ability to passively short-sell. Therefore, the purpose of passive short selling is also relatively single, just to avoid the huge fluctuations in the stock market for simple self-protection. Or investors hold huge amounts of idle funds, and the need to seek capital appreciation cannot be realized in time. At this time, investors are rarely willing to sell stocks quickly. The speed at which listed companies improve their operating performance is much lower than the rate of change in stock prices, and investors need to constantly buy low and sell high in order to make a profit. Thus, achieving a strong desire to go short, which aggravates the chance of the company being shorted.

In foreign countries, developed countries usually have a more perfect short-selling system, of which active short-selling is the main means of profit. Investors expect that the price of a stock will fall sharply, and actively use this downward trend to carry out corresponding profit operations. Due to a series of willingnesses such as information disclosure, Chinese stocks are often in huge difficulties in the face of such operations.

3.4 Comparison with other companies short in Muddy Water Research

Muddy Water Research has been shorting companies almost every year since its listing in 2010 and has shorted more than 19 companies since its inception, including It Tech Packaging, inc, Focus Media, New Oriental, Huishan Dairy, New Oriental, Luckin, etc. Nine of them have been delisted. The following table is a subset of companies that are short in muddy waters.

Table 1 by this more than a dozen companies and not every enterprise could resist lucky Muddy Water shorting offensive, most of them are too large will be because of their vulnerability to fill and delisted or suspended Muddy Water, only four companies after questioning report issued by Muddy Waters tumbling shares temporarily, but share prices have recovered after adjustment. One of the most representative successful cases of Muddy Waters as an air stock company is shorting Huishan Dairy.

Within three months after the release of Muddy Waters' questioning report, the market value of Huishan Dairy evaporated from HK $40 billion to less than HK $5 billion and finally had to be delisted. Compared with New Oriental, its own problems are far greater than its own problems. Its fake raw material sources increase profits, fake expenses to cover up its cash flow, fake product sales, and product prices to increase operating income are the sharp sword of Muddy Waters to short it with certain assurance. In addition, its internal management equity is too concentrated and the proportion of major shareholders is too high, and the internal control department and risk management department are absent [9], which are the reasons why its counterattack is not as effective as New Oriental's counterattack. So, it is not just luck that New Oriental has regained its share price.

Table 1. Comparison of companies shorted by muddy waters

Time	Target Company	Listing Code	Number of short-selling reports	Stock price and results after short selling
2010	It Tech Packaging,inc	ONP	8	The stock price plunged nearly 50% in the week of shorting and the stock price fell by more than 80% before finally delisting
	RINO International	RINO	4	On the day of the short, the stock price fell 15.07% and was finally delisted
2011	China Media Express	CCME	2	On the day of the short, the stock price fell 33.23%and was finally delisted
	Duoyuan Global Water Inc	DGW	1	On the day of the short, the stock price fell 27.32%and was finally delisted
	Sino forest	TRE	2	The stock price plummeted 75% within two days of shorting and was eventually delisted
	Spreadtrum communications	SPRD	1	On the day of the shorting, the stock price fell by more than 30%, muddy waters admitted its mistake for the first time and delisted and privatized
	Focus Media	FMCN	6	The stock price fell 60% on the day of shorting, closing down 39.49% on the day, and the US stock was delisted back to A
2012	New Oriental	EDU	1	On the day of the shorting, the stock price plummeted, and the follow-up repelled muddy waters, and the stock price rose, with a market value of $17.83 billion
2016	Huishan Dairy	0.6863.HK	2	After shorting, it was temporarily traded, after which the stock price fell sharply and was eventually delisted
2017	Nasdap:CIFS	CIFS	1	Shares tumbled 16% on the day of the short but closed up 9.26% in trading
2018	TAL	TAL	3	The stock price plunged 15% on the day, but the subsequent impact was small, and it was in trading
2019	Constituents Data	02020.HK	1	The suspension of trading on the day, repelling muddy waters, the company's stock price rose, trading
2020	Luckin Coffee	LK	2	Shares plunged 26% on the day of the short, but the follow-up is still trading

4. Event of Muddy Waters shorting the New Oriental

4.1 Introduction to Overseas listing of New Oriental

New Oriental Education and Technology Group (NYSE: EDU) began trading on the New York Stock Exchange on September 7, 2006. New Oriental sold 7.5 million American depositary receipts at $22,46.7% above the price of its offering price of $15 and closed at $20.88. The listing raised about $112.5 million. Several economic media had forecast share prices of only $11- $13, a high opening price, becoming the name card of the highly anticipated Chinese stock.

4.2 Muddy Waters Short Selling Event

On July 18,2012, the short-selling agency Muddy Waters (Muddy Waters Capital) released a 97-page question report on New Oriental. Muddy Waters chose EDU to issue a charge against EDU in mid-July when it was investigated by the SEC, and the timing determined the impact of the short-selling on EDU.

Muddy Waters' charges against EDU are mainly as follows:

(1) EDU's income is suspected of fraud

EDU's business model at that time was a proprietary model and a franchise model in the proprietary model, EDU recruits' teachers, finds suitable teaching sites and collects tuition fees; in the franchise model. EDU only collects franchise fees to franchisees, including trademark license fee, technical training support fee, performance security, etc., EDU merges revenue into the statement to expand revenue scale and increase revenue growth and suspects that EDU exaggerates its cash amount using prepaid concessions and other fees to obtain unreserved audit opinions from its auditors.

Muddy Waters also found fraud in EDU's Beijing branch financial statements. EDU has the lowest audit fee in its peers (AMBO, XRS, XUE, and CAST), with a rapid increase in the number of stores (195% increase and 32% decrease from 2007 to 2011). So Muddy Waters believes that EDU may have a revenue fraud situation.

(2) Other charges against the EDU

Muddy Waters believes that EDU's audit fee is lower than other companies in the industry, but the number of companies and the scale of its business are larger than its peers, which will cause insufficient audit staff to detect EDU fraud.

In addition, Muddy Waters believes that EDU's gross profit is more than 60%, far beyond the store water bottle 20% gross margin-30% range, there is a problem of high gross margin. Muddy Waters' survey found that stores in some first-tier cities operate only one day a week, and questioned its role only for display rather than profit.

Muddy Waters believes that EDU's VIE structure (VIE has only operational ownership, but no legal ownership, according to law, VIE structured schools belong to the state, the government) provides important opportunities for management to abuse shareholders because the shareholders of EDU are the founders. This has led to Muddy Waters trying to accuse the founders of stealing shareholder assets.

4.3 New Oriental fights back

(1) EDU's external counterattack

In July 19, 2012, EDU responded to the allegations in the Muddy Waters report released on July 18. EDU persistence statement, and as of May 31, 2012. 664 schools and learning centers were and are all part of EDU's own. Although EDU began a small pilot program in 2010 that allows third parties in certain small cities to offer their "Pop Kids" English curriculum and "New Oriental Star" kindergarten programs under a brand partnership model, the pilot program was irrelevant to the company. New Oriental has never incorporated these partners (more than 21 total) into their schools and learning centers, and EDU has not registered its students as its own students. According to U. S. Generally Accepted Accounting Standards (GAAP), New Oriental has included its licensing and training fees paid to its partners. For the fiscal year ended May 31,2010 and May 31,2011, New Oriental earned $35,000 and $249,000 and $249,000, respectively, accounting for 0.009% and 0.045% of New Oriental's total revenue, respectively. The EDU Board, after learning of Muddy Waters' allegations, considered and decided on the necessary and appropriate course of action to address those charges. The EDU will post more information about these allegations in due course. EDU is committed to providing investors with comprehensive and accurate disclosure and refuting any false statements that try to undermine investor confidence in New Oriental's business, management, operations, and corporate structure.

(2) Internal stabilization of the EDU

① EDU has issued three-year options to management to stabilize the workforce, and only within the company will it not be hit out by Muddy Waters. And at this time, the stock price is low, the cost is also very low, killing two birds with one stone.

② The management announced a buyback plan to further stabilize the share once EDU management expresses confidence in EDU's capabilities over the next three months of the Muddy Waters month and will not sell any shares or ADS for six months, indicating confidence in EDU's capabilities (the management of fraudulent companies generally chooses to sell shares). In addition, EDU hired other famous lawyers and accountants to investigate, and the whole process cost $15 million for nearly a year and a half. It was also spent $2 million on class-action lawsuits by foreign investors. Fortunately, with EDU's strong business capabilities, the stock price recovered to 25 yuan after 14 months, up to 108 yuan at the end of March 2020.

4.4 Revelation

(1) Business operation should adhere to the sense of integrity

By understanding the Muddy Waters Capital for several companies' short events found that most of the company is short institutions on the fundamental reason is not integrity management, in the company business operation and financial disclosure, means, fraud to cheat investors and even to deceive regulators to expand their interests. Maybe in a short period of time will harvest a large amount of wealth, but there is no airtight wall, loopholes sooner or later will be made public.

Because of this important quality, EDU survived a strong offensive, but Luckin, which was also shorted by Muddy Waters, was not so lucky. EDU has no big problems in auditing, and Luckin's financial data fraud is so exaggerated that its company's money can't fill the huge hole in the data and let Muddy Waters hold the fatal grip.

(2) Be well prepared to fight back against short-sellers

Before the short, the company should strengthen the information disclosure and communication mechanism, when the shareholder structure of VIE changes, timely disclose to the outside world, do not wait until the outside world to question, so as to save part of the trouble. Secondly, the cooperation between the company's departments is also very important. After the company refines the department, each department can form a dosed loop so that the company has a stronger strain capacity.

In the event of short events. timely disclosure and information to stabilize investors and respond to external questions. To timely produce strong evidence to fight against the short sellers against the company, only combining the company's actual business operations and legal terms can make the counterattack more convincing.

(3) Financial expansion should be gradual

Expand the company financially and don't think about taking a fat bite. Like EDU, the large-scale establishment of the school in just four or five years is really too fast, although it is conducive to promoting EDU's reputation, it is not a good phenomenon for the market. This would so jealous that short-selling agencies like Muddy Waters come.

5. Case analysis

5.1 Impact of short selling on the stock price of New Oriental

(1) Sample selection and data source

In order to measure the impact of short selling on New Oriental, quantitative analysis is carried out in this paper by studying the abnormal fluctuation of the stock price. In order to draw a conclusion more directly, we measure the normal rate of return of New Oriental's stock without short selling for comparison. The CAPM model is selected to estimate this indicator in this paper, New Oriental in the U.S. stock market, U.S. ten-year treasury bond, and U.S. S&P 500 Index are selected as the research object, and the data of monthly closing price from June 2012 to June 2013 is utilized to calculate the monthly increase and decrease for risk spillover analysis.

(2) Index construction

Formula 1:

$$R_t i = R_f + \beta(R_t m - R_f) \tag{1}$$

Formula 2:

$$\text{Abnormal rate} = R_t(LK) - R_t i \tag{2}$$

Formula 3:

$$\text{CAR} = \sum_{t_1}^{t_2} \text{Abnormal rate} \tag{3}$$

Formula 4:

$$\text{AAR} = \frac{\text{CAR}}{t_2+1-t_1} \tag{4}$$

Among them, $R_t m$ refers to the rate of return of the market in which New Oriental is located, that is, the U.S. S&P 500 Index, and R_f refers to the overall risk-free rate of return of the market in which New Oriental is located, that is, the yield of U.S. ten-year treasury bond. β refers to the systematic risks of the market in which New Oriental is located, and is used to measure the fluctuations of New Oriental relative to the overall U.S. stock market. The expected rate of return of New Oriental can be obtained through the calculation formula 1 of the above indexes. The difference between the real rate of return and the expected rate of return is expressed through the calculation formula 2, that is, the abnormal rate of return. The cumulative abnormal rate of return of New Oriental's stock from t1 to t2 is obtained through the calculation formula 3. The average abnormal rate of return from t1 to t2 can be obtained through the calculation formula 4.

Table 2. Calculation table of New Oriental Average abnormal Return rate

Date	Change percent			Ri desired value	Risk spillover value
	Ri	Rf	Rm		
June 2012	-8.20%	5.14%	3.96%	5.14%	-13.34%
July 2012	-114.54%	-10.56%	1.26%	-10.56%	-103.98%
August 2012	17.84%	5.36%	1.98%	5.36%	12.48%
September 2012	18.45%	5.50%	2.42%	5.50%	12.95%
October 2012	1.13%	3.73%	-1.98%	3.73%	-2.60%
November 2012	16.37%	-4.61%	0.28%	-4.61%	20.98%
December 2012	-3.76%	8.67%	0.71%	8.67%	-12.43%
January 2013	-13.83%	13.00%	5.04%	13.00%	-26.83%
February 2013	-12.30%	-5.24%	1.11%	-5.24%	-7.06%
March 2013	15.56%	-1.53%	3.60%	-1.53%	17.09%
April 2013	5.91%	-9.65%	1.81%	-9.65%	15.56%
May 2013	14.33%	27.39%	2.08%	27.39%	-13.06%
Average cumulative abnormal return=-0.0844018788308855					

It can be seen from Figure 2 that the stock price of New Oriental was in a relatively normal stage before short selling. On July 18, 2012, Muddy Waters released a survey report on New Oriental to all registered readers of the New York Stock Exchange. In a report with more than 90 pages, Muddy Waters detailed its investigation process. All have been collected in detail, such as disguising as an investor and talking to the staff of New Oriental, hoping to join it, various financial data and comparative reports, details of dialogs with the CFO of New Oriental in the United States, and even some "titbits" and "gossips". Investors who learned of financial fraudulent information sold a large number of stocks, New Oriental's stock plummeted, and Muddy Waters bought it at a low price, and returned it to the lender, thereby making a profit. While striving to gain the trust of shareholders, New Oriental also fought back against Muddy Waters. New Oriental took various measures to deal with the doubts of Muddy Waters. Therefore, after New Oriental responded to the doubts of Muddy Waters, New Oriental's stock rose by 17.89% on July 19, closing at $11.20 per share. As a result, the stock price of New Oriental rebounded to the normal level immediately. After a three-month investigation, New Oriental finally passed the audit by the Securities and Exchange Commission on October 18. SEC believed that the income of VIE structure and affiliated schools of New Oriental can be included in the consolidated financial statements. The analysts of Oppenheimer Funds published a positive research report and raised the price target to $25. Affected by the report, the stock price of New Oriental rose sharply. It indicated that the short-selling of New Oriental by Muddy Waters ended in failure.

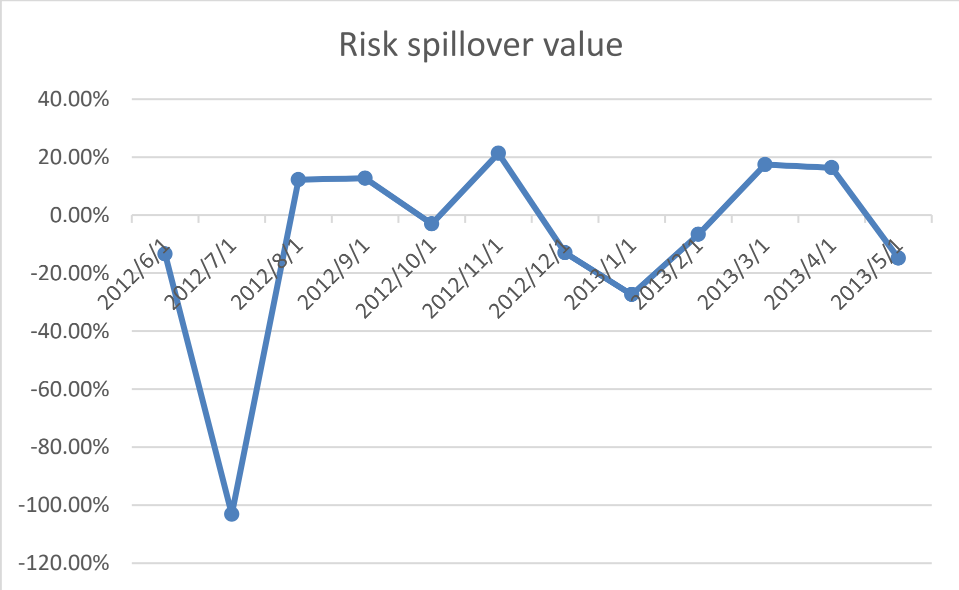

Figure 2. Risk spillover value fluctuation chart

Summing up the above, various nodes of the event was basically consistent with the risk spillover value. The risk spillover effect of short selling of New Oriental lasted for less than a month, with a maximum impact of 103.98%.

6. Conclusion and outlook

The stock prices of CCS enterprises such as New Oriental were certainly affected to a certain extent after short selling, which was manifested as insufficient confidence of investors in the relevant stocks, which led to massive sell-off so that the stocks of the companies subject to short selling plummeted. Muddy Waters made profits by buying at low prices and selling at high prices. Based on this situation, the following opinions are given in this paper. I. Enterprises must operate with integrity. The enterprise can reduce the loss caused due to short selling by improving its own strength. Meanwhile, the business model, strategic rhythm, and market characteristics of the enterprise shall promote each other, and the enterprise shall balance the contradiction between strategic cost and finance, and pay attention to the combination of concept and practice. [10] II. Improve the internal governance structure of the enterprise, and play the role of internal control. In order to calmly deal with short selling of Muddy Waters, and withstand the supervision and test of the market, CCS enterprises must improve the quality and professionalism of employees and even management, improve the governance structure of the employees, reasonably allocate equity, optimize the equity structure, reasonably distribute and balance rights and responsibilities [11], improve and strengthen the information disclosure system, and promote the healthy development of enterprises. III. Improve the enterprises' capability in crisis public relations. It can be known from the above analysis that investors generally maintain a more rational attitude towards negative news, and the turning point of the stock price usually occurs 1 to 2 days after the news is exposed. During this period of time, CCS companies shall strengthen public relations control and reduce the loss of the company's reputation. This requires CCS companies to strengthen the awareness of crisis public relations, enhance crisis management capabilities, and establish the risk response mechanism.

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