Economics & Business Management
ISSN Print: 3079-5214
ISSN Online: 3079-5222
https://doi.org/10.63313/EBM.9168

Analysis of Legal Issues Regarding the Purge of Registration of Limited Liability Companies

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How to cite this paper: Xie, W. W. (2026). Analysis of Legal Issues Regarding the Purge of Registration of Limited Liability Companies. *Economics & Business Management*, 5(1), 134-142. ISSN Print: 3079-5214; ISSN Online: 3079-5222. https://doi.org/10.63313/EBM.9168
Published: 2026-03-30

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Abstract

In recent years, with the efforts of the people's courts to strengthen enforcement and limit the high consumption of debtors, the number of cases filed by company legal representatives or directors, supervisors, and senior executives to eliminate or change the company's business registration has increased significantly. However, there are slight differences in the handling approach. This paper takes limited liability companies as the research object and sorts out the main disputes in the disputes over the elimination of registration. Combining case studies, the paper argues and proposes the judicial path for the commercial disputes of eliminating registration, and builds a "three-in-one" trial model integrating internal company relief, communication coordination with the registration authority, and case trial, hoping to provide some useful reference for unifying the judicial thinking.

Keywords

The Purge of Registration; Limited Liability Companies; Legal Representative; Commercial Registration; "three-in-one" trial model

1. Definition and Types of Disputes Regarding Company Registration Resolution

1.1. Definition of Resolving Company Registration Disputes

The academic community generally holds that "purging" and security interests are closely interconnected. Specifically, when a transferee acquires ownership of collateral, they settle all debts secured by the mortgage on behalf of the debtor, thereby extinguishing the mortgage right and clearing the mortgage registration. This concept has given rise to the notion of "purging corporate registration," referring to situations where legal representatives, directors, supervisors, senior executives, or other relevant personnel request the removal of their publicly disclosed identity information or employment details from business registration records. Notably, "corporate registration purge disputes" are not classified under the case categories specified in the Supreme People's Court's "Regulations on Civil

Case Categories." Such cases are typically categorized as "disputes over request for company registration modification" or "name rights disputes."

This study focuses exclusively on cases involving "disputes over requests to amend company registration records." Specifically, the term "resolution of company registration disputes" refers to legal proceedings where a company's legal representative, directors, supervisors, senior management personnel, or other relevant individuals file lawsuits with the court, seeking to have their identities or positions listed in the Enterprise Credit Information Publicity System removed or revoked.

1.2. Types of Disputes Resolved in Company Registration

According to statistics on the removal of company registration cases from the China Judgments Online, from 2002 to 2024, all courts accepted a total of 5,134 cases involving the removal of limited liability company registrations. From 2016 to 2021, the number of related cases continued to increase, and since 2022, the number of cases has steadily decreased until it eventually stabilized.

Scholars argue that the surge in registration dispute cases since 2016 was partly attributed to the Supreme People's Court's amendment to Article 3 of the "Provisions on Restricting High Consumption and Related Consumption by Judgment Debtors" in 2016. The revised provisions expanded the scope of liable parties to include judgment debtors, their legal representatives, principal executives, directly responsible individuals affecting debt fulfillment, and actual controllers, subjecting them to consumption restrictions. Consequently, plaintiffs who had their identities fraudulently registered as these individuals—only becoming aware of the deception after the enforcement of consumption restrictions—have sought to invalidate the registration records through litigation to deny their registered identities.

In the aforementioned cases, categorizing the exit reasons of legal representatives, directors, supervisors, or senior executives into four primary types—nominee fraud, nominal holding (including shareholding proxy arrangements), resignation-based exits, and control transfer scenarios (including deadlock situations or equity transfers)—provides a systematic classification framework.

1.2.1. Impersonation type

A nominee registration dispute refers to cases where a plaintiff is registered as a legal representative, director, supervisor, or senior executive without their full awareness, and their appointment was not based on genuine intent. Defendants in such cases typically fall into two scenarios: either the company is actually controlled by another party, or the business has ceased operations, making it impossible to identify the true controller.

1.2.2. Nominal type

A nominal registration dispute refers to a situation where the plaintiff and the

defendant company or its actual controller reach an agreement, with the plaintiff serving as the nominal legal representative. In such cases, the plaintiff's role as legal representative or senior executive constitutes a false representation of intent.

1.2.3. Exit-type resignation

A dispute over removal registration due to resignation or departure refers to a situation where the plaintiff no longer holds positions such as chairman, executive director, or manager that qualify as legal representative roles, or has resigned from the defendant company. However, the company has not yet appointed a new legal representative, director, supervisor, or senior management personnel. This results in the plaintiff seeking to remove their employment status or business registration records through litigation.

1.2.4. Change of control type

Control transfer-related registration disputes refer to cases where the plaintiff and the defendant company or its actual controller have genuinely reached an employment agreement. The involved legal representative or actual executive (such as directors, supervisors, or senior management) holds decision-making authority but becomes unable to resign through internal procedures due to circumstances, necessitating litigation to remove their registration. The primary reason for this inability to resign often stems from corporate control disputes, leading to the company's refusal to cooperate with registration changes. These disputes can be categorized into two specific scenarios: First, equity transfers result in the former legal representative losing shareholder status or control rights, or the appointing party of executives ceasing control. Second, prolonged lack of proper corporate governance or operational inactivity leads to corporate deadlock.

2. Major Controversial Issues in Judicial Practice

Through analyzing relevant case studies, the author identifies three primary aspects that constitute the core disputes in corporate registration disputes:

2.1. Whether the removal of business registration falls within the scope of civil litigation acceptance

Perspective 1: The entity responsible for applying for company registration matters is the company itself, which falls within the jurisdiction of civil litigation in People's Courts. The Supreme People's Court's ruling (2020) Zui Gao Fa Min Zai No.88 established that such cases should be accepted, affirming the principle that "cases involving litigation interests and falling within the scope of civil disputes must undergo substantive judicial review." Therefore, courts should accept such cases for adjudication.

Viewpoint 2: The change of the legal representative or senior management of a limited liability company falls under internal corporate governance matters,

while business registration belongs to the scope of administrative management and is not within the jurisdiction of civil litigation in the People's Courts.

In the case of Chen v. Zhile Company regarding a dispute over corporate registration modification, the first-instance court ruled that, pursuant to the interim shareholders 'meeting resolution of Zhile Company, Chen had been appointed as the legal representative and executive director. As the company's articles of association explicitly stipulated that the legal representative shall be the executive director, the court granted Chen's petition for registration modification. The appellate court held that corporate registration modifications fall under administrative jurisdiction. Since Chen's lawsuit seeking to alter Zhile Company's legal representative and executive director registration lacked specific legal provisions, such modifications were deemed outside the scope of civil cases accepted by the People's Courts. Consequently, the appellate court overturned the first-instance judgment and dismissed Chen's claims.

The author holds the first viewpoint. If the court refuses to accept such lawsuits, the legal risks endured by the plaintiff will persist without any remedy. Therefore, the litigation request for removal of registration carries litigation interest, constitutes a civil dispute between equal parties, and falls within the scope of civil litigation accepted by the People's Courts.

2.2. Whether a judgment is rendered to support the claim for removal or registration amendment after acceptance

Viewpoint 1: In disputes involving resignation or identity fraud cases, where the registration applicant is unable to obtain a resolution through convening shareholders 'meetings or board of directors, the applicant has the right to request the company to cancel their business registration to protect citizens' legitimate rights and interests. If the defendant company obligated to cancel or modify the registration fails to comply with the judgment, it shall bear adverse consequences.

Viewpoint 2: When senior executives directly petition for changes to business registration, they must provide legally valid grounds, typically referring to the formation of a valid resolution; otherwise, the request will not be supported. The specific handling outcomes can be categorized into dismissal of the litigation claim or ruling to dismiss the lawsuit.

In the case of Wu v. Ruizhi Company regarding a dispute over corporate registration modification, the first-instance court held that the appointment and removal of legal representatives are governed by the company's articles of association and constitute matters of corporate autonomy. Wu sought to have his name removed from the list of legal representatives in the business registration records but failed to provide evidence of a shareholders' resolution to replace the legal representative or any documentation demonstrating his formal request for

such change. Consequently, the court dismissed Wu's claim. The appellate court overturned the first-instance judgment and upheld Wu's request for Ruizhi Company to have his registration as legal representative removed from relevant authorities.

The author supports the first viewpoint, primarily because it safeguards the legitimate rights of ordinary citizens as registered parties and aligns with the company's practical circumstances, making it more reasonable.

2.3. Issues concerning the connection between trial and execution after the judgment takes effect

Viewpoint 1: The greatest challenge in judgment-based deregistration lies in its non-enforceability. In the absence of coordinated efforts between courts and administrative authorities, even if a court renders a corresponding ruling, it cannot guarantee that the plaintiff's registration information will be removed from the company's records. Therefore, such cases lack litigability.

In the case of Xue v. Beijing Yuanxiang Industrial Development Co., Ltd. regarding a dispute over company registration modification, the court held that Xue's lawsuit essentially sought a corporate resolution to appoint a new executive director and legal representative. However, the formation of such resolutions falls under internal corporate governance, and since Yuanxiang Company had not issued the relevant resolution, the claim lacked legal standing. Moreover, Xue's request addressed an internal corporate governance issue. As China's Company Law provides no judicial remedies and lacks corresponding administrative regulations, the company registration authority could not leave the legal representative registration field blank. Even if prior cases had ruled to revoke registrations, Xue could not achieve the goal of registration modification during enforcement proceedings. Consequently, the court dismissed the lawsuit.

Viewpoint 2: Enforcement difficulties do not constitute grounds for refusing to adjudicate such cases. For the defendant company, failure to comply with the modification obligations stipulated in the effective judicial documents shall result in corresponding adverse consequences, such as administrative penalties, or the plaintiff may seek separate compensation for damages.

The author holds the second viewpoint and argues that such cases should not be deemed inadmissible solely due to enforcement difficulties. On the contrary, solutions should be provided to address the challenges in enforcement.

3. Establishing a Judicial Pathway for Resolving Registration Disputes

3.1. Prerequisite: The clearance of registration cases does not require prior initiation of administrative litigation as a precondition

In the choice between administrative litigation and civil litigation, when the

plaintiff meets both the conditions for requesting registration modification through administrative litigation and those for initiating civil litigation against the company to effect registration modification, there are differing opinions in practice regarding whether the plaintiff must first file an administrative lawsuit.

The author argues that requiring plaintiffs to first initiate administrative litigation and only file civil litigation after obtaining relief would significantly increase litigation costs, while also potentially leading to conflicts between civil and administrative rulings. Therefore, it is essential to respect the plaintiff's choice and allow them to directly initiate civil litigation against the defendant company to request a change in corporate registration.

Some scholars have proposed a perspective: In resolving registration disputes, merging civil and administrative trials would allow courts to simultaneously examine whether registration authorities have committed legal violations while reviewing civil relationships such as corporate shareholder resolutions, thereby reducing litigation costs. The author argues that although this approach may partially alleviate litigation expenses, it contradicts the institutional objectives of specialized adjudication in civil cases under current legal frameworks and judicial systems. According to Article 127(1) of the Civil Procedure Law, if a case falls within the scope of administrative litigation—such as when the claim directly requests modification or revocation of business registration—plaintiffs must be informed to file separate lawsuits. If they refuse to withdraw, the court shall rule to dismiss the case. Otherwise, the court may proceed with adjudication of the plaintiff's claims provided they meet civil case acceptance criteria.

3.2. Review: Establishing a "Three-in-One" Trial Model for Resolving Registration Disputes

To better address corporate registration disputes and prevent enforceable judgments from becoming unenforceable, it is essential to establish a "three-in-one" adjudication model for such disputes, integrating internal corporate remedies, coordination with registration authorities, and case adjudication into a synchronized process.

First, in cases where the defendant company appears in court, the court should actively facilitate mediation by informing the plaintiff of potential internal remedies available to the company while explaining the litigation risks the defendant may face, thereby promoting negotiated resolution between the company and the plaintiff. When verifying issues such as lost identification documents, lack of investment relationship between the parties and the registered entity, or discrepancies between signatures in application materials and the parties' signatures, the court should proactively coordinate with administrative registration authorities to recommend initiating internal self-correction procedures for direct and efficient dispute resolution.

Concurrently, the court shall review and document case facts. If internal remedies or registration authority communications fail to resolve the matter satisfactorily, a timely judgment should be rendered.

A critical issue requiring examination here is whether courts can directly order the removal of a legal representative when the defendant company fails to provide a replacement candidate after the plaintiff's registration change. If the court only orders the removal of the legal representative without specifying the successor, the registration authority will be unable to process the change registration, effectively failing to resolve the plaintiff's predicament. The author argues that: First, Article 10(3) of the Company Law introduces a 30-day deadline requiring companies to appoint new legal representatives within specified periods. Second, this provision remains incomplete and requires legal interpretation to address regulatory gaps. One potential approach involves interpreting the "company shall" clause to establish the board's duty of diligence in timely appointing or supervising legal representative selection. Finally, judicial review should consider corporate operational status and factual determinations regarding actual control. If the defendant responds to litigation, courts should clarify that companies must adopt resolutions to select new legal representatives within stipulated timelines. Failure to comply would result in directors facing legal liability for breach of diligence obligations within 30 days after resignation, thereby compelling proper transition procedures. Alternatively, courts may designate major shareholders or actual controllers as legal representatives based on established corporate circumstances.

Secondly, if the defendant cannot be served or an effective resolution cannot be reached in practice, the court may, based on the plaintiff's evidence, directly appoint the major shareholder or controlling shareholder as the legal representative if it can ascertain facts proving their unwillingness to appear in court or evasion of court appearance. In exceptionally rare circumstances where the plaintiff cannot provide the shareholder structure of the defendant company, the court may recommend resolving the matter through procedures such as company deregistration or dissolution application.

3.3. Post-judgment: Communication with enforcement agencies and registration authorities

After the court issues a final judgment, the case is closed. To help the plaintiff achieve the litigation objective of removing the registration, the court may proceed from the following two aspects:

First, assist the plaintiff in communicating with enforcement agencies. During enforcement proceedings, courts may request market supervision authorities to facilitate the removal of relevant registration records. In accordance with court-ordered assistance requirements, market supervision departments shall

suspend business registration modifications for companies subject to enforcement, and halt changes to legal representatives or senior executives for companies listed as dishonest debtors by the People's Court. Upon approval of the removal request, the plaintiff may submit the effective judgment to the court's enforcement division to apply for lifting enforcement measures—including removal from the dishonest debtor list—to resolve procedural obstacles. When necessary, enforcement authorities may directly verify relevant information with the judge handling the registration removal case to enhance processing efficiency.

Second, notify the registration authority of the adjudication outcome. Following the judgment, the collegial panel may, upon the plaintiff's application, send the judicial document to the relevant registration authority to inform them of the court's decision to revoke the plaintiff's status or amend the legal representative of the defendant company. This measure helps reduce communication costs between the plaintiff and the registration authority, thereby facilitating the completion of registration amendments.

Both theoretically and practically, there remain controversies regarding the cancellation of registration for limited liability companies. This paper clarifies the definition and types of cancellation registration to conduct a preliminary analysis of the theoretical foundations for resolving corporate registration disputes. By addressing existing judicial challenges, it proposes an integrated "three-in-one" adjudication model that combines internal corporate remedies, regulatory coordination with registration authorities, and case adjudication. The study aims to provide actionable judicial insights for resolving cancellation registration disputes in limited liability companies, thereby contributing to the advancement of legal governance.

Acknowledgements

I would like to express my gratitude to my family and my brother for their selfless care and unwavering support throughout my academic journey. I am also thankful to my dear friends for their companionship and encouragement, which have warmed my path forward.

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