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Research on the Reverse Denial System of Corporate Personality

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Abstract: The reverse denial of corporate personality is a judicial system in which, when a shareholder abuses the company's independent status and limited liability to evade personal debts, the company's independent liability is denied， and the company is held jointly and severally liable for the shareholder's debts. China's Company Law provides for forward denial, but reverse denial remains a legislative vacuum, leading to inconsistent judicial standards in practice. This paper adopts case analysis and comparative research to review domestic practical cases, revealing problems such as a lack of legal basis, unclear boundaries, and difficulties in proof. Drawing on the experiences of the United States, Germany, and Japan, this paper proposes suggestions for constructing China's reverse denial system: exceptional application, interest balance, and case-specific application; clarifying the subject element—bringing controllers into the scope of liable parties; focusing the conduct element on asset commingling; adopting the subjective element as bad faith presumption; the result element as comprehensive assessment of solvency; and the causation element as five-part test. It also suggests improving litigation subjects, burden of proof, and judicial interpretation, as well as introducing a capital exemption mechanism to protect bona fide shareholders.

Keywords: Reverse denial; outsider reverse piercing; corporate personality; constitutive elements.

1. Introduction

1.1. Research Objectives and Significance

The independence of corporate personality and shareholders' limited liability are the two cornerstones of modern companies, which are conducive to reducing investment risks and promoting market development. However, some shareholders abuse this system to transfer personal property to the company to evade personal debts, seriously damaging the interests of creditors and other shareholders. However, China's current Company Law has stipulated forward and horizontal denial rules, but there is a legal gap in reverse denial (that is, requiring the company to be responsible for shareholders' personal debts). Therefore, there are problems in judicial practice such as inconsistent court decisions, unclear elements, and different judgments for the same case, which need to be further studied and institutionalized to solve.

The research purpose of this article is to elaborate on the design methods of the system of piercing the corporate veil in Chinese companies, so as to remedy the defects of the current legal norms, ensure the unity of the judicial adjudication standards, and protect the legitimate rights and interests of creditors and shareholders. The specific values are as follows: First, theoretically, it can perfect the regulatory system of piercing the corporate veil in Chinese companies. On the one hand, it is conducive to perfecting the basic theory of company law; on the other hand, in practice, it can provide clear adjudication standards for the judicial organs to handle such cases, prevent the occurrence of malicious evasion of obligations, and safeguard the transaction security.

1.2. Research Status at Home and Abroad

1.2.1. Research Status in China

In recent years, the domestic academic circle has gradually paid more attention to the reverse piercing system. There are nearly seventy relevant journal papers with the themes of "reverse piercing", "reverse veil piercing", and "reverse piercing of the corporate veil". Generally speaking, the research is still in its infancy. Compared with the traditional theory of piercing the corporate veil, the number of research results is limited, and the focus of disputes mainly concentrates on whether the reverse piercing should be constructed as an independent system through legislation.

The affirmative view holds that reverse piercing is an inherent meaning of piercing the corporate veil and has independent existence value. Relevant research has demonstrated the necessity of this system from different perspectives: Some scholars start from the limitations of traditional relief means (such as equity execution and creditor's right of revocation), pointing out that it is difficult to effectively protect the interests of shareholders' creditors; Some scholars, through the empirical analysis of judicial adjudications, find that the adjudication basis for non-forward piercing cases is chaotic and the application of laws is inconsistent, and there is an urgent need for unified norms; Some scholars advocate legal transplantation and institutional reconstruction in combination with China's national conditions. The negative view, however, holds a cautious attitude, believing that reverse piercing will impact the limited liability system and the corporate independent property system, may damage the legitimate interests of corporate creditors and other innocent shareholders, and the existing system can already provide sufficient relief, so there is no need to set up new rules.

Regarding the specific application issues of reverse piercing, there are also differences in the academic circle. Regarding the constitutive elements, some scholars have tried to construct a multi-element framework including the subject, subjective aspect, act, result, etc.; Regarding the interest conflict, when there is a competing claim for compensation between shareholders' creditors and corporate creditors, there are two different views of "corporate creditors first" and "equal compensation for both parties". The former emphasizes safeguarding the transaction security, while the

latter advocates that the loss should be borne by the abusing shareholders.

Although the new Company Law in 2023 has added the horizontal piercing system, reverse piercing is still in a legislative blank state. With the continuous emergence of relevant cases in judicial practice, problems such as inconsistent adjudication standards and vague constitutive elements have become increasingly prominent. Therefore, it is of great practical significance to construct the reverse piercing system at the legislative level. This article will, on the basis of sorting out the existing research results and combining with China's judicial practice, attempt to propose a set of operable system construction plans.

1.2.2. Foreign Research Status

The reverse piercing of corporate personality system originated from American case law. American scholars have conducted in-depth research on this system. Gregory S. Crespi first systematically distinguished "insider reverse piercing" and "outsider reverse piercing" in 1990, laying a classification foundation for subsequent research. In terms of application standards, some scholars have proposed the "two-element theory" or "reverse law" as the judgment criterion, and emphasized that when applying reverse denial, it is necessary to balance the interests of various parties such as corporate creditors and bona fide shareholders, and apply it prudently.

Among civil law countries, Germany and Japan have also developed systems with similar functions. Although Germany does not have a clear concept of "reverse denial", its "piercing liability theory" achieves a similar effect in function. In extreme cases where shareholders abuse corporate personality, German courts can break through limited liability based on Article 826 (intentional violation of good faith) and Article 242 (principle of good faith) of the German Civil Code, and order the company to bear corresponding responsibilities. German scholar Carsten Schmidt systematically expounded the piercing liability theory in "Company Law", emphasizing that when a company completely becomes a tool for shareholders to carry out illegal acts, the law should break through formal constraints and pursue the company's substantive liability. Japan has gradually established the jurisprudence of reverse denial through case law. The mainstream theory holds that reverse denial can only be applied to extreme cases such as fraud and unconscionability, and the scope of application is strictly prohibited from being expanded. Japanese scholar Koto Kenichiro clearly holds this position in "Corporation Law".

All in all, the research and judicial practice of the foreign reverse denial system provide useful references for the construction of this system in China, but it is necessary to be based on China's legal system and judicial reality and avoid simple transplantation. The prudent evolution of American case law, the legal basis of the German piercing liability theory, and the typological analysis under the framework of Japanese case law jurisprudence all provide important references for the construction of China's system.

1.3. Research Methods

This paper adopts the case analysis method and the comparative analysis method. First, select representative cases in China's judicial practice to illustrate the adjudication dilemmas; secondly, examine the systems of other countries such as the United States, Germany, and Japan respectively, and summarize common laws; finally, combine China's legal system and judicial practice to propose specific measures for system construction. The full text basically follows the idea of "theoretical basis - practical research - foreign reference - system construction" and is divided into four parts. The possible innovation lies in including controlling shareholders in the scope of liability subjects, strengthening the review of corporate behavior, constituting control with five elements, and introducing a fund isolation exemption mechanism.

2. Basic Jurisprudence of Reverse Piercing of Corporate Personality

2.1. Connotation Definition of the Reverse Piercing of Corporate Personality System

The disregard of corporate personality is a special legal system established to protect the interests of victims. Its main constituent elements are that shareholders abuse the corporate personality and limited liability to evade contractual or legal obligations, resulting in serious damage to creditors. In specific circumstances, the independent status of the company is denied, and thus the company is held jointly liable for the personal debts of its shareholders.

The core link is the confirmation of "inverted" liability assumption: forward denial means the liability transfer from "company → shareholder" to protect the company's creditors; reverse denial means the liability transfer from "shareholder → company" to protect the personal creditors of shareholders. Its essence is an equitable correction, aiming to prevent the corporate form from becoming a way for shareholders to evade personal debts and achieve substantial fairness in liability assumption [1].

From the perspective of institutional functions, the reverse disregard of corporate personality does not negate the principle of corporate independence, but corrects and supplements this principle in specific circumstances. The original intention of establishing the independent personality of a corporate legal person is to separate the personal property of shareholders from the company's property, thereby encouraging investment and promoting economic development. However, when shareholders maliciously transfer their personal property to the company's name and use the corporate independent personality to evade personal debts, the legitimate basis of the principle of corporate independence no longer exists. At the legal theory level, the theoretical premise of the disregard of corporate personality is the theory of legal fiction of a legal person - a company is a tool created by law, not an entity itself. When a company completely becomes a "tool" for shareholders to evade personal debts and the personal will of shareholders dominates all the company's behaviors, the company loses its independent will and becomes the "alter ego" of shareholders. At this time, by piercing the corporate veil in reverse, the company and its shareholders are regarded as the same subject, and the company is required to be jointly liable for the personal debts of its shareholders, which is an exceptional correction to the principle of corporate independence, conforms to the basic legal principle of "substance over form" in company law, and aims to achieve substantial fairness in individual cases.

According to the different creators, reverse denial can be divided into internal denial and external denial [2]. Internal denial refers to the situation where internal persons such as company owners and managers actively deny the identity of the company and make it liable for their personal debts, which

is more common in fields such as marital property division and family property disputes. External denial refers to the situation where external creditors of the company attempt to challenge the corporate personality and make the company jointly liable for the personal debts of its shareholders. Such situations mostly occur in cases of shareholders evading debts and maliciously transferring property. From the perspective of China's judicial practice, all the reverse denial cases that have occurred so far are external denial cases. Therefore, the research in this article mainly focuses on external denial.

The typical model of external denial can be summarized as follows: Shareholder A owes personal debts to creditor B. To evade debts, A transfers his personal property to Company C, which he actually controls, either gratuitously or at a low price, resulting in A's inability to pay off debts. At this time, as A's creditor, B requests the court to deny the independent personality of Company C and requires Company C to bear joint liability for A's debts. This model clearly reflects the triangular legal relationship of reverse denial - the special liability chain among the shareholder, the company, and the shareholder's creditor [3].

Different from the forward denial which only involves the company, the shareholder, and the company creditor, the plaintiff in reverse denial is not the company creditor but the personal creditor of the shareholder, and it is the latter's interests that are protected. This particularity is the basic reason for the independent existence of the reverse denial system.

2.2. Comparison between the reverse denial of corporate personality and related systems

2.2.1. Comparison with the forward denial system of corporate personality

Article 23(1) of the Company Law of China stipulates the forward denial rule of corporate personality in the traditional sense, that is, as long as the shareholders of a company abuse the independent status of the legal person and the limited liability of shareholders to evade debts and seriously damage the interests of the company's creditors, they shall bear joint liability for the company's debts. The above two situations are part of the content of the principle of denial of personality. While they are closely related, there are also obvious differences.

(1) Similarities

1. The legal basis is the same. Both are regulated based on the principles of good faith, public order and good customs, and the prohibition of abuse of rights. In terms of purpose, both aim to correct the interest imbalance [4] caused by the abuse of corporate personality and maintain the fairness and security of transactions;

2. Ultimately, they are both exceptional breakthroughs of the independence of corporate personality, used under specific conditions and not of general significance [14], in order to achieve substantial fairness rather than denying the corporate system itself.

3. Similar elements: Both take the implementation of "abusing the independent status of the corporate legal person and the limited liability of shareholders" and the occurrence of the result of "damaging the interests of creditors" as the main constituent elements, and there should be a causal relationship between the two.

(2) Differences

1. Different claimants: The company's creditors can exercise the right of forward denial, while the shareholder's creditors may exercise the right of reverse denial; there may also be other bona fide shareholders of the company.

2. Different obligations pointed to: The obligation avoided by forward denial points to "the company", and the scope of the obligation avoided is limited to the company's debts; the obligation avoided by reverse denial points to "shareholder - company", and the scope of the obligation avoided is limited to the shareholder's personal debts.

3. The impacts on the limited liability system of shareholders are different: A positive denial directly leads to the breakdown of the limited liability system of shareholders. Shareholders have to use their personal property to repay the debts of the company and bear unlimited joint and several liability. A reverse denial only denies the legal person status of the company without destroying the limited liability system of shareholders. Since these shareholders are originally responsible for their personal debts, this rule only stipulates that the company is a supplementary liable party.

2.2.2. Comparison with the system of horizontal denial of legal person status

The new Company Law (2023) creates the "system of horizontal denial of legal person status" to regulate shareholders who abuse the independent status of legal persons by using multiple companies. When the personalities of each company are confused, they shall be liable for the debts of the company and bear joint and several liability.

(1) Similarities

1. The functions of the systems are complementary: Both are expansions of the applicable scope of the traditional system of forward denial of legal person status, jointly improving the system system.

2. It is pointed out that the common point is that both take "control" and "abuse" as the recognition criteria. Forward denial must meet the condition that the shareholder controls more than two companies and abuses the power to cause confusion; reverse denial must meet the condition that the shareholder or the actual controller controls a company and uses this to evade obligations.

3. The forms of liability are the same: Both strengthen the protection of creditors by ordering multiple liable parties (between affiliated companies or between shareholders and the company) to bear joint and several liability.

(2) Differences

1. Different applicable scenarios: Among them, "between affiliated companies" refers to the horizontal denial rule, that is, in the case where the identities of two or more companies controlled by the same shareholder or actual controller overlap and one of the companies is unable to bear the obligation, other affiliated companies shall bear joint and several liability; while the application of "between shareholders and the company" refers to the reverse denial rule. Its essence is to solve the problem of shareholders' personal debts rather than the joint and several liability of multiple companies.

2. Different liable parties: For the horizontal denial between affiliated companies, the liable party is the shareholder, not the direct liable person, because they use the right of control to cause joint liability; the liable party for reverse denial is the company, the shareholder is the original debtor, and the company becomes the supplementary liable person.

3. The protected interest subjects are different: Horizontal denial is to protect the creditors of the company from the harm caused by shareholders abusing their capacity for rights and

status among affiliated companies, transferring property among affiliated companies, and making one of the companies lose its solvency [5]; Reverse denial is to protect shareholders and creditors from the harm caused by shareholders abusing their capacity for rights and status over the company and injecting their personal property into the company to avoid their own debts.

4. The legal bases are different: Horizontal denial has been defined in the new Chinese Company Law and has clear statutory bases; Reverse denial has not been detailedly stipulated in the Chinese Company Law yet, and in judicial practice, judgments are mostly made based on basic civil law principles such as the principle of good faith and fairness.

3. Typological Analysis of the Judicial Practice of Reverse Denial of Corporate Personality in China

In recent years, while the market has been continuously developing, there have also been situations where some shareholders use the corporate form to evade their own debts. When such situations affect the realization of creditors' interests, they will require the company to bear the responsibility for the debts owed by the shareholders. Although there is no clear and specific legal provision for this, there are still the following situations: Therefore, there are also significant differences in the solutions and judgment results of such problems by judges in different places. The author used "reverse denial of corporate personality", "reverse personality denial", and "piercing the corporate veil" as keywords to search for a series of relevant cases on the Chinese Judgments Online, and found that the vast majority of courts rejected the creditors' request for the company to bear the shareholders' debts on the grounds of "no clear legal provisions". Only a few cases supported the principle of reverse denial, and among the individual cases that supported the principle of reverse denial, the most common reasons for the court to make a ruling were property confusion, followed by personality confusion. These cases are sorted and summarized below for us to understand the practical situation.

3.1. Sorting out Typical Cases in Judicial Practice

3.1.1. Typical Cases Not Supporting Reverse Denial

In current judicial practice, the vast majority of courts have a negative attitude towards reverse denial, mainly because the Chinese Company Law only stipulates that shareholders shall be liable for the company's debts with the company's property, and does not stipulate that the company shall be liable for the shareholders' debts with the shareholders' property.

For example, the case of "a certain international duty-free company". In this case, the Hong Kong duty-free company, which is the sole shareholder of the Huolugos company, transferred 30% of the equity interests in the Huolugos company it held to a Xinjiang company and received a consideration of 15 million yuan. However, due to the failure to handle the corresponding registration of equity transfer changes and the inability to contact the Hong Kong duty-free company, the above-mentioned contract transaction ultimately failed. So the Xinjiang company sued to the court, demanding that the Hong Kong duty-free company return the payment it made, and the Huolugos company bear joint and several liability for repayment. The Xinjiang company believes that since the Huolugos company is a one-person limited liability company and the shareholder, the Hong Kong duty-free company, cannot prove that its property is independent of the company, it should bear joint and several liability for the company's debts. Therefore, there is a serious situation of confusion between the two companies.

Although the first-instance court and the retrial court supported the Xinjiang company's request, the second-instance court overturned this judgment. The court held that although according to Article 63 of the Company Law, as a one-person company, the Xinjiang company cannot prove that its property is independent of the property of its shareholders, it should bear joint and several liability for the company's debts. However, the second-instance court amended this provision. It clarified that Article 63 of the Company Law only stipulates that shareholders shall bear liability for the company's debts, but does not stipulate vice versa that the company shall bear liability for the debts of its shareholders. Therefore, the legal basis cited by the first-instance and retrial courts is incorrect, and the Huolugos company should not be judged to bear joint and several liability. This case shows that in the absence of express provisions, the court will adopt the most conservative approach.

In contrast to the above conservative stance, another case worthy of key attention is the "Changjiang Securities case". This case was heard by the Shanghai Financial Court and involves the corporate bonds of Huayang Group Company. The "Changjiang Securities case" occurred in October 2017. Huayang Group Company successfully issued corporate bonds "17 Huayang 04" with a coupon rate of 7.50% and a term of 5 years. Changjiang Securities (Shanghai) Asset Management Co., Ltd. (hereinafter referred to as Changjiang Asset Management) served as the manager of several asset management plans. This is a bond worth 70 million yuan. However, because other bonds issued by the company in 2018 also defaulted, its issuer credit rating was downgraded from A to C, meaning that it was unable to repay principal and interest. As a result, the creditors' meeting terminated the bonds involved in the case ahead of schedule. Accordingly, Changjiang Asset Management sued to the court, ordering Huayang Group Company to repay the bond principal and interest; and ordering Huayang Investment Company, Zhongqi Company, and Zhongqi Chuang Company to bear joint and several liability for the debts of Huayang Group Company.

The plaintiff believes that the funds raised by the debt securities involved in this case are actually jointly used by the three companies. The personnel, organizational setup, financial resources, and accounting of the three companies are all subject to the unified arrangement and management of Huayang Group. The three operate as an integrated entity and should apply the provisions of Paragraph 3 of Article 20 of the "Company Law" to deny the corporate entity qualification.

Upon examination, it was found that the major shareholder of Huayang Investment is Huayang Group, with a shareholding ratio of 65.94%; Huayang Investment is the major shareholder of Zhongqi Chuang, with a shareholding ratio of 50%; Zhongqi Company is the controlling shareholder of Zhongqi Chuang. The bond offering prospectus shows that the funds raised this time are intended to be used to repay the bank debts of Huayang Investment, Zhongqi Company, and Zhongqi Chuang. In addition, the above documents also mention that Huayang Group adopts a centralized financing and distribution method, that is, the user unit submits a fund usage plan, and after approval, the

financial supervision and inspection department directly allocates it to the user unit, forming a lending relationship.

In the judgment, the court made a relatively comprehensive theoretical discussion on reverse denial: After clarifying the forward denial of Article 20 of the Company Law and the horizontal denial established by the Supreme People's Court's Guiding Case No. 15, it pointed out: "In this case, Huayang Group is the controlling shareholder of Huayang Investment. Although Huayang Group does not have a direct investment relationship with Zhongqi Company and Zhongqi Chuang Company, the three companies are related as parent and subsidiary companies. Therefore, the plaintiff's claim that Huayang Investment, Zhongqi Company, and Zhongqi Chuang should bear joint and several liability for the debts of Huayang Group is essentially a claim that the company should bear joint and several liability for the debts of its shareholders or the 'defendant company'. The direction of this liability belongs to the reverse fiction of corporate personality." This statement shows that the court recognized the position of reverse denial as an independent type of corporate personality denial. Moreover, it can be distinguished from forward denial and horizontal denial.

Although the claim of the plaintiff was not supported in this case due to lack of sufficient factual basis, the judge did not simply reject it. Instead, the judge actively constructed specific criteria for the application of reverse piercing and put forward three judgment criteria based on the theory of piercing the corporate veil: first, excessive control; second, property confusion; third, malicious evasion of debts. It can be seen that the judge does not completely exclude the application of reverse piercing. He just believes that more sufficient evidence is needed. This case has become a typical case of the judicial practice's 'prudent exploration' of reverse piercing. The judge clarified its judgment criteria and constituent elements and provided an analysis template for subsequent cases, which also reflects the two major dilemmas faced by the reverse piercing system in China - the lack of legal basis and the difficulty of factual inference. Insufficient evidence is only an external factor leading to the plaintiff's defeat. Deep down, the root cause is that the Company Law of China does not set clear legal provisions for reverse piercing.

The author believes that although both the above-mentioned 'Case of a Certain International Duty-Free Company' and 'Changjiang Securities Case' did not support the plaintiffs' requests for reverse piercing, the levels of problems reflected by the two are different. The former reflects the court's strict adherence to the literal meaning of the law - when there is no statutory law basis, the first-instance and retrial courts tried to achieve reverse piercing by analogously applying the rule of inversion of burden of proof for a one-person company (Article 63 of the Company Law), but the second-instance court negated it on the grounds that 'the law does not stipulate that a company shall be liable for the debts of its shareholders'. This difference in judgment precisely shows that the attitude towards reverse piercing in judicial practice is not 'uniform', but there is a substantial opposition between the'supporting faction' and the 'opposing faction'. The latter reflects the court's active exploration at the legal principle level - although the plaintiff's claim was not supported due to insufficient evidence, the judge clearly recognized the status of reverse piercing as an independent type of piercing the corporate veil and constructed a triple judgment criterion of 'excessive control, property confusion, and malicious evasion of debts'. This shows that even in the state of legislative blankness, some judges have tried to provide judgment guidance for the application of reverse piercing through doctrinal analysis and typological judgment. From the perspective of institutional construction, these two types of cases jointly reveal a core proposition: the legislative blank of reverse piercing has led to serious disunity in judicial judgments, and it is urgent to clarify its application conditions through legislation or judicial interpretation to unify the judgment standards.

3.1.2. Typical Cases Supporting Reverse Piercing

Although most courts do not recognize reverse piercing, there are also courts in individual cases that hold a positive attitude towards this theory. The most representative one is the 'Wuhan Aerospace Bellows Case'.

In this case, Zhongsenhua Investment Company owed payment to Aerospace Bellows Company and used the commercial real estate under its wholly-owned subsidiary, Zhongsenhua Real Estate Company, to offset the debt. Subsequently, it mortgaged the above-mentioned property in its own name to the bank to obtain a loan. For this reason, Aerospace Bellows Company sued Zhongsenhua Real Estate Company to the court, including Zhongsenhua Investment Company and its subsidiary to pay liquidated damages. The first-instance judgment stated that Zhongsenhua Investment Company is a one-person limited company and cannot prove that its property is independent of its parent company, namely the defendant in this case, Zhongsenhua Investment Group Co., Ltd. Therefore, there is a personality confusion between the two. "According to the law, shareholders shall be liable to the company for the amount of capital contributions subscribed by them, and the company shall also be jointly and severally liable for the debts owed by the shareholders." Thus, the subsidiary shall be jointly and severally liable for the debts of its controlling shareholder (i.e., Zhongsenhua Investment Company). The second-instance judgment upheld the first-instance judgment. Although the judgment did not explicitly state the expression of "vice versa", but by maintaining the original judgment, it substantially recognized the application of reverse denial. It can be seen that for the situation where the personality confusion is very obvious, although there is no clear provision in the relevant laws and regulations, the court will make a judgment based on the principle of fairness and support the company to be jointly and severally liable for the debts of the shareholders.

In the author's view, the "Wuhan Aerospace Bellows Case," as a typical case supporting reverse denial, has important exemplary significance in its judicial reasoning. First, the case explicitly takes "personality confusion" as the core criterion for reverse denial and particularly emphasizes the room for analogical application of the rule reversing the burden of proof in the context of a one-person company. Although the second-instance judgment did not expressly state "vice versa," its upholding of the original judgment substantively recognized the legitimacy of "the company bearing joint and several liability for the shareholder's debts." Second, the judgment in this case was based on the "principle of fairness" rather than a specific legal provision, which reflects that, in a state of legislative vacuum, courts tend to invoke basic principles of civil law to fill gaps in company law. However, although this "escape to general clauses" can achieve justice in individual cases, it also brings the risk of uncertainty in legal application—different judges may have different understandings of the "principle of fairness," leading to

different judgments in similar cases. Therefore, the author believes that the construction of the reverse denial system cannot rely on the case-by-case application of basic principles of civil law for a long time. Instead, legislation should clarify its constitutive elements, allocation of the burden of proof, and methods of liability, so as to achieve a balance between "principled guidance" and "rule-based constraint." In addition, the court in this case did not discuss the protection of the interests of other bona fide shareholders of the company, which suggests that in institutional design we must establish a supporting "capital exemption mechanism" to prevent the application of reverse denial from harming the legitimate rights and interests of innocent third parties.

From the above cases, it can be seen that where shareholders use a company to evade debts, some courts recognize reverse denial, while others take a negative attitude. These two different approaches precisely reflect the dilemma of the reverse denial system in judicial practice. For this reason, the author suggests extending the scope of application of the system of disregard of corporate personality to the reverse field and advocates adopting a legislative model to establish the reverse denial system.

3.2. Dilemmas and Divergences in Judicial Adjudication

3.2.1. Lack of Legal Basis and Inconsistent Adjudication Standards

The main problem in current practice lies in the absence of a direct legal basis for reverse denial. Article 23 of the Company Law provides that if a shareholder abuses the independent status of the corporate legal person, he or she shall bear liability for the company's debts. However, this provision only applies to forward denial and does not directly require the company to bear liability for the shareholder's debts. In addition, although the new Company Law has introduced horizontal denial, it has not made relevant provisions on reverse denial. This has led to different outcomes in such cases across local courts.

It is precisely because of the lack of uniform judgment standards that the parties lack predictability and judicial credibility is insufficient [6]. As scholar Robert Thompson observed in practice, outright dismissal was rare; more often, the claims were rejected, which indicates that courts adopt a strictly limited view of this system.

3.2.2. Vagueness in Evidence Determination and Constitutive Elements

In addition to the lack of jurisprudential basis, the biggest obstacle in reverse denial litigation lies in the excessive vagueness of its standards of proof and construction, making it difficult to provide remedies for creditors. Then we cannot help but ask: What is the standard for reverse denial? Is it enough that there is commingling? Or is bad faith required? Or should the burden of proof be allocated to one party? For example, in the case of a single company, should we apply the reversal of the burden of proof mechanism as we do for forward denial? There are no answers to these questions. Judges can only draw conclusions based on their own subjective judgment, and excessive free evaluation of evidence will lead to different judgments in similar cases.

4. Foreign Comparison and Implications of the Reverse Denial of Corporate Personality System

4.1. The United States: Divergent Practices of State Courts and Statutory Exploration

The system of disregard of corporate personality in the United States first emerged at the federal level and did not develop unified provisions. Nor did most states codify this system in statutory form; instead, it was gradually established by state courts through specific judicial precedents. Its scope of application mainly covers the fields of marital property division and tax enforcement.

When it comes to the issue of marital dissolution, in order to avoid the distribution of shared assets, it is often seen that one party transfers personal wealth to the company under their control. The Supreme Court of the State of Georgia clearly rejected the application of "outsider reverse piercing" in the case of Acree v. McMahan. The case situation is as follows: Dr. Acree personally signed an equity repurchase agreement with McMahan. Later, due to disputes, the payment was terminated. McMahan then sued Acree personally and the MHS company controlled by him, demanding that the company bear joint and several liability for Acree's personal debts. After hearing, the Supreme Court of Georgia held that allowing outsider reverse piercing would bypass the normal judgment enforcement procedure (creditors should have seized the company equity held by shareholders instead of directly seizing the company assets), damage the reasonable expectations of other innocent shareholders and company creditors of the company, increase the company's financing costs, and the creation of this system should be completed by the legislative body rather than the court. Finally, the court ruled that the MHS company did not need to bear liability for Acree's personal debts. The judgment of this case clearly pointed out: "We reject reverse piercing, at least within the limit that it allows 'outsiders' (such as third-party creditors) to pierce the corporate veil to reach the company's assets to satisfy the personal claims against shareholders." It can be seen that even in the United States, the origin of reverse denial, the attitudes of state courts are not unified. Some jurisdictions hold a strict rejection stance, which precisely confirms the basic consensus that this system should be applied with caution.

The main focus of contention in the field of tax enforcement is: how to prevent the actual controllers of companies from using the means of investing private wealth in the company to avoid taxes levied by the government. According to the judgment of the United States Court of Appeals for the Tenth Circuit in the case of Floyd v. Internal Revenue Service, although the principles of corporate independence and limited liability are regarded as the basis of corporate law, when shareholders turn the company into their personal "financial tool", the tax authorities can achieve the purpose of controlling the company's property by applying the reverse denial system; and the court also pointed out that this method should be used with caution when the application of reverse denial may damage the legitimate rights and interests of other creditors.

Discussions and criticisms of this system continue unabated. Gregory S. Crespi and others have pointed out that the inconsistent discretionary standards of state courts make it impossible for creditors and companies to predict their

avenues for rights relief and leave corporate business conduct without clear legal boundaries. They therefore suggest that state legislatures establish conditions for the application of reverse denial, with the aim of institutionalizing the rule and making it more transparent. In addition, Robert B. Thompson's empirical research shows that reverse denial is rarely applied in practice and that the vast majority of claims involving reverse denial are rejected, which further corroborates that U.S. courts adopt a cautious attitude toward this system.

4.2. Germany: The Theory of Piercing Liability and the Application of the German Civil Code

Although the concept of "reverse denial of corporate personality" does not exist in German law, its function is achieved by analogy to the system of piercing liability. Germany and German courts have consistently adhered to the idea of the company's independent personality, and only where a shareholder abuses that independence may the principle of limited liability be exceptionally breached. The relevant judgments are mainly based on two provisions of the German Civil Code:

The first is Article 826 of the Civil Code, which provides: "A person who intentionally causes damage to another by acting contrary to law shall be liable for compensation." This case is a German civil law precedent from 1985: the German Federal Court of Justice held that the shareholder's transfer of personal property to a company operated by himself in order to evade his debts constituted a malicious abuse of corporate personality damaging the interests of creditors, and the court therefore ordered the company to bear liability for the shareholder's personal debts. The second is Article 242 of the Civil Code, which stipulates the principle of good faith. This provision is a catch-all clause and is often used in practice to supplement gaps in the corporate personality system. Where, in practice, a shareholder engages in a large number of improper related-party transactions with the company and deliberately blurs the boundary between their respective properties in order to evade debts, the court will, based on this principle, reject the company's claim to protection of its autonomy and compel it to perform the relevant liability.

German scholar Carsten Schmidt has clearly explained the "theory of piercing liability": the theory of piercing liability does not deny the company's independent legal personality. While restraining and regulating abuses of corporate legal personality, when a company is used to commit unlawful acts, strictly maintaining the company's independent legal personality will give rise to an obvious imbalance of justice. From this perspective, the company's substantive liability should be pursued beyond formal constraints. This approach is close to the American case-law viewpoint, but Germany places greater emphasis on achieving regulatory purposes through civil law principles.

4.3. Japan: Cautious Application within the Framework of Case Law Doctrines

Although the principle of individualism in Japanese companies is formed on the basis of case law and has not been clearly expressed legislatively, it was not until a judgment of the Okinawa Branch of the Fukuoka High Court in 2002 became a landmark in the establishment of the country’s reverse piercing system. In this case, a person with a huge debt transferred all of his business assets to a company established solely by his wife. It was found that the company was actually owned by the creditor alone, and its property and business were inseparable from its personality and was established solely for the purpose of evading debts. Finally, the court ruled that the company should pay off this debt, which for the first time in Japan confirmed the legal principle of reverse piercing.

However, Japanese scholars have consistently maintained a conservative attitude toward this system. In his work Corporation Law, the renowned law professor Koto Kenichiro clearly stated that the principle of reverse denial is permitted only in cases such as fraud or obvious unfairness, and that its general application is strictly prohibited. Since legislation has not made explicit provisions, it follows that judicial organs, in exercising this power, should follow the basic principles of company law and may apply it only where the shareholder has a clear intent to maliciously harm the creditors' interests and his personality has become so commingled as to be indistinguishable. If the change in property results from legitimate production and business operations and there is nothing improper, then the boundary of independence cannot be breached.

4.4. Implications of Foreign Experience for China's Institutional Construction

Through further analysis of the application of the systems in the United States, Germany, and Japan, we can summarize certain patterns that may serve as references for China's construction of a system of reverse denial of corporate personality.

First, strict application and balanced consideration. None of the three countries—the United States, Germany, or Japan—treats reverse denial as a regular system. Rather, it is regarded as an exceptional remedy outside limited liability and is applied only in cases of extreme abuse. At the same time, courts are required to take into account the interests of other shareholders of the company and innocent creditors, so as to avoid sacrificing other market participants in order to remedy one party.

Second, basic constitutive elements should be explicitly enumerated. Judgments in various countries generally focus on four major elements: absolute control over the company, use of corporate personality to transfer property, malicious evasion of debts, and serious damage to creditors' interests. The United States adopts a "control + impropriety" standard, Germany adopts a "contrary to good morals" standard, and Japan adopts a "personality confusion doctrine." In essence, however, all of them examine the main conditions mentioned above. In addition, the attitude of the company itself is also crucial (see in detail Section 5.2.2, Act Element: the third point in the act of abusing corporate personality). These details are precisely the areas most prone to dispute in judicial practice, and they are also what China must clarify in future legislation in this regard.

With reference to China's domestic legislative practice, borrowing from foreign cases must never be a simple copy; rather, it should be based on China's legal system and judicial practice. It is advisable to adopt a cautious approach and clarify, through legislative regulation or judicial interpretation, elements such as "absolute control," "abuse of power," "serious damage to creditors' interests," and "the necessity of no alternative remedy." In addition, we should establish a principle of balance of interests to protect the lawful rights and interests of other relevant parties of the company. Only in

this way can we accurately restrain conduct that intentionally evades liability, ensure the stability of the foundation of the limited liability company system, and achieve a balance in the objectives of company law.

5. Analysis of the Path for Establishing the System of Disregard of Corporate Personality in China

5.1. Basic Principles of Institutional Construction

From the above analysis, it can be seen that there are indeed provisions regarding reverse denial in China's current laws. However, in practice, the courts handle such cases in different ways and do not clearly define the scope of liability attribution, which will undoubtedly cause certain damage to the judicial credibility and the legitimate rights and interests of the parties. Therefore, it is necessary to construct a complete reverse denial system [7] and make specific construction designs in this section for its basic principles, core elements, procedural rules, and relief guarantees, etc.

Since the reverse denial system is a special exception regarding the independence of the company, strict conditions should be set for its application. The exception application principle should clarify that reverse denial is not the norm of the independence of legal act subjects but an exceptional situation [8]. Judges should carefully consider whether to apply the reverse denial system. Only when it is truly impossible to protect the interests of creditors and other relief channels cannot resolve the contradictions can this system be invoked for adjudication. In other words, if it can be solved by other means, this clause does not need to be used. This indicates that case-by-case research and review should be conducted rather than generalized application.

The principle of interest balance cannot be ignored either. Because once reverse denial is initiated, the parties involved in the interests are not only the creditor and the shareholder, but also other shareholders of the company, the innocent creditors of the company, and even the business stability of the company itself. Specifically, there are several aspects that require judges to carefully weigh: First, the innocent shareholders in the company who did not participate in debt evasion should not be forced to bear responsibilities that do not belong to them due to the actions of malicious shareholders. Second, other creditors of the company, whose creditor-debtor relationship with the company is a normal business transaction relationship, should not have their repayment resources squeezed because the company has to take on debts for the shareholders. Third, the company can still operate normally. If it is constantly made to be held jointly liable for the personal debts of the shareholders, the legal independence of this company will cease to exist in name only. Therefore, when the court applies this system, it should fully consider the interests of all parties and strive to find a balance point, that is, not only to protect the interests of shareholders and creditors, but also not to put too much pressure on the company's operation, nor to ignore the possible damages of malicious shareholders or company debtors. Only by comprehensively considering the pros and cons of all aspects can the requirements of fairness and justice be achieved.

The principle of case application further determines the scope of the effect of reverse negation. The effect of personality negation is limited, only having case-by-case effect, not implicating other legal relationships of the company, nor necessarily resulting in the extinction of the company [9]. That is, the company only temporarily loses its independent legal personality under specific circumstances, which is a reflection of the basic function of this special relief method of reverse negation.

5.2. Clarification of the constitutive elements

As a special form of tort liability, the constitutive elements of reverse negation should also apply the general principles of tort liability, that is, it consists of five parts: the subject element, the objective act element, the subjective element, the damage consequence element and the causal relationship element.

5.2.1. Subject element: the absolute control of shareholders or actual controllers

Rights and liability subjects are two aspects of the subject element.

The objector refers to the creditor who has the right of recourse against the debt owed by the shareholder or actual controller, that is, the objector's claim is damaged due to the debt evasion behavior of the shareholder or actual controller; the objectee refers to the shareholder and its actual controller.

The liable person refers to the party who should bear the legal obligation, generally referring to the company and the investor or actual controller who abuses the right of control. Here, "shareholder" should be interpreted in a broad sense, including both the nominal shareholder and the actual controller of the company, that is, senior management personnel and dormant shareholders [10]. Although these people are not the actual owners, they can actually control the company and can also use the company to evade their private debts. Incorporating the substantial controller into the scope of the liable person is conducive to preventing them from taking advantage of legal loopholes for profit [11].

5.2.2. Act element: the act of abusing the company personality

The act standard refers to the situation where the company's shareholders or actual controllers abuse the company's rights consciously or unconsciously. In practice, the following points can be used for reference in research:

First, property confusion. The core of judging whether the personality is confused lies in property confusion [12]. Financial independence is the premise for the company to bear limited liability. If the financial boundaries are blurred, it will lead to the loss of legal personality. As for personnel and business confusion, only secondary reference is made.

The second point is the issue of property transfer. The essential difference between reverse negation and forward negation lies in the direction of property transfer. In reverse negation, it flows from the major shareholder to the company. The court should pay attention to examining the transfer direction and cannot directly apply the confusion situation of forward negation to reverse negation.

Third is the company's conduct. Existing literature and court cases mostly focus on the conduct of shareholders while neglecting that of the company. In fact, the company is not completely passive when it knows or should know that a shareholder transfers assets to evade debts. If the company fails to stop or return the assets in a timely manner, then it constitutes part of the act of participating in and assisting the shareholder in evading debts and should be regarded as a reason for the company to bear liability. For example, when

the company's board of directors receives notice of a shareholder's transfer of property but raises no objections and does not require the shareholder to provide reasonable consideration or guarantee, it is difficult to be considered bona fide. On the contrary, if the company can prove that it has fulfilled its obligation to stop or return, it can be exempted from liability. Thus, it not only prevents the company from simply acting as a "safe haven" to evade liability but also provides a more operable conduct standard for the application of the reverse piercing system.

5.2.3. Subjective element: The malice of evading debts

The application of reverse piercing requires that the shareholder or the actual controller has the psychological motivation to evade the control of creditors. Although this mental state is difficult to prove, it can be judged through specific conduct. For example, transferring personal property to the company when facing financial difficulties or covering up such actions through fictional transactions, etc. These can all be used as factual bases for determining that they have improper purposes.

To lighten the burden of proof on creditors, a rule of presumption of subjective malice can be established. As long as these two basic facts are simultaneously met: (1) the property of the shareholder and the company is commingled; (2) the shareholder has suffered huge property losses or default behaviors in the short term - then it is presumed that they have the act of maliciously evading debts. If one wants to negate this conclusion, it is necessary to prove that the shareholder must submit sufficient evidence to confirm that their actions are reasonable business decisions [13], for example: the property transfer is a normal business activity such as real capital increase, asset restructuring, tax planning, etc., and the price is fair and the procedures are compliant.

5.2.4. Result element: Seriously damaging the interests of creditors

It means that the conduct of the company's shareholders or the actual controller has already caused the result of damaging the interests of creditors. If the company's shareholders transfer property but still have sufficient solvency, then the creditors will not suffer major losses and there is no need to adopt the method of reverse piercing.

The determination of "a huge amount" should be based on the debtor's solvency. The people's court should comprehensively judge the debtor's repayment ability, taking into account both the debtor's current repayment ability and the debtor's future repayment ability. For example, the debtor's existing assets, expected investment income, proprietary technology, debts not yet due for performance, etc. should all be included in the scope of consideration. If it is determined after the above review that the creditor's solvency has been lost, then it can be considered that the amount of loss is large.

5.2.5. Causality element: The direct connection between the conduct and the damage

There is a direct causal relationship between the improper conduct of shareholders or the actual controller and the losses of creditors, that is, the improper conduct of shareholders results in creditors being unable to obtain their claims. In judicial practice, it is difficult to prove the causal relationship due to the concealment of property transfer and the invisibility of damages. Therefore, the existence of the causal relationship can be presumed using the rule of thumb.

5.3. Application Procedures and Evidence Rules

After clarifying the constituent elements of reverse denial, specific procedural rules for reverse denial should also be established to ensure its fair and efficient operation.

5.3.1. Determination of Litigation Subjects

Generally, creditors and shareholders are the plaintiff subjects in the action for revocation. However, there are two situations regarding the choice of the defendant subject: When the creditor's claim has been confirmed by an effective judgment, the company shall be listed as the defendant, and the shareholder or the actual controller shall be listed as the third party; In the case where the creditor's claim has not been confirmed by an effective judgment, he can also file a lawsuit regarding the creditor-shareholder relationship and a reverse denial lawsuit simultaneously. In this case, the company, the controlling shareholder or the actual controller shall be listed as joint defendants together to improve litigation efficiency and facilitate better ascertainment of the case situation.

5.3.2. Allocation of Burden of Proof

The allocation of the burden of proof should follow the basic principle of "he who claims, he who proves" and the principle of fairness.

First of all, as the right holder, the plaintiff shall bear the basic burden of proof, that is, it is necessary to prove the existence of a legal creditor-debtor relationship between itself and the company or the actual controller, as well as the existence of illegal acts such as the other party concealing property, and prove the fact that its claim cannot be satisfied through normal procedures.

On this basis, the defendant and the company shall also bear the corresponding burden of proof. When the shareholder or the actual controller claims that they have not abused the independent status of the company and the limited liability of shareholders, they shall provide evidence to prove that their property is separated from their personal property; If the company claims that it does not need to bear responsibility for this, it shall also prove that it has taken preventive measures or return measures.

Regarding the causal relationship, the presumption rule can be applied. When the creditor provides evidence of the transfer act and the occurrence of losses, the court can thereby determine that there is a causal relationship between the two, and then the debtor and the company shall bear the burden of proof to overthrow it. In this way, the burden of proof on the creditor is greatly reduced.

5.3.3. Legal Basis for Application

We should provide a legal basis for the reverse denial rule at the legislative level, add a special clause on reverse denial during the next revision of the Company Law, and combine reverse denial with forward denial and horizontal denial obligations to construct a three-dimensional personality denial norm system.

Since the new Company Law has just been amended not long ago, it is very likely that there will be no further amendments in the short term. Therefore, we can first try to make an expansive interpretation of the current law to make up for the deficiencies in judicial application. When hearing reverse negation lawsuits, people's courts at all levels may refer to the legislative spirit and judgment standards of positive negation and make discretionary decisions based on the principles of good faith and fairness. Secondly, the Supreme People's Court can issue corresponding judicial

interpretations to clarify its application standards and at the same time issue guiding cases for reference by grass-roots courts.

5.3.4. Specific recognition criteria

In specific cases, the court should grasp the recognition criteria from the following four aspects.

Let's start with the substantive recognition. We can't just look at the names of the shareholders on the industrial and commercial registration. We need to dig deeper to see who is really controlling the company behind the scenes. For the identification of the actual controller, the key is to see how much control he has over management, decision-making, personnel, and funds [14].

Then look at the behavioral criteria. Regarding the issue of capital confusion, we can't simply make a simple presumption based on a single confusion event. Instead, we should consider it from multiple aspects and levels. We should not only examine the confusion situation in the "hardware" aspects such as business premises and office facilities, but also pay attention to the confusion situation in the "software" aspects such as financial statements, profits, and cash flows. As for whether the company can avoid such a situation, it should be comprehensively judged in combination with evidence such as meeting minutes, transfer records, and financial statements.

The result requirement is relatively simple. When judging whether the creditor has a significant risk of loss, we should comprehensively measure the debtor's repayment ability [15], taking into account factors such as the property currently owned, the profits, rights (including options), unexpired debts, and intellectual property that can be generated in the future. If there is a guarantor for the loan, the guarantor should bear the liability first.

The most crucial issue is in fact causation. It is extremely difficult for a creditor to prove that "it is precisely because the shareholder transferred money into the company that I cannot repay my debt," and such evidence is almost impossible to obtain in practice. Therefore, in practice, the following approach may be adopted: the people's court first ascertains the basic facts—whether the shareholder has engaged in the malicious transfer of property, whether the company has fulfilled its corresponding obligation to prevent it, and whether the creditor has actually suffered loss as a result; it then uses empirical rules recognized by the general public to presume the connection between the conduct and the damaging consequence. Unless the shareholder or the company can provide counter-evidence showing that the transfer of property would not cause any change in solvency, the presumption will not hold. This is consistent with the rules on the presumption of subjective malice and the presumption of causation in Section 5.2 above, and it is also the crux of whether the reverse denial system can truly be implemented.

5.4. Protection mechanisms for other interested parties of the company

The exercise of reverse denial may involve the interests of other entities within the company, and corresponding protection mechanisms should be established to prevent abuse of process from harming the interests of others [16]. Specifically, this can be regulated from four aspects: the mode of liability, the scope of liability, the consequences of liability, and the protection of bona fide shareholders.

The mode of liability is full joint and several liability. Once a court determines that the criteria for reverse denial are met, the company and the malicious shareholder must jointly repay the debt in full. The creditor may immediately assert all debt claims against the company without first seeking compensation from the investor. This is fast in enforcement and also consistent with legal doctrine—the company and its investor are treated as one in this situation.

The scope of liability is limited to all of the company's property. The reason why the company bears liability with all its property is simple: the creditor can find a party with repayment capacity; since the company has been used as a tool to evade debt, it should be liable; and in practice, it is difficult to calculate exactly how much the company has "benefited" from the shareholder, so all of the company's property is simply taken as the limit.

The consequence of liability is temporary loss of personality, which is automatically restored after performance. Reverse denial can only temporarily cancel the company's legal personality rights within a certain litigation procedure, and it is effective only with respect to a certain type of debt. After the company repays the debt, its personality rights return to normal, reflecting the function and goal of reverse denial as a special remedy. That is, it protects both the interests of creditors and the stability of the company's legal personality.

The protection of bona fide shareholders is achieved through the capital exemption mechanism. This is the most difficult and crucial part of the entire protection mechanism. Bona fide shareholders in a company should bear normal business risks for their investment in the company and should not pay for the unlawful acts of malicious shareholders [17]. In order not to let the real money invested by bona fide shareholders go to waste, a capital exemption system may be introduced [18]. In judicial practice, the specific operation may be as follows: before the company is required to repay the malicious shareholder's debt, bona fide shareholders have the right to take back the principal they originally invested, and the remaining part is then used to repay the debt. This is called "capital exemption" or "recovery of capital contribution." In practice, two types of persons are distinguished—malicious acquirers and bona fide acquirers [19]. For the former, there is no need to consider the issue of creditor protection; for the latter, they should have the right to preferentially recover their original investment. This can effectively coordinate the conflict between the interests of creditors and those of involuntary investors. This mechanism is in line with the balance of interests discussed in Section 5.1—it is necessary both to combat malicious debt evasion and not to let innocent persons bear the cost. If this point is ignored and reverse denial is used too much, no one will dare to form a partnership and start a company with others. The specific applicable conditions and allocation of the burden of proof for the capital recovery system have been explained in Section 5.3 on the allocation of the burden of proof, and are therefore omitted here.

In summary, the construction of the reverse denial system should comprehensively consider four aspects: basic principles, constitutive elements, procedural rules, and relief mechanisms. Only by making clear provisions at the statutory level and applying them prudently in practice can the role of this system be maximized—that is, while safeguarding the lawful rights and interests of shareholders' creditors, it also takes into account the protection of the company's independent legal personality status. It also ensures the corporate legal-person character of the company.

6. Conclusion

This article discusses the reverse piercing of corporate personality system. It elaborates on the relevant content of China's reverse piercing of corporate personality system respectively from the theoretical, practical, comparative - law perspective, and institutional - construction levels and draws the following understandings:

In terms of the subject, one cannot look only at nominal shareholders; actual controllers, dormant shareholders, and others who truly have the final say should also be included within the scope of liability. In terms of conduct, property commingling is the core criterion, but it must be noted that the direction of property transfer in reverse denial is from the shareholder to the company, which is exactly the opposite of forward denial and cannot simply be applied by analogy. In addition, the attitude of the company itself is also crucial—if the company knows that a shareholder is transferring property to evade debts but does not stop or refuse it, it should be deemed to have participated in the debt-evasion conduct. Subjective malice is difficult to prove directly, so a presumption rule may be introduced: as long as property commingling and a shareholder's massive property loss or debt default within a short period coexist, malice is presumed, and the shareholder bears the burden of rebutting it. Causation can likewise be presumed by means of empirical rules, thereby reducing the creditor's burden of proof. It should also be particularly emphasized that reverse denial cannot focus only on the creditor's side; it must also take into account the interests of other bona fide shareholders in the company. This paper introduces a "capital exemption mechanism," which allows bona fide shareholders to preferentially recover their original investment before the company's assets are used to repay debts, so as to avoid innocent persons paying for the acts of malicious shareholders.

In summary, the establishment of the system of the right to request disregard of corporate personality is an important measure for improving and developing China's legal system of disregard of corporate personality and responding to practical needs. Clearly providing for it at the legislative level and applying it prudently in judicial practice are key to giving full play to its role. It protects the interests of shareholder-debtors while maintaining the stability of the corporate legal person system. It is hoped that the research in this paper will be of some benefit to the legislation and judicial application of China's reverse denial system.

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