



October 26, 2021

The Honorable Brad Sherman
Chairman
Subcommittee on Investor Protection,
Entrepreneurship, and Capital Markets
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Huizenga
Ranking Member
Subcommittee on Investor Protection,
Entrepreneurship, and Capital Markets
U.S. House of Representatives
Washington, DC 20515

**Re: October 26th Subcommittee Hearing Entitled “Taking Stock of China, Inc.:
Examining Risks to Investors and the U.S. Posed by Foreign Issuers in U.S. Markets**

Dear Chairman Sherman and Ranking Member Huizenga:

For years, the American Securities Association (ASA)¹ has been advocating to remove fraudulent Chinese companies from our capital markets because of the harm they have caused America’s retail investors and working families. That’s why we grateful to provide this statement for the October 26th Subcommittee hearing regarding the risks U.S. investors face from Chinese companies listed in the United States.

We appreciate Congress’ continued bipartisan approach to address the biggest threat facing American investors today, and we applaud the Subcommittee for holding this hearing today.

Recent Action.

The ASA is proud to have partnered with numerous members on both sides of the aisle on the *Holding Foreign Companies Accountable Act*, (HFCAA) a bill which was recently enacted into law after passing both chambers of Congress unanimously. We are eager to continue working with policymakers in a bi-partisan manner to protect the interests of American investors and the U.S. capital markets.

We welcome the recent statements and actions taken by the Securities and Exchange Commission (SEC) to halt new listings of Chinese companies in U.S. markets. These companies continue to fail to comply with our laws and fail to provide even a baseline level of disclosure regarding their risks and true ownership structure. As SEC Chairman Gary Gensler noted recently, “Whether in California, the Cayman Islands or China, all companies that seek to raise

¹ The ASA is a trade association that represents the retail and institutional capital markets interests of regional financial services firms who provide Main Street businesses with access to capital and advise hardworking Americans how to create and preserve wealth. The ASA’s mission is to promote trust and confidence among investors, facilitate capital formation, and support efficient and competitively balanced capital markets. This mission advances financial independence, stimulates job creation, and increases prosperity. The ASA has a geographically diverse membership of almost one hundred members that spans the Heartland, Southwest, Southeast, Atlantic, and Pacific Northwest regions of the United States.





money in the deep and liquid U.S. capital markets should play by America's rules."² We could not agree more, and we appreciate Chairman Gensler's leadership on this critical issue.

Next Steps.

While Congress has already made great progress by passing the HFCAA, the recent losses of billions of American investor dollars in July create an urgency that requires further Congressional action.³ We believe the current interpretation of the HFCAA will allow fraudulent Chinese companies to list on U.S. exchanges for an unacceptably long period of time and harm American investors in the process.

The ASA is also concerned about the attention – or lack thereof – that U.S. exchanges have given this issue and their apparent willingness to continue to allow Chinese companies to list in the U.S. The exchanges are self-regulatory organizations governed by the SEC with an obligation to protect the American public. Preserving a business relationship with a foreign government does not supersede that obligation.

This Committee can continue to protect investors as well as the economic and national security interests of the United States by passing Chairman Sherman's *Accelerating Holding Foreign Companies Accountable Act*. This bill, also introduced by Senator Kennedy, passed the Senate unanimously and would remove non-compliant Chinese companies from U.S. exchanges starting in 2022. In the interim period, the SEC could also recommend that U.S. stock exchanges delist every Chinese company and any index fund that includes such companies until those companies comply with U.S. financial, accounting, disclosure, and governance laws.

Additional Information.

The ASA is also pleased to provide the materials below to the Subcommittee regarding the pervasiveness of the Chinese fraud perpetrated upon our markets and potential solutions for policymakers. These materials include:

- October 2019 ASA [Op Ed](#) "Why are American Investors Funding Chinese Fraud?"⁵
- June 2020 ASA [Op Ed](#): "Washington Must End China's Fraud on our Markets";⁶
- July 2020 ASA [letter](#) to the SEC regarding the SEC's roundtable on emerging market investment risk;⁷

² SEC Chair: Chinese Firms Need to Open Their Books – Wall Street Journal (opinion by Chair Gensler) September 13, 2021.

³ <https://www.wsj.com/articles/investors-rethink-china-bets-after-beijing-crackdown-triggers-stock-market-rout-11627669954>

⁵ <https://www.americansecurities.org/post/why-are-american-investors-funding-chinese-fraud>

⁶ <https://www.americansecurities.org/post/asa-opinion-washington-must-end-china-s-fraud-on-our-markets>

⁷ <https://www.americansecurities.org/post/asa-sends-letter-to-sec-highlighting-risks-to-investors-from-chinese-companies>





- March 2021 [testimony](#) before the U.S.-China Economic and Security Review Commission for its hearing entitled “U.S. Investment in China’s Capital Markets and Military Industrial Complex”;⁸ and
- May 2021 ASA [comment letter](#) to the SEC regarding implementation of the Holding Foreign Companies Accountable Act.⁹

Conclusion.

As one author put it “many in government and the private sector see political warfare waged by hostile countries against the United States as important, but not my job,” we don’t believe that applies to this Committee and how it has approached the China issue.¹⁰

We thank the members for their ongoing attention and action in this area and we stand ready to assist you in any way we can to protect America's retail investors and the integrity of our capital markets.

Sincerely,

Christopher A. Iacovella

Christopher A. Iacovella
Chief Executive Officer
American Securities Association

⁸ <https://www.americansecurities.org/post/asa-submits-testimony-to-u-s-china-commission>

⁹ <https://www.americansecurities.org/post/sec-must-swiftly-implement-holding-foreign-companies-accountable-act>

¹⁰ Political Warfare : Strategies for Combating China’s Plan to “win without fighting”, Kerry K. Gershaneck, Marine Corps University Press, 2020. <https://www.usmcu.edu/Outreach/Marine-Corps-University-Press/Expeditions-with-MCUP-digital-journal/To-Win-without-Fighting/>

