




## China—Facts, Figures and Investors

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Jane Nelson  
Director  
Rocky Mountain Chapter

j.nelson@rmchapter.org

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## Buying stock in Chinese companies

- Assumption:
  - Trading on US exchanges
  - Recommended by brokers

Therefore:

Same oversight and regulations as US companies  
Yes, -----and No.

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## China/US Investing History

### 2002—Sarbanes-Oxley Act

- Publicly traded companies have to submit to regular inspections by US regulators
  - 50 foreign jurisdictions permit
  - China refused, citing confidentiality laws
  - Get-around---Reverse mergers

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## SEC enforcement

- Signs off on Chinese companies requests for IPOs
- Closely supervises U.S. audit firms
  - Major firms' Chinese affiliates are hold outs on inspections
- 2012--SEC sued affiliates of big four firms
  - SEC won a settlement and agreement to open up books
    - Chinese firms just didn't comply
    - SEC didn't follow up

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## Situation now:

Where we are:

- 150+ Chinese companies, \$1.2Tr market cap
- Growing number of future IPOs
- Individual investors
- Pension funds and mutual funds
- Two interlocked financial markets

Possible Solutions

- Senate and House bills to fix
- Presidential working group

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## Opposed to change in status quo

Groups opposed to change:

- Investment banks
- Stock exchanges
- Asset management firms
- Finance companies
- Chinese companies

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## SEC Chairman, Jay Clayton, tenure

- Took office>>got report>>took no action
- Spokesman: Says they "continue to work on it"
- SEC still gives OK though they know China will not comply
- China:
  - Says it wants a deal
  - Says it is negotiating in good faith

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**12/18/20 Holding Foreign Companies Accountable Act**

Companies publicly listed on U.S. stock exchanges

- Must declare they are not owned or controlled by any foreign government
- Must disclose to SEC foreign jurisdictions that prevent PCAOB from conducting inspections
- Audit of specified reports for three consecutive years
- Three year deadline to set up

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**Non-compliance to HFCAA**

Result:  
Companies banned from trading and delisted from US exchanges (including OTC).

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**Some other consequences:**

- Possible compromise: co-audits?
- All those fees gone
- Companies seek secondary listings or stay local
- Some index funds have to drop
- Chinese financial markets become bigger challenger to U.S.
- Global investors have continued access
- U.S. investors have more difficult access

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**What's your access?**

Institution

- Cost of switching listings is small

Individual investor---depends upon your broker

- Fidelity and Interactive Brokers—relatively easy
- Schwab requires a global account
- Vanguard and Robinhood don't allow

- Recommended:  
Buy Mutual Funds or ETFs instead of individual stocks

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**Caveat Emptor!**


SEC Chairman Jay Clayton quote:

“If you are a U.S. investor and you invest in a non-U.S. entity and you are defrauded, the chances you’re going to get your money back are extremely low”.

**BUYER BEWARE!**  
Especially if it’s from China!

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**Questions or Comments?**

Contact at: [j.nelson@rmchapter.org](mailto:j.nelson@rmchapter.org)

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