



U.S. Government Support Grows for Nasdaq's Compliance Proposals for Chinese Companies

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Following our recent [post](#) on Nasdaq's proposed rules intended to impose stricter requirements on companies looking to go public or be listed on Nasdaq that have their businesses principally administered in certain jurisdictions defined by Nasdaq as "Restrictive Markets" (including China) or whose auditors' qualifications raise concerns and the Senate's recently passed bill to delist companies that have not had PCAOB inspections of their auditors for three consecutive years, the White House, the Secretary of State, and the Chairman of the SEC have taken actions or released statements in support of the goals of these proposals.

The White House

On June 4, 2020, the White House issued a Presidential Memorandum entitled "Memorandum on Protecting United States Investors from Significant Risks from Chinese Companies" to the Secretary of the Treasury, along with White House advisors on economic policy and national security, ordering the President's Working Group on Financial Markets (PWG) to review and make recommendations with respect to the Chinese government's actions to prevent Chinese companies from complying with U.S. investor protection regulations, such as PCAOB auditor inspections. The PWG consists of the Treasury Secretary and the Chairmen of the Federal Reserve Board, the SEC, and the Commodities Futures Trading Commission (CFTC) or their designees. The White House memorandum orders:

- The Treasury Secretary to convene the PWG to discuss the potential risks to U.S. investors and the U.S. capital markets arising from the Chinese government's actions to prevent compliance with U.S. investor protections; and
- The PWG to submit a report to the President within 60 days of June 4, 2020, with recommendations for actions the executive branch of the U.S. government, the SEC, the PCAOB, and other Federal agencies can take to protect investors in the U.S. capital markets investing in Chinese companies, to enforce compliance by audit firms, or to adopt new listing rules or governance safeguards.

Secretary of State

Also on June 4, Secretary of State Mike Pompeo released a [statement](#) in support of Nasdaq's proposed rules, commenting that "American investors should not be subjected to hidden and undue risks associated with companies that do not abide by the same rules as U.S. firms. Nasdaq's actions should serve as a model for other exchanges in the United States, and around the world."

SEC Chairman

In an interview on June 2, SEC Chairman Jay Clayton commented on the Senate proposal to delist companies that fail to comply with the PCAOB auditor inspection requirement, saying “This is a very sensible way to approach a problem that’s been around for a while This is a problem that I believe needs to be addressed and I hope it can be.” Chairman Clayton noted that the PCAOB’s inability to inspect audits of Chinese companies that trade in the U.S. creates an “unlevel playing field” for investors.

Conclusion

These actions and statements are further indications of the growing momentum from the Trump administration towards taking a firmer stance on compliance by Chinese companies choosing to access the U.S. capital markets, which will likely curb the interest of Chinese companies to list in the U.S. We will continue to monitor developments and provide updates on Winston’s Capital Markets & Securities Law Watch.

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Authors

[Michael J. Blankenship](#)

[J. Eric Johnson](#)

[Sey-Hyo Lee](#)

[John P. Niedzwiecki](#)

[Ben D. Smolij](#)

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Michael J. Blankenship



J. Eric Johnson



Sey-Hyo Lee



John P. Niedzwiecki



Ben D. Smolij

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