



SEC Chairman Pauses Chinese IPOs Via Shell Companies

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On August 16, 2021, Securities and Exchange Commission (SEC) Chairman Gary Gensler announced, via the [SEC's "Office Hours" program on YouTube](#), that he was directing SEC staff to "take a pause, for now" on approving the listings of shell company issuers associated with China-based operating companies. He noted that he was also directing SEC staff to ensure that the shell companies associated with China-based operating companies were providing "full and fair disclosure" to investors so that the public is aware that their investments are going to shell companies (typically in jurisdictions like the Cayman Islands) rather than directly in Chinese operating companies.

Chairman Gensler commented that "full and fair disclosure" in this context means providing information on the flow of money between China and the jurisdictions where the shell companies operate, as well as the political and regulatory risk associated with the Chinese government's ability to "change the rules in the middle of the game" for both operating companies in China and shell companies in jurisdictions like the Cayman Islands. Mr. Gensler went on to describe the Chinese prohibition on third-party oversight of auditing firms working with Chinese operating companies and said that if "the auditors of Chinese operating companies don't open up their books and records in the next three years, the companies – Cayman or Chinese – won't be able to be listed here in the U.S."

The pause on approvals follows Chairman Gensler's July 30, 2021 directive to the SEC's staff to require these additional disclosures and to engage in thorough reviews of issuers associated with China-based operating companies, which was discussed in our Capital Markets & Securities Law Watch [post](#) on August 3, 2021.

Capital Markets & Securities Law Watch will continue to monitor developments in this area and provide our readers with updates as they become available.

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