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House votes to delist non-compliant Chinese companies

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Hazel Bradford

Legislation that could prevent some Chinese companies from listing on U.S. exchanges passed the House late Wednesday by a voice vote.

The expedited vote on the bipartisan Holding Foreign Companies Accountable Act follows Senate passage in May. It would go to the White House for final approval, and then require rule-making to implement some of the provisions.

The bill would require foreign companies registered with the Securities and Exchange Commission to meet Public Company Accounting Oversight Board standards. Companies failing to do so three years in a row would no longer be listed in U.S. markets. The bill would also require public companies to disclose whether they are owned or controlled by a foreign government.

The bill would theoretically apply to any country, but co-sponsor Sen. Chris Van Hollen, D-Md., said China "stands alone in its non-compliance." Holding Chinese companies listed on American stock exchanges to rules that apply to other companies would be the least disruptive to the market and American shareholders, he said.

Jennifer J. Schulp, director of financial regulation studies for the Cato Institute's Center for Monetary and Financial Alternatives, agrees that Chinese companies and their auditors should play by the same basic ground rules that apply to any other company accessing U.S. markets, but she warns that broad delisting could be a potentially more harmful solution.

"It is too broad and veers into foreign policy," Ms. Schulp said in an interview. Because it only applies to publicly listed companies,, it does not necessarily protect U.S. investors and it could drive Chinese companies to other markets. "It can hurt U.S. market competitiveness as well," she said.