



CENTER FOR CAPITAL MARKETS  
COMPETITIVENESS

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July 8, 2020

Ms. Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

**Re: July 9, 2020 Roundtable on Emerging Markets Risks**

Dear. Secretary Countryman:

The U.S. Chamber of Commerce (“Chamber”) welcomes the opportunity to comment on topics to be discussed at the upcoming Securities and Exchange Commission (“SEC” or “Commission”) Roundtable on Emerging Markets Risks (“Roundtable”). We appreciate the SEC once again soliciting the views of a wide variety of market participants on issues critical to the functioning of our capital markets.

The Roundtable will explore many of the unique risks inherent in certain emerging markets and ways to ensure that investors are fully informed before making investment decisions. More specifically, the Roundtable will discuss the growing concern around the ability of U.S. regulators to inspect the audit firms of companies based in certain countries, specifically China.

The SEC and Public Company Accounting Oversight Board (PCAOB) have issued several joint statements over the last two years highlighting the risks to American investors over the PCAOB’s inability to inspect auditors in foreign jurisdictions. An April 2020 joint statement from SEC Chairman Clayton, PCAOB Chairman Duhnke, and SEC staff noted that “investors and financial professionals should consider the

potential risks related to the PCAOB's lack of access to the work of PCAOB-registered accounting firms in China."<sup>1</sup> The SEC and PCAOB have also engaged in a number of discussions with audit firms relating to audit quality in the emerging markets, including China, as well as certain of the challenges faced in auditing public company operations in these markets.

Concerns over this issue were brought into the spotlight recently as two U.S.-listed Chinese companies – Luckin Coffee and TAL Education – both announced significant accounting irregularities, leading to significant drops in their stock price.

Congress has also recently started taking action to address regulatory differences in financial reporting between the U.S. and foreign-based businesses. The U.S. Senate recently passed by unanimous consent the “Holding Foreign Companies Accountable Act”<sup>2</sup> which would prohibit a company from being listed on a U.S. exchange if the PCAOB has been unable to inspect the company's financial statement audit for three consecutive years. Additionally, the legislation would require non-U.S. businesses to disclose whether they are “owned or controlled by a governmental entity” in their home jurisdiction. The House of Representatives is currently considering such a legislative approach as well.

The Chamber has watched these developments with great interest, as we have consistently emphasized the importance of strong internal controls and financial reporting standards for U.S.-listed entities. Investors must have confidence in the financial statements of the companies they are invested in, and we believe that legislative and regulatory actions taken over the last two decades have made our capital markets the most reliable in the world. Any developments that undermine that confidence must be properly addressed by regulators and Congress, where appropriate.

The Chamber has long advocated for increased information sharing between U.S. and Chinese regulators and have urged both countries to develop an agreement on these matters in order to avoid a de-listing of Chinese companies in the United States.

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<sup>1</sup> Emerging Market Investments Entail Significant Disclosure, Financial Reporting and Other Risks; Remedies are Limited (April 21, 2020). <https://www.sec.gov/news/public-statement/emerging-market-investments-disclosure-reporting>

<sup>2</sup> S. 945, <https://www.congress.gov/bill/116th-congress/senate-bill/945>

The Chamber testified in 2013 before the U.S.-China Economic and Security Review Commission regarding this issue and potential solutions. As stated in that testimony, failure to resolve the Chinese audit issue could result in significant economic harm to the United States and further damage our bilateral relationship with China. A de-listing process in the United States may result in retaliation by Chinese regulators which could impact the ability of U.S. businesses to prepare suitable filings with the SEC.<sup>3</sup>

Regrettably, little progress has been made on this issue over the last decade and Congress is understandably growing impatient as the risks to U.S. retail investors continue to grow. As the Chamber stated in our 2013 testimony: “failure to conclude an information-sharing agreement will feed the perception within China and globally that China’s capital markets are a parlor game thereby inhibiting stable access to capital for their businesses causing a misallocation of resources that may harm the Chinese economy.” The bipartisan passage of the Holding Foreign Companies Accountable Act is a reflection of this failure by Chinese authorities to allow for proper inspections of firms whose issuer audit clients are listed in the United States.

Transparency and disclosure are fundamental pillars of the American economy. Any company, domestic or foreign, that cannot abide by U.S. securities laws or regulations or exchange listing standards should not be listed on U.S. stock exchanges. At the same time, any legislative or regulatory action to address this issue should not lead to U.S.-based multinationals being delisted from U.S. exchanges. The Chamber recently encouraged the House of Representatives to take this concern into account when considering the companion legislation to S. 945.<sup>4</sup> The Chamber also encourages the SEC to provide a definitive course of action on this concern.

We thank the SEC for taking up this critical issue and for holding a public forum to solicit a diverse set of views. The Chamber stands ready to assist on this matter and to be a resource for regulators and Congress.

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<sup>3</sup> <https://www.centerforcapitalmarkets.com/wp-content/uploads/2010/04/US-China-Economic-Security-Review-Commission1.pdf>

<sup>4</sup> [http://www.centerforcapitalmarkets.com/wp-content/uploads/2020/06/200625\\_US-Chamber-Letter\\_CoronavirusImpactonCapitalMarketsHearing\\_InvestorProtectionSubcom.pdf?#](http://www.centerforcapitalmarkets.com/wp-content/uploads/2020/06/200625_US-Chamber-Letter_CoronavirusImpactonCapitalMarketsHearing_InvestorProtectionSubcom.pdf?#)

Ms. Vanessa Countryman

July 8, 2020

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Sincerely,

A handwritten signature in black ink, appearing to read 'TK' followed by a long, sweeping horizontal stroke.

Tom Quaadman

Cc: Chairman Jay Clayton

Cc: Commissioner Hester Peirce

Cc: Commissioner Elad Roisman

Cc: Commissioner Allison Herren Lee