Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act

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Background: Currently, U.S. regulators face significant challenges in conducting oversight for the audits and financial reporting of Chinese companies listed on American stock exchanges. This presents a threat to American investors and U.S. capital markets. According to a joint statement by the SEC and PCAOB from December 2018:

> *The business books and records related to transactions and events occurring within China are required by Chinese law to be kept and maintained there. China also restricts the auditor's documentation of work performed in the country from being transferred out of China… China's state security laws are invoked at times to limit U.S. regulators' ability to oversee the financial reporting of U.S.-listed, China-based companies. In particular, Chinese laws governing the protection of state secrets and national security have been invoked to limit foreign access to China-based business books and records and audit work papers.*

American stock exchanges list Chinese companies, including state owned enterprises, which are widely shielded by their government from the full oversight of American financial regulators. Chinese companies listed on American exchanges face a different set of standards than companies headquartered elsewhere. As of 2017, these U.S.-listed Chinese companies had a market capitalization of approximately $1.2 trillion- including over $120 billion in pension funds, retirement plans, mutual funds, and exchange-traded funds.

The problem is not limited to companies wholly operating or headquartered in China. International firms with operations in China are often audited in part by local firms, out of reach to U.S. regulators. According to the Wall Street Journal, "As of November 2017, the accounting board hadn't inspected 21 Chinese and Hong Kong firms auditing 250 U.S.-listed companies, according to PCAOB data."

EQUITABLE Act**:** U.S. regulators should have access to review audits for Chinese companies in the same manner in which they review those of firms in any other nation. The *EQUITABLE Act* would delist foreign companies that do not comply with U.S. accounting and oversight regulations from American exchanges, subject to a grandfather provision, in order to avoid sudden losses to existing shareholders. Prior to the onset of this provision, non-compliant companies will be subject to a robust disclosure regime in order to inform investors of their risk and to price this uncertainty into the market. The bill also places an initial listings ban on foreign companies seeking to list on U.S. exchanges that retain the services of public accounting firms whose audit reports have been withheld from U.S. regulators.