

# United States Senate

February 24, 2022

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, D.C. 20549

Dear Chair Gensler:

In the year since your nomination to be Chair of the U.S. Securities and Exchange Commission (SEC), Communist China's threat to the economic security of our nation and American investors has continued to grow with little substantive action from the SEC to protect our exchanges.

Chinese companies, which are predominantly controlled by the Chinese Communist Party, refuse to play by the same rules, regulations and transparency standards as every other company on our exchanges, which opens the door to adverse activities, including insider trading, accounting fraud, and corporate governance concerns that could put U.S. investors at risk. I've been disappointed by the SEC's lack of action to address these risks, especially for passive investors in pension and mutual funds, and exchange-traded funds (ETFs) that track indexes.

Risks to American investors posed by Chinese companies stem not only from their legal structure, but also from their underlying business practices and Communist China's arbitrary actions. In many cases, investors in these dangerous Chinese companies, particularly those utilizing a variable interest entity (VIE) structure, have no recourse of the rule of law and are left unprotected and uncompensated should these companies falter. Many Chinese companies take full advantage of this loophole, as they are able to list on our exchanges and extract U.S. capital while the U.S. investor is left on the hook, owning shares of a shell company that holds no real value with no legal recourse for any possible malpractice the Chinese company may commit. Even worse, this occurs with no real, accessible or meaningful warnings in place or consequences enforced by the SEC, leaving most Americans completely unaware of these unique and significant financial risks.

The Honorable Gary Gensler  
February 24, 2022  
Page Two

It is also extremely alarming that some companies within our exchanges are benefitting from Communist China's atrocities and utilizing forced labor of Uyghurs from China's Xinjiang region in their supply chains. The United States of America must always stand for freedom and democracy at home and abroad, and our financial markets should be a reflection of that.

Given these serious concerns, I request your prompt response to the following questions:

1. Since taking office in 2021, what has the SEC done to combat the threat and exposure of Communist China to U.S. investors?
2. How does the SEC plan to hold Communist China and Chinese-based companies accountable and advance the goal of investor protection over the next year?
3. Do you believe Chinese-linked VIEs and their IPOs pose an increased and specific risk to U.S. investors? What action can the SEC take to address these risks?
4. Should U.S. exchanges and index funds do more to disclose the risks and threats of investments in companies linked to Communist China?
5. Do you believe companies that are required to file annual reports with the SEC should also be required to disclose any ties to the Communist Party of China and use of forced labor in their supply chains?

Thank you for your attention to this important matter and consideration of these issues. I look forward to hearing from you and working together to safeguard American investors from threats posed by Communist China and preserve the integrity of our financial markets.

Sincerely,



Rick Scott  
United States Senator