

# United States Senate

January 3, 2024

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

Dear Chair Gensler:

On November 27, 2023, SHEIN filed for a U.S. Initial Public Offering (IPO) with the Securities and Exchange Commission (SEC).<sup>1</sup> If approved, this IPO would become one of the most valuable Chinese-founded companies listed on American financial exchanges. As companies in Communist China, which are largely, if not wholly, controlled by the Chinese Communist Party (CCP), continue to operate in ways that are evasive and noncompliant with the quality standards that our capital markets demand, SHEIN's IPO filing is extremely concerning and presents real risk to U.S. markets and investors.

We already have disturbing examples of companies tied to the CCP that pose serious financial risks to American investors. In July 2020, an independent investigation found that Luckin Coffee<sup>2</sup> inflated its sales by \$2.12 billion Yuan (\$300 million USD). This fraudulent activity led to a more than 90 percent loss in the value of the stock, erasing more than \$11 billion in market value on the NASDAQ exchange.<sup>3</sup> That is \$11 billion dollars of American investors' money that was destroyed due to the deceptive Chinese companies' tactics and the lack of accountability at the SEC. As a result, the SEC imposed a mere \$180 million fine on Luckin Coffee.<sup>4</sup> This is a drop in the bucket for what this company took from investors, yet we continue to entertain Communist Chinese companies and those directly tied to it, as listing in our markets.

What is more concerning is that the SHEIN listing could be valued at over \$90 billion,<sup>5</sup> which is more than seven times larger than the Luckin Coffee's valuation, potentially setting up American investors with even more dire consequences should things go wrong.

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<sup>1</sup> <https://www.nasdaq.com/articles/chinese-fast-fashion-retailer-shein-files-for-u.s.-ipo-wsj>

<sup>2</sup> <https://www.reuters.com/article/us-luckin-coffee-investigation-nasdaq-idUSKBN22W1VR/>

<sup>3</sup> <https://fortune.com/2022/05/22/luckin-coffee-china-wall-street-listing-nasdaq-scandal-fraud-starbucks/>

<sup>4</sup> <https://www.sec.gov/news/press-release/2020-319>

<sup>5</sup> <https://www.cbsnews.com/news/shein-ipo-stock-going-public-heres-what-to-know/>

Further, due to its history and very close ties with the CCP, SHEIN may be listed as a variable interest entity (VIE). As you know, this financial vehicle allows companies to set up shell companies and use those shell companies as a representative structure on our financial exchanges. This means a VIE structure gives the U.S. investor no direct equity ownership in the company itself.<sup>6</sup> As a result, every American investing in a VIE company has little to no legal recourse if the said company were to provide fraudulent financial reports like Luckin Coffee did.<sup>7</sup> This is an unacceptable way for any Communist Chinese-linked company to enter into our markets.

I appreciate your leadership in previously freezing any new IPOs incorporated as VIEs from being listed on our financial exchanges,<sup>8</sup> and I hope this policy will continue to apply to any future VIE-structured companies who try to list on U.S. exchanges moving forward.

With these serious concerns in mind, I write to ask you the following questions:

- Will you continue your policy of not allowing IPOs of companies structured as VIEs to list on American exchanges? Will you allow SHEIN to be listed if they file as a VIE?
- Will you hold SHEIN to the same scrutiny as American-based, domestic companies during the SEC's discussions with SHEIN during the IPO due diligence process?
- Why should the American people trust another CCP-controlled company to list on American exchanges after recent IPO disasters like Luckin Coffee?
- Do you have complete faith that a company like SHEIN, with its close ties to Communist China, would be able to fully and completely comply with the Holding Foreign Companies Accountable Act and U.S. laws regarding audits and Public Company Accounting Oversight Board (PCAOB) inspection? How will the PCAOB be able to maintain strong accountability from a company that already lacks transparency?

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<sup>6</sup> <https://www.investopedia.com/terms/v/variable-interest-entity.asp>

<sup>7</sup> [https://analytics.wharton.upenn.edu/wp-content/uploads/2022/02/Luckin\\_Case\\_Study.pdf](https://analytics.wharton.upenn.edu/wp-content/uploads/2022/02/Luckin_Case_Study.pdf)

<sup>8</sup> <https://www.cnbc.com/2021/08/23/sec-gives-chinese-companies-new-requirements-for-us-ipo-disclosures.html>

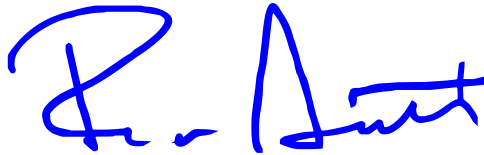
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Please provide prompt and detailed responses to these questions. The American federal government must halt Communist China's harmful financial influence and protect American investors' capital. I look forward to beginning a productive dialogue on how to maintain the quality standards that make the United States financial markets the premier markets around the world.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rick Scott". The signature is stylized with a large initial "R" and a prominent "S".

Rick Scott

United States Senator

Cc:

Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission

Caroline A. Crenshaw, Commissioner, U.S. Securities and Exchange Commission

Mark T. Uyeda, Commissioner, U.S. Securities and Exchange Commission

Jaime Lizarraga, Commissioner, U.S. Securities and Exchange Commission