

## China responds to aggressive moves in US capital markets

China, Hong Kong SAR and Singapore are bracing themselves for those firms no longer supported by the US capital markets

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As the US continues with moves to alienate Chinese companies from its capital markets, China's top securities regulator has suggested that claims of foul play on its part are unwarranted.

The China Securities Regulatory Commission (CSRC) has rebutted claims that it refuses to cooperate with the US Securities and Exchange Commission (SEC), with chairman Yi Huiman stating that the regulator has proactively sought to build a mutually acceptable mechanism for inspection with the US, while calling for unity between the two countries' authorities.

"We should establish a high degree of mutual trust between regulators through adequate communication and coordination, and on the basis of that, jointly set up a law enforcement mechanism against cross-border securities misdeeds," said Yi in [an interview with Chinese business magazine Caixin](#).

As [reported by IFLR last month](#), on May 20, the US Senate passed a bipartisan bill legislating for measures that would prevent from listing any Chinese company that did not meet US auditing standards. In the same month New York-based stock exchange Nasdaq announced new restrictions on initial public offerings (IPOs) below \$25 million on the exchange – or 25% of market cap – which it is thought will directly impact smaller Chinese firms looking to list.

These moves came after alleged refusals by Chinese authorities to allow the SEC or the Public Company Accounting Oversight Board (PCAOB) to audit Chinese companies listed in the US, such as the scandal-rocked Luckin Coffee.

The coffee chain's 2019 financial statements have come under great scrutiny after the company was reported to have grossly inflated quarterly sales. The company was delisted from the Nasdaq exchange, but not before it had raised several hundred million dollars in follow-on share sales.

“Chairman Huiman has basically started walking back the reluctance – or the opposition of China – to allow SEC or PCAOB investigations. This is done under pressure, because that's the underpinning of Senator Kennedy's bill calling for the delisting of Chinese companies,” said Dan McClory, head of equity capital markets and China at Boustead Securities.

*See also: [US equity market tightens noose on Chinese listings](#)*

The statement implies that China is fine with US inspections – as long as they take place between the regulators of both countries in tandem.

“Sometimes Chinese regulators will make statements that are seemingly conciliatory and representative of an openness and outreach when really they are not – but I think this one might be,” added McClory. “They are under pressure because they do not want to see a trillion dollars of market cap delisted in the next three years. Before they were set against it; now they are saying it can definitely happen. They appear to just want it to happen jointly.”

#### **Do they really care?**

While these moves appear highly significant, sources suggest that regulators in China are unphased by the SEC and Nasdaq's threats. Recent actions from the People's Bank of China (PBOC) to repair economic damage are proving to have a positive impact. As the world's second largest economy emerges from the Covid-19 pandemic, snipes from US exchanges and regulators undoubtedly have less significance.

Just this week, the Chinese economy was the first international superpower to rebound from the negativities of the pandemic and return to previous levels of growth, following a 6.8% contraction in the first quarter of 2020.

“I don't think it really matters if firms list in Hong Kong SAR instead, or Shenzhen for that matter,” said Ilya Feygin, senior strategist at securities brokerage Wallachbeth Capital. “These companies are going to be the centre of the universe in Asia anyway, no matter what the regulators do.”

According to Feygin, the positive action that has come from China this year is more important. The PBOC launched a \$79 billion stimulus effort in March to help companies impacted by the virus. The bank has also cut reserve requirements for banks: a move that freed up a substantial amount of capital ready for lending.

On top of this, the bank cut the rate on reverse repurchase agreements by 20 basis points in March: the biggest such cut in five years.

*See also: [Cfus filing fee a hindrance but unlikely to curb deal flow](#)*

“This lifted our share performance over everything else. Overwhelmingly, the news has been positive from the Chinese market. As long as the virus cases are contained to small areas, investors can ignore a listing issue,” added Feygin.

“Everything is international these days. It doesn't really matter if a stock is listed in Shenzhen, Bangkok, or New York. Eventually we are going to get to it, and firms are going to get to their correct valuations. This has all been overblown.”

#### **Windfalls**

There have been suggestions that with some Chinese firms forced to delist from US exchanges they will turn to Hong Kong SAR and Singapore over Shenzhen or Shanghai. For example Ant Group, owner of Alipay and subsidiary of Alibaba, [this week announced plans](#) to list simultaneously in Hong Kong SAR and Shanghai. This comes despite parent group Alibaba still being listed on the NYSE.

Listing on HKEX is far from risk-free though, especially given the US' hardline stance on the territory following China's recent power grab.

The Asian listing market is highly competitive. "For displaced Chinese firms, Hong Kong SAR is the obvious place to be listed. The rub is in what will happen to Hong Kong SAR given what the US is doing to reduce preferences there," said Harry Broadman, partner and managing director of the emerging markets practice at Berkeley Research Group.

"For most Chinese firms, if it can't be London, Frankfurt or another big stock exchange, it's most likely to be Hong Kong SAR," he added.

According to Broadman's calculations, foreign direct investment (FDI) flows into Hong Kong SAR are significantly higher than into China. "It's a tiny territory that's attracting 13 times as much foreign direct investment per GDP than this huge elephant. It shows that investors find Hong Kong SAR to be an extraordinarily hospitable environment in which to invest – and to list."

He finds that Hong Kong SAR's FDI to GDP is 27% while China's is only 2%. Broadman notes, "Although China, itself, is a big investor in Hong Kong SAR, 75% of the cumulative FDI into Hong Kong SAR is from the rest of the world. That's why Beijing covets Hong Kong so much, which Washington does not seem to understand."

*See also: [India takes steps to prevent unwanted Chinese takeovers](#)*

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