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Will China Allow Stock Delisting to Proceed?

By: www.ProfitableInvestingTips.com

A bill passed by the US Congress requires foreign stocks listed in the US to comply with the same requirements as domestic companies. This will be a problem for many Chinese stocks listed on the New York Stock Exchange and Nasdaq if they do not give American regulators complete access to their audit work papers by 2024. According to Securities and Exchange Commission head Gensler the ball is in China's court. Will China allow their companies to comply with the same rules that all stocks need to comply with or will China allow stock delisting to proceed?

Protecting Investors from Disinformation

In order to provide a level playing field for investors, the SEC and US stock exchanges have [requirements](#) that companies provide the sorts of information necessary for investors to make informed decisions about their investments. A chronic problem with Chinese companies listed in the US is that they do not provide complete and accurate information and, as such, put US investors at risk of losses. More than two hundred companies from China are at risk of losing their listing if they do not comply by 2024. Mr. Gensler says that talks with the companies and Chinese authorities are ongoing but basically the ball is in the Chinese government's court. A major concern of the Chinese appears to be that many companies have ties to or partial control by the central government and Communist Party. Some have ties to the Chinese security apparatus. China clearly sees this as a security concern. For the SEC the issue is not Chinese governance or security but complying with a US law meant to protect all who invest on US exchanges.

Investor Protection Lacking for Two Decades

China has gotten huge benefits from entering the world economy. They have become the dominant industrial power and the workshop for the world. They have gotten huge sums of foreign investment and large amounts of foreign technology. Investors have reaped rewards from their investments in China and investors have been burned badly by required technology transfers. Investors in the US have also been burned by Chinese companies that misrepresented their finances and have not granted access for audits. The US is not asking for any more than what is required of all other stocks listed in the US, sufficient financial information to allow investors to make accurate decisions. This has been lacking for more than twenty years which is why Congress acted and passed a law. As a matter of precedent, many other nations allow American officials to audit the books of their companies, scrutinize documentation, and interview local accountants. The two glaring exceptions are Hong Kong and China.

Publication of Provisional List for Delisting Fuels Chinese Stock Declines

The process has been very public but nevertheless publication of the "provisional list" of possible delisting drove stock prices down throughout the entire range of Chinese stocks listed in the US. If this wholesale

delisting of stocks goes forward there will certainly be substantial price fluctuations as investors flee those stocks instead of continuing to invest via markets controlled by China. For these companies over the long term their prosperity will depend on China's economy and governance. It will also depend on the movement to invest anywhere but in China as more and more nations worry about having their supply chains controlled by not only China's [zero tolerance covid lockdown policies](#) but also China's dreams of global hegemony. We expect to see the US and EU especially move to bring critical industries and material sourcing back "onshore" which will probably make a bigger dent in Chinese stocks than the expected delisting in 2024.

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