

President's Working Group on Financial Markets Releases Report and Recommendations on Protecting Investors from Significant Risks from Chinese Companies

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WASHINGTON – In response to President Trump's June 4 Memorandum on Protecting United States Investors from Significant Risks from Chinese Companies, the President's Working Group on Financial Markets (PWG) today released a report making five recommendations. These recommendations are designed to address risks to investors in U.S. financial markets posed by the Chinese government's failure to allow audit firms that are registered with the Public Company Accounting Oversight Board (PCAOB) to comply with U.S. securities laws and investor protection requirements.

“The PWG examined the risks to investors posed by the Chinese government's failure to allow access. The PWG unanimously recommends that the Securities and Exchange Commission take steps to enhance the listing standards on U.S. exchanges for access to audit work papers, among other recommendations,” said Secretary Steven T. Mnuchin, Chairman of the PWG. “The recommendations outlined in the report will increase investor protection and level the playing field for all companies listed on U.S. exchanges. The United States is the premier jurisdiction in the world for raising capital, and we will not compromise on the core principles that underpin investor confidence in our capital markets.”

The PWG recommends that the SEC take steps to implement the five recommendations outlined in the report. In particular, to address companies from jurisdictions, such as China, that do not provide the PCAOB with sufficient access to fulfill its statutory mandate (“Non-Cooperating Jurisdictions,” or “NCJs”), the PWG recommends enhanced listing standards on U.S. exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate

inspection of the co-audit firm. To reduce market disruption, the new listing standards could provide for a transition period until January 1, 2022 for currently listed companies.

The other recommendations include requiring enhanced and prominent issuer disclosures of the risks of investing in certain NCJs such as China; enhancing registered fund disclosures for funds exposed to issuers from NCJs; encouraging or requiring registered funds that track indexes to perform greater due diligence on an index and its index provider; and issuing guidance to investment advisers with respect to fiduciary obligations when considering investments in NCJs.

In addition to the Secretary of the Treasury, the PWG includes the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities and Exchange Commission and the Chairman of the Commodity Futures Trading Commission. The PWG also sought the views of the Federal Reserve Bank of New York, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation in preparing its report.

[View the President's Working Group on Financial Markets: Report on Protecting United States Investors from Significant Risks from Chinese Companies](#) 

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