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Holding Foreign Companies Accountable Act - U.S-China

Why in news?

The US Senate recently passed a Bill by a unanimous vote that could delist some Chinese companies from selling shares on American stock exchanges.

What is the Bill about?

- The Bill is titled as 'Holding Foreign Companies Accountable Act.'
- It is in relation to foreign companies that have been operating on US stock exchanges while flouting Securities and Exchange Commission (SEC) oversight.
- The Bill aims at protecting American investors and their retirement savings from this.
- The Bill must be passed by the House of Representatives and signed by US President Donald Trump before it becomes law.

What are the provisions?

- The Bill prohibits securities of a company from being listed on any of the US securities exchanges if the company fails to comply with the PCAOB audits for 3 years in a row.
- [The Public Company Accounting Oversight Board (PCAOB) was set up to inspect audits of public companies.
- This is to ensure that the information companies provide to the public was accurate and trustworthy.]
- The Bill also requires public companies to disclose whether they are owned or controlled by a foreign government including China's Communist government.

What is the need now?

- Many Americans invest in US stock exchange as part of their retirement savings.
- According to the SEC, over 224 US-listed companies are located in countries where there are obstacles to PCAOB carrying out audits.
- These companies have a combined capitalisation of over $1.8 trillion.
- Dishonest companies operating on the exchanges put Americans at risk.
- This legislation protects the interest of hardworking American investors.

- It ensures that foreign companies traded in America are subject to the same independent audit requirements that apply to American companies.
- Significantly, Chinese companies traded in the US have routinely avoided the SEC's rigorous company-specific disclosure and audit regulations.
- The Chinese government refuses to allow the PCAOB to inspect audits of companies that are registered in China and Hong Kong.
- This poses a substantial risk to Americans who want to invest in such companies.
- Moreover, in the last 10 years, an increasing number of Chinese companies are listing themselves on US stock exchanges.
- Most recently, the shares of the Chinese company Luckin Coffee dropped after an accounting fraud came to light.
- In April 2020, the company's shares dropped by over 80% after fake transactions to the tune of $310 million were revealed.
- [China's Luckin Coffee is considered to be a competitor of the American coffee chain Starbucks.]

What does this mean for Chinese companies?

- While the Bill applies to all foreign companies, it is targeted specifically at China.
- The Bill offers a level playing field and gives investors the transparency they need to make informed decisions.
- In order to comply with the requirements of the Bill, Chinese companies may have to break state secret laws in China.
- Therefore, the Bill might be a way to encourage the Chinese government to take a re-look at its laws.
- Also, the move comes amidst rising tensions between the two countries over the COVID-19 pandemic.

What are the other China-related bills in the US?

- This is not the first time the US has passed a Bill targeting China.
- In November 2019, the House of Representatives approved the Senate's version of the Bill titled, 'Hong Kong Human Rights and Democracy Act.'
- This required the US Secretary of State to annually certify if Hong Kong retains enough autonomy to be eligible for special treatment by the US.
- As per the Bill, the US can also impose sanctions on individuals responsible for human rights violations in Hong Kong.
- As of November 2019, over 150 China-related legislations were pending in the US with the aim to counter Beijing.
- The subjects of these legislations include the mass internment of Uygurs, cyber-security and Taiwan and the South China Sea among others.

Source: Indian Express