U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

Hearing on "Corporate Accountability, Access to Credit, and Access to Markets in China's Financial System – Rules and their Ramifications for U.S. Investors"

Opening Statement of Commissioner Robin Cleveland
March 07, 2013
Washington, DC

In 2006, three of the four largest Chinese Banks launched Initial Public Offerings. Selling off a 10.5% stake in its business, the Bank of China issued over 25 billion shares raising $9.7 billion ranking in 8th in US IPO history. This record level was invested despite corporate documents disclosing 75 cases of fraud and over $150 million in criminal conduct by employees.

Ranking 1st and 2nd in the largest IPOs in US history are the Agricultural Bank of China yielding $19.2 billion and the Industrial and Commercial Bank close on its heels at $19.1 billion. These numbers are staggering, especially when compared to the other top ten IPOs. Visa, which raised $16 billion, did so after 31 years as a proven private enterprise.

Not all offerings are on this scale, but whatever the size, Chinese expansion into US capital markets presents both opportunities and risks for companies and investors alike. There is substantial opportunity in the twin pledges made by the Chinese leadership to improve the transparency, governance and functioning of capital markets and to expand access for foreign financial service firms with the knowledge, experience and products to improve productivity and growth. If, and it is a big if, these commitments are implemented, they not only will protect American shareholders and investments in China, but also will support essential rebalancing of the Chinese economy strengthening consumer demand and access to reliable returns.

On the other hand, if the status quo is maintained, the risks are significant. Failure to move forward on standards of governance and accountability, continued misallocation of resources to protect state-owned enterprises and Banks and secretive mishandling of non-performing loans will compromise China's economic potential sooner rather than later.

Accounting scandals and fraud already have prompted US regulators to de-list dozens of Chinese companies with many others losing substantial market value. 64 of 154 Chinese companies listed last year are trading well below their initial price.

Confidence in securities market transactions depends on a reliable transnational audit regime – an agreement which continues to elude the SEC, the Public Company Accountability Oversight Board and the China Securities Regulatory Commission. While it may be understandable, I view it as unfortunate that the SEC recently chose to take legal action against US auditors' inability to release working papers. A resolution is in all parties' interest and I hope options for the path ahead are offered by our witnesses today.

While Mr. Walter has noted, capital begins and ends with the big four banks which control over $16 trillion in assets, the future of growth may depend on the access China's 42 million small and medium private enterprises have to capital. In her testimony Ms. Prasso observes SMEs contribute 60% of GDP and 80% of urban employment yet rely on an unregulated shadow banking system which includes investments in trusts and wealth management products that sound too much like CDOs. I welcome our witness' observations on domestic lending procedures, priorities and problems. A pilot SME lending program in Wenzhou seems promising but so too would accelerating and expanding US financial services firms access and impact on the market.

By the end of the day, I hope we have a full picture of US access to Chinese financial markets, the banking, equity and financing resources available to Chinese firms as well as the rules and governance mechanisms which assure accountability and protect American investors.