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Chinese tech stocks tumbled after SEC's measures amid the worries over delisting

US-listed Chinese companies are gaining traction amid Securities and Exchange adopted a new law that would kick overseas companies off American stock exchanges if they do not comply with U.S. auditing standards, which was initially signed into law the Foreign Company Accountability Act during Trump administration in late 2020. The rules stipulate that Chinese companies publicly listed in the US risk facing delisting if they fail to comply with U.S. auditing rules for three consecutive years and need to reveal if the company is owned or controlled by a governmental entity and to name any board members who are Chinese Communist Party officials. The move adds unprecedented tension to regulatory crackdown to Chinese technology companies, fell sharply after the news about the new rules broke.

China's Response

China has long refused to let the US Public Company Accounting Oversight Board (PCAOB) examine audits of firms whose shares trade in America, citing national security concerns. Refer to the SEC's recent action, China's Foreign Ministry said the SEC decision would hurt the reputation of U.S. capital markets. The Chinese representative Hua Chunying indicated that such action is discriminatory against Chinese companies, it is political suppression of Chinese companies listed in the US, in terms of depriving of the U.S. public and investors in sharing in Chinese businesses' growth. She added that U.S should stop politicizing security regulation and provide a fair business environment for all businesses listed in the U.S.

The First Reaction for these Chinese Concept Stocks

The news prompted a sharp sell-off of the US-listed and dual-listed Chinese technology shares in US and HK as fears some companies could be delisted from U.S. stock exchanges. For those US-listed Chinese concepts stocks, iQiyi closed down 20%, Pindoudou slipped near 9% and Bilibili fell over 9% in US on 24 Mar. As compare to the broader Hong Kong Hang Seng Index dropped just as slightly as 0.07%, Alibaba eased 4%, Baidu was down over 9%, JD was 4% lower and NetEase fell over 2% on 25 Mar. On the other hand, HKEX become the beneficiary, its stock price rose over 3% as it is expected the result of assuming more homecoming listings from China US-listed stocks.

The Ultimate Impact

Most of Chinese tech companies slipped amid worries over on U.S. new law if they fail to comply with auditing standards will get delisting. We think that we should divide the impact of the new measures on Chinese Concept Stocks into three levels. The negative impacts to the Chinese Concept Stocks should be highly dependent on whether they have the second listing place.

1. Dual-listed Chinese concept stocks
   Even if the law is implemented, the negative impacts to these companies are limited as they already had secondary listing, regardless if they are delisted in the United States as investors can still trade the stock in the secondary listing place. Moreover, even though if they are delisted in the United States it will not have any substantial impacts to the companies' operations, such as its revenue, its profit, nor its long-term development.

2. For those Chinese concept stocks without dual listing at the moment, but it is expected they are planning second listing or the company's scale is relatively big so that can apply for a second-place listing at any time.
   In addition, even though if they are delisted in the United States it will not have any substantial impacts on the daily operations, such as revenue, profit, and long-term development.

3. For those Chinese concept stocks currently do not have a secondary listing, and the size of the company is relatively small or the company's shareholding structure is too complex, there will have certain concerns that they may not meet the requirements for secondary listing
   In contrast, even though there are no substantial impacts to the operations of these companies if they are delisted in the United States but because it is hard for them to find a suitable secondary listing place in the short term, once they get delisted, investors may suffer severe liquidity risk as investors are not able to trade the stock in the formal exchange any more (investors may be able to trade the stock through the OTC, but it may be very costly and the liquidity may be very limited).

Despite President Biden took office promising to move quickly to restore and repair U.S. relationships with the rest of the world, but one nation- China yet to see any effort to improve the tie. As we can tell from the above there is no relief to tensions between U.S. and China even under Biden administration in short term. And the backdrop clearly is both U.S. and China are engaged in a duel for global dominance. Any country that threatens the US's place as the greatest economic power in the world would be seen as an enemy. Thus, we still think that don't expect any significant improvement in Sino-US relations in near term, at least in 2021.

Source: Bloomberg, BBC News, SCMP, Apple Daily, AP News, Investing.com, Yahoo Finance, Market Watch

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