

US-China Latest Developments

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SEC Commissioner Paul Atkins Promises Increased Enforcement of US-Listed Chinese Companies

By Kenneth P. Herzinger and Erin Zatlin

During Securities and Exchange Commission Chairman Paul Atkins' Senate confirmation hearing, a lawmaker asked him, "Would [you] investigate Chinese companies for ... wanton and blatant violations of U.S. disclosure laws that have gone unchecked for years?"

Atkins [confirmed that he would](#), helping him narrowly secure his confirmation with just 52 votes. This question came amid recent renewed focus on the need for stronger regulatory enforcement of Chinese companies listed on U.S. stock exchanges.

For example, on May 2, 2025, Chairman John Moolenaar (R-Mich.) of the House Select Committee on the Chinese Communist Party and Chairman Rick Scott (R-Fla.) of the Senate Committee on Aging sent [a letter to Chairman Atkins](#) on the same topic, asking him to take action on delisting Chinese companies by using "existing authorities to protect U.S. markets, investors." The letter references a number of Chinese companies listed on U.S. stock exchanges, alleging that the companies "benefit from American investor capital while advancing the strategic objectives of the Chinese Communist Party (CCP), supporting military modernization and gross human rights violations ... [and] they also pose an unacceptable risk to American investors."

U.S. state financial regulators also penned [a letter to Chairman Atkins](#), similarly urging him to investigate delisting China-based issuers from U.S. stock exchanges. The letter alleges that the "Chinese government's actions create an environment of opaqueness that is antithetical to the reporting requirements and fraud prohibitions of the Securities Exchange Act[.]"

This is not to say these efforts have not been met with some backlash. Recently, Shineco Inc., a Chinese health products and services company, [sued Nasdaq](#), alleging that the exchange selectively applied new listing requirements retroactively to remove itself and other Chinese companies from the U.S. capital markets. Still, the pressure to increase scrutiny on U.S.-listed Chinese companies continues to rise.

According to data from the U.S.-China Economic and Security Review Commission, as of March 7, 2025, there were 286 Chinese companies listed on the largest three U.S. stock exchanges, with a total market capitalization of \$1.1 trillion. These companies need to be aware of the potential for increased enforcement against violations of U.S. federal and state securities laws by the SEC and state regulators which have jurisdiction over any foreign company listed on a U.S. stock exchange (see *In re Petrobras Sec. Litig.*, 116 F. Supp. 3d 368, 386 (S.D.N.Y. 2015)), as well as lawsuits by plaintiffs pursuing securities class actions.

The SEC [has long made clear](#) that it will assert jurisdiction over foreign issuers, despite any potential challenges: “Public issuers who access our markets, regardless of where they are located, must not provide false or misleading information to investors ... While there are challenges in our ability to effectively hold foreign issuers and their officers and directors accountable to the same extent as U.S. issuers and persons, we will continue to use all our available resources to protect investors when foreign issuers violate the federal securities laws.”

Only time will tell, but if history is any indicator, there will be an uptick in SEC enforcement actions, state regulatory matters and private securities class action lawsuits against Chinese companies in the following areas.

Reverse Mergers

More than a decade ago, the U.S. markets [experienced a wave of Chinese companies utilizing reverse mergers](#) (a transaction where a private company acquires a publicly traded company, often a shell company, to gain public listing status without undergoing a traditional initial public offering) to access to U.S. markets without the scrutiny associated with the IPO process. This wave resulted in action by the SEC to delist many of the Chinese reverse merger companies as well as private securities class actions. The SEC and securities class action plaintiffs are likely to once again take a close look at these types of transactions and file lawsuits.

Public Disclosures

Company disclosures and public statements are also likely to be highly scrutinized, as they have been before. For example, in early 2025, Alibaba, a China-based retail and e-commerce company, paid \$433.5 million to [settle a securities class action](#) related to alleged material misstatements about its antitrust and exclusivity practices. In October 2024, plaintiffs filed a securities class action lawsuit [against China-based AI company Xiao-I](#), alleging, among other claims, that the defendants made false or misleading statements related to their accounting practices and the companies financials. Ensuring the accuracy of all public-facing statements and investor disclosures will be key to avoiding these kinds of suits.

Accounting and Financial Statements

Finally, and perhaps most significantly, there likely will be an increased focus on accounting practices and financial statements. In March 2020, China passed Article 177 of its Securities Law, prohibiting Chinese companies from sharing financial information with U.S. regulators without an exemption from the China Securities Regulatory Commission. Despite U.S. efforts to address this problem by implementing additional legislation requiring foreign issuers to submit to inspection by the SEC and the Public Company Accounting Oversight Board (PCAOB), these requirements have not been enforced, allowing Chinese companies to remain listed on U.S. exchanges despite inadequate financial disclosures. This lax enforcement may come to an end under Chairman Atkins' tenure.

Still, a recent [SEC enforcement action against Cloopen](#), a Chinese tech company, related to accounting fraud highlights the opportunities for companies to avoid civil penalties by cooperating with the SEC. After two senior managers allegedly orchestrated a fraudulent scheme to prematurely recognize revenue, the company self-reported the accounting violations to the SEC and provided substantial cooperation, including summarizing interviews of witnesses located in China and identifying and translating key documents originally written in Chinese. This case serves as a reminder that when issues arise, Chinese companies can work with U.S. regulators to potentially limit negative outcomes and remain listed on U.S. exchanges.

Conclusion

Scrutiny from the SEC, state regulators and investors on U.S.-listed Chinese companies is likely to grow, especially as Chairman Atkins' tenure at the commission takes root. Chinese companies should consult with securities enforcement and litigation practitioners to analyze their risk — particularly in relation to reverse mergers, public disclosures, and accounting and financial statements — and take proactive steps to prepare.



If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

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