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The SEC and Congress Begin “Wide-Scale Investigation” into Chinese Reverse Merger “Junior Madoff Scandal”

The Securities and Exchange Commission (SEC) has begun a “wide-scale” investigation into Chinese reverse mergers and the networks of accountants, bankers, and lawyers that aid Chinese companies in completing reverse mergers in order to be listed on US exchanges, according to an article in the Wall Street Journal (WSJ) published on December 20th.

The WSJ also reported that Congress may begin investigations into accounting practices of US-listed Chinese companies. The House of Representatives’ Financial Services Committee may hold hearings on the issue this year. Congressman Chris Lee stated, “I don’t want this to be a junior Madoff scandal,” according to the article.

SEC and congressional investigations were also reported on by theStreet.com as part of a series of seven articles on Chinese reverse mergers and the accusations of fraud that have been aimed at them. TheStreet.com reported that the House Financial Services Committee sent a letter to both SEC Chair Mary Schapiro and the head of the Public Company Accounting Oversight Board, asking how they plan to address problems with US-listed Chinese companies.

TheStreet.com estimates that US investors have lost \$34 billion investing in US-listed Chinese companies.

TheStreet.com articles includes interviews with Benjamin Wey and other promoters of Chinese companies, as well as former NASDAQ officials regarding information presented on asensio.com.

The action prompting the WSJ and theStreet.com articles appears to have been the SEC’s settlement of charges against an accounting firm, Moore Stephens Wurth Frazer & Torbet LLP (MSWFT), that conducts audits for several US-listed Chinese companies. On December 20th the SEC entered [an order against MSWFT](http://www.asensio.com/china/sec-mswft.pdf) and one of the firm’s principals making findings that MSWFT violated securities regulations related to its audit of China Energy Savings Technology, Inc. The SEC took action against China Energy Savings for fraud and other securities law violations. See [SEC complaint](http://www.asensio.com/china/ces-complaint.pdf) and [federal court order](http://www.asensio.com/china/ces-order.pdf).

MSWFT was also apparently involved in the scandal involving RINO International Corp. (OTC: RINO). In November, RINO was the subject of fraud accusations. RINO was delisted from NASDAQ after the company’s auditor, Frazer Frost, LLP, stated that their recent audit reports could no longer be relied upon and after the company admitted “it had not entered into certain previously disclosed contracts,” according to an 8-K filed by RINO on December 2, 2010. Frazer Frost was formed in January 2010 from the merger of MSWFT and Frost, PLLC. After the fallout from RINO, however, [Frazer Frost’s website](http://www.asensio.com/china/frost.mht) indicated that MSWFT and Frost were “moving to resume operations as separate entities.”

asensio.com began reporting on problems with auditors of Chinese reverse mergers in April 2009. See <http://asensio.com:80/Reports/ReportView.aspx?ReportId=932&CompanyId=165&CompanyName=China+Sky+On>

on auditors of China Sky One Medical, Inc. (NASDAQ: CSKI).

Links to the WSJ and theStreet.com articles are below:

Wall Street Journal: “Congress and SEC Hit Stocks Made in China”

TheStreet.com:

 “SEC Probes China Stock Fraud Network”

“China RTO Regulation Shows Cracks”

“Short-Seller Cuts through China Red Tape”

“Auditors Play Defense on China Stocks”

“Small Cast Stars in China Reverse Mergers”

“Dealmaker’s Long Trip through China RTO”

“China Stock Battles Destroy Value”