

April 06, 2011

## ***SEC Commissioner Goes Public about Task Force for Chinese “Vessels of Outright Fraud”***

An official with the Securities and Exchange Commission (SEC), Commissioner Luis Aguilar, finally went public about the SEC’s scrutiny of US-listed Chinese companies. News reports about the SEC supposedly conducting a [investigation](http://asensio.com/Reports/ReportView.aspx?ReportId=1082&CompanyId=170&CompanyName=China%27s+Spec) into Chinese reverse mergers surfaced beginning in December of last year. A speech by Commissioner Aguilar on April 4th appears to be the first time that an SEC official has spoken publicly about the agency’s “internal task force to investigate fraud” in US-listed Chinese companies. See the [full text of the speech here](http://www.asensio.com/china/aguilar.mht).

Aguilar’s speech focused on foreign companies “abusing” the US “capital formation process,” especially companies from China listing through reverse mergers or “backdoor registrations.” Aguilar stated that there have been over 150 backdoor registrations of Chinese companies since January 2007, and that a number of these companies have been “vessels of outright fraud.”

Aguilar attributed instances of fraud to the lack of due diligence in reverse mergers, deficiencies in cross-border auditing rules and procedures, as well as the inability to enforce US securities laws in China.

While Aguilar stated that “SEC staff has been working collaboratively and tirelessly with many others to investigate and shed light on this situation,” he also warned investors about investing in US-listed foreign companies. Aguilar stated, “[R]ecovery for investor losses could be limited. For one thing, the persons to punish and the assets that could satisfy a judgment may be located outside the United States and harder to access.”

As evidence of regulatory efforts, Aguilar cited SEC and stock exchange actions to suspend or halt trading in securities of nine companies – all within the past month, and all the companies being Chinese.\*

While the SEC’s moves to target Chinese reverse merger deficiencies are laudable, Aguilar’s speech appeared to be politically motivated, calling for “an adequately funded SEC.”

\* Stocks suspended or halted:

China Changjiang Mining & New Energy Co., Ltd. (suspended 4/1/11)

Heli Electronics Corp. (suspended 3/21/11)

China Agritech, Inc. (NASDAQ: CAGC, halted 3/14/11)

China MediaExpress Holdings, Inc. (NASDAQ: CCME, halted 3/14/11)

China Century Dragon Media, Inc. (NYSE: CDM, halted 3/21/11)

China Intelligent Lighting and Electronics, Inc. (AMEX: CIL, halted 3/24/11)

NIVS IntelliMedia Technology Group, Inc. (NYSE: NIV, halted 3/24/11)

Duoyan Printing, Inc. (formerly NYSE: DYP, suspended 3/28/11)

China Electric Motor, Inc. (NASDAQ: CELM, halted 3/31/11)