

February 20, 2017

Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F St. NW
Washington, DC 20549-9303

Re: File No. SR-CHX-2016-20; Notice of Filing of Proposed Rule Change Regarding Proposed Transaction Involving CHX Holdings, Inc. and North America Casin Holdings, Inc. (Release No. 34-79781; File No. SR-CHX-2016-20); (Release No. 34-79474; File No. SR-CHX-2016-20)

Dear Secretary Fields,

As an individual member of the Alliance for American Manufacturing, I submit this comment letter in my individual capacity. This letter is respectfully submitted in response to the U.S. Securities and Exchange Commission's (the "Commission" or "SEC") invitation for public comment on the proposed acquisition of the Chicago Stock Exchange ("CHX") by certain opaque Chinese shell companies.

The proposed CHX Acquisition must be rejected. It raises the significant risk of undetectable fraud, as well as Chinese Central Governmental influence - both before and after the proposed Acquisition. The opaque upstream ownership structure fails to limit the substantial risks of:

- (1) voting collusion in excess of the 20% voting limitations, and;
- (2) consolidated ownership of far more than 40% of CHX (almost 99% in this case), in violation of the SEC's 40% exchange ownership limit, and;
- (3) the SEC's inability to monitor and regulate the upstream opaque Chinese ownership - parties who will have control over CHX through various empty shells, is inconsistent with the principle of transparency and is a radical departure from SEC's precedents.

The proposed acquisition enables fraud by upstream Chinese ownership and manipulation by the Chinese Central Government, who are subject to no effective regulatory restrictions or oversight by the SEC, much less by the controls, or lack thereof, that CHX proposes.¹

Research & Review

¹ See U.S. - China Economic and Security Review Commission. Hearing on Chinese Investment in the United States: Impacts and Issues for Policymakers. (January 26, 2017) <http://www.uscc.gov/Hearings/hearing-chinese-investment-united-states-impacts-and-issues-policymakers>

In February 2016, a completely unknown China Caixin Group ("Casin" or "Caixin"), through a brand new empty shell labeled as North America Casin Holdings, Inc. ("Casin Group"), announced the controversial acquisition of the CHX. While Caixin's exposure to corruption remains the subject of significant intrigue and intense media interest in China, the remainder of the Chinese shell nominees and their affiliated brand new, U.S. shell companies are a truly unknown quantity to the SEC, the Congress and the investing public:

(1) There were no effective controls applied to about 99% of the proposed ultimate beneficial owners of the CHX;

(2) Brand new, empty shell companies were disguised as unrelated, independent, and bona fide investors ("investment companies"), which were given the briefest attention by CHX, an attempt to limit inquiry and investigations by the SEC, Congress and other U.S. regulators;

(3) Two opaque U.S. shell companies (*one is an empty house purportedly affiliated with Caixin; the other is a small apartment facing a vacant lot in Queens, New York*), are to control the largest percentage of beneficial ownership of CHX (25.94%) outside of mainland China, and;

(4) The only remaining 24% "U.S. ownership" is a product of voting collusion: Saliba and Raptor can contractually compel their discretionary transfer of their CHX ownership to Chinese Casin through two identical "Saliba" or "Raptor" Put Agreements, which not only provokes conflict of interest and incites possible corruption since Anthony Saliba sits on the board of CHX Holding² and stands to make huge profits from the puts, but also gives Saliba and his friend Raptor options to "compel NA Casin Holdings" to buy out their CHX interest at any time.³

Just as troubling, is the unfortunate stark reality and undeniable facts that the remaining CHX ownership stake (29.5%), purportedly held by the Chinese-based owners are divvied up between a Chinese interior decorator and a used "Samsung" phone repair shop, which "just happen to be" located on the same street corner as Caixin's Chongqing office. Both are unknown to, and beyond the control of, CHX itself. The SEC, Congress and the investing public have no idea who they are, the identities of their owners, their sources of funds or even documents showing their existence. Backroom dealings, manipulative, fraudulent and corrupt corporate practices are rampant and well-known problems, entwined amongst Chinese businesses and the Chinese government, that range "from currency manipulation and abusive trade policies, to deadly consumer products."⁴ The proposed CHX Casin acquisition is just another example of possible fraud.

CHX, Casin: Misrepresentations to the SEC

Without regard to the above inherent risks associated with China Casin, CHX CEO provided a supplemental filing on January 5, 2017 with his own highly inaccurate comment letter to the SEC. It stated:

"Upon the closing of the Proposed Transaction, NACH will be owned by a consortium of 13 U.S. and Chinese investors . . . The result [of the acquisition] is that 50.5% of CHX will be indirectly owned by U.S. citizens and 49.5% of CHX will be indirectly owned by Chinese citizens."

Such representation is grossly inaccurate. This attempt to simplify the record overtly sidesteps the relevant question to U.S. investors, which also appropriately alarmed the SEC

² Anthony Saliba, a board member of CHX Holdings: <http://www.chx.com/chx-holdings/governance/board/>

³ See SEC Release No. 34-79494, dated December 6, 2016. The SEC staff acutely noticed the sham structure.

⁴ "Death by China," authored by Peter Navarro, Director of the National Trade Council, the Trump administration.

regulators in their own findings⁵ – who are controlling these opaque Chinese entities (upstream owners)? Who is controlling the U.S. blank check shells? What are their sources of funds?

Is it believable that the Chinese individuals behind these empty shells just woke up in the morning in China, acted independently without coordination, and bumped into each other on their way to Chicago? The poorly concocted story defies logic. Such dramatic deviation from prudence should give no comfort to the SEC or anyone else.

For example, CHX told the SEC that one of the U.S. acquirer shell companies is Castle YAC Enterprises, a 19% CHX owner. This is in fact a shell name linked to an empty house in Queens, New York. CHX also says this nominee is controlled by Jay Lu, the purported son of Casin's non-English-speaking chairman in China. But there is no certified record that proves the identity of Jay Lu, his ownership of the empty house and Castle YAC Enterprises.

More troubling is the other curious CHX buyer - an opaque Xian Tong Enterprises, Inc., a 6.94% CHX owner, which is supposedly making an independent decision by shelling out \$1,600,000 in cash of its own money to buy CHX, yet is now exposed via Google searches to be located in a tiny apartment across from a vacant lot flourished with weeds, in a run-down area of Queens, New York. CHX has admitted Xian Tong is owned by Qiuling Luo, a resident of Flushing's Chinatown in Queens. Is it believable that a mysterious man from Chinatown "magically" has \$1.6 million in cash, under his name and acted on his own to buy a piece of CHX?

CHX's far-fetched story adds up to more questions than answers; such as how will N.A. Casin Holdings, Inc. prevent voting collusion by strangers in China, or prevent interference by the Chinese Central Government. CHX's proposed controls do nothing to prevent fraud and manipulative acts perpetrated either directly or indirectly by its opaque offshore Chinese nominee ownership, which is outside the SEC's jurisdiction. Based on research, these facts are revealed:

U.S. OWNERS: 1%

The CHX U.S. ownership is tiny at 1.06%: CHX management owns only 0.88%. Cheevers & Co (a so-called "U.S. broker-dealer")⁶ owns only 0.18%.

CHINESE OWNERS: 99%

24%: The remaining are opaque Chinese-controlled names: *Chinese ownership through sham U.S. "Put Agreements"*⁷ : A sham Saliba "Put" option (compels the Chinese to own it after a year): 11.75%; A sham Raptor "Put" option (compels the Chinese to own it after a year): 11.75%

26%: Chinese owned and controlled shell companies: Castle YAC Enterprise (an empty house in New York, a shell): 19.00%; Xian Tong Enterprise (a small NY apartment facing an empty lot, a shell): 6.94%.

49.5%: Unknown entities in China: Chongqing Jintian Industrial Co. (ownership unknown): 15.00%; Chongqing Longshang Decoration (an interior decorator, ownership unknown): 14.50%; North American Casin Group (a shell effectively under Chinese control): 20.00%.

⁵ SEC Release No. 34-79474, dated December 6, 2016.

⁶ Owned by Kathleen Cheevers, a member of CHX. In June 2016, Cheevers was severely disciplined and fined by CHX for broad disclosure and trading violations. http://www.chx.com/posts/disciplinary-actions/2016/D-2016-02_Cheevers_Co.pdf

⁷ See SEC Release No. 34-79494, dated December 6, 2016.

It's clear, these Chinese names are not real "investment companies." It is an indisputable fact that CHX's Chinese ownership in fact owns and controls almost 99% of CHX.

Such obscurity is consistent with the impression of Chinese companies' in the U.S. capital markets in the recent years: from fabricating books and accounting records to blatantly stealing billions of dollars from the American public by misrepresenting their SEC filings.⁸

It's truly brazen that Chinese names like Casin have used the same dirty tactics on CHX. The ownership structure offered by the faceless shell nominees shows tremendous disrespect towards our regulators. The hard lessons of the recent past should be applied, and the proposed Acquisition of CHX rejected.

Is Casin A Murky Business Controlled by the Chinese Government?

Casin Group has its roots in the murky privatization of Chinese government-owned enterprises in the 1990s. Similar events took place in Russia when well-connected businessmen bribed government officials in exchange for artificially devalued state assets. According to Chinese media reports, Casin is purportedly 40% owned and controlled by Chinese government entities and Chinese government officials.

Casin's Misrepresentations to the Chicago Stock Exchange

It appears that CHX was misled by Casin, and in relying on Casin's representations, CHX has unwittingly misled the SEC and the American public. Here's one example, among others:

On Chicago Stock Exchange's website, a section was created to illuminate the "Proposed Casin Acquisition Q&As."⁹ Under the question "*Will this transaction bring in additional revenue from overseas?*" CHX provided a bizarre answer: "*That is our expectation. In addition to receiving additional capital to expand CHX's business here in the U.S., the Casin Group has expressed an interest in eventually starting another securities exchange in China. If this transaction is approved, CHX employees may have the opportunity to consult on this and other potential projects that that our investors may pursue in China or other countries.*"

Such representation is misleading at best and truly borders fraud. It is public knowledge that China already has six stock exchanges (*Shanghai, Shenzhen, Shenzhen SME, The Third Board, Hong Kong, Hong Kong Gem*) and the country has no plan to launch another one in such a crowded market. Neither CHX nor Casin has provided any proof to back up its wild statement.

CHX's CFIUS Approval Is Meaningless

CFIUS approval does not cure CHX and China Casin's lack of candor before the SEC. CHX appears to heavily rely on the CFIUS process as a stamp of approval or an excuse for an opaque ownership proposal, yet there are serious pending questions about the efficacy or even the relevance of a CFIUS review altogether.

A CFIUS review does not involve the prevention of fraud, investor protection or exchange ownership and control limitations. The highly politicized CFIUS process is not a "get out of jail free card" for CHX or Casin. In fact, CFIUS approves more than 95% of foreign companies applying for CFIUS reviews, simply because a CFIUS review only involves one

⁸ See U.S. - China Economic and Security Review Commission. January 26, 2017: Hearing on Chinese Investment in the United States: Impacts and Issues for Policymakers. Sworn testimony by Messrs. Shaswat Das, Paul Gillis, Peter Halesworth and Patrick Jenevein.

⁹ See Chicago Stock Exchange website: <http://www.chx.com/proposed-transaction/>

aspect of the law: national security.¹⁰ Presumably CHX or Casin is not producing a nuclear bomb, therefore their CFIUS approval is a foregone conclusion.

CHX and Its Washington Lobbyist

CHX has struggled to tell a perfect fairy tale to the SEC simply because the underlying facts lack credibility. For the first time in its 135 year history, CHX spent the largest amount on Washington lobbying to sell the Caixin deal. According to www.opensecrets.org, CHX paid a \$300,000 lobbying fee in 2016 to Chicago law firm Sidley Austin LLP for the intended purpose of lubricating the regulatory approval necessity. The public watchdog website displayed a chart that shows CHX's Washington lobbying payment was the largest in CHX's history¹¹.

The Final Words

There are valid reasons to be concerned about opaque Chinese companies gaining access to a major U.S stock exchange. Presently, neither the Commission nor the PCAOB is permitted to examine the books and auditors for any Chinese companies in China.¹² CHX is plugged directly into other stock exchanges under Regulation NMS, which provides direct access and information to whoever wields the ultimate authority. Just recently, the American investing public paid a hefty price for the rampant Chinese accounting and disclosure frauds in the U.S. markets.¹³

The CHX Casin proposal raises the same worrisome aspects that have plagued our markets by Chinese companies: the proposed structure does nothing to deter, identify or address existential threat by opaque mainland Chinese ownership. Further, there is no realistic possibility for the SEC to effectively monitor CHX's beneficial ownership in mainland China - the SEC doesn't even know who they are, neither does the SEC have jurisdiction over China.

CHX attempted to gloss over the obvious Chinese opacity by inventing control covenants on paper, yet none of these academic maneuvers have any effect on the ultimate upstream ownerships, the way they vote, or how they leverage or dispose of their interests in CHX. Unless the SEC wholeheartedly endorses the fraudulent backgrounds of Caixin's Chinese and U.S. based empty shells, that even the SEC itself likely can't confirm, the SEC must reject the CHX proposal.

Recently, more than 3,500 *Alliance for American Manufacturing* members including myself have sent letters or comments to Congress "voicing grave concern over the deal, citing

¹⁰ See Wikipedia: Committee on Foreign Investment in the United States:

https://en.wikipedia.org/wiki/Committee_on_Foreign_Investment_in_the_United_States

¹¹ <https://www.opensecrets.org/lobby/clientsum.php?id=F115472%20%20%20&year=2016>.

¹² See U.S. - China Economic and Security Review Commission. January 26, 2017: Hearing on Chinese Investment in the United States: Impacts and Issues for Policymakers. Sworn testimony by Shaswat Das, PCAOB chief negotiator with the Chinese government regarding failed PCAOB inspections of auditors for Chinese companies.

¹³ See U.S. - China Economic and Security Review Commission. January 26, 2017: Hearing on Chinese Investment in the United States.

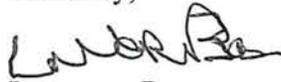
major national and economic security risks."¹⁴ These hardworking Americans are worried: we have all been burned by China and its questionable Chinese companies¹⁵.

The American investing public too often ends up holding the bag while Chinese names like China "Casin" may be quick to "cash in" on the miseries of America's retirement systems and pension funds. CHX and Casin have also shown little respect towards our regulatory spirit of disclosure and transparency.

The SEC remains our nation's well-respected safeguard against market manipulators. The most powerful tool that the SEC has at its disposal to discharge its regulatory mandates is requiring entities to be transparent in their SEC filings. This ability rests on a basic principle of America's system of law: transparency.¹⁶ Unfortunately, CHX is less candid with the SEC as desired.

The SEC is respectfully requested to consider rejecting this opaque CHX Chinese Casin acquisition, because they do not comply with U.S. laws in their complete disregard of well-established SEC precedents.

Sincerely,



Lawrence Bass

Individual Member

Alliance for American Manufacturing

ALLIANCE FOR
american
manufacturing

¹⁴ See statement against the CHX-Casin acquisition by workers of the Alliance for American Manufacturing: <http://www.americanmanufacturing.org/blog/entry/its-now-up-to-the-trump-team-to-review-the-sale-of-the-chicago-stock-exchan>

¹⁵ See U.S. - China Economic and Security Review Commission. Hearing on Chinese Investment in the United States: Impacts and Issues for Policymakers. (January 26, 2017) <http://www.uscc.gov/Hearings/hearing-chinese-investment-united-states-impacts-and-issues-policymakers>

¹⁶ See The Securities and Exchange Commission publication: "The Laws that Govern the Securities Industry." <https://www.sec.gov/about/laws.shtml>