October 8, 2017

The Honorable Walter J. Clayton
Chairman
U.S. Securities and Exchange Commission
Washington, D.C.

The Honorable Kara M. Stein
Commissioner
U.S. Securities and Exchange Commission
Washington, D.C.

The Honorable Michael S. Piwowar
Commissioner
U.S. Securities and Exchange Commission
Washington, D.C.

Dear Chairman Clayton,

The proposed CHX acquisition presents the risk of material exposure of a national U.S. stock exchange to influence by foreign bad actors, including the Chinese Central Government. Specifically, the proposed transaction: **(1)** creates needless vulnerability in an already over exposed electronic financial market system; **(2)** advocates for a majority ownership structure that is admitted by CHX to be risky and hard to monitor; **(3)** relies on a lead investor that has only upon public review been forced to disclose its own substantial debtor relationship to Chinese Government controlled banks (something obviously missed by CFIUS, whose capacity to conduct meaningful review has now been called into serious question); **(4)** involves opaque Chongqing based investors who seek to feign transparency through the use of U.S shell companies; **(5)** introduces a substantial risk of conflicts of interest that would run afoul of §6 of the Exchange Act, and **(6)** would expose the CHX to Chinese micro-influence and soft-power.

First, it is obvious that foreign direct investment is important, but the interests of our electronic (and thus globally vulnerable) financial markets demand that regulators place long term protection of the national market system above the immediate pecuniary interests of CHX's big-bank shareholders. CHX itself represented in its initial SEC filing that at least 68.5% of the proposed purchasers are either immediately under the control or influence of Chongqing Casin Enterprise Group, or are otherwise based in Chonqqing China.[1] The 40% and 20% ownership and voting limitations (that CHX is required to follow as you know) are meaningless in the face

[1] The 68.5% foreign ownership referenced above includes the ownership of Jay Lu, who is restricted from voting his 19% interest because he is the college age son of Casin's Chairman, an obvious familial affiliation with Chongqing Casin Enterprise Group.

Excluding Jay Lu, the only material remaining U.S. investors amount to a 31.5% minority voting interest in CHX that is distributed among: (i) Xian Tong Enterprises, a shell company operated out of low to moderate income housing, first in Bayside, Queens (NY), owning 6.94% and; (ii) the Saliba and Raptor put agreements that pre-contemplate the resale of each their respective 11.25% interests to Casin. Thus, the 49.5% distributed voting interest among the Chinese domiciled entities Chongqing Casin, Chongqing Longshang Decoration, and Chonqing Jintian Industrial Co., Ltd. is obviously controlling over the mere 31.5% exercisable by the smaller U.S. domiciled investors.

of foreign Chongqing domiciled 49.5% majority control of CHX, because there is admittedly no verifiable mechanism to monitor the exercise of those limitations.

Second, the SEC should not allow majority control of a national stock exchange by persons and entities it has no mechanism for verifiably monitoring. Even the CHX admits in its most recent letter that Chinese foreign investment is "inherently risky and impossible to fully monitor." *CHX Letter to Brent Fields*, pg. 1 (October 1, 2017). CHX's demand for approval despite that glaring admission speaks louder than any outside analysis ever could.

Third, the Chinese governments' immediate influence over Casin and its assets has been admitted by the CEO of North American Casin Holdings, Inc., Yong Xiao, who confirmed what had only previously been brought up by commentators, that "loan[s] secured by stock [are] a common method of obtaining financing throughout the world, including China" and that "*Casin Group has obtained financing from time to time using stock as collateral from the HengFeng Bank . . .*" *North America Casin Holdings, Inc. Letter to SEC*, pg. 6. (September 15, 2017) (Emphasis added).

It is widely known that the HengFeng bank is controlled directly by the Chinese Central Government. <u>The very fact that North American Casin Holdings, Inc. admits that the Chinese government has and may in the future to hold and control Casin Group stock as collateral, places the proposed acquisition of CHX by Casin Group far beyond the acceptable bounds of ordinary foreign direct investment risk</u>.

Fourth, the ultimate beneficial Chinese-domiciled investors have not, contrary to CHX's representation, submitted themselves to U.S. jurisdiction, and nowhere amongst the hundreds of pages of CHX proposed rule documentation, could be found any document whatsoever belonging to the Chongqing domiciled beneficial holders of CHX. Surely CHX would have provided the public with such documentation if it existed as an exhibit, or even through mere citation, to its publically available submissions addressing this exact issue. Regardless, even if such documentation was now miraculously disclosed, its absence to date should speak volumes about the transparency to which the foreign entities in this proposed takeover are accustomed. Moreover, any such documents in existence should be explicitly made accessible for public review.

Fifth, the fact that Chinese firms see listing on U.S. exchange's as a gold standard for capital markets belies the assertion that the Chongqing domiciled investor base is indispensable to attracting their interest. The history of Chinese listings in the U.S. also has made clear the risk associated with such listings. The exchanges historically have not had the sufficient access and monitoring capabilities over Chinese issuers to ensure its obligations to operate a market free from fraud, abuse, and manipulation. Moreover, majority control of CHX by Chinese domiciled entities risks inviting undisclosed conflicts of interest among CHX and listed entities that would run afoul of §6 of the Securities Exchange Act of 1934.

Finally, CHX and Casin's own respective admissions that: (i) the proposed ownership is "inherently risky and impossible to fully monitor," and that; (ii) "*Casin Group has obtained financing from time to time using stock as collateral from the HengFeng Bank . . .*" are troubling enough. Taken together with the immediate risks now thrust before the Commission and private institutions regarding the security of investors confidential financial information (and placing aside the high likelihood of improper voting collusion), the risk of undetectable micro and soft influence over CHX are incredibly real, and immediately present before the Commission.

Approving such a transaction is not just bad policy, it is fundamentally reckless and could result in the U.S. being in a materially weakened strategic position as it seeks to preserve the integrity and independence of it its national market system in a world of highly complex and ever-evolving threats. I urge the Commission to exercise its common sense and reject the proposed Chinese acquisition of the CHX.

A.C.