

United States Senate

May 17, 2023

The Hon. Gary Gensler
Chair
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549

Dear Chair Gensler:

As you and I have discussed in the past, I remain deeply concerned about the U.S. Securities and Exchange Commission's (SEC) improper focus on vague climate change risks at the expense of the real, systemic risks of American investors' financial exposure to the Chinese Communist Party's opaque and aggressive policies. The SEC continues to prioritize the finalization of the misguided March 21, 2022, proposed climate disclosure rules, despite mounting evidence of financial, political, and geopolitical risk to American investors associated with China. The SEC has no statutory authority or institutional competence on climate change, and I highly recommend that you immediately reprioritize your agenda.

Over the last year, we have witnessed the Chinese Communist Party (CCP) increasingly luring Wall Street firms including Goldman Sachs, Citigroup, J.P Morgan, and Blackrock – all of whom have been given unprecedented authorization to operate in China. Beijing hopes this will encourage foreign investors in China, and allow Chinese investors access to foreign markets during a time when confidence in China's economy is shaky.

Not only are these American financial firms and other businesses leaping at the CCP's invitation, but many of the leaders of American firms and organizations seem to believe that they must soften or reject any criticism of the CCP in order to maintain access. The fact that these American entities feel such behavior is necessary should frighten and concern investors and regulators. Clearly these firms' tenuous permission comes complete with significant CCP control. Nothing can stop the CCP from rescinding their approvals and booting these firms out of the Chinese market, negatively impacting investors. There are also well documented risks of assets being trapped in China where American investors could be unable to repatriate capital or liquidate assets deployed in China – all at the whims of the CCP.

We are seeing these risks play out in real time with Apple recently focusing on diversifying their iPhone supply chain due to the CCP's stringent regulations and zero-COVID policies. Imagine the very real possibility of a forceable Chinese take-over of Taiwan, and the immediate impacts to China-reliant U.S. companies and their investors as they are forced to divest from China.

Additionally, there are growing bipartisan concerns as it relates to the CCP's policies regarding human rights abuses, forced labor, geopolitical tensions with Taiwan, and their tacit support of Russia's invasion and assault on Ukraine – all of which are material and tangible risks that could have an immediate impact on American investors.

The SEC should be focusing on these issues and ensuring that American investors are protected from a shaky Chinese economy and dangerously fickle and politically-focused authoritarian rule by the CCP. Yet the SEC seems divorced from this reality, pursuing an aggressive agenda of unnecessary climate disclosures and other burdensome rules. The SEC itself estimates that the additional compliance costs for the climate disclosure rules will be \$420,000 per year for small publicly listed companies and \$530,000 per year for larger publicly traded companies. All told, the cost for businesses to comply will rise from \$3.9 billion to \$10.2 billion across public companies. This does not include the potential ancillary costs for smaller businesses up and down the supply chain who would be required to collect data for “Scope 3” emissions disclosures. The disclosures themselves are also unnecessary because many large companies already disclose climate data voluntarily, and a companies’ investors could vote to require such disclosures. The breadth and scope of the disclosures in the proposed rule expand far beyond just standardization. The real objective of these disclosures is to increase the cost of doing business for traditional energy production, which is the exact opposite of what the U.S. should be doing given the current geopolitical environment.

Prior to your confirmation, we discussed this exact issue – prioritizing the real threat that China poses, and not politicizing the Commission by focusing on far-left policies like the climate change disclosure rule. It is clear that this prioritization has not occurred, and is resulting in institutional incompetence. In the first half of 2022, the SEC proposed twice as many rules as the agency did in all of 2020 and 2021. In fact, a recent Inspector General report found that this blistering pace is overwhelming the agency and its staff. I am very concerned that this agenda and improper focus on amorphous climate risks is distracting from the SEC’s core mission of investor protection, especially when it comes to risks associated with China and the CCP.

In order to fulfill the SEC’s mandate to protect U.S. investors, I request that you provide:

- Information about the steps, if any, the SEC is taking to address the material risks associated with U.S. financial institutions operating in China, particularly given the enormous power the CCP has to take sudden actions to the detriment of American investors;
- A list of all staff comment letters to registrants issued since January 1, 2020, that address the material risks associated with U.S. financial institutions operating in China;
- An analysis of the risks of American financial institutions operations in China on the securities markets and on the SEC mandate; and
- An analysis of whether to reallocate SEC staff and resources to better reflect the immediate risks of U.S. investor exposure to the CCP.

Sincerely,



Dan Sullivan
United States Senator