

Testimony of Christopher A. Iacovella
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Hearing Entitled “*Financial Aggression: How the Chinese Communist Party Exploits American Retirees and Undermines National Security.*”

United States Senate Special Committee on Aging and the United States House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party

April 9, 2025

Chairman Scott, Ranking Member Gillibrand, Chairman Moolenaar, and Ranking Member Krishnamoorthi:

Thank you for the opportunity to testify today.

My name is Christopher Iacovella, and I am the President & CEO of the American Securities Association (ASA). Our mission is to promote trust and confidence among America’s investors, facilitate capital formation for small businesses, and support competitively balanced capital markets.

For the last eight (8) years, the ASA has been the only financial services trade association calling on Congress and the federal government to take action to protect America’s investors and our country from the economic and national security threats posed by the Chinese Communist Party (CCP).

Today, I will describe the risks the CCP poses to American investors and senior savings, what can be done about it, and why a bipartisan Congress must act.

I. The Chinese Threat & Western Capital.

History suggests the free flow of global capital and investment is the best way to lift people out of poverty, promote economic growth, and strengthen the rule of law. It also strengthens relations among nations, which furthers international peace and stability.

Unfortunately, this is not how our economic relationship with China has played out.¹ While American capital flows into China have helped lift millions of its citizens out of poverty, the widely expected liberalization of China’s political and economic systems never materialized.

In fact, the opposite has happened: Beijing has used the openness of the international financial and economic system to increase its global influence and exert geopolitical leverage over the United States and its allies. This has left the world less open and more authoritarian.

¹ Josh Rogin, *Chaos Under Heaven: Trump, Xi, and the Battle for the Twenty-First Century* (Boston: Houghton Mifflin Harcourt, 2021).

The CCP has been engaged in a multi-decade and multifaceted political, economic, and military strategy to achieve “the great rejuvenation of the Chinese nation.”² The ultimate goal of this strategy is to reshape the international world order through economic coercion, subversion, and manipulation to benefit China, while avoiding a ‘hot’ war.

The strategy is broad-based, and it includes, among other things, intellectual property theft, undermining American cultural values, creating social unrest and division in American society, co-opting American elites and heads of multinational corporations, infiltrating U.S. governmental institutions, and accessing Western markets.³

To carry out this strategy the CCP needed access to Western capital, and that’s where Wall Street comes in.⁴

For over two decades, Beijing has used Wall Street to penetrate U.S. capital markets and obtain the capital necessary to fund its economic, technological, and military rise. In exchange for selling Chinese companies to U.S. investors, Wall Street receives huge fees and access to the Chinese market. It’s this quid pro quo that directly threatens America’s economic and national security.

The CCP operates modern-day China as a ‘Party-State’, which intentionally blurs the lines between Chinese industry and the CCP.⁵ That raises an important question: How is the money American investors send to the CCP used?

Among other things, American investor money funds the CCP’s use of forced labor, genocide, and other human rights abuses,⁶ the ongoing internment of Uyghurs in concentration camps,⁷ the emission of more greenhouse gases than all developed countries combined,⁸ weapon systems for the People’s Liberation Army,⁹ a broad-based disinformation campaign to undermine American values,¹⁰ subsidies for Chinese companies so they can dump goods into our market at artificially

² U.S. Department of Defense, Office of the Secretary of Defense, *Military and Security Developments Involving the People’s Republic of China* (2022) <https://media.defense.gov/2022/Nov/29/2003122279/-1/-1/1/2022-MILITARY-AND-SECURITY-DEVELOPMENTS-INVOLVING-THE-PEOPLES-REPUBLIC-OF-CHINA.PDF>

³ Political Warfare: Strategies for Combating China’s Plan to “Win without Fighting” Kerry Gershaneck, at <https://lccn.loc.gov/2020032647>. America First Investment Policy (Feb. 21, 2025). [America First Investment Policy – The White House](#) “The PRC is also increasingly exploiting United States capital to develop and modernize its military, intelligence, and other security apparatuses, which poses significant risk to the United States homeland and Armed Forces of the United States around the world”

⁴ Iacovella, C. A. (2024). “How Wall Street Funds China’s Rise”. In *2024 China Transparency Report*, the Heritage Foundation.

⁵ <https://www.asiatimesfinancial.com/ccp-announces-plan-to-take-control-of-chinas-private-sector> “President issues ‘important instructions’ to all regions to boost party control over private enterprise and rejuvenate the nation; all firms will need employees from the party to boost law abidance and moral standard”. <https://archive.nytimes.com/www.nytimes.com/ref/college/coll-china-politics-002.html>

⁶ <https://thehill.com/blogs/congress-blog/homeland-security/522443-countering-chinas-forced-labor-practices/>; <https://www.cnn.com/2021/01/19/us/us-xinjiang-china-genocide-intl/index.html>; <https://www.hongkongwatch.org/all-posts/2022/12/5/updated-new-hkw-report-finds-that-msci-investors-are-at-risk-of-passively-funding-crimes-against-humanity-in-xinjiang>; <https://www.bbc.com/news/world-asia-china-51697800>

⁷ <https://www.reuters.com/article/us-hikvision-usa-uyghur/u-s-might-blacklist-chinas-hikvision-over-uyghur-crackdown-source-idUSKCN1SS28U>; <https://www.bbc.com/news/world-asia-china-51697800>; <https://foreignaffairs.house.gov/press-release/mccaul-welcomes-genocide-designation-for-ccps-treatment-of-uyghurs/>

⁸ <https://rhg.com/research/chinas-emissions-surpass-developed-countries/>

⁹ <https://www.cnn.com/2020/10/29/asia/us-election-us-military-indo-pacific-intl-hnk-ml/index.html>

¹⁰ https://omaha.com/opinion/josh-rogin-u-s-schools-are-waking-up-to-the-china-threat/article_e31c9c07-a491-596f-93d9-575285940893.html

low prices to put U.S. companies out of business,¹¹ and a cyber-army that relentlessly attacks the United States,¹² and other nations of the free world.¹³

While the American people overwhelmingly reject this behavior, the money flow continues.¹⁴

Unless Congress makes funding the CCP illegal or cost prohibitive, the partnership won't end.

As Upton Sinclair said, "It is difficult to get a man to understand something, when his salary depends upon his not understanding it."

II. How the CCP Exploits the U.S. Capital Markets.

A. Chinese company listings on U.S exchanges

As of March 2025, there are 286 Chinese companies listed on U.S. exchanges with a collective market capitalization of \$1.1 trillion.¹⁵ Each of those companies pays a listing and sustaining fee to an exchange to keep its securities trading. Congress enacted the Holding Foreign Companies Accountable Act and Accelerating Holding Foreign Companies Accountable Act to prohibit these companies from having their shares listed on a U.S. stock exchange if they do not comply with U.S. financial reporting, disclosure, and auditing laws.

The ASA worked with members on both sides of the aisle to advance each law. The laws directed the Public Company Accounting Oversight Board (PCAOB) to examine audit firms headquartered in mainland China and Hong Kong.¹⁶ Because this happened while COVID lockdowns were still in place, the PCAOB Chair cautioned the American public that the examination was just a beginning.¹⁷ This raises questions about whether the PCAOB examiners were able to fully carry out their duties.

Accordingly, the ASA urges Congress to vigorously exercise its oversight role to ensure that both the SEC and PCAOB carry out the laws and prevent further investor harm.

U.S. exchanges also have regulatory authority to protect the U.S. investing public from any non-compliant Chinese company whose stock is listed on their exchange. They can use that authority to delist any company, its subsidiaries, or a fund that includes such companies and has not complied with U.S. laws or been named to a U.S. prohibition list. To date, they have been reluctant to do so.

¹¹ <https://www.voanews.com/a/report-china-spends-billions-of-dollars-to-subsidize-favored-companies-/6587314.html>

¹² <https://www.justice.gov/opa/pr/chinese-military-personnel-charged-computer-fraud-economic-espionage-and-wire-fraud-hacking-%20https://www.cnbc.com/2020/07/07/fbi-chief-slams-chinese-cyberattacks-against-us-hudson-institute.html>;

<https://www.cnbc.com/2020/07/07/fbi-chief-slams-chinese-cyberattacks-against-us-hudson-institute.html>

¹³ <https://fortune.com/2018/12/19/china-eu-hacking/>

¹⁴ <https://www.wsj.com/articles/china-has-one-powerful-friend-left-in-the-u-s-wall-street-11606924454>; <https://www.cnbc.com/2021/04/28/a-tidal-wave-of-chinese-companies-rush-into-the-red-hot-ipo-market-in-the-us.html?&qsearchterm=china%20ipo>

¹⁵ <https://www.uscc.gov/research/chinese-companies-listed-major-us-stock-exchanges#:~:text=Summary%3A,market%20capitalization%20of%20%24848%20billion.>

¹⁶ PCAOB Secures Access to Inspect, Investigate Chinese Firms for First Time in History, available at <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history>

¹⁷ PCAOB Secures Complete Access to Inspect, Investigate Chinese Firms for First Time in History. Erica Y. Williams (Dec. 15, 2022) <https://pcaobus.org/news-events/speeches/speech-detail/pcaob-secures-complete-access-to-inspect-investigate-chinese-firms-for-first-time-in-history>

B. The passive index loophole

According to Bloomberg, “more than 2,000 U.S. mutual and exchange-traded funds—particularly those tracking indexes—have \$294 billion invested across Chinese stocks and bonds.”¹⁸

An index fund is a fund that owns a portfolio of stocks that tracks a financial market index (i.e., S&P 500 or Dow Jones). Index funds significantly impact the flow of global capital, especially in international and emerging markets. Inclusion in an index can lead to billions of dollars being steered into a company or a country through the sale of mutual funds and exchange-traded funds that track the index.¹⁹

A regulatory loophole, I call the “passive index loophole”, allows non-U.S. companies listed on non- U.S. stock exchanges to be included in an index fund and sold to American investors. This allows the non-U.S. company to avoid the company-specific disclosure, financial reporting, and audit requirements that American companies must comply with to sell stock to American investors.

With knowledge of the loophole, the CCP pressured the index providers²⁰ to create a special index for mainland Chinese companies listed on Chinese exchanges called A-shares,²¹ and to include those companies as well as the ones listed on U.S. exchanges in international and emerging market indices. A recent study found the dollar amount of foreign investment in Chinese companies was 51 percent higher for those companies in an index.²² As a result, the ‘passive index loophole’ has funneled billions of American investor dollars to China.²³

By blindly including Chinese companies listed on Chinese stock exchanges in an index, neither the index provider, nor the fund issuer, know whether these companies sold to American investors through index funds are Enron-like frauds,²⁴ affiliated with the Chinese military,²⁵ or supporting human egregious rights abuses.²⁶

Most American investors who buy index funds with international exposure have no idea that

¹⁸ Silla Brush, “BlackRock, MSCI to See Tighter Oversight Over U.S. Investments in China,” Bloomberg, August 15, 2023, <https://www.bloomberg.com/news/articles/2023-08-15/blackrock-fund-managers-brace-for-even-more-scrutiny-over-china> (accessed September 6, 2023)

¹⁹ The three largest index providers are MSCI (Morgan Stanley Capital International), FTSE (Financial Times Stock Exchange), and S&P (Standard and Poor) Dow Jones.

More info can be found at Index Industry Association, “What We Do,” <https://www.indexindustry.org/> (accessed September 6, 2023).

²⁰ <https://www.wsj.com/articles/how-china-pressured-msci-to-add-its-market-to-major-benchmark-11549195201>

²¹ <https://www.investopedia.com/terms/a/a-shares.asp>

²² Juan Jose Cortina Lorente et al., “The Internationalization of China’s Equity Markets,” Policy Research Working Paper No.10513, 2023, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099356306282340403/idu0ff0f0d04f82046a8082990c1666e4a8c78?cid=DEC_AL_PolicyResearch_EN_INT

²³ <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/4.18.24%20How%20Americas%20Financial%20Institutions%20Provide%20Billions%20of%20Dollars%20to%20PRC%20Companies%20Committing%20Human%20Rights%20Abuses%20and%20Fueling%20the%20PRC's%20Military.pdf>; Peter Pham, “What’s China’s Secret Source Of Funding?” Forbes, February 12, 2018, <https://www.forbes.com/sites/peterpham/2018/02/12/whats-chinas-secret-source-of-funding/?sh=279e7286254b> (accessed September 6, 2023).

²⁴ See above.

²⁵ <https://foreignpolicy.com/2019/02/07/we-cant-tell-if-chinese-firms-work-for-the-party/>

²⁶ <https://www.reuters.com/article/us-hikvision-usa-uighur/u-s-might-blacklist-chinas-hikvision-over-uighur-crackdown-source-idUSKCN1SS28U>

their investment goes to Chinese companies that don't comply with U.S. transparency laws, are involved in egregious human rights abuses, or pose a national security risk to the U.S.²⁷ And, as the Select Committee pointed out, not only have many of these companies turned out to be frauds,²⁸ but some of the Chinese companies in passive index funds are actually on U.S. government prohibition lists.²⁹

The last two Administrations have tried to address this issue using Executive Order 13959, which forced the de-listing and de-indexing of firms owned or controlled by the Chinese military trading in the U.S. But, as the Select Committee also noted, the companies de-indexed by this order only scratches the surface of Chinese companies found in index funds.³⁰

To end this practice Congress can pass the 'No China in Index Funds Act',³¹ which would close the 'passive index loophole' and prevent U.S. investor dollars from being funneled into CCP-backed or controlled companies through index funds.

C. Variable interest entities

Another scheme the CCP exploits to raise money for its companies is called the variable interest entity (VIE) structure. This scheme essentially removes the equity ownership and voting rights that American investors normally enjoy when they buy a company on a U.S. exchange. Specifically, the VIE structure allows the operating company located in China to control the economic activities of a shell company, usually located in the Cayman Islands, through a contract. The shares of the operating company located in China are not owned by U.S. investors. This makes enforcement of U.S. laws against the mainland Chinese company very difficult and intentionally shields it from legal action by American investors.

The ASA has joined the Select Committee and various investor groups to demand the risks posed by this scheme end.³² While the previous U.S. Securities and Exchange Commission (SEC) Chairman paused its use in new initial public offerings (IPOs), the agency did not stop the use of VIEs by Chinese companies currently listed on U.S. exchanges.³³ Congress needs to end this legal fiction and prohibit the listing of any Chinese company on a U.S. exchange that uses the VIE scheme.

D. Business Prohibition Lists & Outbound Investment

²⁷ <http://selectcommitteeontheccp.house.gov/media/press-releases/committee-report-american-financial-institutions-funneled-billions-prc>;

<https://www.institutmontaigne.org/en/expressions/influence-without-ownership-chinese-communist-party-targets-private-sector>

²⁸ <https://www.reuters.com/article/us-china-stocks-regulation-analysis/chinese-firms-missing-6-billion-tests-regulators-resolve-idUSKCN1SN0OT>; <https://www.scmp.com/business/companies/article/3024084/why-kangmei-pharmaceutical-found-have-committed-one-chinas>; <https://finance.yahoo.com/news/one-theme-popping-among-chinese-154155487.html>; See also Select Committee Report

²⁹ American Financial Institutions Funneled Billions into PRC Companies Fueling the CCP's Military, Surveillance State, and Uyghur Genocide. Report of the Select Committee on the CCP (April 2024) <https://selectcommitteeontheccp.house.gov/media/press-releases/committee-report-american-financial-institutions-funneled-billions-prc>

³⁰ <https://selectcommitteeontheccp.house.gov/media/press-releases/committee-report-american-financial-institutions-funneled-billions-prc>

³¹ <https://spartz.house.gov/media/press-releases/spartz-sherman-introduce-four-bills-address-china-risk-us-stock-market2>

³² Gallagher Calls on President Biden to Adopt Restrictions on US Investments to China (August 3, 2023).

<https://selectcommitteeontheccp.house.gov/media/press-releases/gallagher-calls-president-biden-adopt-restrictions-us-investments-china>;

https://www.cii.org/files/publications/misc/12_07_17%20Chinese%20Companies%20and%20the%20VIE%20Structure.pdf;

³³ <https://www.sec.gov/newsroom/speeches-statements/gensler-2021-07-30>

As this Committee and Congress considers policies to counter the CCP's exploitation of our financial markets, I recommend Congress require (1) that an entity placed on one government prohibition list (i.e. OFAC, DOD, Commerce Entity List, and the State Department's Human Rights List) be placed on all lists and automatically allow the Treasury Secretary to remove that company from our public capital markets,³⁴ and (2) the consolidation of all government business prohibition lists in a general list maintained by the Treasury Department so the public knows what foreign adversary companies are on the consolidated list and the Treasury Secretary can take more immediate action to protect American investors and businesses.

We strongly support efforts by Congress to scrutinize and prevent outbound investments to China made by U.S. individuals and institutions. One bill, the Foreign Investment Guardrails to Help Thwart (FIGHT) China Act,³⁵ allows the Treasury Secretary to prevent American citizens and Wall Street institutions from financing the CCP's cyber army or its military build-up. This bill – in addition to No China in Index Funds Act – will close the scandalous 'passive index loophole'.

E. Mainland Chinese Broker-Dealers with U.S. Customers.

Another risk to retail investors is posed by Chinese-owned broker-dealers operating as a regulated entities in our markets with known ties to the CCP. The Select Committee, State Attorneys' General, and members of Congress on both sides of the aisle have repeated raised concerns about this problem.³⁶

It is shocking that a broker-dealer with operations in mainland China and affiliated with the CCP can be registered to do business in this country.³⁷ If the CCP demands access to the personal and

³⁴ This policy is very similar to The *Sanction Transactions Originating from Pernicious Chinese Companies and Policies (STOP CCP) Act*, cosponsored by Senators Mike Braun and Bill Hagerty and included in Senator Scott's package in March of 2023.

³⁵ <https://barr.house.gov/press-releases?ID=7FCD27D4-498D-4F1C-B1BD-DF3EADFC1F05>; <https://www.cornyn.senate.gov/newsroom/cortez-masto-colleagues-introduce-outbound-investment-legislation-to-counter-china/>

³⁶ Letter from the House Select Committee on the Chinese Communist Party to Webull CEO, Anthony Denier, (Nov. 25, 2024), available here: <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/Webull%2011.25%20-%20Final.pdf>; Letter from Sen. Tommy Tuberville (R-AL) and Rep. Jim Banks (R-IN) to SEC and FINRA (May 3, 2023) ("May 2023 Tuberville-Banks Letter"), available here: <https://static.foxnews.com/foxnews.com/content/uploads/2023/05/Tuberville-Banks-Oversight-Letter-to-SEC-FINRA-5.3.20231.pdf>; Letters from Sen. Tommy Tuberville (R-AL) to SEC and FINRA (Jun. 5, 2023), available here: https://www.tuberville.senate.gov/wp-content/uploads/FILE_3666.pdf and to SEC and DOJ (July 10, 2023), available here: https://www.tuberville.senate.gov/wp-content/uploads/FILE_3666.pdf; Letter from Sens. Tommy Tuberville (R-AL), Ted Cruz (R-TX), Mike Braun (R-IN), Rick Scott (R-FL), and Roger Marshall (R-KS) to SEC Chair Gary Gensler (Jul. 29, 2022), available here: <https://www.tuberville.senate.gov/newsroom/press-releases/tuberville-colleagues-call-for-investigation-into-stock-trading-platforms-with-ties-to-china/>; Letter from Rep. Ritchie Torres (D-NY) to SEC IG and GAO (July 13, 2023), available here: <https://twitter.com/RepRitchie/status/1679534903661301761/photo/1>; Letter from Rep. Sherman (CA-32) to SEC as reported in Capitol Account (Feb. 23, 2023); Letter from Rep. Luetkemeyer to SEC and FINRA (Sept. 26, 2023), available here: <https://luetkemeyer.house.gov/uploadedfiles/20230926181427040.pdf>; Letter from Senator Cotton (R-AR) to Director of National Intelligence Avril Haines (Sept. 23, 2021), available here: <https://www.cotton.senate.gov/news/press-releases/cotton-calls-for-investigation-of-chinese-stock-trading-app>; Letter from Rep. Lawler (R-NY) to Treasury Secretary Yellen (Apr. 27, 2023), available here: <https://lawler.house.gov/news/documentsingle.aspx?DocumentID=257> and Letter from Rep. Lawler (R-NY) to Treasury Secretary Yellen (Jul. 21, 2023), available here: <https://lawler.house.gov/news/documentsingle.aspx?DocumentID=556>; <https://www.banking.senate.gov/hearings/09/06/2023/oversight-of-the-us-securities-and-exchange-commission>.

³⁷ May 2023 Tuberville-Banks Letter. The Senators wrote: "As you are aware, Webull and Moomoo collect highly sensitive personal information from millions of their U.S. customers, including personally identifiable information (PII) such as Social Security numbers, mailing addresses, and financial account data. . . . In light of Beijing's increasingly strict privacy laws barring many Chinese companies from sharing data with Western regulators, the presence of Webull registered representatives in the PRC raises serious concerns regarding (1) Webull's ability to meet its supervisory obligations under SEC and FINRA rules; (2) the SEC's and FINRA's ability to oversee and examine Webull and its registered representatives and associated persons located in the PRC; (3) the adequacy of Webull's compliance with all SEC and FINRA recordkeeping requirements; (4) the ability of the SEC and FINRA to adequately enforce federal securities laws, including the ability to obtain documents and information from Webull employees located in the PRC; and (5) the potential for U.S. customer PII to be shared or exfiltrated to Webull employees or affiliated entities located in the PRC."

financial information of Americans at these mainland Chinese broker-dealers, then what is to stop the party from using that information to blackmail those Americans or block access to their money unless they agree to spy on this country. This is feature of the CCP's strategy of coercion described above, and it represents the very definition of a national security concern.

III. Taxing Outbound Investment.

As the reconciliation debate heats up and Congress looks for new ways to raise revenue, it can do so while protecting American investors and our national security. Congress should examine how much revenue can be raised by imposing a foreign adversary capital gains tax on the realized proceeds of any type of public or private investment made in China, in a Chinese company, or in a registered investment fund that owns Chinese securities.

Increasing the tax burden on any American money that funds Communist China's global ambitions would significantly change the cost for American companies to do business with this nefarious foreign adversary.

IV. A Word About Fiduciary Duty.

Institutional investors and asset managers owe a fiduciary duty of loyalty to those who entrust them with their money.³⁸

This duty requires fiduciaries to conduct thorough due diligence on any company or fund in which they invest, and that is very difficult to do in China.³⁹

The duty also requires those managing money to evaluate the legal protections and enforceability of the law in the country where they choose to send investor money. Americans who lose money because a Chinese company commits fraud, or the government appropriates their funds have little chance of recovering their money. Additionally, many American investors don't realize the scope of liability associated with owning a U.S.-listed company that does business in China under U.S. law, international law, or otherwise.⁴⁰

The fiduciary duty also requires American investors to evaluate the political and reputational risks associated with U.S. companies doing business with the CCP specifically, or in China generally. This would include a scenario where China decides to invade, quarantine, or act aggressively with respect to Taiwan,⁴¹ and the U.S. government responds by imposing economic sanctions that prohibit American companies from doing business in China (as it did after Russia invaded the Ukraine).⁴² In this scenario, bond funds would be forced to remove dollar-denominated Yuan bonds from bond indexes sold to American investors.⁴³

³⁸ <https://www.americansecurities.org/post/asa-letter-to-wsj-real-audits-for-chinese-firms-listed-in-the-u-s>.

³⁹ <https://foreignpolicy.com/2019/02/07/we-cant-tell-if-chinese-firms-work-for-the-party/>

⁴⁰ <https://www.justsecurity.org/74388/genocide-against-the-uyghurs-legal-grounds-for-the-united-states-bipartisan-genocide-determination/>; <https://www.washingtonexaminer.com/news/state-department-china-committing-uyghur-genocide-wont-say-if-ongoing>; <https://cja.org/what-we-do/litigation/legal-strategy/the-alien-tort-statute/>

⁴¹ <https://www.uscc.gov/hearings/detering-prc-aggression-toward-taiwan>

⁴² <https://www.state.gov/ukraine-and-russia-sanctions/>

⁴³ "In order to be considered for inclusion in the Global Aggregate Index, a local currency debt market must be classified as investment grade and its currency must be freely tradable, convertible, hedgeable, and free of capital controls." <https://www.bloomberg.com/company/press/bloomberg-add-china-bloomberg-barclays-global-aggregate-indices/>

American investors could also lose billions if the CCP responds to sanctions by imposing capital controls on foreign money or on the retained earnings of U.S. company subsidiaries located in China.⁴⁴ Senator Scott's 'Protecting American Capital Act' could help investors understand the true nature of the financial exposure U.S. listed companies have to Communist China if these scenarios were to materialize.⁴⁵

V. Combating State-Sponsored Fraud.

The amount of fraud perpetrated against Americans, and especially seniors, is staggering. The Federal Trade Commission (FTC) estimates that Americans lost over \$158 billion to fraud in 2023 alone.⁴⁶

Fraud has gone from an individual criminal act to a business opportunity funded by state-sponsored actors across the globe.⁴⁷ It has become so lucrative that Deloitte estimates Americans will lose \$40 billion to AI-enhanced fraud by 2027.⁴⁸ Because these criminals are now funded by nation-states like China and Russia they have become increasingly sophisticated in their techniques using generative AI and other means.⁴⁹

Many types of scams exist and unfortunately, those who are routinely targeted and most likely to be victimized are the most vulnerable among us, namely our senior citizens.

Despite efforts by regulators to warn investors about the latest scams,⁵⁰ the level of cunning and the nonstop evolution of the scams these fraudsters employ continues to leave private companies, law enforcement, and investors playing catch-up.

ASA member firms are increasingly grappling with scams that target their employees, their customers, and their firms. For example, it is not uncommon for scammers to pose as personnel from a licensed U.S. Broker-Dealer (BD) after they know a person has been a victim of another scam (perhaps also perpetrated by them or their associates). The criminals then present a deceptive offer of forensic and recovery services, ostensibly to assist the victim in recouping their losses. In reality, they exploit the victim's desperation, extracting multiple payments without providing any genuine assistance or recovery of funds.

Scammers have also begun to hack into customer email accounts and give trade instructions from an email account on file with the BD. Because scammers have access to email history, scammers can pose very credibly as customers and seem to know things specific to the customer. The scammers set up a 'rule' in the customer's email forwarding all incoming email to the customer from the BD to the scammers' fake email account, so the customer will not discover the

⁴⁴ <https://www.cnn.com/2023/03/06/business/mark-mobius-china-capital-controls/index.html>

⁴⁵ <https://www.rickscott.senate.gov/services/files/78A1BB15-8B96-4940-A288-66707BAEAD9>

⁴⁶ <https://www.sec.gov/files/20250306-isc-fraud-briefing-iac-meeting.pdf>

⁴⁷ <https://www.esis.org/analysis/cyber-scramming-goes-global-unveiling-southeast-asias-high-tech-fraud-factories>

⁴⁸ *Id.*

⁴⁹ <https://www.sec.gov/files/20250306-isc-fraud-briefing-iac-meeting.pdf>; <https://www.sec.gov/newsroom/press-releases/2024-196> "SEC Office of the Investor Advocate Issues Report on Nationally Representative Survey of Investors and Continues Focus on Investment Fraud";

⁵⁰ <https://www.finra.org/investors/insights/gen-ai-fraud-new-accounts-and-takeovers>;
<https://www.finra.org/investors/insights/artificial-intelligence-and-investment-fraud>

activity. The scammers then submit wire requests to the BD to be sent to a bank account in the customer's name that the scammer has opened and controls. By the time the customer and/or BD discover the depth of this scam, the funds have been moved and are extremely difficult to recover.

The only way to try to combat the sophistication of this ever-changing criminal activity going forward is to promote an open, honest and trustworthy partnership between the private sector and government.

VI. Conclusion.

Congress must end Communist China's use of American investor savings to fund its geopolitical ambitions. Every day that we don't act, the economic and national security threat to our country and the American way of life increases.

I would like to thank each committee for holding this joint hearing and I look forward to answering your questions.