# Cheddar TV

## [New Legislation Would Bar Chinese Companies From U.S. Exchanges Without Proper Auditing]

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As MBP explained to Cheddar TV, the first challenge of auditing Chinese companies is the geographic distance. It is critical that auditors of Chinese companies understand local Chinese customs and business practices. This is one of the reasons why MBP employs more than 100 people in China, in six different cities.

Despite new legislation, Chinese companies still have a lot of choices of where they can go public. It is unlikely that the bill will set off a mass migration off of U.S. exchanges by Chinese companies, but it may provide additional momentum to the trend to diversify listing venues. The real question going forward right now is the integrity level and quality of the audits. Companies get penalized when investors do not like or understand their numbers, in which cases the price gets discounted. It is critical that Chinese companies prioritize investor trust and confidence by working with integrity, providing accurate financial statements and supporting a quality audit. Ultimately, the company needs to own 80% of the investor's trust and confidence in order to be successful both on the IPO day and over the long-term. Higher levels of scrutiny in the U.S. puts more pressure on Chinese companies, but there is still a lot of interest in Chinese companies. Companies that have failed to win a strong following among U.S. investors or have lost the confidence of overseas shareholders **will continue to evaluate "going private"** and then re-listing in China as an attractive valuation arbitrage. These transactions will ebb and flow depending on respective valuations in domestic and overseas markets and the appetite of private equity funds to sponsor them.