

MEMO# 32972

December 9, 2020

State Department Issues Fact Sheet on China: US Investors Are Funding Malign PRC Companies on Major Indices

[32972]

December 9, 2020 TO: ICI Members

ICI Global Members SUBJECTS: International/Global RE: State Department Issues Fact Sheet on China: US Investors Are Funding Malign PRC Companies on Major Indices

On December 8, the US Department of State issued a fact sheet titled “US Investors Are Funding Malign PRC Companies on Major Indices.”[\[1\]](#) The fact sheet warns that the Chinese Communist Party’s (CCP) threat to American national security extends into our financial markets and impacts American investors. It states that many major stock and bond indices developed by index providers like MSCI and FTSE include malign People’s Republic of China (PRC) companies that are listed on the Department of Commerce’s Entity List and/or the Department of Defense’s List of “Communist Chinese military companies” (CCMCs), and that the money flowing into these index funds – often passively from US retail investors – supports Chinese companies involved in both civilian and military production. The fact sheet contains three charts with information about the listing of CCMCs on exchanges, including a chart of companies identified as affiliates of CCMCs.

As we’ve previously informed you, on November 12, President Trump issued an Executive Order entitled “Executive Order on Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies” (EO 13959), which prohibits by any US person “any transaction in publicly traded securities, or any securities that are derivative of, or are designed to provide investment exposure to such securities” of CCMCs.[\[2\]](#)

The fact sheet does not impose any new restrictions or obligations on index providers or US investors; it does, however, signal the potential scope of EO 13959 restrictions on CCMCs through the identification of companies connected to a listed CCMC. It also underscores the Government’s concern with the threat posed by the CCP and how the US financial services industry may be, wittingly or unwittingly, supporting the CCP’s efforts.

Eva M. Mykolenko
Associate Chief Counsel - Securities Regulation

endnotes

[1] The fact sheet is *available at* <https://www.state.gov/u-s-investors-are-funding-malign-prc-companies-on-major-indices/>.

[2] The Executive Order is *available at* <https://www.whitehouse.gov/presidential-actions/executive-order-addressing-threat-security-investments-finance-communist-chinese-military-companies/>. See our most recent memorandum on this topic, ICI Memorandum No. 32963, dated December 4, 2020, *available at* <https://www.iciglobal.org/iciglobal/pubs/memos/ci.memo32963.global>.

Source URL: <https://icinew-stage.ici.org/memo-32972>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.