



Global Investigative Journalism Network

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VIA FACSIMILE

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January 4, 2017

Mr. Brent Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Fax Number: 202-772-9324

Dear Secretary Fields:

I am the Executive Director of the Global Investigative Journalism Network (GIJN), an international association of nonprofit organizations that support, promote, and produce investigative journalism. Based in the United States, with our primary office in Silver Spring, Maryland, the GIJN has 145 member organizations in 62 countries around the world.

It has recently come to our attention that comments were filed under our name on January 2, 2017 in the proceeding titled Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change in Connection with the Proposed Transaction involving CHX Holdings, Inc. and North America Casin Holdings, Inc., File Number SR-CHX-2016-20. A copy of the comments are attached; they are also accessible online via the following URL:

<https://www.sec.gov/comments/sr-chx-2016-20/chx201620.shtml> (link to all comments in this proceeding)

<https://www.sec.gov/comments/sr-chx-2016-20/chx201620-1457034-130154.pdf> (link to the specific comments that were filed under our name)

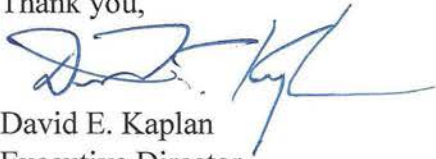
We can assure you that we did not file these comments and ask that they be withdrawn from the official record and removed from the SEC's website and any other manner of public access to ensure they are not publicly associated with the GIJN.

Further, because we have no idea as to the submitter of these fraudulently-filed comments, we are hoping you can share with us any information you obtain as to their source (which, we note, were not signed by any individual even purporting to have authority to act on behalf of GIJN). This will allow us to take action to prevent future occurrences of this type, including working with law enforcement should the need arise.

We ask that you confirm withdrawal of these comments with us. You can contact me at [REDACTED] or [REDACTED]. Please copy our attorney, Kevin M. Goldberg of Fletcher, Heald & Hildreth, P.L.C., on any such communications. He can be reached at [REDACTED] or [REDACTED].

Of course, you should feel free to contact me and Kevin if you need any more information from us or have any other information to provide.

Thank you,

A handwritten signature in blue ink, appearing to read "David Kaplan", written over the typed name.

David E. Kaplan
Executive Director
Global Investigative Journalism Network

cc: Kevin M. Goldberg, Esq.



January 2, 2017

The Honorable Mary Jo White
Chairman Securities and Exchange
Commission
Washington, D.C.

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

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

Re: Comment Letter: Investigative Report Regarding Opaque Chinese Ownership Structure Under SEC Release No. 34-79474 - Notice of Filing of Proposed Rule Change by CHX Holdings, Inc. ("CHX") and North America Casin Holdings, Inc. ("NA Casin")

Dear Chairman White and Commissioners Stein and Piwowar:

We represent public interest in preserving the integrity of our national securities markets to address the unprecedented departure from accepted standards of exchange ownership, expose red-flags relating to undisclosed information about sham investors, and urge the Commission to firmly reject the above proposed rule change. A close examination of the dubious shell entities purportedly making independent, direct investments led by the Chinese Caixin Enterprise Group ("Caixin") is warranted.

Section I. The SEC Could Not Exercise Proper Regulatory Oversight Under the CHX Proposal

The most fundamental component of the SEC's past examinations of ownership structure relates to its own ability to oversee the manner in which an exchange is operated, so as to ensure that no conflicts of interest arise between an exchange's ownership and the investing public. The SEC has thus traditionally required a series of robust checks and balances as well as public disclosure that allow it to monitor and redress improper influence on the part of an upstream exchange parent company, and has dealt in jurisdictions that submit to the U.S. legal process, reducing the specter of undetectable impropriety.¹ A key tool, ordinarily used to effectuate limitations in influence by any one or group of owners is to prohibit any agreements (written or informal) with respect to restricted ownership and the voting of capital stock.

The Commission should evaluate its capacity to prevent voting collusion or improper influence over a majority of proposed voting shares under the NA Casin proposal. Even taking the NA Casin proposal at face value (something the Commission should not do as addressed in Section II below), 99% of the voting stock in CHX - the U.S.'s last major national stock exchange would be controlled by opaque entities in mainland China, totally beyond the supervisory or subpoena power of the entire U.S. government. The SEC, much less the CHX itself, would have no ability whatsoever to discover, let alone prevent, the owners of the foreign entities (including Caixin) from engaging in voting collusion.

¹ See e.g., In the Matter of the Application of ISE Mercury, LLC, Securities and Exchange Act Release No. 34-76998 (Jan 29, 2016).

The CHX application is a drastic departure from the well-settled SEC precedent restricting stock exchange ownership, most notably the SEC-approved structures already adopted by the Deutsche Börse, NYSE, BATS, NASDAQ and others. Thus the proposed CHX structure is unfair to the other exchanges. Unlike Germany, a friendly jurisdiction, effective SEC oversight of CHX's Chinese owners is impossible. It would leave regulators blind with respect to regulating the voting activity in CHX. Without the ability to "trust, but verify," U.S. investors and regulators cannot take it at face value that CHX capital stock is being voted in a manner that fully complies with U.S. laws and poses no conflict of interest to fair markets.

Members of Congress recently alerted the media that both the House Financial Services Committee and soon to be SEC Acting Chairman Piwowar "expressed the same concerns regarding the corruption inside Chinese firms, as well as their complacency and lack of transparency."²

Additionally, and unlike other exchanges, there are little to no controls in place at the upstream corporate ownership. Apart from conflict of interest concerns, one must ask what controls are in place to prevent Caixin Group, or its nominee shell entities in mainland China, from transferring their voting power in CHX to even more opaque ownership, or very feasibly involve the Chinese government.

The SEC has interpreted the Exchange Act to require that the ownership structure of a national securities exchange must be such to "help prevent any owner of [an exchange] from exercising undue influence or control over the operations of the Exchange" and assure the SEC's capacity to carry out their regulatory obligations under the Act.³ In well-established precedents, the SEC has balanced the interests of exchange shareholders with the public interest of an unbiased, self-regulated exchange by requiring that no person or entity shall own more than 40% of the exchanges capital stock, nor vote, or cause the voting of, more than 20% of the exchanges capital stock.⁴

It is here that Acting SEC Chairman Piwowar's and Congress's concerns breathe life, as the very nature of the CHX transaction allows for Chinese control of 99% of CHX: 49.5% of voting shares to be directly influenced by opaque names in China, with the remaining 49.44% held by their affiliated shell nominees, whose ownerships structure, relationships, and intentions are totally unknown to the SEC.⁵

Section II. The Legitimacy of the Chinese Related U.S. Shell Entities Must Be Thoroughly Investigated

A short distance away from each other between the north end of Long Island, and Queens, New York, two homes complete a seemingly uneventful middle class neighborhood. Invisible is that two primary CHX investment entities, **Castle YAC Enterprises, LLC** and **Xian Tong Enterprises, Inc.**, operate in each of these respective residential addresses respectively. Purportedly acting "independently" from each other, they each came up with the same idea, at the same time - each spending millions beyond their means to buy the last major U.S. stock market located a thousand miles away - the Chicago Stock Exchange ("CHX"). These obscure entities were then "conveniently" joined by a brand new shell company - **North America Casin Group, Inc.** ("NA Casin") as well as other purportedly "unrelated" shells to buy CHX for at least \$22 million.⁶ That's the bizarre story CHX has told the SEC. The trouble is the fantasy storyline doesn't pass the smell test and doesn't ring true.

² Chicago Stock Exchange Reveals Chinese Investors Seeking to Buy Trading Outpost, *The Wall Street Journal*, Dave Michaels and William Mauldin (November 29, 2016).

³ In the Matter of the Application of: Investors Exchange, LLC Securities and Exchange Act Release No. 34-78101 (June 23, 2016).

⁴ See e.g., Securities Exchange Act Release Nos. 53963 (June 8, 2006), 71 FR 34660 (June 15, 2006) (SR-NSX-2006-03) ("NSX Demutualization Order"); 51149 (February 8, 2005), 70 FR 7531 (February 14, 2005) (SR-CHX-2004-26).

⁵ See SEC Release No. 34-79474; Appendix 3. Screenshot of Chongqing Longshan Decoration (12/15/2016).

⁶ See Appendix 1, Photo of 4219A 214th Place, Bayside, NY 11361 (Google Maps, December 22, 2016); Xian Tong Enterprises, Inc. Corporate Registration (Filing Date: May 21, 1997); See Appendix 2, Photo of 114 Centre Island Rd Oyster Bay, NY 11771 (December 15, 2016); Castle YAC Enterprises, LLC Corporate Registration

Significant problems exist in the CHX Casin transaction that has the stench of familiar cross-border fraud. According to CHX's submission to the SEC, the largest shareholders in CHX after the proposed Casin acquisition are as follows:

- **NA Casin (20%)** - an empty shell company with no business or assets, controlled by Caixin Enterprise Group ("Caixin") in Chongqing, China.
- **Chongqing Jintian Industrial Co. ("Chongqing Industrial") (15%)** - its ownership is nowhere to be located in China and has not been disclosed to the SEC. This is supposed to be an "independent" accredited investor that acted solely on its own, "unrelated" to Caixin.
- **Chongqing Longshang Decoration ("Chongqing Decoration") (14.5%)** - an interior decorator located just steps away from Caixin's address in Chongqing, China. This is also supposed to be an "independent" entity that somehow acted alone, "unrelated" to Caixin.
- **Castle YAC Enterprises LLC ("Castle YAC") (19%)** - a recently formed shell nominee located at a Queens, NY residential address owned by a person named Jing Chen from Chinatown. It's not owned by Casin CEO's son Jay Lu, as stated in CHX's SEC filing.
- **Two sham "Put Agreements" called "Raptor" and "Saliba" ("Put Nominees") (23.5%)** - two exotic Wall Street financial derivatives specifically designed to skirt SEC's exchange ownership restrictions, giving Caixin virtual control of CHX after the SEC approves the deal.⁷

Chicago Stock Exchange Acquisition by China Casin Group - Ownership Structure		
<i>*Source: CHX SEC filing, Dec. 6, 2016. SEC release #: 34-79474</i>		
Chinese Buyers:		
North America Casin Group	20%	(A shell company with no assets)
Chongqing Jintian Industrial Co.	15%	(Ownership unknown, a Chinese electronics repair shop)
Chongqing Longshang Decoration	14.5%	(Ownership unknown, a Chinese interior decorator)
Chinese Nominees:		
Castle YAC Enterprise - a NY shell company	19%	(Owned by Jing Chen, a NY resident from Chinatown)
Xian Tong Enterprise - a NY shell company	6.94%	(Owned by Qijun Luo, a Queens, NY resident)
Sub-total (Direct Chinese Ownership):	75.44%	
Raptor - a DE shell company	11.75%	(A sham "PUT" agreement, NOT the eventual owner)
Saliba - an Illinois shell company	11.75%	(A sham "PUT" agreement, NOT the eventual owner)
Sub-total (Under same Chinese control)	23.50%	
TOTAL CHINESE OWNERSHIP/CONTROL:		98.94%
Non-Chinese Owners:		
CHX management	0.88%	
Cheevers & Co.	0.18%	
Sub-total (Non-Chinese Buyer):	1.06%	

Notably, no entity has any background in the U.S. finance industry. No identified Chinese individuals speak English. Also, it doesn't appear any foreign entity will submit to U.S. jurisdiction for

(Filing Date: February 9, 2016); [Form 19b-4 Information](#), Securities and Exchange Act Release No. 34-79474 (December 6, 2016); [Grand Plans to Revive Chicago's Stock Exchange- From China](#), *The Wall Street Journal*, Dave Michaels and William Mauldin (August 18, 2016).

⁷ See SEC Release No. 34-79474.

purpose of compliance with U.S. laws. Like many other Chinese companies, the SEC cannot effectively enforce their compliance. Just in the recent memory, the American investing public fell prey to obscure U.S.-listed, Chinese entities that either cooked their books or concealed their true ownerships in their SEC filings. In the instant case, the SEC knows nothing about Casin or its affiliated shell companies.

In China, businesses hiding their books from their own government may be a form of self-protection due to uncertain regulations. This lack of transparency is at odds with the spirit of full disclosure at the heart of the U.S. securities law, and facilitates the growth of improper voting power by curious entities in China, which unnecessarily exposes the public to fraudulent conducts.

The familiar scheme of "hide and seek" is clearly on display again in the dubious CHX/Casin proposal. Investigations revealed that the purported "U.S.-based" CHX acquirers **Castle YAC** (19%) and **Xian Tong Enterprises, Inc.** (6.94%) are nothing more than sham outfits. **Castle YAC** was founded in February 2016 and is purportedly solely owned (which is not true) by the son of Caixin's owner Jay Lu, who would invest \$4.2 million in cash into CHX should the SEC approve the acquisition. Yet, **Castle YAC** doesn't seem to have a real office as it has its "operating" address tied to an empty residence in Long Island, New York (*114 Centre Island Road, Oyster Bay, New York 11771*) owned by **4 High Ridge Lane LLC**, another dark shell entity in turn owned by **Jing Chen**, a person from Chinatown. According to New York State records, **Jing Chen, not Jay Lu** is tied to the address of **Castle YAK** through December of 2016, and currently lists an address at *4 High Ridge Lane* in the same town.

Another closer analysis of public records relating to **Xian Tong Enterprises, LLC** raises far more serious anti-money laundering concerns: **Xian Tong's** official address registered in NY State is in fact a small apartment (*4219A 214th Place, Bayside, NY 11361*) worth \$90,000 in a distressed Queens, New York neighborhood. It seems incongruent that the owner of the small property, **Qiuling Luo** - a Chinese national from Flushing, Queens could suddenly have the financial means to "act independently," spending \$1.6 million in cash to buy a 7% ownership in CHX as an accredited investor, supposedly "unrelated" to Casin.⁸ Hoodwinking the SEC is never a good idea. But CHX's SEC filing did just that.

Given the tens of millions of dollars in cash involved in the CHX/Casin acquisition, it's a hard sell that Casin and its odd-lot of Chinese names are independent and bona fide investment entities, each acted alone, each had millions in cash of its own money sitting in the bank, and each had a burning desire to own a piece of CHX from China - incredibly these non-English speaking names all showed up at the same time! To protect the public, shouldn't the SEC, the FBI and other law enforcement pierce those Chinese corporate veils to learn their ties and uncover whatever is hidden beneath those empty shells?

Further, public comments on the proposed CHX/Casin acquisition must be submitted by January 3, 2017, leaving the body of the comment period to fall over the holiday season when no one is burning the midnight oil over tedious exchange rules. The "remarkably smart," yet furtive CHX/Casin staff apparently knows how to jam the SEC by manipulating the regulatory calendar when no one is around in Washington. Such trickery belies the American justice. Under the incoming Trump administration, is it open season now to use Chinese corporate shells to blind the American public, dupe the government, lie to Congress and mislead the SEC? Is it "America first" or "America last?" The SEC should respond appropriately in light of clear evidence of fraud in the proposed CHX/Casin acquisition.

With due respect, if the SEC is unable to confidently endorse CHX due to irresolvable potential for vetting CHX's murky ownership structure, it must reject the CHX/Casin acquisition or refer it to law enforcement. It would be tragic for the U.S. to lose control of its last stock exchange by virtue of invisible hands in China, wholly beyond the SEC's reach. It would also set the wrong tone to the markets that the SEC is comfortable breaking with precedent, driving blind with respect to opaque ownership of a national stock exchange and "importing" another shady export to America from China.

⁸ See Appendix I.

Xian Tong Enterprises, Inc. (Headquarter) (4219A 214th Place, Bayside, NY 11361)

Google Maps 20 214th Pl



No. 4219

Left door: A

Google

Home > U.S. > New York > Bayside

XIAN TONG ENTERPRISES, INC.

New York Domestic Business Corporation - Updated 10/13/2015

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Xian Tong Enterprises, Inc. is a New York Domestic Business Corporation filed on May 21, 1997 . The company's filing status is listed as Active and its File Number is 2145551.


The Registered Agent on file for this company is C/O Lam Wang & Company LLP and is located at 307 5th Ave 8th Fl, New York, NY 10016. The company's principal address is 4219a 214th Pl, Bayside, NY 11361 and its mailing address is 307 5th Ave 8th Fl, New York, NY 10016.

The company has 1 principal on record. The principal is Qiuling Luo from Bayside NY.

Company Information

- Company Name: XIAN TONG ENTERPRISES, INC.
- File Number: 2145551
- Filing State: New York (NY)
- Filing Status: Active
- Filing Date: May 21, 1997
- Company Age: 19 Years, 7 Months
- Registered Agent:  C/O Lam Wang & Company LLP
307 5th Ave
8th Fl
New York, NY 10016
- Principal Address:  4219a 214th Pl
Bayside, NY 11361
- Mailing Address:  307 5th Ave
8th Fl
New York, NY 10016

Company Contacts

- QIULING LUO
Chief Executive Officer
 4219a 214th Pl
Bayside, NY 11361

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Reviews

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There are no reviews yet for this company.

NYS Department of State

Division of Corporations

Entity Information

The information contained in this database is current through December 14, 2016.

Selected Entity Name: CASTLE YAC ENTERPRISES, LLC

Selected Entity Status Information

Current Entity Name: CASTLE YAC ENTERPRISES, LLC

DOS ID #: 4893148

Initial DOS Filing Date: FEBRUARY 09, 2016

County: NASSAU

Jurisdiction: NEW YORK

Entity Type: DOMESTIC LIMITED LIABILITY COMPANY

Current Entity Status: ACTIVE

Selected Entity Address Information

DOS Process (Address to which DOS will mail process if accepted on behalf of the entity)

CASTLE YAC ENTERPRISES, LLC

114 CENTRE ISLAND RD

OYSTER BAY, NEW YORK, 11771

Registered Agent

NONE

This office does not require or maintain information regarding the names and addresses of members or managers of nonprofessional limited liability companies. Professional limited liability companies must include the name(s) and address(es) of the original members, however this information is not recorded and only available by [viewing the certificate](#).

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Map

Off Market



Est. \$771,202

114 Centre Island Rd Oyster Bay, NY 11771

Commuter Time

7 beds • 13 baths • 10,344 sq ft



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Property Details

Overview

Built in 2002, this property was last sold for \$7,900,000 in 2012 and currently has an estimated value of \$771,202. The median price for this area is \$1,368,944.

Directions

Key Facts

- Single family
- Year built: 2002
- Price/Sq Ft: \$75

Public Records

- Rooms: 14
- House size: 10,344 sq ft

http://www.realtor.com/realestateandhomes-detail/114-Centre-Island-Rd_Oyster-Bay_NY_11771_M44327-05153



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