



February 16, 2017

The Honorable Commissioners  
United States Securities and Exchange Commission  
100 F St. NW  
Washington, DC 20549-9303

RE: File No. SR-CHX-2016-20; Order Instituting Proceedings to Determine Whether to Disapprove a Proposed Transaction involving CHX Holdings, Inc. and North America Casin Holdings, Inc.

Dear Honorable SEC Commissioners,

Since the Securities and Exchange Commission ("SEC") encourages the public to submit comment letters on the proposed acquisition of the Chicago Stock Exchange by Chinese shell companies led by a China Casin Group ("Acquisition"), we respectfully submit this letter. The Public Interest Review is troubled that the proposed Acquisition controverts the well-established SEC tradition of fairness and transparency in the U.S. capital markets. The proposed consolidated ownership far exceeds the 40% cap allowed by the SEC.

**The Background:**

In February 2016, a mysterious Chinese entity "Chongqing Casin Group" announced the acquisition of the Chicago Stock Exchange ("CHX") for \$22 million<sup>1</sup>, subject to SEC approval. Behind the controversial news headlines, Casin Group's mysterious background has caused grave public interest concerns. Its opaque ownership structure was known to the world on December 6, 2016 - just days before Christmas, when CHX made a highly misleading "Notice of Filing of Proposed Rule Change" with the SEC. CHX CEO John Kerin further supplemented its record on January 5, 2017 with his own comment letter to the SEC, which contained materially false statements. The CHX CEO told the following story to the SEC, which cannot be substantiated with facts:

*"As discussed in detail in the Notice9, upon the closing of the Proposed Transaction, NACH will be owned by a consortium of 13 U.S. and Chinese investors ("Prospective Owners"), which include various investment companies, certain members of the CHX management team and a U.S. broker-dealer. After the closing, ...The result is that 50.5% of CHX will be indirectly owned by U.S. citizens and 49.5% of CHX will be indirectly owned by Chinese citizens."*

Mr. Kerin's statement was deliberately misleading. CHX does not deny and neither has it proven to the contrary that the "various investment companies" are in fact brand new shell operators that share these common attributes:

- None has any real operations.
- None has any corporate officers and owners with verified credentials.

---

<sup>1</sup> Grand Plans to Revive Chicago's Stock Exchange - From China, *The Wall Street Journal* (August 18, 2016).

- The so-called "U.S. companies" are in fact empty home addresses surrounding Queens New York's Chinatown in Flushing, based on Google search results.
- The purported "Chinese investors" in Chongqing China are nothing more street corner vendors peddling home decorations or fixing used cell phones<sup>2</sup>.
- They have no employees.
- They have no tax or corporate records/filings either in the United States or in China.
- None has any verifiable corporate history.
- None has any proven financial abilities to act on its own, spending millions of dollars in cash buying into controlling stakes in CHX.

Who are behind these upstream Chinese-controlled shell companies? Nobody knows. The SEC certainly wasn't informed of their true identities in public filings, perhaps neither does CHX itself have any idea. CHX simply represented to the SEC that all of these opaque Chinese names are "investment companies" who operate independently, are separately owned by unrelated parties, and had no coordination when they wanted to buy CHX. Where's their proof of funds? What are the sources of their funds? Is the CHX story believable?

According to CHX's SEC filings, these non-English speaking Casin corporate shells purportedly acted independently, on their own, without coordination and voting collusion. They somehow suddenly woke up, "fell in love" with CHX while they were thousands of miles away in China's rural Chongqing region. The fanciful story told by CHX to the SEC is just not credible. What's real is the opacity of these corporate shells that no one seems to know who they are. Based on public records, here's a real breakdown of CHX's proposed ownership:

U.S. OWNERSHIP: 1.06%

- |                                   |                     |
|-----------------------------------|---------------------|
| • CHX management team:            | 0.88%               |
| • Cheevers & Co - a small broker: | <u>0.18%</u>        |
| <b>Verified U.S. Ownership:</b>   | <b><u>1.06%</u></b> |

CHINESE AND CHINESE CONTROLLED SHELLS: 98.94%

Fake "put" arrangements, conflict of interest with a CHX board member<sup>3</sup>:

- |  |               |
|--|---------------|
| • Saliba "Put" agreement (can be transferred to any unknown "3rd party" ) <sup>4</sup> :             | 11.75%        |
| • Raptor "Put" agreement (a Saliba nominee, transferrable to any unknown "3rd party") <sup>5</sup> : | <u>11.75%</u> |
| <b>Total:</b>  | <b>23.5%</b>  |

Chinese controlled, U.S. corporate shells:

- |   |     |
|---|-----|
| Castle YAC Enterprise (an empty house in Long Island, Jay Lu is not the owner) <sup>6</sup> : | 19% |
|---|-----|

<sup>2</sup> See Chongqing Longshang's website, a Chinese interior decorator located in the same neighborhood of Chongqing Caixin. <http://www.cqlongshang.com/>.

<sup>3</sup> SEC opinion letter dated January 12, 2017. "which would grant Saliba and Raptor the right to compel NA Casin Holdings to purchase or arrange for an unspecified third-party to purchase" their holdings.

<sup>4</sup> Saliba, an options day trader stands to make a substantial profits when he "puts" the fake arrangement back to the Chinese. Saliba is also a board member of CHX. This raises new and serious questions of conflict of interest, self-dealing and possible corruption at the expense of CHX's 190 shareholders.

<sup>5</sup> Raptor is Saliba's relationship and a nominee for Saliba. Raptor and Saliba own a combined 23.5% stake, which in itself violates the SEC's long standing guidelines prohibiting 20% or more control of a stock exchange by colluded entities.

Xian Tong Enterprises, Inc. (a Queens NY apartment facing an empty parking lot, a shell) <sup>7</sup> :	<u>6.94%</u>
Total:	25.94%
<u>Opaque Chinese ownership in China:</u>	
Chongqing Jintian Industrial Co. Ltd. (unknown):	15%
Chongqing Longshang Decoration (interior decorator) <sup>8</sup> :	14.5%
North American Casin Group (an empty shell, formed in Feb 2016):	<u>20%</u>
Total:	49.5%
<b>Verified Chinese ownership/control:</b>	<b><u>98.94%</u></b>

Many agree Chinese companies have poor credibility in the U.S. capital markets. Just in the recent years, Chinese companies misled our market regulators and the public through reverse merger shell games and falsified accounting records. Now Casin comes along, repeating the same opaque ownership structure that no regulator could understand. It's outrageous that China Casin shows such lack of respect towards our regulators, who are our last safeguards against market abuses for the protection of the integrity of our markets.

The SEC or any member of the public may conduct independent investigations and perform Google searches on these opaque Chinese shell companies. They should review those home addresses and the empty parking lot associated with those registered addresses. They are fake "investment companies."

No one could explain the motives behind CHX's deliberate efforts to conceal the true identities of these Chinese shell companies from the SEC. The SEC staff was told the beneficial owners of these upstream shell companies either. Even members of the well-informed U.S. - *China Economic and Security Review Commission*, who have deep ties to the nation's intelligence community were kept in the dark, expressing their deep frustrations and disapproval over the opaque CHX/Casin proposal during a January 26, 2017 hearing on issues impacting Chinese investments in the U.S.<sup>9</sup> In fact, no one has revealed the hidden hands behind Casin and its cluster of shell nominees. Searches of public records in the U.S. and China also turned up empty.

Apart from CHX CEO's sheepish statements calling the mysterious empty shells "investment companies," neither CHX nor Casin has disclosed to the SEC their true identities. Shouldn't the SEC demand factual representations and transparency?

**CFIUS approval does not permit Casin or CHX to mislead the SEC**

CHX enjoys touting the CFIUS process as a stamp of approval. It sounds like a convenient excuse for an opaque Chinese ownership proposal. A CFIUS study is all about national security concerns and nothing else. Historically, CFIUS has approved 98% of foreign acquisitions. A CFIUS approval has no bearing on the credibility or trustworthiness of Casin. It's not an endorsement of anything. The SEC cannot and should not regard CHX's CFIUS approval as a seal of approval of Casin by the U.S. government. Further, CFIUS does not permit Casin or CHX to lie to the SEC or sidestep compliance with U.S. securities laws and disclosure requirements.

---

<sup>6</sup> Castle YAC Enterprises is purportedly owned and controlled by Jay Lu, the son of NA Casin's owner. However public records reveal a Jing Chen as Castle YAC's owner. Jay Lu's association with Castle YAC is nowhere to be found. Also, this shell purportedly has \$5 million in cash to buy into a 19% stake in CHX. CHX has not presented any documentation involving Jay Lu.

<sup>7</sup> Xian Tong Enterprises, LLC is a small townhouse in Queens, New York. It's owned by a mysterious Qiuling Luo, a non-English speaking individual from Chinatown in Flushing, Queens, NY. Xian Tong's registered address and an empty lot across the street. Xian Tong purportedly has \$1.6 million in cash for its 7% stake in CHX.

<sup>8</sup> See Chongqing Longshang's website, a Chinese interior decorator located in the same neighborhood of Chongqing Caixin. <http://www.cqlongshang.com/>.

<sup>9</sup> See U.S. - China Economic and Security Review Commission hearing transcripts, Jan 27, 2017: <https://www.uscc.gov/Hearings/hearing-chinese-investment-united-states-impacts-and-issues-policy-makers>

## **CHX uses lobbyists in Washington DC**

For more than a decade, CHX hasn't expensed a dime on corporate lobbying in Washington. To market the Casin deal to CFIUS and the SEC, CHX scrambled \$220,000 in lobbying fees in an attempt to sway the SEC and Congress in 2016. According to public records<sup>10</sup>, CHX hired a DC lobbying firm to peddle the "Chinese merchandise" to the SEC and Congress on behalf of Casin. Before its 2016 spend, the last time when CHX used any federal lobbyists was in 2002, almost 15 years ago. Does CHX doubt its opaque proposal would pass the smell test of our SEC regulators?

## **Protect the public, reject CHX's Chinese merchandise**

America's democracy and our system of law and regulations are fixated on the basic principle of transparency. Chinese companies have a history of skirting compliance requirements in our markets. Chinese issuers trade on the U.S. stock exchanges and derive significant benefits from our market liquidity. But our market regulators, including the SEC and Public Company Accounting Oversight Board (PCAOB) are barred by the Chinese government to examine the books of Chinese companies in China.<sup>11</sup>

Would the SEC and PCAOB be allowed to examine the books and records of Chinese Casin and its affiliates in China? The answer is no. Then how could our regulators honorably discharge their primary responsibilities of market regulations and investor protection? Impossible.

The Chicago Stock Exchange is an integral part of our capital markets. Under Regulation NMS, a bad trade on CHX could break the nerves of our entire capital markets. CHX is too strategically important for America. The SEC cannot let CHX be sold to opaque Chinese shells like a used car in a junkyard. This is not racial bias against China. This is all about having CHX follow America's rules and putting America's interest ahead of China's national interest. "China's national interest and its businesses are one and the same," said in opening remarks by the Commissioners of the U.S. - China Economic and Security Review Commission on January 27, 2017. These experts are right.

For the sake of public interest, we respectfully ask the SEC and other regulators to take extreme caution in reviewing the CHX-Casin proposal and reject their misleading representations to the SEC. Unless the SEC gets to the bottom of CHX's actual ownerships and verify the sources of funds from those Casin shell nominees, opaque Chinese owners have no place in the U.S. capital markets.

Respectfully yours,  
David Ferris  
Senior Research Analyst

---

<sup>10</sup> See CHX's lobbying records: [www.opensecrets.org](http://www.opensecrets.org)

<sup>11</sup> See sworn testimony by Professor Paul Gillis, U.S.-China Economic and Security Review Commission. Jan 26, 2017. <https://www.uscc.gov/Hearings/hearing-chinese-investment-united-states-impacts-and-issues-policy-makers>