

November 22, 2017

The Honorable Jay Clayton  
Chairman of the SEC  
The Honorable SEC Commissioners

Comment Letter: Re: Release No. 34-82077; File No. SR-CHX-2016-20  
The Improper Chinese Acquisition of the Chicago Stock Exchange

Dear Honorable SEC Chairman Clayton and SEC Commissioners,

Thank you for the opportunity to comment on the Chicago Stock Exchange (“CHX”)’s amended filing<sup>1</sup> (November 6, 2017), which reveals another CHX attempt to ram a fake Chinese buyer group down the throats of SEC regulators.

Rarely does the American public witness a proposed Chinese acquisition of a key American asset so opaque, fake and fraudulent that invites vomit. CHX’s bewildered history of knowingly, repeatedly misleading the SEC regulators by submitting yet another fake ownership structure, meets the textbook definition of a “fraud on the SEC.”

For nearly two years, CHX management and its corrupt, self-dealing board member Anthony Saliba have blamed the SEC’s hesitation to approve an empty Chinese shell company NA Casin’s acquisition of CHX on “anti-China” sentiment. Officially, CHX has relentlessly retaliated against public commentators, accusing these concerned citizens of spreading “fake news.” It turned out the public has been right all along and CHX has been less than candid with the regulators.

As exposed in the Wall Street Journal, the 3<sup>rd</sup> CHX Amendment of its opaque Chinese deal arrived only after the diligent SEC Trading & Markets Division staff, heeding the advice of the SEC Commissioners, had demanded CHX provide the real identities behind the smokescreen of three Chinatown “investors” included in CHX’s original investor crowd. It turned out, they are fake buyers.<sup>2</sup> Before they got caught, they abandoned the “burning Casin ship” and dropped out. The SEC confirmed the crumbled Casin “house of cards” in a recent ruling: “On October 2, 2017, during the Commission’s review of the delegated action, CHX informed the Commission that three of the upstream investors were withdrawing from the investor group.”<sup>3</sup> The public was vindicated but CHX was mum. Facing a humiliating defeat, CHX is now pulling a new trick on the SEC, attempting to resurrect a rotten deal - again testing staff patience and the level of intellect at the SEC’s Trading & Markets Division.

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<sup>1</sup> SR-CHX-2016-20 Partial Amendment No. 2: <https://www.sec.gov/comments/sr-chx-2016-20/chx201620-2673135-161449.pdf>

<sup>2</sup> The Wall Street Journal. “Two Chinese Firms Bidding for CHX Withdraw AFTER SEC sought more details.” <https://www.wsj.com/articles/two-chinese-firms-bidding-for-chicago-exchange-withdraw-from-controversial-deal-1507923339>

<sup>3</sup> SEC Release. November 14, 2017. <https://www.sec.gov/rules/sro/chx/2017/34-82077.pdf>

## The Latest Chinese Casino Ownership Amendment: ‘Wolf in a New Sheep Skin’

According to the SEC’s November 14, 2017 release, the empty shell company North America Casino Holdings Inc. (“NA Casino”) “**reorganized**” its capitalization table by **reallocating** shares among new “investors.” See *CHX Amended Rule Filing (SR-CHX-2016-20) (Nov 6, 2017)*, pg. 6. (<https://www.sec.gov/comments/sr-chx-2016-20/chx201620-2673135-161449.pdf>). As illustrated by commentator Samuel Garland, Regulatory Policy Group, CHX’s proposed new owners are as follows: <sup>4</sup>

<u><b>New Upstream Sham Owners</b></u>	<u><b>New NA Casino Holdings Ownership %</b></u>	<u><b>% Controlled by Casino, Lu</b></u>
<b>NA Casino (29%) and Castle YAC (11%)</b> (Both are empty shells controlled by Jay Lu)	<b>40%</b>	
<b>SHAM Raptor “PUT” Nominee</b> (Shares Controlled by NA Casino/Jay Lu)	<b>25%</b> (NA Casino is required to buy shares back from Raptor at any price)	<b>89.5%</b>
<b>SHAM Saliba “PUT” Nominee</b> (Shares Controlled by NA Casino/Jay Lu)	<b>24.5%</b> (NA Casino is required to buy shares back from Saliba at any price)	
<b>Five Members of CHX Management</b> (Received FREE shares from NA Casino)	<b>8.32%</b> (Received FREE shares to abet the SHAM)	<b>8.32%</b>
<b>SHAM Penserra “PUT” Nominee</b> (Shares Controlled by NA Casino/Jay Lu)	<b>2.18%</b> ( NA Casino is required to buy shares back from Penserra at any price)	<b>2.18%</b>
<b>Total Dispositive Control by China Casino (ShengJu Lu and Jay Lu)</b>		<b>91.68%</b>

Here are the highlights based on the SEC release,<sup>5</sup> observed by the commentator <sup>6</sup>:

- The “PUT” agreements are fake “investors” put up by Saliba and Raptor. These are risk-free transactions involving the Chinese Casino owners pulling all the strings, dictating terms on both the timing and pricing of the “PUT.” Even a guarantee provision against possible losses is included. This type of sweetheart deal was only made possible when Anthony Saliba sits on both sides of the fence – “investing” and approving the corrupt deal acting as a CHX board member. This opaque Penserra entity also gets to ride along – risk free.

<sup>4</sup> Commentator Samuel Garland, Regulatory Policy Group. <https://www.sec.gov/comments/sr-chx-2016-20/chx201620-2678498-161417.pdf>

<sup>5</sup> SEC Release. November 14, 2017. <https://www.sec.gov/rules/sro/chx/2017/34-82077.pdf>

<sup>6</sup> Commentator Samuel Garland, Regulatory Policy Group. <https://www.sec.gov/comments/sr-chx-2016-20/chx201620-2678498-161417.pdf>

- **CHX management gets 8.32% ownership for FREE.** At the \$30 million deal valuation, CHX management (CEO John Kerin and 4 others) receive \$2.5 million for FREE! Ouch! The shameless fraud and double dipping of CHX shareholders is beyond words.
- **100% Chinese control, guaranteed returns.** The Chinese Casin father and son team controls the pricing and timing of the “PUT” redemptions. They have also agreed to make up any losses if the “PUT” investors ever lose a penny in the fake transactions.
- **The Bottom Line:** Who are these fake investors? Do they have any skin or risk in the CHX deal? The answer is No. Here’s the question for the SEC: Can they be bona fide investors when a deal is 100% risk-free? Can such frauds pass the smell test of common sense?
- **The Truth:** Saliba, Raptor, Penserra and CHX management are merely placeholders for the Chinese. Collectively, these so-called “American investors” would hold 60% of CHX on behalf of China Casin, where the Chinese can own or transfer 60% of CHX ownership to anyone they like, at any time, including to the Chinese government.

**The Senate Banking Committee Hearing: ‘Chairman Clayton, drop this rotten Chinese Casin deal.’**

On Sept 26, 2017, SEC Chairman Jay Clayton testified before the U.S. Senate Committee on Banking, Housing & Urban Affairs on a variety of issues. Three Senators raised concerns about the Chinese acquisition of the Chicago Stock Exchange. A video link to the hearing is online. <sup>7</sup>

**Senator Scott (R-SC):** “You have pumped the brake on Chinese acquisition of the Chicago Stock Exchange. That’s good.”

**Senator Tester (D-Montana):** “[The SEC is reviewing] a U.S. stock exchange [the Chicago Stock Exchange]’s potential purchase by the Chinese. Hope you will come back negative on that.”

**Senator Donnelly (D-IN):** “Whether foreign ownership of a stock exchange exposes markets to new risks and vulnerabilities?”

**SEC Chairman Jay Clayton responded:** “Absolutely.” “Not just foreign owners, but also state actor intrusions and state actors monitoring of our markets is an issue that troubles me.” Mr.

**Clayton further stated:** “I am aware of the various issues [relating to the CHX acquisition by the Chinese] raised by the commentators.”

It’s clear, the nation is blessed to have these leaders and their oversight. To the tone-deaf folks at CHX, their self-serving desires to sell out America to the Chinese is shocking. CHX’s deplorable offenses truly dwarfs any con job that the public has seen in our recent memory.

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<sup>7</sup> THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS will meet in OPEN SESSION for a hearing entitled “Oversight of the U.S. Securities and Exchange Commission.” A video link: <https://www.banking.senate.gov/public/index.cfm/hearings?ID=509434D2-4AAA-4442-8B02-18B49F932346>