

# Foregone Growth and Missing IPO: the Effects of A Delisting Risk from the HFCAA\*

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## Abstract

This paper quantifies the impact of a stock market regulatory pressure on firms' investment and financing decisions during the recent U.S.-China geopolitical tension. Following the SEC's adoption of the Holding Foreign Company Accountable Act (HFCAA) Final Rule in December 2021, U.S.-listed China Concept Stocks face a credible threat of forced delisting. At the intensive margin, we find that relative to comparable firms listed in Hong Kong, the growth rate of investment in innovation of the U.S.-listed Chinese firms has decreased by 4 to 12 percentage points. This finding is robust to the self-selection of firms' IPO location choice and is consistent with the heterogeneous impact of the HFCAA across firms with different delisting risk and reliance on equity finance. At the extensive margin, post-HFCAA Chinese issuers in the U.S. exchanges are significantly smaller and of lower quality, raising about 20 percent less in proceeds. The relative attractiveness of U.S. exchanges declines, with 7 to 10 percent of Chinese firms switching from U.S. to Hong Kong listings.

**Keywords:** IPO, Innovation, Geopolitical Risk, HFCAA, China Concept Stock

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