

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

Yawen Liu<sup>†</sup>      Guiying Laura Wu<sup>†</sup>

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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 US-China geopolitical tension. Adopted in December 2021 by the SEC, the Holding Foreign Company Accountable Act (HFCAA) imposes a delisting risk for the US-listed China Concept Stocks. Under a difference-in-differences framework, we find that after the HFCAA, relative to the peers listed in the Hong Kong stock market, the growth rate of various inputs of the US-listed Chinese firms has decreased by 5 to 13 percentage points; and the growth rate of operating outcomes has decreased by 12 to 17 percentage points. The causal interpretation 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, the post-HFCAA Chinese issuers on the US stock market become significantly smaller in size and poorer in quality. Their average IPO proceeds and the valuation by Tobin's  $q$ , respectively, fall by an additional 64% and 0.87, relative to those Chinese firms going IPO in Hong Kong.

**Keywords:** Cross-Listing, Geoeconomics, HFCAA, China Concept Stock, Intangible Assets

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<sup>†</sup>Nanyang Technological University, Emails: [yawen004@ntu.edu.sg](mailto:yawen004@ntu.edu.sg); [guiyingwu@ntu.edu.sg](mailto:guiyingwu@ntu.edu.sg).