

Congressman Brad Sherman 6/24/2025 Financial Services Member Day Written Testimony

No Capital Gains Allowance for American Adversaries Act

While the first bill falls under the jurisdiction of the Ways and Means Committee, it directly involves securities and as the Ranking Member of the Capital Markets Subcommittee, I want to present it before our committee today.

Lower tax rates for capital gains are intended to incentivize Americans to make investments here in America that grow our economy, investments made in companies abroad – even in adversarial nations – are still able to receive this preferential tax treatment.

To stop subsidizing investments and boosting the economies of nations undermining American national security interests, I will soon introduce the **No Capital Gains Allowance for American Adversaries Act** which will:

(1) Treat capital gains on all Chinese, Russian, Belarusian, and Iranian stocks as ordinary income.

And (2) eliminate the “step-up in basis” for Chinese, Russian, Belarusian, and Iranian assets inherited at death.

China Risk Reporting Act

The next bill which is subject to the jurisdiction of this committee and relevant to the Subcommittee on Capital Markets.

A breakdown of the U.S.-China relationship is a risk facing our corporations and investors. Our relationship with China has already shown cracks amid the Trump Tariff debacle. However, the risk is particularly important because China threatens to invade Taiwan, which could lead to a complete rupture in the economic relationship between the United States and China.

Corporations need to evaluate their dependence on China, and should be encouraged to de-risk or decouple. Investors deserve to know the degree to which the companies they invest in are dependent upon China and the risks to their investment posed by a possible Chinese invasion of Taiwan or other disruptive behavior.

My **China Risk Reporting Act** would require publicly traded companies that file any reports with the SEC to discuss in their annual reports: (1) The degree to which the company is dependent upon China, and (2) The steps the company has taken to reduce its China risk.

PRC Military and Human Rights Capital Markets Sanctions Act of 2025

The PRC Military and Human Rights Capital Markets Sanctions Act of 2025 would prohibit the purchase and sale of securities by any American person in companies that appear on various sanctions lists.

These lists include those that target human rights violators, companies that proliferate dangerous technologies, and those that have connections to the Chinese military and intelligence services.

A report found 144 sanctioned companies, or their affiliates, had made their way into major U.S. funds. Companies that have their business relations with the United States cut off or strictly restricted should not be allowed to sell securities in the US, or to US persons, whether directly or indirectly through a mutual fund or ETF.

This bill would also prohibit US persons from buying or selling securities in a firm that appears on a sanctions list, or that has an affiliate under common ownership or control on a relevant list.

No China in Index Funds Act

The No China in Index Funds Act would prohibit an index fund registered with the SEC from investing in any Chinese company.

There are unique difficulties in evaluating a risk of investing in China. If the company is based in China, it should not be in an American index fund, designed for passive investment by everyday Americans.

The No China in Index Funds Act would prohibit American index funds from investing in Chinese companies including Variable Interest Entities (VIEs) such as Alibaba Caymen Islands. The only value that a VIE has is a contract the ties it to its parent company. However, investors often believe they are investing in the parent company rather than a VIE.

The No China in Index Funds Act would protect investors by putting an end to the paint-by-numbers approach to investing in Chinese companies and prevent investors from being misled.

Bank Safety Act

The next bill, which I introduced last Congress that would address a shortcoming in our banking regulations that led to the three major bank failures in 2023.

The **Bank Safety Act** would prevent large banks over \$100 billion in assets from opting out of the requirement to recognize Accumulated Other Comprehensive Income (AOCI) in regulatory capital, which primarily reflects unrealized losses on available-for-sale securities.

No Federal Funds in Crypto Act

Cryptocurrencies are an inherently volatile and pose significant financial risks. The prospect of the federal government holding cryptocurrency—in any context—raises serious concerns about the stewardship of taxpayer dollars.

Beyond financial risks, crypto aids illicit activity and further complicates the federal government's role in holding these assets. Cryptocurrency has been used in terror financing, money laundering, tax evasion, etc. Permitting the federal government to hold or use these assets could indirectly facilitate the growth of these dangerous networks.

The No Federal Funds in Crypto Act ensures that the federal government does not invest in, buy, procure, or otherwise possess any form of cryptocurrency. Additionally, it mandates that any cryptocurrency acquired by the federal government by any means, including those seized in a law enforcement or judicial action, be liquidated within 180 days of acquisition/possession.