No TSP for the CCP | Background Brief

SUMMARY

The U.S. Government is facilitating the investment of billions of taxpayer dollars in Chinese Communist Party (CCP) controlled companies via the federal workers' retirement system, the Thrift Savings Plan (TSP). The TSP's Mutual Fund Window initiative was launched in June and has already received more than $47 million in investments. No due diligence or screening has been performed to ensure the mutual funds included in the new TSP platform exclude U.S.-sanctioned or other Chinese corporate "bad actors."

- The Thrift Savings Plan is the largest defined contribution pension system in the world, with more than $730,000,000 in assets.

- In June 2022, the TSP's administrators on the Federal Retirement Thrift Investment Board (FRTIB) **enabled TSP participants to invest up to 25% of their savings (a minimum of $10,000) in more of 5,000 mutual funds** via a new platform called the "Mutual Fund Window."
    - Participants are unable to determine what mutual funds are included in the Window until after they have transferred a minimum of $10,000.
    - The Coalition's research has demonstrated that the Window's largest emerging markets funds include problematic **CCP-controlled companies** in their investment portfolios.

- **The FRTIB claims[1] it has neither the time, expertise, nor the resources to research the mutual funds offered to current and retired federal employees, military personnel, and veterans in order to ensure CCP-controlled bad actors are excluded from their portfolio**s.
    - The FRTIB also claims they are not obligated to restrict investment in problematic Chinese companies. For example, the FRTIB has not fulfilled its 2020 public pledges to remove Chinese companies from the TSP's International or "I" Fund.
    - **No U.S.-listed Chinese-domiciled companies held by either the core TSP funds or the Mutual Fund Window are in compliance with federal securities laws and regulations**, such as legally mandated audit requirements designed to protect American investors.

Due to the negligence of the TSP's managers, American servicemen and women, and other government employees may be unwittingly funding their country's leading adversary – including companies involved in the Peoples Liberation Army's modernization or the CCP's genocide of the Uyghur people. **CCP-controlled companies should not be financed through the retirement savings of U.S. government employees. The FRTIB should not be allowed to abdicate its due diligence and fiduciary responsibilities to our military and federal workforce.**

At a minimum, the FTRIB should take steps to ensure that the TSP Mutual Fund Window publicly discloses:

1) which TSP regular or mutual funds hold Chinese-domiciled companies, including those based in Hong Kong;
2) whether any such company has been sanctioned or otherwise listed by an agency of the United States government; and
3) whether any such companies are non-compliant with U.S. securities laws and regulations, including PCAOB audit requirements.

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[1] May 2021 TSP FRTIB and Employee Thrift Advisory Council Meeting Minutes: https://www.frtib.gov/meeting_minutes/2021/2021May.pdf

BACKGROUND
By some estimates, American investors have provided **as much as $3 trillion in investment capital to Chinese companies.** Due to a 2013 bilateral MOU between U.S. and Chinese securities regulators, U.S.-listed Chinese companies' enjoy ***preferential access*** to U.S. capital markets because they are not required to meet the same requirements as U.S. public companies.

U.S. capital markets have funded China's unprecedented military build-up; its One Belt One Road Initiative; gross violations of human rights, including genocide and crimes against humanity against the Uyghurs; predatory and market distorting trade practices; and the wholesale theft of American technology and intellectual property.

The U.S. government has sanctioned hundreds of Chinese companies for their role in enhancing the threats to our national security posed by the PLA and egregious human rights violations, but they still enjoy unfettered access to U.S. capital markets and are held by hundreds of widely available mutual funds, public pension funds, and university endowments.

In 2019, BlackRock – as the lead asset manager[2] of the investment portfolio of the Thrift Savings Plan – **advised the FRTIB to increase the TSP International Fund's exposure to CCP-controlled firms**. BlackRock continues to be one of the most vocal investment managers encouraging expanded investment[3] in China, and in 2021 became the first U.S. investment management firm to provide investment products directly to Chinese retail investors.

In May 2020, the Department of State notified Congress that the passage of the Beijing-drafted National Security Law obviated the distinction between Hong Kong and the People's Republic of China, and that Hong Kong could no longer be considered autonomous. Despite this determination, the FRTIB, **has refused to remove 35 Hong-Kong based Chinese companies from the International Fund of the TSP**.

In May 2020[4], **the Trump administration blocked[5] BlackRock's proposed change of indexes governing** the TSP International or "I" Fund that would have included mainland Chinese companies, some of which were sanctioned by the United States. This action was followed in November 2020 by Executive Order 13959[6], titled "Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies," effectively prohibiting U.S. capital investment in Chinese companies tied to the PLA.

In June 2021, **the Biden administration amended E.O. 13959 by issuing E.O. 14032[7], "Addressing the Threat from Securities Investments That Finance Certain Companies of the People's Republic of China."** E.O. 14032 expanded the scope of restrictions on investment to include the surveillance technology industry and "military-civil fusion" operations. The revised E.O. specifically addressed the prospect of unwitting American investors funding Chinese military companies and certain human rights abusers as cause for imposing capital markets sanctions against such companies.

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[2] TSP announcement of State Street taking over a small portfolio of assets to manage, leaving BlackRock managing approximately 80% of funds: https://www.tsp.gov/plan-news/Second-investment-manager-to-be-added/
[3] Bloomberg article on BlackRock's China mutual fund: https://www.bloomberg.com/news/articles/2021-09-08/blackrock-sets-up-1-billion-maiden-china-fund-as-soros-laments#:~:text=BlackRock%20Inc.,investment%20a%20%E2%80%9Ctragic%20mistake.%E2%80%9D
[4] May 2020 FT article on US halt to new Chinese investment of the TSP: https://www.ft.com/content/9bcc0af2-32fb-4444-9976-f3e7a2e20883
[5] May 2020 article on the halt of new indexes for the TSP IFund: https://federalnewsnetwork.com/tsp/2020/05/trump-administration-directs-tsp-board-to-immediately-halt-planned-i-fund-changes/
[6] EO 13959: https://home.treasury.gov/system/files/126/13959.pdf
[7] EO 14032: https://home.treasury.gov/system/files/126/14032.pdf