

Alert | Corporate



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US, China Agree on Protocol for American Accounting Regulators to Inspect Audit Firms Based in China and Hong Kong

On Aug. 26, 2022, the U.S. Securities and Exchange Commission (SEC) issued a [Statement on Agreement Governing Inspections and Investigations of Audit Firms Based in China and Hong Kong](#). Under this agreement, the Public Company Accounting Oversight Board (PCAOB), China Securities Regulatory Commission (CSRC), and Ministry of Finance of People’s Republic of China established a framework allowing the PCAOB to inspect and investigate registered public accounting firms in mainland China and Hong Kong. This framework potentially prevents the possible delisting of approximately 200 China-based issuers from the U.S. stock exchanges pursuant to the Holding Foreign Companies Accountable Act (HFCAA).

The HFCAA, which Congress passed in 2020, required that starting in 2021, if PCAOB determines that in three consecutive years positions taken by Chinese authorities obstructed PCAOB’s ability to inspect and investigate registered public accounting firms in mainland China and Hong Kong, the companies audited by such firms would be subject to a trading prohibition on U.S. markets. PCAOB made such a determination in 2021 and now is required to reassess its determinations by the end of 2022. PCAOB [considers](#) the signing of the Statement of Protocol “the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong completely.”

SEC Chair Gary Gensler cautioned that “[w]hile important, this framework is merely a step in the process. This agreement will be meaningful only if the PCAOB actually can inspect and investigate completely audit firms in China.” PCAOB Chair Erica Williams stated that she “directed the PCAOB inspection team to finalize their preparations to be on the ground by mid-September so [PCAOB] can put this agreement to the test.”

CSRC, in its [press release](#) announcing the signing of the audit oversight cooperation agreement, commented that “[t]he signing of the agreement is an important step forward by regulators in China and the U.S. towards resolving the audit oversight issue that concern mutual interests, and lays the foundation for proactive, professional and pragmatic cooperation of the next stage.”

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