
ALJ Sanctions Chinese Accounting Firms in Document Production Dispute

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On January 22, an SEC administrative law judge issued an [initial decision](#) in the SEC's proceeding against five Chinese accounting firms arising from the firms' failure to produce documents in connection with SEC investigations. The firms, which included associated firms of the Big Four and another firm, declined to produce the documents on the ground that production would violate applicable laws of the People's Republic of China. The SEC initiated an administrative proceeding against the firms in late 2012. The ALJ rejected the firms' arguments and found that they had willfully violated section 106 of the Sarbanes-Oxley Act, which requires registered public accounting firms to produce workpapers and other documents upon request by the SEC or PCAOB. The ALJ censured all of the firms and barred each of the Chinese Big Four firms from "appearing and practicing" before the SEC for six months.

The initial decision is not final and is subject to appeal to the full SEC and, potentially, to a federal court of appeals. The Chinese Big Four firms have indicated that they intend to appeal.

The decision will not affect any audits of year-end 2013 financial statements. If its stands, the ALJ's six-month bar could, depending on the timing, have significant impacts. At this point, the ultimate resolution of this dispute cannot be predicted.