
PCAOB and China Reach Agreement on Sharing Information

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As noted in a [prior item](#), US and Chinese securities regulators have been engaged in a standoff regarding the US regulators' ability to exercise oversight over Chinese accounting firms that audit US-listed issuers and to obtain from the Chinese accounting firms documents relevant to investigations of Chinese issuers. China has not permitted the accounting firms to cooperate with US regulators, principally on grounds of national sovereignty and protection of "state secrets." Today the Public Company Accounting Oversight Board [announced](#) that it has reached an agreement with the Chinese regulators addressing one aspect of the dispute. The agreement establishes a mechanism for the PCAOB, on the one hand, and the China Securities Regulatory Commission and the Ministry of Finance of China, on the other, to provide information to each other, including audit workpapers, in connection with investigations of possible violations of law or professional standards by a public accounting firm or associated person of such firm.

While this agreement is a significant step, it is worth noting what it does not do. It does not provide a mechanism for the PCAOB to conduct inspections of Chinese accounting firms that are registered with the PCAOB, though the PCAOB does indicate that it continues to seek an agreement on inspections. It also does not address the SEC's ability to obtain documents and information from Chinese accounting firms in connection with investigations of Chinese issuers listed in the US. Nor does it resolve the pending litigation in which the SEC is seeking to enforce a subpoena for documents against one Chinese accounting firm and to obtain administrative sanctions from five Chinese firms for failing to comply with SEC document demands.