Five Chinese state-owned giants have announced their intentions to delist from the New York Stock Exchange, in a sign of things to come in the US-China audit dispute.

China Life Insurance, PetroChina, China Petroleum & Chemical Corp, Aluminum Corp of China, and Sinopec Shanghai Petrochemical have all disclosed their intentions to delist from the New York Stock Exchange, according to separate statements from the five firms on Friday. This marks the latest development in the dispute over whether to grant US accounting regulators fuller access to the documents of Chinese companies.

Recently, there were continued signs that both sides were reportedly negotiating in good faith even though progress was limited. In July, Securities and Exchange Commission (SEC) chair Gary Gensler said he was «not particularly confident» about reaching a deal. Public Company Accounting Oversight Board (PCAOB) chair Erica Williams then followed that up this month
Chinese State Giants Seek Voluntary Delisting in New York
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with comments about the intention to achieve «complete access» to audit documents with no exceptions.

Internet Giants Next?
The delisting plans are believed to be a coordinated effort with Chinese authorities and onlookers are now turning their focus to internet and platform companies such as Baidu or JD.com.

«Given these internet and platform companies hold a huge amount of potentially sensitive data of hundreds of millions of Chinese individuals as well as numerous private as well as public enterprises and institutions, the plausibility of the Chinese government being willing to make a concession to the SEC and PCAOB [...] is getting increasingly slim in the midst of pervasive Sino-American strategic competition,» said Redmond Wong, Greater China strategist at Saxo Markets.

«Through the voluntary delisting of central state-owned enterprises, the Chinese authorities may have set an example for the internet and platform companies to follow. If that happens to be the case, the share prices of these internet and platform giants will be facing more headwinds.»

Post-Delisting Path
Currently, mainland China and Hong Kong are the only two jurisdictions in the world that don’t allow PCAOB inspections. For US-listed Chinese firms that don’t intend to make the congressionally imposed 2024 deadline, the latter market is likely the next destination for many. Alibaba, as a clear example, has announced its intention to complete a primary listing in the city by the end of 2022.

«In the case of those companies that do not yet have a listing in the SEHK, the uncertainty and disruption will be even more significant,» Wong added. «The southbound stock connect flows of money from mainland investors may mitigate somewhat the impact but some turbulence initially can probably be expected.»