US-China relations made a breakthrough in financial markets after the American accounting watchdog said it obtained full access to inspect and investigate the audit papers of Chinese companies for the first time ever in history.

Chinese firms have avoided mass delisting from US exchanges for the time being as the Public Company Accounting Oversight Board (PCAOB) made a landmark statement expressing satisfaction with its inspection.

«For the first time in history, the PCAOB has secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. And this morning the Board voted to vacate the previous determinations to the contrary,» said PCAOB chair Erica Williams in a release.
In 2020, US lawmakers agreed to boot Chinese firms off US stock exchanges if they failed to adhere to American auditing standards. Though Beijing has long been reluctant to comply, citing national security risks, it reached a major deal in August with Washington to attempt to settle the dispute and prevent delistings.

Large Operation

According to Williams, the inspection of China-linked accounting firms involved over 30 PCAOB staff members – double the size of a typical team for similar inspections – and the team remained on the ground in Hong Kong from September to November, about three weeks longer than the standard timeframe.

Two firms were selected for inspection – KPMG Huazhen LLP in mainland China and PricewaterhouseCoopers in Hong Kong – which covered a total of eight engagements involving thousands of pages of documents, interviews and testimonies.

Three Criteria

In the end, the PCAOB said it changed its determination on the ability to inspect Chinese companies based on three criteria: sole discretion for the inspection without involvement from Chinese authorities; viewing of audit papers with no redactions; and direct access to interview and take testimonies from all related personnel.

«I have been clear from day one, there would be no loopholes and no exceptions to our demand for complete access, and there were none,» Williams said.

Not the End

In Williams’ statement, she highlighted, in particular, that the latest inspection did not mark the end of the PCAOB’s engagement with mainland China and Hong Kong firms, adding that it could reverse its conclusions about audit accessibility in the future.

«We are continuing to demand complete access, and we will act immediately to reconsider today’s determinations should China obstruct, or otherwise fail to facilitate our access, at any time,» she added.

«Today’s announcement should not be misconstrued in any way as a clean bill of health for firms in mainland China and Hong Kong.»