

**MEMO# 34271**

August 26, 2022

## **PCAOB Enters Into an Agreement with China and Hong Kong**

[34271]

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TO: ICI Members

ICI Global Members SUBJECTS: Audit and Attest

Compliance

Disclosure

International/Global RE: PCAOB Enters Into an Agreement with China and Hong Kong

On August 26, 2022, the Public Company Accounting Oversight Board (PCAOB) announced that it had signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China regarding the PCAOB's ability to completely inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong, consistent with US law. The PCAOB's statement, which provides further details, is available here:

<https://pcaobus.org/news-events/news-releases/news-release-detail/fact-sheet-china-agreement>.

This agreement is a positive step toward avoiding the imposition of a trading prohibition on China and Hong Kong based firms that use a registered public accounting firm in mainland China and Hong Kong.

In 2020, Congress passed the Holding Foreign Companies Accountable Act (HFCAA). Under the HFCAA, beginning with 2021, after three consecutive years of PCAOB determinations that positions taken by authorities in China obstructed the PCAOB's ability to inspect and investigate registered public accounting firms in mainland China and Hong Kong completely, the companies audited by those firms would be subject to a trading prohibition on US markets. Such a trading prohibition would be carried out by the Securities and Exchange Commission (SEC) and would apply to companies the SEC identifies as having used registered public accounting firms in mainland China and Hong Kong for three consecutive years.

In 2021, the PCAOB made determinations that the positions taken by Chinese authorities prevented the PCAOB from inspecting and investigating in mainland China and Hong Kong completely. The PCAOB is now required to reassess its determinations by the end of 2022.

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