

**ANALYSIS-US-China audit talks seen making only modest progress**

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- * PCAOB, SEC delegates meeting Chinese officials next week
- * PCAOB hopes for agreement in near term
- * Experts skeptical China will allow foreign oversight
- * Accounting scandals pressuring US and Chinese regulators

By Clare Baldwin and Dena Aubin

NEW YORK, July 6 (Reuters) - U.S. and Chinese securities regulators may soon strike a deal that would allow the Americans some access to Chinese auditors, but it is likely to be more superficial than Washington wants.

A string of accounting scandals at U.S.-listed Chinese companies has increased pressure on regulators in both nations to toughen oversight of Chinese auditors.

But a full-fledged agreement that allows the U.S. auditor watchdog, the Public Company Accounting Oversight Board (PCAOB), to review the work and papers of China-based auditors through formal inspections would be difficult to achieve, experts said.

China wants better oversight of its companies and more stringent auditing, "they just don't want foreigners to do it," said Michal Meidan, China analyst at political risk consultancy Eurasia Group.

"A deal is possible by the end of the year; the question is what is in that deal," she said. "If it's 'yes, China agrees to step up oversight of its auditors,' yes, that's very possible."

China has opposed allowing unilateral PCAOB inspections of its accounting firms as an infringement of its national sovereignty and insisted that oversight should be the work of its own regulators.

However, the PCAOB said in a statement on Wednesday it hopes that an agreement can be reached in the near term for joint inspections.

The need for better oversight has come to the fore as the share prices of dozens of China-based firms listed in New York have collapsed in the face of accounting scandals and allegations of fraud by short sellers. A series of stocks have been delisted by U.S. stock exchanges, in some cases companies are facing probes by regulators and in others auditors have

resigned. For details click on [ID:nL4E7GJ1M8].

U.S. and Chinese officials agreed in May during the U.S.-China economic dialogue in Washington D.C. that the two sides should step up efforts to come to terms, and some sort of deal is likely to be reached, China experts said.

CHINA LIKELY TO KEEP CONTROL

With that in mind, the PCAOB and the U.S. Securities and Exchange Commission are sending eight representatives to Beijing next week to hammer out an agreement.

The group is slated to meet July 11 and 12 with China's Ministry of Finance and the China Securities Regulatory Commission, according to the PCAOB.

"I expect some sort of cooperative arrangement will come out of it, allowing the PCAOB some access -- but under the control of Chinese authorities," said Paul Gillis, a visiting accounting professor at Peking University in Beijing.

Under the 2002 Sarbanes-Oxley Act, which was introduced in the U.S. after the Enron corporate scandal, public companies with securities trading on U.S. exchanges must use an audit firm registered with the PCAOB. The PCAOB is required to inspect registered firms, and has been attempting to get access to firms in China since 2007.

China has been reluctant to release any kind of information that it believes could harm the national interest, and that may mean only superficial access to audit firms and information for any outsiders.

In a sign of China's reluctance to share information, its Ministry of Finance said last month companies should favor government-designated accounting firms that can "ensure the safety of national economic information." For details click on [ID:nB9E7GG00N].

ONLY SUPERFICIAL ACCESS EXPECTED

"My feeling is after some negotiation they will be allowed some kind of access," said **Usha Haley**, professor of international business at Massey University in Auckland and long-time China researcher. However, "it will not be sufficient to separate the wheat from the chaff; it will be a superficial kind of access," she said.

Many companies in China, even those that are not state-owned, get various kinds of government support that is not disclosed in financial statements, she said.

"The Chinese Securities Regulatory Commission and Ministry of Finance are attempting to put out some brush fires," Haley said. "For institutional and political reasons, I don't think there's going to be any real reformation in China on accounting; I think that's wishful thinking."

A power scramble ahead of the expected handover of power from President Hu Jintao to his heir-apparent Xi Jinping towards the end of next year could also make Chinese authorities less willing to take risks.

Chinese officials know that better transparency is needed, but are unlikely to move quickly, said Christian Lundblad, associate professor of finance at the University of North

Carolina at Chapel Hill.

"Don't expect lightning speed," he said. "Auditing infrastructure and the requisite knowledge of all the nuances of institutional details simply take time...Changing a poor institutional environment is very hard work. For the moment, it's simply buyer beware."

(Additional reporting by Nanette Byrnes. Editing by Martin Howell)

CHINA-ACCOUNTING/PCAOB (ANALYSIS)

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