

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY

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March 13, 2024

Ms. Erica Y. Williams
Chair
Public Company Accounting Oversight Board
1666 K Street NW, Suite 300
Washington, DC 20006-2803

Dear Chair Williams:

The Committee on Oversight and Accountability is conducting oversight of the Public Company Accounting Oversight Board's (PCAOB or Board) inspections and investigations of accounting firms conducting audits of companies based in the People's Republic of China (PRC). PCAOB plays an essential role in overseeing the reliability of financial information available to American investors. The Board is tasked with ensuring that accurate financial information pertaining to publicly traded companies has been verified by trusted audits of those companies. The Committee is concerned with unnecessary risk to American investors arising from unreliable and questionable financial information for companies based in the PRC. We request documents and information to assist our inquiry into how PCAOB applies federal law with respect to audit firms of PRC-based companies.

PRC-based companies represent \$1.3 trillion of market capitalized value in American financial markets,¹ and unreliable financial reporting would prevent American investors and asset managers from making informed decisions, potentially jeopardizing Americans' savings, including retirement savings. One such PRC-based company committed an elaborate accounting fraud to inflate revenue by hundreds of millions of dollars and induce more than \$864 million in investments from American investors and others.² So long as PRC-based companies have access to American financial markets, the PCAOB is tasked with providing assurances to American investors that they can rely on financial reporting pertaining to those firms, because it has been properly vetted by the auditors of those companies.³ A key facet of PCAOB's oversight is the inspection of audit firms to ensure the audits they perform provide meaningful assurance of the reliability of a company's financial information.⁴

¹ KAREN M. SUTTER, MICHAEL D. SUTHERLAND, AND RAJ GNANARAJAH, CONG. RESEARCH SERV., IF122112, U.S.-CHINA AUDITING AGREEMENT AND ISSUES FOR CONGRESS, (September 13, 2022).

² See Press Release, U.S. Securities and Exchange Commission, Luckin Coffee Agrees to Pay \$180 Million Penalty to Settle Accounting Fraud Charges (December 16, 2020).

³ See 15 U.S.C. § 7211(a); (c)(1)-(6).

⁴ *Id.*

The PRC, through the Chinese Communist Party (CCP), has historically resisted efforts by the PCAOB to ensure PRC-based companies are subject to the same regulatory scrutiny as American companies,⁵ including through CCP officials sanitizing information the PCAOB might review.⁶ The CCP previously violated an Enforcement Cooperation Agreement entered into in 2013⁷ by insisting on procedures that rendered the PCAOB unable to perform inspections in accordance with its standards. To address this gap in PCAOB oversight, Congress passed the Holding Foreign Companies Accountable Act (HFCAA), which directed the PCAOB to designate foreign jurisdictions where it was unable to conduct its oversight mandate of audit firms.⁸ PCAOB designated PRC and Hong Kong in December 2021,⁹ and in accordance with HFCAA, companies producing financial statements audited outside the oversight of the PCAOB were at risk of a trading ban in American financial markets after two consecutive years without oversight.¹⁰ In a bid to ensure continued access to American markets, the China Securities Regulatory Commission (CSRC) alongside the Ministry of Finance of the PRC (MOF) reached a new enforcement agreement with the PCAOB in August 2022.¹¹ The PCAOB rescinded the HFCAA designation and carried out inspections of PRC-based audit firms in late 2022.¹²

However, months after these inspections were performed, CCP security officials raided the offices of an American corporate investigations firm, which provided essential due diligence to firms operating in PRC.¹³ A month later, the CCP targeted the offices of another American corporate services firm.¹⁴ These targeted pressure campaigns on due diligence firms raise concerns that the CCP will continue to intimidate and not allow auditors to conduct their audits of PRC-based firms with meaningful independence. The PRC also made changes to national security laws that further restricted the free flow of corporate information essential for risk assessments¹⁵ and led a widely used data provider on PRC-based businesses to begin restricting access to key databases of corporate information.¹⁶ Encroachment on the independence of American due diligence firms by the CCP, restrictions on information, and historic resistance to PCAOB oversight raises broad concerns about the future of meaningful regulatory engagement with the PRC and specific concerns with the PCAOB's planned 2023 and 2024 investigations.¹⁷

⁵ *Supra*, n.1.

⁶ PCAOB, 104-HFCAA-2021-001, HFCAA DETERMINATION REPORT, 5 (December 16, 2021).

⁷ News Release, PCAOB, *PCAOB Enters into Enforcement Cooperation Agreement with Chinese Regulators* (May 24, 2013).

⁸ Holding Foreign Companies Accountable Act, Pub. L. No. 116-222 (2020).

⁹ *Supra*, n.6.

¹⁰ 15 U.S.C. § 7214(i)(3)(A)

¹¹ News Release, PCAOB, *Fact Sheet: China Agreement* (August 26, 2022).

¹² *See id.*

¹³ Keith Bradsher, *U.S. Due Diligence Firm Says China Detained Its Employees*, N.Y. TIMES, March 24, 2023.

¹⁴ Daisuke Wakabayashi and Keith Bradsher, *U.S. Consulting Firm Is the Latest Target of a Chinese Crackdown*, N.Y. TIMES, April 27, 2023.

¹⁵ U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION, 2023 REPORT TO CONGRESS, 54-55 (November 14, 2023)

¹⁶ Bloomberg News, *China Restricts Overseas Access to Key Corporate Information*, BLOOMBERG, May 3, 2023.

¹⁷ PCAOB, HFCAA DETERMINATION REPORT NO. 104-HFCAA-2022-001 (December 15, 2022).

We are committed to providing oversight of the PCAOB as it seeks to ensure cooperation from Chinese regulators is meaningful rather than opportunistic. To assist the Committee in ensuring that the PCAOB is empowered to ensure meaningful oversight of auditors of PRC-based firms, please provide the following documents and information, covering the time period December 18, 2020 to the present unless otherwise indicated, no later than March 27, 2024:

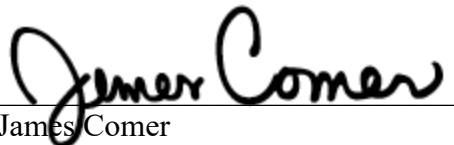
1. All documents and communications related to the 2021 HFCAA determination referred to in PCAOB Release No. 104-HFCAA-2021-001;
2. All documents and communications related to the August 26, 2022 Statement of Protocol with the CSRC and MOF of the PRC, including a complete copy of the text of the Statement of Protocol and any related attachments; and,
3. All documents and communications related to the 2022 inspections of KPMG Huazhen LLP and PricewaterhouseCoopers Headquartered in Hong Kong, including a complete copy of any inspection report and related attachments.

Additionally, we request a staff-level briefing as soon as possible, but no later than March 20, 2024, on PCAOB engagement with PRC regulatory authorities with attention to the HFCAA determination process and cooperation with other federal entities.

To schedule the briefing, arrange for the delivery of responsive documents or ask any related follow-up questions, please contact Committee on Oversight and Accountability Majority Staff at (202) 225-5074. Attached are instructions for producing the documents and information to the Committee.

The Committee on Oversight and Accountability is the principal oversight committee of the U.S. House of Representatives and has broad authority to investigate “any matter” at “any time” under House Rule X. Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in black ink, reading "James Comer". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

James Comer

Chairman

Committee on Oversight and Accountability

cc: The Honorable Jamie Raskin, Ranking Member
Committee on Oversight and Accountability