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China plans three-tier data strategy to avoid US delistings

Chinese companies have a 2024 deadline to comply with Washington's new audit rules



Beijing fined ride-hailing group Didi more than \$1bn for cyber security breaches © Long Wei/VCG/Getty Images

Tabby Kinder and **Cheng Leng** in Hong Kong and **Ryan McMorrow** and **Sun Yu** in Beijing JULY 23 2022

China is preparing a system to sort US-listed Chinese companies into groups based on the sensitivity of the data they hold, in a potential concession by Beijing to try to stop American regulators from delisting hundreds of groups.

The system is designed to bring some [Chinese companies](#) into compliance with US rules that require public companies to allow regulators to inspect their audit files, according to four people with knowledge of the situation.

Chinese companies listed in the US would be divided into three broad categories, two people said. The groups would be companies with non-sensitive data, those with sensitive data and others with “secretive” data which would have to delist.

One of the people said that Beijing had discussed whether companies in the “sensitive data” category could restructure their operations to become compliant, including by outsourcing the information to a third party.

The category system would be the second significant concession by Beijing to remove hurdles allowing the US full access to audits. In April, it [modified a decade-long rule](#) that restricted the data-sharing practices of overseas companies.

The planning, which is under discussion and subject to change, follows months of stalled negotiations between Beijing and Washington over the US demand that

Chinese companies and their auditors should make detailed audit documents available or be delisted in 2024.

A mass delisting would represent a significant step towards economic decoupling of the US and China and threaten \$1.3tn of shareholder value. About 260 of China's biggest companies, including tech group Alibaba, fast-food company Yum China and social media site Weibo, could be delisted from New York stock exchanges if they do not meet the requirements.

The China Securities Regulatory Commission, Beijing's top securities watchdog, did not comment.

Beijing has typically resisted allowing Chinese companies to provide data to foreign regulators on national security grounds.

But under the tiered scheme, "low risk" data companies could make their audit records accessible to the Public Company Accounting and Oversight Board, the US accounts watchdog, two of the people said. The low risk category would probably include retailers and restaurant chains.

"Whatever falls into the Didi category, that is clearly a no-go," said the head of a large Hong Kong-based investment company, referring to the ride-hailing group that [was fined more than \\$1bn](#) by Beijing this week for cyber security breaches.

US officials are sceptical that Chinese companies will meet the full transparency standards required under the Holding Foreign Companies Accountable Act, the 2020 law that forced Chinese and Hong Kong companies to open up their audit files.

"Though there have been ongoing and productive discussions between US and Chinese authorities . . . significant issues remain and time is quickly running out," said YJ Fischer, the director of the Securities and Exchange Commission's Office of International Affairs, in a speech in May.

An agreement to provide access to audit files would "only be the start", said Fischer. PCAOB officials would also need to travel to China and carry out an audit inspection of any US-listed Chinese issuer.

"I don't know how we will ever settle this," the investment company head said. He added that Beijing and Washington were using the audit row for "political gains" and that relations were the worst they had been in 40 years.

"As an investor I hope that both sides will be pragmatic enough."

The PCAOB said in a statement that it “must have complete access to audit work papers of any firm it chooses to inspect or investigate — no loopholes and no exceptions”.

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