

Public Statement

Statement on Continued Dialogue with Audit Firm Representatives on Audit Quality in China and Other Emerging Markets; Coronavirus — Reporting Considerations and Potential Relief

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In November 2019, we met with senior representatives of the four largest U.S. audit firms, including certain of their network representatives, to discuss audit quality across their global networks and certain of the challenges faced in auditing public companies with operations in emerging markets, including China. Those November 2019 meetings, which were discussed in a contemporaneous joint press release,[\[1\]](#) were part of our ongoing efforts to address the issues highlighted in our December 2018 Statement on the vital role of audit quality and regulatory access to audit and other information internationally.[\[2\]](#) Significantly, among those issues is that the Public Company Accounting Oversight Board (PCAOB) continues to be prevented from inspecting the audit work and practices of PCAOB-registered audit firms in China on a comparable basis to other non-U.S. jurisdictions.[\[3\]](#) PCAOB inspections are a key component of our regulatory efforts to enhance the quality of financial reporting and ensure audit quality.

Over the past decade, U.S. investors, and the U.S. capital markets more generally, have become more exposed to companies with significant operations in emerging markets, including China, the largest emerging market economy.[\[4\]](#) Collectively, the four largest audit firms through their global networks audit the financial statements of approximately 140 China and China-based, U.S. exchange-listed, public companies,[\[5\]](#) and the China and Hong Kong network firms for these four audit firms participated in 5% or more of the total audit hours in approximately 120 instances^[6] related to non-China, U.S. listed companies with operations in China.[\[7\]](#) United States investors and our capital markets also have exposure to other foreign-based, U.S. listed companies that have operations in China,[\[8\]](#) as well as through investments, directly and indirectly, in non-U.S. listed companies that are based in China or have significant operations in China.

In our November 2019 meetings, we made it clear that with the PCAOB restricted in its inspection efforts in China we expected U.S. audit firms to bring appropriate increased attention and resources to their internal and cross-network quality control processes. Over the last two weeks, the four of us met again with the leaders of the four largest U.S. audit firms, to discuss their efforts in this regard since November 2019. These meetings addressed various issues, including acceptance and retention policies, independent internal and cross-network review processes, training, benchmarking and the anticipated and potential effects of the 2019 novel coronavirus (see below). The meetings are part of a broader, continuing dialogue with U.S. audit firms and network representatives regarding the importance of effective and consistent oversight of member firms globally, including those operating in China and other emerging markets.

We expect to have similar meetings with other U.S. audit firms that, through use of their own networks or otherwise, audit U.S.-listed companies with significant operations in emerging markets, including China.

Effects of the Coronavirus on Financial Reporting

In a January 30, 2020 statement, Chairman Clayton noted that the Commission staff would monitor, and to the extent appropriate, provide guidance and other assistance to issuers and other market participants regarding disclosures related to the current and potential effects of the coronavirus.^[9] That statement noted that actual effects may be difficult to assess or predict with meaningful precision both generally and on an industry- and issuer-specific bases.

As discussed above, U.S.-listed companies (including companies based in the U.S., companies based in China and companies based outside of the U.S. but not based in China) may have significant operations in China and other jurisdictions that may be affected by the coronavirus. In addition, companies that do not themselves have operations in China or other potentially affected jurisdictions may depend on companies that do have operations in those jurisdictions, including, for example, as suppliers, distributors and/or customers.

In our recent dialogue with the senior leaders of the largest U.S. audit firms, we also discussed this potential exposure of companies to the effects of the coronavirus and the impact that exposure could have on financial disclosures and audit quality, including, for example, audit firm access to information and company personnel. This remains a dynamic situation where the effects on any particular company may be difficult to assess or predict, because actual effects may depend on factors beyond the control and knowledge of issuers. However, how issuers plan and respond to the events as they unfold can be material to an investment decision, and we urge issuers to work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements.

Specifically, we emphasized: (1) the need to consider potential disclosure of subsequent events in the notes to the financial statements in accordance with guidance included in Accounting Standards Codification 855, *Subsequent Events*^[10] and (2) our general policy to grant appropriate relief from filing deadlines in situations where, in light of circumstances beyond the control of the issuer, filings cannot be completed on time with appropriate review and attention.^[11] In addition, if issuers have questions regarding the reporting of matters related to the potential effects of the coronavirus, including potential subsequent event disclosure, we welcome engagement on these matters.^[12]

Issuers and their advisors are encouraged to contact SEC staff regarding any need for relief or guidance. Based on these communications and its continuing monitoring of the situation, the staff will determine whether to provide additional guidance and relief as appropriate for affected parties. Relief may be made available on a case-by-case or broader basis as circumstances merit.

[1] See Press Release, SEC Chairman Clayton, PCAOB Chairman Duhnke, and Members of SEC Staff Meet With Auditing Firm Representatives to Discuss Audit Quality in Emerging Economies and Markets (Nov. 4, 2019), available at <https://www.sec.gov/news/press-release/2019-228>.

[2] See Statement on the Vital Role of Audit Quality and Regulatory Access to Audit and Other Information Internationally—Discussion of Current Information Access Challenges with Respect to U.S.-listed Companies with Significant Operations in China (Dec. 7, 2018), available at <https://www.sec.gov/news/public-statement/statement-vital-role-audit-quality-and-regulatory-access-audit-and-other>.

[3] This limitation includes audit work and practices of Hong Kong-based audit firms, to the extent their audit clients have operations in mainland China.

[4] China has the second largest economy in the world, with a reported gross domestic product of \$14.3 trillion in 2019.

[5] Based upon audit reports issued in the twelve months ending December 31, 2019.

[6] Based upon the PCAOB’s Forms AP filed where the audit report date was within the twelve months ending December 31, 2019. Form AP requires an audit firm be identified if it participates in 5% or more of the total audit hours of a U.S. listed company.

[7] The two largest (by market capitalization at December 31, 2019) U.S. exchange-listed, public companies with operations in China have a market capitalization of approximately \$2.8 trillion, and the two largest (by market capitalization at December 31, 2019) China-based, U.S. exchange-listed, public companies have a market capitalization of approximately \$1.5 trillion.

[8] The two largest (by market capitalization at December 31, 2019) non-U.S., non-China, U.S. listed companies with operations in China have a market capitalization of approximately \$500 billion.

[9] See Chairman Jay Clayton, Proposed Amendments to Modernize and Enhance Financial Disclosures; Other Ongoing Disclosure Modernization Initiatives; Impact of the Coronavirus; Environmental and Climate-Related Disclosure (Jan. 30, 2020), available at <https://www.sec.gov/news/public-statement/clayton-mdm-2020-01-30>.

[10] Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 855-10, Subsequent Events.

[11] See Press Release, SEC Provides Regulatory Relief and Assistance for Hurricane Victims (Oct. 16, 2018), available at <https://www.sec.gov/news/press-release/2018-237>.

[12] For certain year-end issuers, the Tax Cuts and Jobs Act of 2017 presented potential uncertainties in financial reporting. The SEC staff issued guidance and worked with issuers to assist them in addressing these uncertainties. See Press Release, Commission Staff Provides Regulatory Guidance for Accounting Impacts of the Tax Cuts and Jobs Act (Dec. 22, 2017), available at <https://www.sec.gov/news/press-release/2017-237>.