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HIRING FOREIGN AUDITORS

China makes U-turn on accounting rule change

SHANGHAI - Chinese regulators have backtracked on a two-month-old rule that forced listed companies - as much as a tenth of whose results may be fraudulent - to open their books to foreign accountants.

The China Securities Regulatory Commission (CSRC) said on its website that only companies selling more than 300 million shares need to hire the likes of Andersen.

'This is a rule that supplements the earlier statement,' said CSRC spokesman Zhou Xuan in Beijing. She declined to say why the rule was changed.

The change comes even as China prods listed companies to lift management standards amid fiercer rivalry since the nation joined the World Trade Organisation.

The CSRC had said on Dec 31 that with effect from April 1, all enterprises issuing shares whose books have been checked already by Chinese auditors should get a 'supplementary audit' from a foreign firm, such as Andersen. An estimated 130 companies were in line with US$12 billion (S$22 billion) in share offers for this year.

The rule was then announced as Chinese regulators continued a crackdown on falsified accounts. In the two most widely publicised cases, Yinchuan Guangxia Industry and Zhengzhou Baiwen were punished last year for faking financial records.

The Shanghai Stock Exchange rated 9 per cent of its 646 listed companies 'unsatisfactory' when it came to public disclosure. Some 6 per cent of Shenzhen-listed firms received similar ratings.

China's biggest banks are also coming under pressure to hire international accountants to clean up their books as scandals scare off potential investors. In addition, last week the government suspended licences of five Chinese accounting firms, the Ministry of Finance said.--Bloomberg News