

Publication Co-authored by Professor Kim Jeong Bon and Dr. Xin Xiangang Cited by the U.S. SEC's Chief Accountant Paul Munter



A publication from the Department of Accountancy (AC) co-authored by Prof. Kim Jeong Bon, Prof. Mikhail Pevzner, and Dr. Xin Xiangang, “Foreign Institutional Ownership and Auditor Choice: Evidence from Worldwide Institutional Ownership” was recently cited in a statement issued by Paul Munter, Chief Accountant of the U.S. Securities and Exchange Commission, at <https://www.sec.gov/news/statement/munter-statement-audit-quality-and-investor-protection-090622>.

The publication investigates the influence of foreign institutional investors on firms’ auditor choices in an international setting. Foreign institutional investors are likely to demand high-quality audits to mitigate the information asymmetry they face and facilitate their external monitoring when they invest overseas. Using a large sample from 40 non-U.S. countries, the authors find that firms with higher foreign institutional ownership are more likely to hire Big 4 auditors. The findings suggest that cross-border institutional investment plays an important role in influencing firms’ auditor choices and improving the information environment of firms around the world.

The paper was cited in Munter’s statement to support the argument that “the additional information barriers that may exist when investing in foreign companies makes the role of trusted gatekeepers, like auditors, even more critical for investors in foreign companies”. The statement was directed to newly engaged lead audit firms located outside of China and Hong Kong for issuer audits of companies based in China or Hong Kong and others who may be considering similar arrangements.