**Corporate Governance In A Global World:**

**Explosive Board Challenge When National Standards Conflict**

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**Abstract:**

**Case Objectives and Use**

The case outlines the current, contentious governance issue when two national governance regulators conflict. The increase of multinational businesses raises a new challenge for board directors facing compliance issues in cross-national regions. Governance codes and laws differ between the U.S. and China. While the U.S. SEC has accepted slightly more than 300 China-based companies onto its exchanges recently – via reverse mergers and IPOs – it now struggles with how to apply its laws to these companies in the face of conflicting laws within China. The case outlines a recent corporate situation and presents yet a new company board facing the same situation. The board must determine how to exercise its governance responsibility in the face of conflicting governance requirements. Almost any choice it makes carries severe consequences to its shareholders, stakeholders, employees, professional auditors and board directors. The case compels readers to consider the new risks for directorship, to debate options for effectively handling the situation and to discuss what forum is needed to resolve global governance issues.

**Case Synopsis**

The US SEC disclosed in May, 2012, it was investigating a China-based company on suspicion of accounting fraud. It requested Deloitte Touche Tohmatsu CPA, Ltd. of Shanghai, the company’s accounting auditor, to turn over work papers for its investigation. The auditing firm declined, explaining it is prohibited from doing so under Chinese law. The China Securities Regulatory Commission argues such records are state secrets, protected by national sovereignty. The corporate board and accounting firm are caught in a regulatory squeeze. Whichever side they may satisfy will subject them to penalties by the other, up to and including prison sentences.

Full details of the first company confronted by this -- Longtop Financial Technologies -- are presented, along with facts about the ongoing legal battle between Deloitte and the US SEC regarding rights to requested documents under both SOX and Dodd Frank regulations. Directors of a second company – hit with same issue -- must confront this challenge: What should it do? How can it demonstrate governance accountability in the face of internationally-conflicted laws? How can a board protect the company and its stakeholders from this complex situation?

*The author developed the case discussion rather than to illustrate an ideal, effective solution. ©2012* ***The case, instructor’s manual and synopsis are available for purchase. Contact: Donna Hamlin at*** [***donna.hamlin@boardwise.biz***](mailto:donna.hamlin@boardwise.biz) ***94501 510-517-7791.***