[China launches a security review of Shein. Here's what it means for its IPO]

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China's powerful internet regulator is conducting a security review of Shein as the fast-fashion giant gears up for its highly anticipated U.S. initial public offering, CNBC has learned.

The Cyberspace Administration of China is reviewing Shein's supply chain presence in the country, where the bulk of its manufacturers and suppliers are located, a person familiar with the matter told CNBC.

The review focuses on how Shein handles information about its employees, partners and suppliers in the region, The Wall Street Journal reported. The CAC is also examining whether Shein can ensure that data doesn't get leaked overseas, according to the Journal.

Shein didn't respond to CNBC's request for comment.

The review poses several issues for Shein, as it takes steps toward an IPO after it confidentially filed to go public in the U.S. in November, CNBC previously reported.

For one, it squarely positions Shein as a Chinese company — at least in the eyes of China — at a time when relations between Washington, D.C., and Beijing are increasingly strained. Shein has worked hard to present itself as a global company that was merely founded in China, as lawmakers from both sides of the aisle have expressed concerns about its ties to the region.

If Shein wasn't a Chinese company, the retailer wouldn't necessarily need Beijing's permission to go public, said Drew Bernstein, the co-chairman of Marcum Asia and an expert in U.S. and Asian capital markets.

U.S. regulators are increasingly concerned about Chinese companies doing business in the U.S., and want to ensure sensitive data on American customers doesn't end up in the Chinese government's hands.

Beijing also has similar concerns. Shein will not only have to win over U.S. regulators, but it will also have to secure China's blessing.

In 2021, Beijing launched a similar security review of ride-hailing giant Didi Global just days after it went public on the New York Stock Exchange and raised some $4.4 billion. Within a year, the company was delisted and shareholder value was wiped out.

Following Didi's downfall, all Chinese companies seeking an overseas IPO are now subject to a security review and government approval in China. If the reviews turn up information that doesn't sit well with Chinese regulators, they could squash the deal.

However, contrary to Didi, Shein is seeking China's approval before it starts trading in the U.S., which could prevent a similar share collapse and help boost investor confidence, said Bernstein, who works with Chinese companies listed on U.S. stock markets.

Bernstein noted that Shein previously moved its headquarters to Singapore and does not sell its products in China, which could alleviate concerns from Beijing that information on Chinese customers could end up in the U.S.

"By having zero exposure to Chinese consumers, they're not likely to be viewed as a security sensitive company," said Bernstein. "I think that [Shein] anticipated this and is well prepared."