

THE REVIEW OF
**SECURITIES & COMMODITIES
REGULATION**

AN ANALYSIS OF CURRENT LAWS AND REGULATIONS
AFFECTING THE SECURITIES AND FUTURES INDUSTRIES

Vol. 59 No. 10 May 20, 2026

2025 DEVELOPMENTS FOR AUDITOR REGULATIONS UNDER THE U.S. SECURITIES LAWS

In this article, the authors discuss new developments in regulatory enforcement and litigation around auditing firms, the “gatekeepers” of the U.S. financial markets. The authors begin by reviewing regulatory enforcement activity and public comments in 2025 by the SEC and Public Company Accounting Oversight Board (“PCAOB”), including in contrast to the prior years and administration. Then, the authors analyze the highly unusual issuance of a lengthy report by members of the U.S. Senate that specifically calls out high-profile failures by a major auditing firm with respect to its audits of several major banks that collapsed in 2023. Finally, the authors discuss private enforcement actions against auditors in 2025.

By Julia Applefeld and Jesse L. Jensen *

United States law has long enshrined the critical role of independent public auditors as gatekeepers for U.S. capital markets, requiring publicly registered companies that raise capital through access to the public markets and list their securities on a national exchange to have the accuracy of their financial statements and sufficiency of their internal controls over financial reporting certified by independent accountants. As such, the United States securities regime effectively appoints the independent auditor as watchdog for the public investor, and — as the Supreme Court recognized nearly four decades ago — relies upon the audit report to “obviate the fear of loss from reliance on inaccurate information, thereby encouraging public investment in the Nation’s industries.”¹

In the past few years, the regulatory agencies charged with overseeing capital markets and auditors’ involvement — the SEC and Public Company

Accounting Oversight Board (“PCAOB”) — have increasingly heightened public rhetoric around the important role played by auditors and concerns around the perceived shortcomings in audit quality. What’s more, enforcement activity by these regulators increasingly suggested that they were following through on their tough talk, including by issuing orders that revealed shocking ethical violations and imposed record-breaking fines on numerous auditors and audit firms, including the so-called “Big Four” audit firms — Ernst & Young (“E&Y”), Deloitte & Touche (“Deloitte”), PricewaterhouseCoopers (“PwC”), and KPMG.

However, the change in administration during 2025 made unclear to what extent these priorities would continue. Ultimately, the year gave rise to mixed messaging, as the SEC brought *no* enforcement actions against auditing firms during 2025, possibly consistent with an overall drastic decline in SEC enforcement

¹ *United States v. Arthur Young & Co.*, 465 U.S. 805, 819 n.15 (1984).

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actions versus the prior year.² In other respects, however, public activity and comments by regulators suggested a continuity — and arguably even an expansion — of the same sorts of tough talk that had become increasingly prominent over the past few years, including the SEC’s provocative announcement of a new task force that it stated explicitly would “focus enforcement efforts on *gatekeepers, particularly auditors . . . which help . . . companies access the U.S. capital markets.*”³ Likewise, while the PCAOB — the federal agency specifically charged by Congress with maintaining and enforcing audit standards — had a modest decline in overall enforcement activity, it continued to announce high-profile sanctions against the Big Four concerning stunning misconduct and audit failures. Thus, whether the change in administration and enforcement efforts in 2025 reflects an underlying change in approach — or something else altogether — remains to be seen, particularly given the announcement of significant leadership turnover at the PCAOB at the start of 2026.

These ongoing questions around enforcement priorities occur against a backdrop of still-worsening confidence in audit quality. Indeed, this crisis in confidence reached a new boiling point in 2025, when a remarkable report issued by members of the U.S. Senate garnered headlines for its blunt criticism of the role of KPMG in the banking failures of 2023 — the latest black eye for the industry at large, and for KPMG in particular, which in just the last few years has admitted to a criminal enterprise to cheat its supervisory inspections and paid record-breaking fines and penalties. This article explores these issues as well as concurrent developments in noteworthy private securities class action litigation against auditors throughout the year.

² Gerald Hodgkins, et al., *SEC Focused On Fraud As Actions Markedly Declined In 2025*, Law360 (Nov. 12, 2025), <https://www.law360.com/articles/2409430/sec-focused-on-fraud-as-actions-markedly-declined-in-2025>.

³ Press Release, Sec. & Exch. Comm’n, SEC Announces Formation of Cross-Border Task Force to Combat Fraud (Sept. 5, 2025), <https://www.sec.gov/newsroom/press-releases/2025-113-sec-announces-formation-cross-border-task-force-combat-fraud>.

DECREASED SEC ENFORCEMENT EFFORTS IN 2025 ACROSS THE BOARD

After years of escalating public comments — and some amount of increased activity — indicating a renewed focus on enforcement around audit quality and independence, the change in administration in 2025 gave rise to conflicting messages around auditor enforcement efforts by the SEC.

On the one hand, the SEC did not publicly initiate *any* enforcement action against audit firms in 2025. This contrasts significantly with the levels of enforcement activity against auditors over the past few years under the prior administration, which had announced, for example, seven enforcement actions against auditors in 2024 and 17 in 2023.⁴ Nonetheless, this cessation does not necessarily indicate the SEC has abandoned any focus on audit quality altogether, but may instead merely reflect the broader shift away from enforcement by the SEC during 2025, which analysis suggests had the lowest level of SEC enforcement activity in 10 years — down 27% from FY 2024 and down 38% from FY 2023.⁵ Commentators have speculated on the meaning

⁴ Soyoung Ho, *Legal Challenges Hamper SEC, PCAOB Enforcement Against Auditors in Second Half of 2024 – Report*, Thomson Reuters (Mar. 12, 2025), <https://tax.thomsonreuters.com/news/legal-challenges-hamper-sec-pcaob-enforcement-against-auditors-in-second-half-of-2024-report/> (reporting that the SEC brought seven actions against auditors). See also Anita B. Bandy, Esq., et al., *2023 developments in SEC Rule 102(e) enforcement against auditors*, Skadden, Arps, Slate, Meagher & Flom LLP (Mar. 12, 2024), https://www.skadden.com/-/media/files/publications/2024/03/2023_developments_in_sec_rule_102e_enforcement_against_auditors.pdf (“In 2023, the SEC charged or settled with 17 individual auditors, as compared with 13 in 2022, 10 in 2021, 9 in 2020, 13 in 2019, 9 in 2018, 18 in 2017, 29 in 2016, and 28 in 2015. Similarly, the total number of enforcement actions against individual auditors and audit firms was 17 in 2023, as compared to 13 in 2022, 12 in 2021, 11 in 2020, 23 in 2019, 17 in 2018, 22 in 2017, 42 in 2016, and 44 in 2015.”).

⁵ Harris Fischman, et al., *SEC Enforcement: 2025 Year in Review*, Harv. L. Sch. Forum on Corp. Governance (Jan. 21, 2026), <https://corpgov.law.harvard.edu/2026/01/21/sec-enforcement->

and cause of this change in enforcement, positing that it could relate to the transition in leadership with the new administration and/or reductions in the SEC enforcement workforce, among other causes.⁶ In any respect, whether the level of enforcement activity in 2025 reflects only a temporary recalibration or a larger, long-term change in priorities away from enforcement more generally remains to be seen.

Indeed, public comments by the SEC later in the year indicated that the agency has not abandoned altogether the public focus on enforcing audit quality that had begun during the prior administration. Specifically, on September 25, 2025, the SEC issued a press release that announced the formation of a task force to strengthen and enhance the Division of Enforcement’s efforts to identify and combat cross-border fraud harming U.S. investors, focused “initially on investigating potential U.S. federal securities law violations related to foreign-based companies.” The SEC also announced in that release that its new Cross-Border Task Force will “focus enforcement efforts on *gatekeepers*, particularly *auditors* and underwriters, which help these companies access the U.S. capital markets.”⁷ The release also contained a quote from the new SEC Chairman Paul S. Atkins — appointed by President Trump in April 2025 — which further seemed to take aim specifically at auditors, stating: “We welcome companies from around the world seeking access to the U.S. capital markets But we will not tolerate bad actors — whether companies, intermediaries, *gatekeepers* or exploitative traders — that attempt to use international borders to frustrate and avoid U.S. investor protections. . . .”⁸ Arguably, the spirit of these comments echoed the sentiment of statements made publicly by Atkins’

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2025-year-in-review/. See also Gerald Hodgkins, et al., *SEC Focused On Fraud As Actions Markedly Declined In 2025*, Law360 (Nov. 12, 2025), <https://www.law360.com/articles/2409430/sec-focused-on-fraud-as-actions-markedly-declined-in-2025>.

⁶ Harris Fischman, et al., *SEC Enforcement: 2025 Year in Review*, Harv. L. Sch. Forum on Corp. Governance (Jan. 21, 2026), <https://corpgov.law.harvard.edu/2026/01/21/sec-enforcement-2025-year-in-review/>.

⁷ Press Release, Sec. & Exch. Comm’n, SEC Announces Formation of Cross-Border Task Force to Combat Fraud, (Sept. 5, 2025), <https://www.sec.gov/newsroom/press-releases/2025-113-sec-announces-formation-cross-border-task-force-combat-fraud>.

⁸ *Id.*

predecessor, former SEC Chair Gary Gensler, including, for example, his statements in July 2022 that “rigorous enforcement of auditor’s professional and ethical requirements[] is essential for investor protection.”⁹ The similarity in rhetoric suggests that — even with the change in leadership — the approach in enforcing audit quality by the agency may have more continuity than transformation.

THE PCAOB CONTINUED SIGNIFICANT LEVELS OF ENFORCEMENT ACTIVITY

In contrast to the dramatic decline in SEC enforcement activity in 2025, enforcement activity by the PCAOB declined only modestly versus prior years, with 40 actions announced in 2025 compared to 53 actions in 2024 and 47 actions in 2023.¹⁰ Notwithstanding this slight decline, several of the disciplinary orders issued by the PCAOB in 2025 revealed remarkable failures in audit quality and shocking misconduct across each of the Big Four accounting firms.¹¹ These include several settled disciplinary orders announced on March 11, 2025, which imposed \$3.375 million in civil penalties as well as extensive remedial measures against nine member firms of the KPMG global network.¹² The orders and penalties relate to years of extensive failures of audit quality control standards by these KPMG firms, including failures to make required disclosures about the participation of other accounting firms. As just one example, the PCAOB determined that KPMG Brazil had

⁹ Soyoung Ho, *SEC Chair Gensler Signals Tougher Approach to Regulating Auditors*, Checkpoint News (Jul. 29, 2022), <https://tax.thomsonreuters.com/news/sec-chair-gensler-signals-tougher-approach-to-regulating-auditors/>.

¹⁰ Enforcement Actions, PCAOB (last visited Feb. 17, 2026), <https://pcaobus.org/oversight/enforcement/enforcement-actions?effectiveateyear=2025>.

¹¹ *Id.*

¹² The KPMG member firms are KPMG Auditores Independentes Ltda. (“KPMG Brazil”), KPMG LLP (“KPMG Canada”), KPMG S.p.A. (“KPMG Italy”), Somekh Chaikin (“KPMG Israel”), KPMG LLP (“KPMG UK”), KPMG Cárdenas Dosal, S.C. (“KPMG Mexico”), KPMG Samjong Accounting Corp. (“KPMG Samjong”), KPMG AG (“KPMG Switzerland”), and KPMG (“KPMG Australia”). Press Release, PCAOB, PCAOB Sanctions Nine KPMG Global Network Firms for Violations of PCAOB Rules and Standards, Including Quality Control, (Mar. 11, 2025), <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-sanctions-nine-kpmg-global-network-firms-for-violations-of-pcaob-rules-and-standards--including-quality-control>.

failed in 38 different audits over 2019-2022 to provide required information to the audit committees for several of Brazil’s largest companies around its use of non-KPMG Brazil personnel for the audits.¹³

In addition, on June 25, 2025, the PCAOB announced settled disciplinary orders imposing \$8.5 million in fines as well as remedial measures relating to *years* of misconduct by *hundreds* of professionals at the Netherlands-based member firms of E&Y, Deloitte, and PwC — the other three of the “Big Four” audit firms, after KPMG. The conduct related to improper answer-sharing on mandatory professional training programs around professional integrity, audit competencies, and independence, with this misbehavior extending even up to senior leaders at Deloitte Netherlands and PwC Netherlands.¹⁴ As shocking as it is, these orders followed years of similar stunning ethical lapses that regularly came to light over the last few years — including, as examples, KPMG’s admission in 2019 to participating in a criminal conspiracy to cheat on its regulatory inspections, as well as E&Y’s payment in 2022 of a record \$100 million to settle violations related to widespread cheating on required ethics examinations.¹⁵ In other words, in less than a decade, *all* the Big Four firms — who audit the largest and most important public companies and have significant responsibility for protecting the integrity of the public markets — have now collectively paid tens of millions of dollars to settle fundamental failures in understanding right and wrong. Even more disturbingly, as the PCAOB noted in its

June 2025 release announcing these latest ethical shortcomings, the auditors at these major firms continued their misconduct (and the Big Four firms continued to take necessary steps to detect and prevent their misbehavior) even after the firms learned of similar misconduct by “at least one other major audit firm.”

Thus, these and the other enforcement actions by the PCAOB throughout the year indicated that, in 2025 at least, the agency had continued relatively apace with its focus over the past several years. Indeed, in its press release announcing the March 2025 orders against several KPMG member firms, the PCAOB explicitly noted that the violations prevented investors and audit committees from having “a complete and accurate picture,” and further quoted the director of the PCAOB’s Division of Enforcement and Investigations as stating, “These enforcement actions demonstrate that we will hold firms accountable for violating PCAOB rules and standards regarding communications and reporting.”¹⁶ Likewise, in announcing the June 2025 orders, the PCAOB release quoted then-PCAOB Chair Erica Y. Williams as stating, “The PCAOB will not allow impaired ethics to threaten the integrity of our capital markets,” and further quoted Robert E. Rice, then-Director of the PCAOB’s Division of Enforcement and Investigations, as commenting: “*As we have stated previously*, investors must be able to trust that all audit professionals are acting with integrity, and few things damage trust like impaired ethics.”¹⁷

Nonetheless, it remains to be seen whether the agency will continue executing in its Congressionally mandated directive to enforce audit quality in the same manner moving forward: in January 2026, the tenure of Williams as Chair of the PCAOB came to an end after nearly three years, and the SEC appointed in her place Demetrios (Jim) Logothetis as new Chair of the PCAOB, as well as three new Board Members, Mark Calabria, Kyle

¹³ Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, *In the Matter of KPMG Auditores Independentes Ltda. (Brazil)*, PCAOB Release No. 105-2025-008 (Mar. 11, 2025), https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2025-008---kpmg-brazil.pdf?sfvrsn=b3c9d773_2.

¹⁴ Press Release, PCAOB, PCAOB Imposes Fines Totaling \$8.5 Million on Netherlands Member Firms of Deloitte, PwC, and EY After Widespread Exam Misconduct (June 25, 2025), <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-imposes-fines-totaling--8.5-million-on-netherlands-member-firms-of-deloitte--pwc--and-ey-after-widespread-exam-misconduct>.

¹⁵ Press Release, Sec. & Exch. Comm’n, KPMG Paying \$50 Million Penalty for Illicit Use of PCAOB Data and Cheating on Training Exams, (Jun. 17, 2019), <https://www.sec.gov/newsroom/press-releases/2019-95>. See also Press Release, Sec. & Exch. Comm’n, Ernst & Young to Pay \$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation (June 28, 2022), <https://www.sec.gov/newsroom/press-releases/2022-114>.

¹⁶ Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions, *In the Matter of KPMG Auditores Independentes Ltda. (Brazil)*, PCAOB Release No. 105-2025-008 (Mar. 11, 2025), https://assets.pcaobus.org/pcaob-dev/docs/default-source/enforcement/decisions/documents/105-2025-008---kpmg-brazil.pdf?sfvrsn=b3c9d773_2.

¹⁷ Press Release, PCAOB, PCAOB Imposes Fines Totaling \$8.5 Million on Netherlands Member Firms of Deloitte, PwC, and EY After Widespread Exam Misconduct (June 25, 2025), <https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-imposes-fines-totaling--8.5-million-on-netherlands-member-firms-of-deloitte--pwc--and-ey-after-widespread-exam-misconduct>.

Hauptman, and Steven Laughton.¹⁸ Notably, in contrast to Williams’ background as a litigator and advocate, Logothetis had a decades-long career at E&Y (one of the Big Four accounting firms). What’s more, in announcing the appointments, SEC Chairperson Atkins made clear that he expects a drastic change under their leadership, stating that the appointees will “usher in a new day at the PCAOB” and further that he plans “to work[] with this board as it *refocuses* on the PCAOB’s core statutory mission — protecting investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.”¹⁹ These announcements — and the longstanding ties to the Big Four — have prompted caution or concern by some observers; for example, in a public statement, Senator Elizabeth Warren skeptically commented about the appointment of a “group of industry players . . . to a board created to keep auditors honest after the Enron scandal,” and stated further, “Congress will be watching to see if [this] handpicked board does its job — or protects the interests of . . . Wall Street[.]”²⁰

LAWMAKERS PUBLISH SCATHING REPORT ON AUDIT FAILURES

Despite mixed messaging around audit quality enforcement efforts by regulators in 2025, members of the U.S. Senate Permanent Subcommittee on Investigations made headlines in September when they

issued a scathing report specifically criticizing KPMG for extensive audit failures related to the collapses of Silicon Valley Bank, Signature Bank, and First Republic Bank in 2023.²¹ Entitled “THIS INDUSTRY IS A JOKE” — a title remarkably originating from internal communications by KPMG audit personnel — the 292-page report culminates a 28-month investigation, including review of more than 400,000 pages of documents and nearly 100 hours of briefings and interviews with auditors and regulators, and extensively details behind-the-scenes relationships between auditors and banks.²²

Among other things, the report described its findings and conclusions that KPMG had “years-long awareness of the problems at the banks that precipitated each bank’s eventual failure, but either ignored or justified these concerns, leaving the depositors and investors unaware of the banks’ deficient recordkeeping, troubled risk management, and other concerning practices.” Specifically, the report found, KPMG did not acknowledge “at least six factors known to the firm that could threaten Silicon Valley Bank’s survival as it finalized its audit 14 days before the collapse”; that KPMG “ignored a credible whistleblower’s allegations of widespread fraud at Signature Bank before it collapsed and justified deficiencies in the bank’s recordkeeping”; and that KPMG “did not alert First Republic Bank’s board of directors to concerns the

¹⁸ Press Release, Sec. & Exch. Comm’n, SEC Appoints New Chairman and Board Members to PCAOB (Jan. 30, 2026), <https://www.sec.gov/newsroom/press-releases/2026-16-sec-appoints-new-chairman-board-members-pcaob>.

¹⁹ Katryna Perera, *SEC Appoints New PCAOB Chair, Board Members*, Law360 (Jan. 30, 2026), https://www.law360.com/securities/articles/2436514?nl_pk=3b332c4d-5d01-4406-ad3b-4696f0ee139d&ab_exp_id=nl_subject&ab_exp_var=a&read_more=1&nlsidx=0&nlaidx=3?copied=1. Indeed, Chairperson Atkins had arguably already indicated earlier in the year that he intends the PCAOB to change course from its focus over the prior years. In past years, the PCAOB and SEC each issued orders and imposed sanctions in parallel concerning the widespread cheating and other misconduct at the Big Four audit firms. Concerning the latest revelation of more such misconduct this year, however, the PCAOB acted alone — the SEC conspicuously did not initiate any parallel proceedings.

²⁰ Press Release, U.S. Senate Comm. on Banking, Housing, & Urban Affairs, Warren Statement on SEC Chair Atkins Installing a New PCAOB Board of Trump Loyalists (Jan. 30, 2026), <https://www.banking.senate.gov/newsroom/minority/warren-statement-on-sec-chair-atkins-installing-a-new-pcaob-board-of-trump-loyalists>.

²¹ “*This Industry Is a Joke*”: How KPMG’s unqualified Audits of Silicon Valley Bank, Signature Bank, and First Republic Bank Allowed Troubled Banks to Hide Their Failures in Plain Sight, U.S. Senate Permanent Subcommittee on Investigations (Sept. 17, 2025), https://www.hsgac.senate.gov/wp-content/uploads/2025_09_17-Regional-Bank-Failures-Report-1.pdf.

²² Maura Webber Sadovi, *Senate report on Silicon Valley Bank rips KPMG, reveals CFO role*, CFO Dive (Sept. 19, 2025), <https://www.cfodive.com/news/senate-report-on-silicon-valley-bank-rips-kpmg-reveals-cfo-role/760680/>. See also “*This Industry Is a Joke*”: How KPMG’s unqualified Audits of Silicon Valley Bank, Signature Bank, and First Republic Bank Allowed Troubled Banks to Hide Their Failures in Plain Sight, U.S. Senate Permanent Subcommittee on Investigations (Sept. 17, 2025), https://www.hsgac.senate.gov/wp-content/uploads/2025_09_17-Regional-Bank-Failures-Report-1.pdf. (quoting an internal KPMG communication on January 6, 2023 discussing a request to “figure out how management FV’s [assesses the fair value of] their loans and then put something together for that . . . [the KPMG audit manager] thinks just understanding how they do it and throwing together some bullet points is better than what we currently have . . . which is nothing,” before concluding, “this industry is a joke and our regulators are a joke.”).

auditor had about the bank’s ability to survive, even as the bank published its quarterly earnings release seven days before it collapsed.”²³

The report also concluded more broadly that “[t]he auditing industry is significantly underregulated and in need of reform,” noting in particular that the PCAOB “has been undermined by the deeply entrenched auditing industry from its creation. In practice, auditors create their own standards and follow their own rules.”²⁴ While the leadership and staff of the PCAOB has strained to direct the industry toward greater standards of investor protection, the agency is limited by the tools it has been provided. Given this historical context, critics argue that “auditors act with ‘impunity’ because the PCAOB is, by design, unable to more forcefully regulate the industry.”²⁵

The report and these and other incendiary findings received widespread mainstream attention by the *Wall Street Journal* and other news media, prompting KPMG to issue a response rejecting it as a “misguided and erroneous opinion.”²⁶ U.S. Senator Richard Blumenthal — one of the authors of the report — stated publicly in connection with the publication of the report that “[t]he 2023 bank collapses harmed thousands of people [and] [m]illions more could have lost their savings and investments if these collapses had triggered more bank failures in their wake” — yet “KPMG has thus far faced no meaningful consequences for how it conducted these audits, highlighting the need for Congressional action,” despite the determinations by the investigation that “KPMG ignored the warning signs that Silicon Valley Bank, Signature Bank, and First Republic Bank were

unstable—justifying their patterns of risky and questionable decisions to issue clean audits in the days leading up to their failures”²⁷ Senator Blumenthal continued further, stating, “Our [] report exposes KPMG’s willful blindness and stresses that significant reforms to the auditing industry are needed to promote transparency and better protect consumers.”²⁸ In response to these comments, one commentator observed: “I doubt Sen. Blumenthal, a Yale Law School graduate who was Editor of its Law Review, uses the term ‘willful blindness’ simply for dramatic effect. Section 10(b) civil case law, especially post-PSLRA [Private Securities Litigation Reform Act, which heightened the pleading standards to bring private claims for violations of the securities laws], finds courts defining recklessness, the kind that can translate into intent/scienter, in a continuum of risk-awareness, referring to it in various cases as inadvertence, willful blindness, conscious recklessness, deliberate recklessness, and extreme recklessness. The report is a lot of spadework that may lend support to litigation against KPMG.”²⁹

PRIVATE ENFORCEMENT ACTIONS AGAINST AUDITORS IN 2025

Relatedly, the class action brought by investors for violations of the securities laws by KPMG and others related to the collapse of Silicon Valley Bank achieved a meaningful development this year, when District Court Judge Noël Wise of the U.S. District Court for the Northern District of California sustained the case in full and denied entirely the motions to dismiss brought by KPMG and the other defendants. Among other things, the plaintiffs in *In re SVB Financial Group Securities Litigation*³⁰ assert claims against KPMG related to its purportedly clean audit reports provided publicly in

²³ “*This Industry Is a Joke*”: *How KPMG’s unqualified Audits of Silicon Valley Bank, Signature Bank, and First Republic Bank Allowed Troubled Banks to Hide Their Failures in Plain Sight*, U.S. Senate Permanent Subcommittee on Investigations, 1 (Sept. 17, 2025), https://www.hsgac.senate.gov/wp-content/uploads/2025_09_17-Regional-Bank-Failures-Report-1.pdf.

²⁴ *Id.*

²⁵ *Id.* at 129.

²⁶ See also Mark Maurer, *KPMG Ignored Flaws at Regional Banks Before 2023 Crisis, Senate Report Finds*, *Wall St. J.* (Sept. 17, 2025), <https://www.wsj.com/articles/kpmg-ignored-flaws-at-regional-banks-before-2023-crisis-senate-report-finds-e30bc988?msockid=1c4f155b2ae86e302be8025e2b136fb2>. See also Amanda Iacone, *KPMG Dismissed Red Flags at Regional Banks, Senate Review Finds*, *Bloomberg L.* (Sept. 17, 2025), <https://news.bloombergtax.com/financial-accounting/kpmg-dismissed-red-flags-at-regional-banks-senate-review-finds>.

²⁷ Press Release, U.S. Senate Office of Senator Richard Blumenthal, *New Senate Report Reveals KPMG’s Willful Ignorance in Lead-Up to Collapse of Troubled Banks* (Sept. 17, 2025), <https://www.blumenthal.senate.gov/newsroom/press/release/new-senate-report-reveals-kpmgs-willful-ignorance-in-lead-up-to-collapse-of-troubled-banks>.

²⁸ *Id.*

²⁹ Francine McKenna, “*This industry is a joke*”: *The Senate Perm Subcomm on Investigations Minority Staff Report on KPMG and three failed banks*, *The Dig* (Sept. 17, 2025), https://thedig.substack.com/p/this-industry-is-a-joke-the-senate?utm_source=publication-search.

³⁰ No. 23-CV-01097-NW, 2025 WL 1676800 (N.D. Cal. June 13, 2025), *amended on denial of reconsideration*, 2025 WL 2265575 (N.D. Cal. July 29, 2025).

offering documents used to raise nearly \$8 billion from investors in the years prior to SVB’s collapse, despite the auditor knowing of significant deficiencies and warnings from bank regulators, among other sources. On June 13, 2025, the district court denied all motions to dismiss filed by KPMG and the other defendants. Concerning KPMG, the court ruled that the plaintiffs sufficiently alleged that KPMG’s audit reports falsely omitted material facts by stating that: (1) the financial statements presented the financial position of SVB in accordance with the governing accounting standards; (2) that SVB maintained effective internal control over financial reporting; (3) that KPMG conducted its audit in accordance with applicable PCAOB standards; and (4) that KPMG properly disclosed all “Critical Audit Matter[s]” as required under PCAOB standards.³¹ While ruling that the challenged audit reports are “opinions,” the court took note of the Supreme Court’s holding that “a reasonable investor ‘understands a statement of opinion in its full context, and’ creates liability where the speaker omits ‘material facts that cannot be squared with such a fair reading.’ . . . Though proceeding under the omission theory is ‘no small task for an investor,’ Plaintiffs succeed on this theory at this motion to dismiss stage” as “Plaintiffs do more than simply ‘allege[] that an opinion was wrong,’ because they allege that KPMG was well aware of SVB’s deficiencies but gave them a clean audit anyway . . .” Taking note of the allegations in the complaint, the district court ruled that these “facts that as alleged were known to KPMG yet entirely undisclosed” and sufficiently “call[] into question the issuer’s basis for offering the opinion” to state claims under the securities laws, rejecting KPMG’s arguments and denying the motion to dismiss in full.³² The district court also rejected KPMG’s attempt to inject extraneous purported records from the Financial Accounting Standards Board, ruling that KPMG improperly “appears to rely upon [these materials] to create a dispute about the propriety of SVB’s accounting . . .”³³ With the action now sustained, the case has moved forward into discovery.

Beyond *SVB*, several other private enforcement actions concerning violations of the securities laws by auditors also had meaningful developments in 2025. In *New England Carpenters Guaranteed Annuity & Pension Funds v. DeCarlo*,³⁴ investors assert claims for

securities fraud under Exchange Act Section 10(b) relating to five years of significant errors in publicly filed financial statements by AmTrust, including claims against the auditor BDO USA, LLP (“BDO”) from its issuance of clean audit opinions notwithstanding those significant errors. In August 2023, the Second Circuit Court of Appeals had affirmed the district court’s dismissal of investors’ claims against BDO, holding that BDO’s audit reports blessing AmTrust’s financials were not material to investors because such reports were “so general” that “a reasonable investor would not depend on them.”³⁵ This ruling stunned the investment community, and several former SEC officials submitted an amicus brief in support of reconsideration urging to the Court of Appeals that, contrary to its ruling, audit reports played a critical role in the capital markets regime of the United States. In turn, following the direct invitation from the Court of Appeals, the SEC likewise filed a submission putting forward the substantially same position on behalf of the agency as the amicus submission by the former SEC officials.³⁶ On October 31, 2024, in a stunning about-face, the Second Circuit reversed much of its prior ruling on Plaintiffs’ claims against BDO, holding that “BDO’s certification that the audit was conducted in accordance with PCAOB standards succinctly conveyed to investors that AmTrust’s audit financial statements were reliable.³⁷ The absence of BDO’s certification would have been significant, for without it, BDO could not have issued an unqualified opinion . . . which then would have alerted investors to potential problems in the company’s financial reports. The false certification thus subjected unknowing investors to the risk that AmTrust’s financial statements were unreliable.”³⁸ The Court of Appeals

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Carpenters Guar. Annuity & Pension Funds, 146 S. Ct. 261 (2025) (citation omitted).

³⁵ *Id.*

³⁶ Brief for the Former SEC Officials as Amicus Curiae, *New England Carpenters Guar. Annuity & Pension Funds v. DeCarlo, et. al.*, No. 20-1643 (2d Cir. Sept. 14, 2023), Dkt. No. 187; *see also* Brief for SEC as Amicus Curiae, *New England Carpenters Guar. Annuity & Pension Funds v. DeCarlo, et. al.*, No 20-1643 (2d Cir. Feb. 16, 2024) Dkt. No. 202.

³⁷ *New England Carpenters Guar. Annuity & Pension Funds v. DeCarlo*, 80 F.4th 158, 182 (2d Cir. 2023). (Amended Oct. 31, 2024), *cert. denied sub nom. BDO USA, LLP v New England Carpenters Guar. Annuity & Pension Funds*, 146 S. Ct. 261 (2025) (citation omitted).

³⁸ *Id.*

³¹ *Id.* at *5.

³² *Id.* at *17.

³³ *Id.* at *8.

³⁴ 80 F.4th 158, 182 (2d Cir. 2023). (amended Oct. 31, 2024), *cert. denied sub nom. BDO USA, LLP v. New England*

thereafter denied BDO's request for further reconsideration, and the case was remanded to the District Court to move forward into discovery.³⁹

This year, in June 2025, BDO filed a petition for a writ of certiorari with the Supreme Court as to the Second Circuit's October 2024 ruling, arguing, among other things, that the ruling states that "the materiality requirement for securities fraud liability is satisfied per se by an auditor's statement of compliance with professional standards." Ultimately, after a full briefing — including amicus submissions in support of BDO filed by, among others, the U.S. Chamber of Commerce and the American Institute of Certified Public Accountants ("AICPA") — in October 2025, the Supreme Court denied certiorari.⁴⁰ Particularly given the Supreme Court had in recent years heard several appeals related to securities class action litigation — though it ultimately dismissed two of those appeals as having been improvidently granted — the attempted appeal by BDO and its subsequent denial by the Supreme Court attracted considerable attention within the securities class action bar. For example, one observer commented in an editorial that, "[i]n denying the petition, the Supreme Court let stand [a decision that] meaningfully lowers the pleading burden for plaintiffs and makes the early dismissal of such claims more difficult, potentially exposing auditors to increased securities fraud litigation," and accordingly recommending that ". . . accounting firms and auditors should exercise heightened caution to ensure that audits are conducted in accordance with PCAOB standards[.]"⁴¹

Lastly, in November 2025, the District Court in South Carolina granted preliminary approval to an agreement reached this year by Deloitte & Touche LLP to pay \$34 million to settle securities class action claims in *Int'l Bhd. Of Elec. Workers Loc. 98 Pension Fund v. Deloitte & Touche LLP*.⁴² These claims, which have been pending since 2020, concerned allegations that Deloitte violated Exchange Act § 10(b) in issuing clean audit

opinions of the company, notwithstanding the company's recognition of tax credits from completing nuclear reactors on a timetable that it knew could not be achieved. By the time the parties reached agreement to settle this year, the case had fully matured through discovery, with *Daubert* motions to exclude expert testimony and motions for summary judgment filed by each side and fully briefed, including dozens of exhibits in support and opposition submitted by the parties. In addition, the Fourth Circuit Court of Appeals had granted Deloitte's petition for interlocutory appeal of class certification under Rule 23(f) of the Federal Rules of Civil Procedure, limited specifically to the issue of whether the plaintiffs had sufficiently established a class-wide damages methodology consistent with the plaintiffs' theory of liability. However, before the Fourth Circuit could rule, the parties reached a settlement that resolved the underlying action and rendered the interlocutory appeal moot.⁴³

CONCLUSION

As Oxford professor Karthik Ramanna observed in 2019, there is a "widespread public concern that auditing is broken" and a "crisis of trust in auditing."⁴⁴ This crisis of confidence around the audit report has only worsened in the years since given continued news of high-profile failures by auditors to detect massive frauds, and shocking revelations of unethical and even criminal behavior at the top audit firms. Developments in 2025 indicate that this "crisis of trust" observed by Professor Ramanna continues to fester and perhaps nears even closer to a boiling point with the unprecedented public and forceful condemnation of KPMG by the Senate subcommittee.

Against this backdrop, however, enforcement activity against audit firms by regulators slowed — or even stopped altogether, as with the SEC — and the priorities and appointments of the change in administration give rise to uncertainty around the future of enforcement efforts. While public comments by the SEC in announcing a new task force give some optimism that regulators intend to continue the important steps taken over the last few years towards repairing the trust in auditors as gatekeepers of the financial markets, continued work is necessary. ■

³⁹ *In Re Amtrust Fin. Serv.*, No. 20-01643 (2d Cir. Jan. 7, 2025), ECF No. 237; *In Re Amtrust Fin. Serv.*, No. 20-01643 (2d Cir. Jan. 14, 2025), ECF No 238.

⁴⁰ Petition for Writ of Certiorari, *BDO USA, LLP v. New England Carpenters Guar. Annuity & Pension Funds, et al.*, No 24-1151 (U.S. May 7, 2025).

⁴¹ Dean Conway, *Justices' BDO Denial May Allow For Increased Auditor Liability*, Law360 (Jan. 29, 2026), <https://www.law360.com/articles/2428714/justices-bdo-denial-may-allow-for-increased-auditor-liability?copied=1>.

⁴² 348 F.R.D. 35 (D.S.C. 2024).

⁴³ No. 25-1146 (4th Cir. May 2, 2025), ECF No. 29.

⁴⁴ K. Ramana, *Building a culture of challenge in audit firms* (Sept. 2019), [building-a-culture-of-challenge-in-audit-firms.pdf](#).