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SEC Brings Accounting and Disclosure Fraud Charges Against Public Company and Former Executives, Reflecting Focus on Earnings Management

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The SEC recently announced a settlement with a major publicly traded agricultural company (the "Company") regarding accounting and disclosure fraud,[1] and filed a complaint against one of the Company's former executives arising from the same conduct.[2] In its settled order (the "Order"), the SEC found that the Company improperly inflated the performance of a key business segment, resulting in materially false and misleading statements in the Company's periodic reports, and emphasized that these misstatements had affected metrics of particular interest to the market.[3]

The Company settled to scienter-based fraud charges and agreed to pay a civil penalty of $40 million. Additionally, one former Company executive settled to scienter-based fraud charges and agreed to an industry bar, while another settled to negligence-based charges only. The SEC also announced the filing of a litigated complaint involving fraud-based charges against a third Company executive.

The SEC's actions reflect its continued focus on earnings management; view that market integrity relies on a company's transparency when making disclosures; and continued emphasis on individual accountability, quantitative materiality, and cooperation and remediation.

Background

The SEC's Order found that the Company engaged in transactions between business segments which increased one segment's operating profit in order to meet publicly disclosed growth targets over the course of several periods, and failed to disclose the impact of the intersegment transactions when touting the segment's profitability.

The Company disclosed that it undertook intersegment transactions between its three reportable segments, but stated in its Form 10-K and Form 10-Q filings with the SEC that "[i]ntersegment sales were recorded at amounts approximating market." The Company's internal policies required that such transactions be conducted at arm's length, at terms similar to those available to third parties. However, the SEC ultimately found that such transactions were in fact not recorded at amounts approximating the market, and the executives knew or should have known this to be the case.

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1 https://www.sec.gov/newsroom/press-releases/2026-15-sec-charges-adm-three-former-executives-accounting-disclosure-fraud.

2 Complaint in *SEC v. Luthar*, No. 26-cv-927 (N.D. Ill. Jan. 27, 2026) ("Compl.").

3 Order in *In re Archer-Daniels-Midland Co.*, Rel. No. 33-11403 (Jan. 27, 2026).

Further, the Company's executive compensation plans, including annual cash bonus plans and long-term equity programs, were tied, in part, to the performance of the specific segment at issue. These performance goals were applicable to executives associated with other parts of the business, creating a company-wide incentive to help that segment reach its targets at the expense of other segments.

Over several years, the Company projected consistent growth for the segment at issue, which the SEC noted was important to the market's perception of the Company's overall earnings and cash flow. However, the Order found that when that segment began to fall short of its targets, the Company repeatedly made accounting adjustments to transactions between that segment and the Company's other reportable segments, including by retroactively applying rebates and repricing transactions on terms not available to third-parties.

The SEC alleged that these intersegment transactions rendered the Company's filings materially false and misleading in multiple ways. First, the transactions were not conducted on terms available to third parties, rendering misleading the Company's statement that intersegment transactions were conducted "at amounts approximating market." Second, the intersegment adjustments resulted in an overstatement of the key segment's operating profit for certain quarters, and as a result rendered misleading the Company's disclosures regarding the segment's operating profit and growth.[4] The SEC emphasized that, absent the intersegment transfers, the segment at issue would have missed certain growth targets which the Company later cited as evidence of the segment's strong performance.

Importantly, the SEC charged the Company with both fraud and negligence-based violations of the securities laws, along with other violations, including under Section 17(a) of the Securities Act, Sections 10(b), 13(a) and 13(b)(2)(A) & (B) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder. The SEC charged a former Company executive with similar violations, and a second executive with negligence-based violations only, while bringing suit against a third executive who did not join in the settlement.

In accepting the settlement, the SEC noted the Company's substantial cooperation and remedial efforts, including that the Company conducted an internal investigation at the direction and oversight of Audit Committee, voluntarily reported its findings to the SEC staff, implemented new internal accounting controls, amended its policies and procedures, and tested the effectiveness of its new controls.

Key Takeaways

- Earnings Management Remains an SEC Priority. This SEC will continue to assess whether the way in which companies manage and report their earnings fairly informs the market as to the value of their securities. The Order here focuses not on the Company's overall earnings, but the Company's segment reporting, which remains a hot topic at the SEC, and emphasizes that the market considers segment performance and views it as an indicator of the Company's overall strength. The SEC will continue to consider potential actions where a public company's statements are misleading as to individual aspects of the company's performance, even where the overall performance of the company is accurately described.
- Focus on Quantitative Materiality. Current Commissioners have emphasized a desire for the SEC to focus on materiality from a quantitative perspective, rather than a qualitative one. In recent remarks, Commissioner Uyeda indicated that the SEC "should strive to adopt standards . . . focused on financial materiality."[5] The Order here reflects that preference, placing great emphasis on the percentages by which the Company missed its growth targets, or overstated the segment's performance.

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[4] Compl. ¶¶ 104-106.

[5] Mark T. Uyeda, *Remarks at the 53rd Annual Securities Regulation Institute* (Jan. 26, 2026), https://www.sec.gov/newsroom/speeches-statements/uyeda-remarks-securities-regulation-institute-012626.

- Emphasis on Individual Accountability. Also noteworthy in this case is the SEC's pursuit of charges against three company executives, including fraud-based charges against two. This Commission has stated it will focus on individual accountability. This is just the fifth public company settlement brought under this administration, but it is notable that three of the previous four also involved actions against individuals. By contrast, slightly more than half of the actions brought under Section 17(a) or Section 10(b) in the prior year involved individual charges. While this is a small sample size, the SEC is likely to continue its focus on individual accountability when considering corporate charges.
- Importance of Cooperation and Remediation. The Order places significant emphasis on the extent of the Company's cooperation and remediation, and the SEC's Director of Enforcement, in a rare press release accompanying an Enforcement case, emphasized that this action is part of the SEC's "commitment to rooting out fraud . . . while also engaging market participants constructively to ensure the right outcomes are achieved in a timely and fair manner."[6] Results in prior cases suggest that the Company's cooperation here made a significant difference in the outcome—for example, in a 2024 action for misrepresentations related to the valuation of business units, the SEC imposed a larger civil penalty than the one imposed here, despite charging only negligence-based violations of the securities laws.[7]
- Penalties Are Still Real. The $40 million penalty is a high for this Commission, and it is particularly notable given past statements by certain Commissioners on penalties against public companies, which may be viewed as hurting company shareholders.

What to Do Now

- Carefully consider accounting adjustments. Companies should be mindful of any efforts or accounting adjustments made with an intent to hit earnings or other company targets. If there are any questions about whether an accounting adjustment should be made, consider consulting with external accounting experts to help analyze the circumstances.
- Remedial efforts and self-reporting have benefits. Conducting an independent investigation, self-reporting potential securities laws violations, and implementing remedial measures promptly and in good faith may help to limit the size and scope of enforcement penalties.
- Robust internal controls over financial reporting and disclosure are key. The SEC's continued focus on accounting, compliance, and disclosure processes underscores the need for companies to implement and maintain effective controls over the financial reporting and disclosure processes. In particular, companies should frequently and consistently assess the design and operation of controls in order to effectively prevent, or if not, detect misstatements or other deficiencies in financial reporting and disclosures.

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[6] https://www.sec.gov/newsroom/press-releases/2026-15-sec-charges-adm-three-former-executives-accounting-disclosure-fraud.

[7] Order in *In re United Parcel Service, Inc.*, Rel. No. 33-11328 (Nov. 22, 2024).

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