

[Securities Regulation Daily Wrap Up, ENFORCEMENT—No monetary penalty for cooperating firm in settled fraudulent financial reporting charges, \(Sept. 27, 2019\)](#)

Securities Regulation Daily Wrap Up

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Self-reporting and remediation efforts by the company were key in the SEC's decision not to impose a monetary penalty.

The Commission announced settled charges against PPG Industries, Inc., a Pittsburgh-based manufacturer of paint and specialty coating materials, for fraudulent misstatements in the company's financial statements that enabled it to meet, or come closer to meeting, consensus earnings estimates. Because of the "extensive cooperation" with the SEC's investigation, no monetary penalties were imposed (*In the Matter of PPG Industries, Release No. 33-10701*, September 26, 2019).

Intentional misconduct alleged. PPG manufactures paint and other specialty industrial, automotive and architectural coating materials. According to the SEC, from December 2016 through April 2018, PPG maintained materially inaccurate books and records and insufficient internal accounting controls, connected to the conduct of a PPG senior accounting officer ("Officer A") and employees within PPG's finance division, who allegedly manipulated accounting entries. The misstatements were designed to enable PPG to meet, or come closer to meeting, analysts' consensus earnings estimates, the Commission said.

Improper accounting determinations. According to the SEC, Officer A made improper accounting determinations and directed subordinate personnel to delay recording or not to record certain expense accruals, and to misclassify certain income as from continuing operations, in contravention of generally accepted accounting principles. This resulted in income from continuing operations in the company's published financial results to be inflated for the years ended December 31, 2016 and December 31, 2017, and for certain quarters within that period. PPG's books and records also contained intentional inaccuracies during the closing period for the first quarter of 2018. But these inaccuracies were later corrected in PPG's Form 10-Q for that quarter.

A restatement subsequently disclosed 14 instances of accounting misconduct during the relevant period, reduced PPG's previously reported GAAP pretax income from continuing operations by a cumulative \$6 million for 2016 and 2017, and identified a material weakness in PPG's internal control over financial reporting, the SEC said.

Violations charged. According to the Commission, the conduct described above resulted in violations of Section 17(a) of the Securities Act and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder.

PPG's cooperation. According to the Commission's order, PPG promptly self-reported to the Commission staff and, in its earnings release for the first quarter of 2018, disclosed to investors the allegations in the internal report and that it was conducting an internal investigation; provided timely updates to the Commission staff and voluntarily produced documents, reports, and other materials; after issuing the restatement, continued to cooperate with the Commission staff's investigation; and undertook remedial measures beginning immediately upon learning of the improper conduct.

In addition to taking disciplinary actions with respect to individuals in the finance area involved in the conduct described above, PPG's management has enhanced review in the finance area, adjusted its organizational design by formally separating its financial forecasting process from its financial accounting process, and

instituted enhanced training, policies and procedures to standardize and increase oversight in the high-risk accounting areas where control weaknesses were identified.

As a result of the firm's actions, while it was sanctioned for this activity, it received no civil monetary penalties.

The release is [No. 33-10701](#).

Companies: PPG Industries, Inc.

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