

Monsanto and SEC Reach Settlement over Inaccurate Financial Disclosures

By Samantha Vega, J.D. Candidate 2018 | March 8, 2016

On February 9, 2016, the Monsanto Company (NYSE: MON), a multinational agricultural chemical manufacturer based in St. Louis, Missouri, and the Securities and Exchange Commission (SEC) announced their agreement to [settle](#) charges that Monsanto's public disclosures in fiscal years 2009, 2010, and 2011 had materially misstated the firm's financial results. The provisions of the settlement require Monsanto to pay the SEC an \$80 million fine and retain independent compliance monitors.

To contend with the generic alternatives that are exerting downward pressure on the price for its flagship herbicide solution, "Roundup," Monsanto launched a rebate program aimed at distributors and retailers. The program [offered](#) substantial price reductions on their Roundup product, or a rebate down the road, if retailers and distributors met certain sales targets. Ignoring one of the most rudimentary rules of accounting under U.S. Generally Accepted Accounting Principles (US GAAP), [the matching principle](#), Monsanto failed to offset their revenues with the expenses associated with issuing rebates. By failing to properly recognize the rebates, Monsanto generated artificially high earnings results, conveniently enabling it to align with the Company's guidance and with analysts' expectation.

Financial statement analysis of certain accounting ratios, including net income and earnings per share (EPS), remains the predominant medium through which investors formulate investment decisions. Such figures help investors to, among other things, analyze and determine whether securities align with their risk profile or diversification strategy. Disclosure of inaccurate earnings results of such a massive scope by Monsanto has distorted the functioning of equity markets and could have easily resulted in catastrophic outcomes for investors.

In announcing its settlement with Monsanto, Mary Jo White, the Chair of the SEC, [remarked that](#) "financial reporting and disclosure cases continue to be a high priority for the [SEC]." That is indeed an area the SEC should continue to prioritize. But more broadly, regulators, investors, and policymakers living in the age of the Sarbanes-Oxley Act (2002) must be scratching their heads contemplating how a \$15 billion company, [audited](#) by none other than [Deloitte & Touche](#), could have gotten away with such fundamental misrepresentations.