

# U.S. Sen. Johnson: Demands records on Silicon Valley Bank, Signature Bank & First Republic Bank

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**WASHINGTON** – The U.S. Senate Permanent Subcommittee on Investigations (PSI) has demanded communications and records from accounting firm KPMG LLP regarding its audits of three failed banks—Silicon Valley Bank, Signature Bank, and First Republic Bank. According to reports, KPMG issued clean audits for each bank in the weeks before the banks failed.

In a letter to KPMG CEO Paul Knopp, PSI Ranking Member Ron Johnson (R-Wis.) and Chair Richard Blumenthal (D-Conn) noted that, in the days leading up to these banks' failures, KPMG had “issued these audits without qualification” and that later, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve issued reports that “identified ‘foundational and widespread’ weaknesses with SVB and Signature’s internal audit and risk management functions.”

Blumenthal and Johnson are seeking information regarding KPMG’s audits of Silicon Valley Bank, Signature Bank, and First Republic Bank, and KPMG’s communications with state and federal regulators.

The full text of the letter can be found [here](#) and below.

Mr. Paul Knopp

Chair and Chief Executive Officer

KPMG LLP

345 Park Avenue

New York, NY 10154

Dear Mr. Knopp:

Since March 10, 2023, three of the four largest bank failures in U.S. history have occurred—Silicon Valley Bank (SVB) on March 10, Signature Bank (Signature) on March 12, and First Republic Bank (First Republic) on May 1.<sup>[1]</sup> Combined, these three failed banks held more assets than the 25 banks that failed in 2008, the first year of the Great Recession.<sup>[2]</sup> SVB, Signature, and First Republic all reportedly received clean audits from KPMG LLP (KPMG) shortly before they failed.<sup>[3]</sup> Specifically, KPMG published clean audits of SVB on February 24, 2023, 14 days before it failed, of Signature on March 1, 2023, 11 days before it failed, and of First Republic on February 28, 2023, 16 days before it received a \$30 billion bailout.<sup>[4]</sup> Given KPMG's role in assessing the financial health of these banks, we write to request records related to KPMG's audits and practices.

SVB had approximately \$200 billion in total assets and “was best known for courting young, risky start-ups that other banks would not bank with,” and working with venture capital firms.<sup>[5]</sup> As a result of SVB's focus on start-ups and venture capital firms, SVB reportedly found itself in an unusual position for a bank—it served customers with large cash holdings and little demand for traditional revenue generating products such as loans.<sup>[6]</sup> As a result, SVB invested roughly half of its total assets, \$91 billion, in long term Treasury bonds and U.S. government mortgage backed securities.<sup>[7]</sup> When the Board of Governors of the Federal Reserve System (Federal Reserve) began raising interest rates, SVB's long-dated securities, which reportedly were not “marked to market on the bank's balance sheet,” lost value.<sup>[8]</sup> In March 2023, facing increased deposit withdrawals, SVB sold \$21 billion of their assets to raise funds and realized a \$1.8 billion loss.<sup>[9]</sup> As customers learned of these events, they began withdrawing their deposits at an accelerated rate.<sup>[10]</sup> On March 9, 2023, SVB customers reportedly withdrew \$42 billion in deposits.<sup>[11]</sup> The next day, \$100 billion was scheduled to be withdrawn if the bank had not been shuttered, representing a historic bank run that ultimately resulted in SVB's failure.<sup>[12]</sup>

SVB's failure sparked fears of contagion across the financial sector.<sup>[13]</sup> Two days after SVB's failure, on March 12, 2023, Signature, a New York-based bank with approximately \$110 billion in assets, failed following a large number of customer withdrawals.<sup>[14]</sup> On May 1, 2023, First Republic failed, surpassing SVB as the second

largest bank failure in U.S. history.<sup>[15]</sup> Signature and First Republic reportedly had similar issues to SVB.<sup>[16]</sup>

KPMG released audits of all three banks in the days leading up to their failures.<sup>[17]</sup> KPMG issued these audits without qualification, despite the fact that the U.S. Public Accounting Oversight Board (PCAOB) urges auditors to disclose whether they perceive a “substantial doubt about [an] entity’s ability to continue as a going concern” upon issuing an annual financial statement.<sup>[18]</sup> On April 28, 2023, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve issued reports on the failures of SVB and Signature.<sup>[19]</sup> These reports identified “foundational and widespread” weaknesses with SVB and Signature’s internal audit and risk management functions.<sup>[20]</sup>

KPMG also appears to have had longstanding relationships with all three banks, having served as SVB’s auditor for nearly 30 years and Signature’s auditor for over 20 years prior to their failures.<sup>[21]</sup> Furthermore, SVB’s Head of Internal Audit had worked for KPMG in its external audit group for nearly a decade and the KPMG audit partner who signed Signature’s 2020 audit in March 2021 became the bank’s Chief Risk Officer in June 2021.<sup>[22]</sup> Additionally, the Chief Executive Officer of First Republic had worked for KPMG for 16 years, including five years as an audit partner.<sup>[23]</sup>

Pursuant to its authority under Senate Resolution 59 (118<sup>th</sup> Cong.) and rule XXVI of the Standing Rules of the Senate, the Permanent Subcommittee on Investigations is reviewing matters relating to auditing and risk management standards for financial institutions. To assist the Subcommittee in better understanding these issues, please provide the documents and information listed below by May 24, 2023. For the purposes of this request, the term “KPMG” includes, but is not limited to KPMG International, KPMG US, and any other subsidiaries, divisions, partnerships, properties, affiliates, branches, groups, special purpose entities, joint ventures, predecessors, successors, or any other entity in which KPMG had or has a controlling interest. The term “Banks” refers to First Republic Bank, Signature Bank, Silicon Valley Bank, any other subsidiaries, divisions, partnerships, properties, affiliates, branches, groups, special purpose entities, joint ventures, predecessors, successors, or any other entity in which these financial institutions had or has a controlling interest. The period covered by this request is January 1, 2019 to present unless otherwise specified.

1. All communications between KPMG and the Banks between January 1, 2023,

and present, including but not limited to all communications referring or relating to the Banks' failures.

2. All records<sup>[24]</sup> referring or relating to KPMG's 2022 audits of the Banks, including but not limited to, any communications with the Banks before and after the 2022 audit had been signed and completed.
3. A complete list of all advisory work, audits, tax consultations, or other engagements undertaken by KPMG for the Banks in the covered period, including any ongoing or incomplete work. Please list the team lead, final invoice, and a brief description of the work.
4. All records referring or relating to KPMG's advisory work, audits, tax consultations, or other engagements undertaken by KPMG for the Banks in the covered period. This includes, but is not limited to:
  4. Communications, including meeting minutes and memoranda, between KPMG and bank management, including the Banks' executive leadership, audit committee, and board of directors.
  5. Communications between KPMG and the Banks' internal audit, risk management, and legal and compliance functions.
  6. Communications between KPMG and the PCAOB, California Department of Financial Protection and Innovation, New York Department of Financial Services, Federal Reserve, Federal Reserve Bank of New York, Federal Reserve Bank of San Francisco, FDIC, Office of the Comptroller of the Currency, or any other relevant regulatory entity.
7. All work products from each engagement, both public and private, including full draft history.
5. All written agreements outlining the scope of each engagement undertaken by KPMG on behalf of the Banks in the covered period, including all addendums and modifications.
6. All documentation referring or relating to KPMG's policies and practices for staffing audit engagements.
7. All documentation referring or relating to KPMG's policies and practices for cross-selling or otherwise recommending any non-audit services during a client's audit engagement.<sup>[25]</sup>
8. Organizational charts reflecting corporate structure, officers, directors, and

employees.

9. A complete list of all KPMG employees, contractors, or subcontractors employed for each engagement with the Banks during the covered period. Please list each employee's title at the time of the engagement, primary work location, and whether the employee subsequently accepted employment with one of the Banks.

To expedite the Subcommittee's review, we ask that you submit the material responsive to this request as it becomes available, rather than waiting to provide it all at once. To avoid any unnecessary delays in connection with this production, we ask that you carefully review the attached *Procedures for Transmitting Documents to the Permanent Subcommittee on Investigations*. Please contact [XXX] at [XXX] with Chairman Blumenthal or [XXX] at [XXX] with Ranking Member Johnson with any questions. Thank you for your attention to this request.