Big Four Breakthrough : KPMG Enters the US Legal Market

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What is the Context?

What is KPMG?

In their own words, KPMG in the UK is *"a provider of professional services, including **audit**, **tax** and **advisory**"*.

The company operates in **142** countries and has over **275,000** partners and employees that work in member firms across the world.

(Image Credit: The Financial Times).

What is an Alternative Business Structure (ABS)?

Introduced in the **Legal Services Act 2007**, the ABSs consist of professional companies that offer reserved legal services as a whole or part of their business.

The ABS is distinct from professional legal services because of (i) the degree of ownership and investment - the ***Tesco law*** - and (ii) a mix of **lawyers and non-lawyers** that work collaboratively, in the same firm, and in a client-facing role.

Further, the ABS is overseen by the **Solicitors Regulation Authority (SRA).** The SRA is a regulatory body that oversees solicitors and law firms in England and Wales.

What is Happening?

On Thursday 27 February 2025, KPMG received approval from the Arizona Supreme Court for the launch of a law firm in Arizona as an independently managed subsidiary of KPMG. The combination of *"cutting-edge artificial intelligence and advanced technology with legal services"*, allows the company to offer a *"holistic range of tech-enabled services"*. In fact, in their own words, KPMG has stated that *"together, KPMG Law US and KPMG will provide **legal managed services**, **legal operations consulting**, and **advanced legal technology innovation**, to help clients gain efficiencies and empower their legal teams to concentrate on strategic priorities"*. However, the approval came with the condition that KPMG US Law will not be able to provide legal services to clients that KPMG, or its network firms, conduct financial audits.

What is the Impact on Commercial Law Firms?

KPMG is the first Big Four Firm - refers to the four largest accounting firms in the US by revenue - to enter the US legal market. If this endeavour is successful, then (a) the other firms can follow and (b) other states will adopt similar reforms to ABSs to allow for this. Given that companies often seek out traditional commercial law firms for legal advice, if more firms - like KPMG - enter the US legal market, there will be an inevitable disruption to traditional law firms.

For example, this may create increased competition, in particular in areas where an accounting firm already has firm client relationships (i.e. tax, corporate compliance, regulatory etc.). There is the additional appeal that a successful ABS model consolidates various services under a single corporate structure and therefore offers increased efficiency. In addition, businesses, like the Big Four, can use competitive pricing to undercut fees, and therefore drive commercial law firms to reconsider their billing models in order to remain competitive. While these concerns are relevant, they have not come to fruition yet. However, it is likely that traditional law firms will be encouraged to accelerate their adoption of legal technology in order to compete with companies, like KPMG, where there is heavy investment in AI, automation and data-driven legal solutions.

Commercial Word of the Article

Stock Purchase vs. Asset Purchase?

A transaction can be structured as a stock transaction or an asset transaction.

In an asset purchase, the seller - Target - remains the legal owner of the entity while the buyer - Acquirer - purchases **individual assets** in the company (i.e. IP, equipment, customer lists etc.).

i) The Advantages

- secure tax deductions for depreciation and/or amortization because the buyer can *'step up'* the basis of assets over their current tax values.
- the Acquirer can decide which liabilities, if any, and assets it takes on (i.e. it can *'cherry pick'* their assets and liabilities).
- the Acquirer spends less time and resources on due diligence because there is limited, if any, exposure to unknown liabilities.
- the Acquirer can decide which employees it retains post-acquisition.

ii) The Disadvantages

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‣ various agreements will need to be renegotiated (i.e. customer-supplier contracts, employment contracts etc.).

‣ assets may need to be retitled.

In a stock purchase, the Acquirer buys **both the assets and liabilities** of the Target. This is a much less complex alternative to the asset purchase.

i) The Advantages

‣ the Acquirer need not carry out costly re-valuations and retitle individual assets.

‣ less complex than an asset purchase.

ii) The Disadvantages

‣ to remove unwanted liabilities, separate agreements will need to be created where the Target takes back the liabilities.

‣ the Acquirer does not benefit from the *'step up'* tax benefit or the option to *'cherry pick'* assets and liabilities.

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