

The International Accounting Standards Board and Publis...

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Sometimes it's hard to blog because you're spending too much time talking to the old fashioned media. This is one such occasion.

Amongst the people I've been proud to work with over the last couple of years are the [Publish What You Pay](#) (PWYP) campaign. I wrote their proposals for an [international accounting standard for the extractive industries](#) and their [submission](#) to the International Accounting Standards Board (IASB) on the future of segment reporting. It's this last one that's been getting some attention, from [Accountancy Age](#) yesterday and the [FT today](#). I have a suspicion others will follow.

What's this about? Well, in essence it's simple. The IASB has, in a move designed to align their standards with US standards, proposed that segment reporting on a geographic basis, as we have known and enjoyed, should be abandoned in favour of segment reporting on the basis that management itself uses for its own decision making purposes. So in the past a company has had to split its sales, costs, profits, assets and so on between the geographic areas where they have arisen, and the resulting analysis has had to add back up to the total in the published accounts. This has not been as useful as we'd like, because the geographic segments were usually continents and not countries, but it was something, and it was comparable between companies.

Under the new arrangements what is disclosed is up to management. So comparison, which is the bench mark of financial analysis has gone out of the window. What is more, the segment analysis (say, on the basis of product lines) will not even need add up to the figures disclosed in the accounts. So, for example segment sales may be higher or lower in total than those for the group without reconciliation or explanation being required.

Now I object to this in the first instance because it's poor accounting and a licence to publish an unaudited alternative view of the results in accounts that are meant to give a true and fair view, and as an accountant I object to that. But for Publish What You Pay the issue is much bigger. You see, Publish What You Pay is made up of 300 NGOs,

almost all in development. And they realise that aid can only go so far to solve problems. Some are even beginning to argue (like Christian Aid) that the best level of aid is no aid because all the world's countries are able to be free-standing, economically viable states that can provide the resources their own populations need out of the tax revenues they are able to raise from the economic activity that goes on within their boundaries. That might, I admit, be a dream, but what's wrong with that?

And the proposal I have written for PWYP seeks to achieve this aim. It asks for country by country accounting. Every multinational would have to say where it had operations, what their names were and by country disclose intra group and third party sales and purchases, labour costs, other costs, interest and royalty costs, profits, taxes due and paid and cash flow data on payments made to government plus broad balance sheet data. Why? Well for these broad reasons:

- 1) Because you can't be a good corporate citizen if no one knows you're working in a place, and you can't be a good corporate citizen if no one knows who you are there. So simply identifying where you are and who you are is essential.
- 2) And once you're in a place accounting for what you do is a duty to the stakeholder community, especially if, as is the case in some countries dominated by the Extractive Industries just one or two companies control the export economy of the country;
- 3) And you have a duty to pay your taxes in that place, direct to the government of it, and on the profits which arise there. Since the [Extractive Industries Transparency Initiative](#) is meant to reconcile payments companies make to receipts governments get, it seems vital that companies in developing countries, whether involved in the extractive industries or not disclose what they pay so that civil society know that this data is right. This is the most basic of confidence building measures in the war on corruption;
- 4) It's also important to know not just what is paid, but that it's the right payment. If it's obvious a group is playing around offshore and that most of its offshore subsidiaries transactions there are intra-group you can be fairly sure that some questions need to be asked. Think, after all, what would have happened if Enron's offshore games had been known of before it collapsed? Or Parmalat's. Our proposed standard would show that. Offshore is about fiddling. It's the opposite of enterprise. Companies that do offshore are short term fine tuning at best, not making long term value. Think about how much additional added value knowing that would create for shareholder. And not just shareholders - think too of all the governments in the world who want transfer pricing data. That's what this standard would give. And then, maybe Africa would be able to protect itself from transfer pricing abuse, in the face of which it faces insurmountable odds at present.

So this is a standard to benefit developing countries, to tackle corruption, to end aid dependency, to protect shareholders, to stop tax abuse and the curse of offshore, and

to ensure major corporations are good corporate citizens. OK, those are big claims, but they happen to be true.

And what happened to this proposed standard? PWYP sent in the submission. 80 NGOs wrote in support of it. And the IASB ignored us. We asked for meetings. They said that was not possible. We offered to take them to places to show them the need. They did not respond. And in July they approved the standard they had promoted. In doing so they even claimed we supported it in the statistics they used because we had said we did not object to management data being published if we got what we want as well. And I can tell you - we do not agree with their statistics. To put it another way; their stats are straightforwardly wrong.

Now, having agreed what they're going to do they're holding a meeting next week to consider our submission - after they have agreed to go down another route. And we have asked to meet them again. And we have asked to speak at the meeting. And they have refused, although we know they let others speak when they think it appropriate.

That's why we had to go to the press. The IASB has not followed its own procedures on consultation. It has shown no interest in stakeholder concerns. It will not even talk.

So let's be clear - this body that basically sets the accounting rules for the world bar the USA is nothing more than a private company. It's registered in Delaware USA (which says a lot in itself). It's financed by the big banks, corporations and accountancy firms. And they could collectively do something to use accounts to tackle a real world issue by adopting this standard. A real world issue for more people than they could ever otherwise reach through their actions.

I hope they change their minds next week as a result of the pressure we're bringing to bear. But I also hope that no child will die needlessly in the world next week for lack of resources which the world could easily afford to provide, and I know that many will. Hope is not always fulfilled.