

Deloitte & PWC can't agree on losses - and one needs a ...

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[FT.com / Companies / Banks - Deloitte chief reignites accounting debate.](#)

The debate on how to account for banking losses goes to the core of International Accounting Standards project.

Now Deloitte and PWC cannot agree on the issue, as the FT notes:

Jim Quigley, global head of “Big Four” accounting firm Deloitte Touche Tohmatsu has proposed that banks account for losses in two radically different ways, to meet the opposing demands of politicians and accountants.

He has told the Financial Times that he is an “advocate” of banks making loan loss provisions for “incurred losses” separately from “expected losses” — and reporting them in two different lines in their accounts.

However, PWC says this proposal would:

“muddy the waters”.

Politicians and regulators have blamed the current system of “incurred losses” — whereby companies may make provision for loan losses only as they occur — for exacerbating the crisis, by encouraging a cyclical approach to risk management.

But that view is questioned by many accountants and bankers who argue that “incurred losses” give investors clarity. Accountants and bankers are also sceptical about the “expected loss” model, as they fear it raises the risk of “cookie jar” accounting, whereby executives put funds aside during years of bumper profits only to release them later to cover up bad performance.

Let's be clear about this: until 2005 everything PWC are arguing for would have been

unacceptable in the UK. We did expected loss accounting under UK rules. It is only the International Accounting Standard Board that over-ruled this.

Three years later most banks fell over.

And the thing PWC is arguing against is anti-cyclical provisioning to ensure capital retention. To put it another way, PWC wants pro-cyclical accounting that encourages recklessness.

PWC's recklessness seems to know no bounds. The lack of honesty in their argument is also stunning: to suggest that the prudence that under-pinned accountancy for more than a century is "cookie jar" accounting is an appalling mis-statement of reality. That prudence served us well and is exactly what we need now.

PWC needs a rude awakening.