

How widespread is fraudulent accounting?

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[FT.com / Companies / Banks - SEC launches ‘Repo 105’ probe.](#)

The FT has noted:

US regulators on Monday asked more than 20 financial groups whether they engaged in transactions along the lines of ‘Repo 105’ — an accounting device that helped Lehman Brothers conceal its high leverage ratio during the financial crisis.

The corporate finance division of the Securities and Exchange Commission wrote to chief financial officers of “close to two dozen” large foreign and domestic banks and insurers, demanding details of repurchase agreement deals.

The SEC probe includes whether companies booked repos as asset sales for accounting purposes over the past three years, and whether these deals were concentrated with certain counterparties or certain countries. Regulators also asked companies to quantify the amount of repos that were disclosed as asset sales and to explain the “business reasons” for use of these structures.

It is very obvious regulators do not think the Lehman case was an isolated one.

I too would be surprised if it was, but I say so without any enthusiasm. In my opinion this accounting ruse - for that is all it was - is fraudulent. I stress, I use the word fraudulent without implying criminal action. [Fraud means:](#)

deceit, trickery, sharp practice, or breach of confidence, perpetrated for profit or to gain some unfair or dishonest advantage.

That seems an entirely appropriate description of what happens in repo transactions. They may be legal. They may even comply with accounting rules. They're still fraudulent in my opinion for the precise reasons that the definition makes clear: they are deceitful, trickery, sharp practice and a breach of confidence perpetrated for profit

or to gain an unfair or dishonest advantage.

And that says a lot about accounting rules, those who set them and those who go out to abuse them. It says even more of those who seek to exonerate such behaviour, which reminds me of a comment in the Guardian last week by Mike Warburton of Grant Thornton who said when commenting on the budget:

Clamping down on offshore tax avoidance is like catching a bar of soap. I'm always sceptical when chancellors say it will bring in millions of pounds because fertile minds always find their way around the rules.

Which doesn't stop such behaviour being fraudulent, as I define it here. And doesn't stop the behaviour of the tax and accounting professions when engaged in such activity being profoundly anti-social at best, and decidedly harmful to the well-being of society at worst.