

Funding the Future

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I took part in a fascinating debate in Oslo yesterday. Unfortunately as the discussion was under Chatham House rules (for all bar me — I made clear that I was on the record) I cannot attribute comments. Suffice to say that the debate included informed commentators from standard setting bodies, governments, unions, the investment community and more besides, all having an interest in country-by-country reporting. The meeting was excellently organised by Publish What You Pay in Norway and investors with a passionate interest in country-by-country reporting coming to fruition.

As my presentation made clear — I am highly critical of the discussion paper on the adoption of PWYP's request for country-by-country reporting in the extractive industries. I can safely say I was not alone in holding this opinion, but what also became clear was that there was enormous sympathy from some present for the major propositions that I developed in debate.

The first such proposition was that the IASB was being disingenuous in suggesting that the adoption of country-by-country reporting was dependent on a cost benefit analysis when at the same time they said all the benefits PWYP expects to flow from its adoption cannot be taken into account in that appraisal. In other words they have ruled all costs of country-by-country reporting eligible for consideration and just about all benefits arising from it being ineligible for consideration. That really does look to me like the IASB are rigging the outcome in advance of the decision being made. I am not alone in thinking so. I think this profoundly unacceptable.

Second, there was considerable sympathy for my argument that the IASB have made a profound error of judgement by suggesting, particular in the context of this issue, that the only users of financial statements are capital providers — shareholders, loan creditors and maybe (at a push) other creditors in other words, but only in the context of creditors being owed money. In addition there was widespread agreement amongst the non-accountants present that users of accounts use them for a much wider range of purposes than appraising the future likely cash flows that might arise from the reporting entity in the future.

In support of my argument I drew attention to the 1975 report from the UK Accounting Standards Steering Committee, which pretty much got the whole accounting standards

setting process under way outside the USA. In that seminal, and still invaluable report entitled *The Corporate Report* they defined seven user groups for accounts, who they said were:

- ? *The equity investor group (shareholders)*
- ? *The loan creditor group (banks and bondholders)*
- ? *The analyst-adviser group who advise the above groups*
- ? *Employees*
- ? *The business contact group*
- ? *The government*
- ? *The public.*

And they identified fifteen uses for accounts, which included:

The compliance of the entity with taxation regulations, company law, contractual and other legal obligations and requirements (particularly when independently identified);

As I pointed out, 35 years after that report was published the IASB has eliminated the vast majority of users from consideration in their work whilst we have no better information on the legal compliance of a reporting entity than we did in 1975.

The surprising reaction to this from an accounting standard setter present (and I stress, I do not say who, or with which standard setting authority) was that accounting standards authorities owe no duty to governments because they do not consider governments to be users of accounts.

In front of an audience including senior representatives of governments that was a shocking thing to say. It should, I think, shock all accountants. But maybe it won't, for he continued by claiming he could see no reason why accounts information should be provided for the benefit of anyone but capital providers.

I made the observation that what had been said was a profoundly political statement. There could be and was no evidence base for his claim bar political prejudice: indeed the fact that hundreds of civil society organisations around the world were demanding accounting data for their use was evidence that the claim had to be wrong. And the fact that the vast majority of governments — and almost all those of populous democratic states — were dependent on the truth and fairness of accounts as the basis for charging taxes — proved that *prima facie* that the claim made was completely incorrect.

Indeed, worse than that — I suggested the claim made was contemptuous of democracy. Standard setters now expect their standards to be incorporated in law and yet at the same time are contemptuous of government that enacts that law and think they have no duty to government.

This is a fundamentally dangerous attitude. And because it is implicit in the International Accounting Standards Board accounting framework — and in the repeated calls from accountants for the de-politicisation of accounting standard setting — meaning in reality that they do not want to be held to account by democratic governments who have devolved responsibility to them — these comments suggest a fundamental failure in the IASB process that believes it has the right to set law — but considers itself to be beyond the rule of law and unaccountable to those who set the law.

This attitude threatens the whole IASB process.

It suggests that bringing the IASB under regulatory control is essential if it is to act in the public interest.

And it suggests that accounting standards setters have not learned — or refuse to recognise — that the decisions they make are fundamentally political. So, for example, when they say only the providers of capital matter they make a political statement: they say labour does not matter. They say states do not matter. They say ordinary people do not matter. They say externalities such as the environment do not matter. And in every case they are wrong: profoundly wrong. All these people matter.

When the people of the world are about to bear a quite extraordinary cost imposed upon them in part by the failure of accounting to expose the risk inherent in banking the arrogane and folly of this claim is even more marked.

The battle for country-by-country reporting is massively important, The battle to ensure the worlds corporations may be more important still, and the last people to be entrusted with the future of that issue would appear to be accountants.

Which as a chartered accountant I find profoundly shocking and disappointing.