

## Time to look at the systemic issues: Hackgate is not ju...

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Hackgate (as it now seems to be called on Twitter at least) is not, I venture to suggest just about hacking, Rupert Murdoch and his acolytes, one rotten newspaper or even the media as a whole. It is about a systemic failure of responsibility and accountability, assisted by massive opacity.

That opacity has in turn led to three things. The first is massive wealth imbalances which are only dimly but none the less accurately perceived. The second is a real threat to democracy that has been almost completely hidden from view. Those two in turn have led to alienation that is now leading to a breakdown in trust. That, of course, then threaten society itself.

There is enormous opacity about business activity in the UK, and throughout the world. Company accounts have become longer but less meaningful. New accounting rules introduced by the International Accounting Standards Board have reduced the status of those accounts to being data solely designed to assist those speculating on financial markets. All responsibility of the directors for the stewardship of corporate assets under their control or any hint of responsibility on their part to long-term investors has been eliminated from financial reporting by this body. The result is that, as was witnessed in much of the discussion headed by Luke Johnson, chair of the Royal Society of Arts on BBC 24 last night, the capacity of the business community to assess the impact of this issue is reduced to discussion of its consequence for the share price. Nothing else, apparently matters.

And yet, we know it does. We know that what corporations do is fundamentally important. We know that they can hide the truth of what they do. They can do this within their own accounts, and most especially they can do it in the accounts of their subsidiaries, and particularly those that are located in tax havens. They can hide the existence of those tax haven subsidiaries from view.

An addition, the way in which company accounts are presented to members, on a purely consolidated basis so that internal transactions are not seen means that those payments made within organisations to hide the location from which corruption is

managed can never be identified. But then, not can most of their use of tax havens for any reason be identified, any more than their use of such locations to ensure they minimise their contribution to society in a way designed to undermine the democratic mandate of elected governments be assessed.

This is of course suits the cheat, the crook, the monopolist and the person simply seeking to hide from regulatory purview; they're all assisted by this opacity, deliberately created over many years, and advanced considerably over the last few by the complicity of the Big 4 firms of accountants who have set out to create an accounting framework that lets multinational corporations undertake their trades behind a veil that outs them almost beyond scrutiny.

The consequences are clear. We have companies like News Corporation that have, it is now clear, committed illegal acts (because some people have already been found guilty of them) where directors can apparently claim that they knew nothing of what was going on. Well of course that is, theoretically, possible in the situation I describe. Because such multinational corporations can heap subsidiary company on subsidiary company within the organisation and push responsibility for payments down into lower entities within the group which the higher directors can then claim to only have interest in as shareholders those high-level directors can then use this structure to seek to avoid responsibility for the activities of the companies which they control. I have little doubt that at some point in time this defence will be rolled out in the case of News International.

This, however, is not good enough. Business is an amazing thing: it has delivered, and can still deliver, enormous prosperity within the UK and around the world. Let's not forget that for a minute. But it also has the capacity to abuse. It can abuse employees; it can abuse shareholders and it can abuse the public at large. Despite this the only account that we have of what it does is provided by the financial statements that each multinational corporation is obliged to supply to its members each year, The content of those accounts is regulated almost entirely by the International Accounting Standards Board which has very recently sought to narrow its remit and the scope of its responsibility. As I [noted on Forbes](#) recently, [the existing constitution that governs the International Accounting Standards Board says](#) its purpose is:

*(a) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions.*

*(b) to promote the use and rigorous application of those standards.*

*(c) in fulfilling the objectives associated with (a) and (b), to take account of, as*

*appropriate, the needs of a range of sizes and types of entities in diverse economic settings.*

Note that right at the outset the public interest comes first ( at least on paper, if not in practice). And note too that whilst participants in the world capital markets are important (and they are) it is recognised that the interests of other users of financial information are just as important, even if again practice has not followed principle.

Finally, amongst the many points that could be noted, it is clear that this body thought it had obligation to all types of economic entity, in all types of market, and economies.

However, at this moment the International Financial Reporting Standard Foundation that governs the International Accounting Standards Board is revising its constitution. I have no doubt at all that one reason it is doing so is because of the pressure brought to bear on it by the in civil society campaigning for country-by-country reporting which would expose the tx haven activity of multinational corporations, which is being massively resisted by the accounting profession. This is what it [says in its proposed revised constitution](#):

*In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.*

All mention of the public interest has gone. Now the sole purpose of financial reporting is to serve the needs of financial markets. There is nothing else.

This is extraordinary: at a time when the need for greater transparency and accountability with in multinational corporations has never been higher to restore public confidence, to support democracy, and to ensure that people are not abused the accounting profession is closing ranks to make sure that the information available on the trading and other activities of the world's largest companies is more hidden from view than ever before.

Hackgate must have consequences. One of them is that questions must be asked about the right of the self appointed, private sector, tax haven-based organisation called the International Accounting Standards Board to create rules for accounting for the world's largest companies when there is a complete conflict-of-interest within it because the Big 4 firms of accountants sponsor it, their clients help promote it, and the needs of society at large and the democratic principle that companies are accountable to the states in which they are incorporated, and to the people of the world at large are ignored by it.

We cannot hold the world's corporations to account when they control the rules of accounting. The time to reclaim those rules for parliaments has come, and the process of oversight of that rulemaking has now to be transparent and accountable itself, with the rights of large corporations being respected, but by no means being dominant within the process.

Will our legislators have the confidence to do this? Will they grab this opportunity? If they don't, they will leave us for ever guessing about what large corporations are doing, and will give those multinational corporations the opportunity to hide for good their activities, licit or otherwise, from public view. We cannot afford that. Democracies cannot survive that. Our society is threatened by the current opacity we suffer. The time for reform is now.