

Are International Accounting Standards illegal?

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The [Telegraph has just reported that](#):

The Financial Reporting Council (FRC) has ordered an urgent review of the legality of Britain's accounting rules in a move that points to a deepening fiasco at the heart of the regulatory regime.

The authority responsible for accounting rules has asked "a number of parties" to investigate whether the International Financial Reporting Standards (IFRS) are actually consistent with UK company law.

As they rightly note:

IFRS, which has governed UK company reporting since 2005, has been highly criticised by experts who claim the rules dangerously distort bank accounts in particular. Despite their campaign to scrap IFRS, which The Daily Telegraph has supported, the FRC has dismissed most of the concerns until now.

Last month a group of powerful investors demanded an urgent review of IFRS after they commissioned a legal opinion by George Bompas, QC, that said the standards had "substantial legal flaws". The bombshell opinion was submitted to the Parliamentary Commission on Banking Standards which has called for further investigation into the chaotic state of UK accounting standards. The Commission said it found that auditors and their standards were responsible for "dismal" failures that resulted in "questionable" bank accounts .

And as the Telegraph then concludes:

The FRC, which was instrumental in introducing the standards to replace UK GAAP, has commissioned its own review after Mr Bompas's opinion was made public. In a statement, the FRC said: "The FRC is carefully considering the [Bompas] opinion and is discussing it with a number of parties."

If IFRS is found to be illegal under UK Company Law, the FRC will either have to seek an amendment to law or bow to pressure to have IFRS radically changed.

The challenge is, in my view, wholly justified. IFRS is and will always be fundamentally flawed. It ignores the stewardship concept. It places supposed market focused data above the duty to account for income earned. And it produces accounts meaningless for tax and deeply misleading as to underlying earnings. To describe these as showing a true and fair view is only possible because the linked IAASB, also dominated by the Big 4 accountants, changed the rules on auditing to make sure this could be done to accommodate IFRS.

The whole system of corporate reporting is rigged at present. Only real reform will put it right.

Full marks to those who have driven this campaign to achieve this goal.