

Did the UK's Accounting Standards Board knowingly break..

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I'm fascinated [by commentary on a recent PIRC Alert](#). PIRC describes itself as "the UK's leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility." And as they said last week (and I quote with permission):

Amidst the fallout of the banking crisis, where all of the failed banks appeared healthy by their accounts, is the question of quite why did the Financial Reporting Council quietly dissolve the legal entity the Accounting Standards Board ("ASB"), shortly afterwards, and subsume the functions within itself?

PIRC has discovered tucked away at the back of the ASB's yawningly long Statement of Principles, from 1999 (a very good year for very bad ideas) the very clear admission that the ASB had a systemic disregard for the law, because it thought it knew better. Or, quoting from the document, the ASB preferred to focus on "what is deemed to be right".

Given that "what is deemed to be right" included abolishing general provisions for bad debts, meaning that risky lending was overvalued in the balance sheet and underpriced for the risk, what was "deemed to be right" was in fact nothing less than reckless and wrong and illegal. The law that was being disregarded was the very simple rule that accounts must show whether any company is solvent or not. The full statement is below:

*"However, the development of the Statement has not been constrained by legal requirements because the Board believes that accounting practice evolves best if regard is had in documents such as the Statement of Principles to what is deemed to be right **rather than what is required by law.**"*

I added the emphasis, because that is a quite astonishing phrase. What it says is that the UK's Accounting Standards Board ignored UK company law and created accounting standards as it saw fit rather than as the law required.

The result was the banking crisis where bad debts were not provided for in banks, balance sheets were overstated, problems were not anticipated and quite literally banks collapsed as a result.

If you had any doubt at all that some in the UK accountancy profession thought they were above the law, please dispel it now: they clearly did. I strongly suspect this still do.

No wonder we're in a mess.