

Who might create a UK country-by-country reporting stan...

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I have been asked who might be able to co-ordinate the creation of a UK country-by-country reporting (CBCR) standard that might eliminate the risk of a plethora of competing versions of this standard coming into existence, which seems to be a real risk at present.

To be candid, at one level there is no UK based body that can do this: if the EU demands that large companies comply with its requirements on CBCR there is nothing the UK can do about it except embrace and improve on their recommendations. This though may be hard: the EU already has two versions of the standard in existence; one for banks and another for the extractive industries. A third for other companies may well be on its way and there is no guarantee that this will comply with the OECD standard which has now been adopted into UK law, although not necessarily in a manner consistent with the requirement of other countries.

This then leads me to my first recommendation, which is to suggest that the UK not only seeks to find a common standard that might embrace all existing demands but which might also help the EU (whatever the relationship on Brexit) to achieve the same goal. Given that if we remain in the single market (and who knows on that issue) EU accounting standards will remain applicable in the UK this is the first priority. Of course, if we leave the single market we can set out our own rules and then we might create our own CBCR standard but in practice given that many UK based companies will want to comply with OECD and EU requirements as well as those of the UK in that case the reconciliation process I suggest is probably a priority whatever happens on Brexit.

Who then might best do this? I have long suggested that we need Tax Reporting Standards (TRS). Let me flesh that idea out first in that case before addressing who might engage in such standard setting.

First, TRS are not about supplying tax data per se: the detailed nature of tax data is determined by the content specification of tax returns and is for tax authorities to decide upon and has nothing to do with public accounting, which is what CBCR is all about. In that case TRS are about supplying the data needed in published accounts that

achieves three goals:

- 1) Disclosing profits made and tax liabilities arising, both current and deferred, in a location for an accounting period;
- 2) Providing that additional information that the user of financial statements will require to determine whether it is likely that the profits and tax liabilities declared represent a fair proportion of the overall earnings and liabilities of the group entity as a whole for the period in question;
- 3) Providing that additional information that will enable the more informed user, whether in a tax authority or not, to determine why variation in tax liability by location may be appropriate for the purposes of risk appraisal.

It just so happens that this information will also fill some of the enormous gaps in existing accounting reporting that arises because of:

- A) The failure of current accounting standards to require CBCR;
- B) The failure of many jurisdictions to require that the accounts of companies registered in their domain file meaningful accounts on public record;
- C) The failure of existing accounting requirements to require that a group of companies with a number of subsidiaries in one state publish a consolidated result for them providing an overview of its activities in that place;
- D) The failure of consolidated financial statements to disclose any of the risk arising on intra-group trading even though it is now thought that at least 60% of all world trade is undertaken on this basis.

To put it another way TRS would fill in the massive gap in accounting created by the refusal of the International Financial Reporting Standards Foundation to believe that anyone but the suppliers of capital to a group of companies as a whole has any right to receive information from it for decision making purposes, which as a consequence means that the following stakeholder groups (whose interests will almost always arise locally and not globally) are ignored by existing accounting standard setters:

- i) Customers
- ii) Suppliers
- iii) Employees
- iv) Communities hosting the activities of the company
- v) Regulators

vi) Tax authorities

vii) Politicians

viii) The media

Neglect on this scale is hard to excuse.

All this being noted, who then should be involved in setting such a standard? There are four parts to this question. The first is who should lead the process. The second is who should directly contribute. The third is how they should consult. And the last is who might fund it.

There are some candidates who cannot lead this process who should automatically, I suggest, be eliminated from consideration. They are:

1) The International Accounting Standards Foundation: they have always opposed CBCR;

2) Any of the UK accounting institutes, but most especially the Institute of Chartered Accountants in England and Wales. This is firstly because of the influence of the Big 4 accountants on the ICAEW in particular. Secondly it is because none of these institutes have shown any enthusiasm for this issue, or any technical aspiration to engage with it or the issues it raises. Third, it is because of doubts [about the ICAEW's objectivity on issues relating to accounting reporting](#) reported in the so-called Bompas review of its approach towards what is a true and fair view. Fourth, other questions have been raised about the objectivity of the ICAEW in the past. Other institutes may, or may not, suffer the same problems: their difficulty is that many of them will not engage with the issue of CBCR in a significant way because their members may not be so active in servicing companies likely to use the standard;

3) Any business related body, because any of standing, such as the CBI, have also failed to embrace CBCR in the past.

This then leaves some difficult choices to be made. Such a standard could be lead by:

a) A government department;

b) A major think tank;

c) A university;

d) An investor forum if previously inclined to CBCR and with an interest in accounting issues;

e) An NGO;

f) A newly created body established for the purpose (a Tax Reporting Standards Committee, supported for technical purposes by one of the above).

Of these options it seems unlikely that the government will want to take a lead: it has passed this issue to the EU and it has enough on its plate with Brexit without taking this on.

There is unfortunately no think tank that has any accounting expertise that I can think of.

A university could do it, but processes there are usually slow and cumbersome to agree and demand heavy funding, which is a shame.

I know of no NGO excepting maybe the Tax Justice Network that actually has the technical expertise to undertake this task.

Amongst investor forums there is one available: that is the Local Authority Pension Fund Forum. I should declare an interest: I advise it but that is because it wanted to engage on CBCR. It has about £190 billion under management and a depth of expertise that may make it suitable for this task.

Or there is a new body, to which a body like the LAPFF might lend support. I have not asked the LAPFF if they might want to take on such a role, but that option of a body linked to that investor forum which has a unique role of being engaged with real investors, being diverse in location, having political representation upon it and having been technically heavily engaged on accounting issues seems to me the preferred way of going forward.

However such a body would then need membership. This would need to reflect a wide range of interests. I would suggest that the IASB be excluded for reasons already noted but that some or all of the following would need to be present:

- 1) Business, probably via the CBI or the like;
- 2) Unions, probably via the TUC but they might nominate someone else;
- 3) NGOs, and a sample of those who have been engaged on this issue would have to be represented;
- 4) Accounting bodies, but without having the chance to outvote others;
- 5) HMRC;
- 6) The Financial Reporting Council - the current body with oversight on accounting issues, but only as a representative as it has shown no inclination to engage on this issue to date.

7) Academics with a noted interest in this issue;

8) Politicians, maybe via the APPG on Responsible Taxation;

9) Journalists, to include a representative of those engaged in reporting on corporate issues over the years when such matters have sprung to public attention.

I do not see a reason for lawyers to be involved. Nor do I see a reason for individual companies or firms to be engaged but very clearly they should from the earliest stages of the work of this body be asked to submit evidence and hearings may also be required, although time would be of the essence.

So finally, who might fund it? The biggest source should be the government, by far. Research foundations should be approached to fund the remaining costs. Bloat should be avoided, of course. The Financial Reporting Council might also be expected to make a contribution.

I stress, these are just ideas. But there is some urgency to this now. Action is needed, and soon.