

Brexit provides us with few opportunities, but this is ...

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The [Telegraph reported this](#) a couple of days ago, based on a press release from the [Local Authority Pension Fund Forum](#), who I have advised:

Pension funds worth £300bn have branded the accounting watchdog “a creature of regulatory capture” and claimed it is compromised by its links to the Big Four audit firms.

The Local Authority Pension Fund Forum (LAPFF), an association of 87 local authority pension funds, accused the Financial Reporting Council (FRC) of supporting revised international accounting standards it claims are less robust than those required by UK law.

The LAPFF’s long-held view is that the international rules make it easier for struggling companies to pay out dividends that eat into their capital.

After the Brexit transition ends in December, the UK will need to decide whether to adopt any future changes to the international accounting standards.

In a letter to the FRC last month, Doug McMurdo, chairman of the LAPFF, accused the watchdog of being “a creature of regulatory capture and compromised with the Big Four accounting firms”.

The Big Four auditors - KPMG, PwC, EY and Deloitte - dominate the world of professional services, prompting scrutiny and some changes to how they do business.

“It is not acceptable to have the law requiring one thing and the FRC knowingly agreeing to something that is so obviously different,” he said.

The FRC declined to comment.

The Local Authority Pension Fund Forum is right to be concerned. [Research I have been involved with](#) shows how very real this problem of dividend over-payments is. I am now doing more work on this issue which will be published next year. We are right to call

these 'hollowed out forms', because the law lets them pay out too much by way of dividend and then there is a pattern of them collapsing.

This matters, of course. This lax regulation lets companies make overpayments to shareholders at potential (and too often, real) cost to the employees and creditors of companies by literally; y leaving them vulnerable to liquidation. In that way the lax rules also threaten shareholders as well by misrepresenting the value of these hollowed-out firms.

And yet the audit profession, the Institute of Chartered Accountants in England and Wales and regulators still permit it. The Local Authority Pension Fund Forum suggests this is because of regulatory capture by the firms. I think they make a good case.

Brexit provides us with few opportunities, but this is one: we could have better company law. There is little sign as yet that the government intends to deliver on this opportunity. One has to ask why, and in whose interests they are acting.