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THE AI PRICING TRAP: THE ECONOMICS OF AI ADDICTION



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Contents

The AI Pricing Trap: The Economics of AI Addiction	4
Big 4 Credibility – Gone with the Wind	9
Everything You Know Is Not Enough	14
History of Currencies: The US Dollar’s dominance may fade – but it will happen slowly	18
Chores or No Chores? The Economic Psychology of Giving Kids Pocket Money	20
REGIONAL OFFICE & BRANCH NEWS Global :	21
Indonesia : CMA Indonesia Branch Annual General Meeting 2026	
Thailand : The Fourth CMA program delivered in Thailand in August 2026	23
India : Second Intensive CMA Program in Kerala, India	24
A Warm Welcome To Our New Members	26
CMA Events Calendar	27



THE AI PRICING TRAP: THE ECONOMICS OF AI ADDICTION

Prof. Janek Ratnatunga, CEO, CMA ANZ



Infrastructure Dependency

This article explores the complex (and somewhat terrifying) nuances of the tipping point where a tool stops being a massive efficiency boost and starts becoming an expensive infrastructure dependency.

From the mechanical rhythm of the typewriter to the ubiquitous screen of the smartphone, the evolution of modern technology has been driven by a singular, relentless pursuit: eliminating friction from routine tasks. Each leap forward shifted the boundaries of human productivity. The typewriter transformed messy, handwritten manuscripts into standardised, legible documents; the telephone bridged vast physical distances, turning days of mail transit into instantaneous voice communication. When computers arrived, they digitised filing cabinets and automated complex calculations via spreadsheets, paving the way for the smartphone to ultimately combine all of these tools into a single, pocket-sized device.

For both individuals and organisations, embracing these advancements has never just been about adopting new gadgets – it has been a continuous strategy to offload cognitive and administrative burdens, freeing up time to focus on higher-level creativity, strategy, and connection.

Since the advent of the computer, each of these gadgets has come with an *operating system* (OS). The OS is the main system software that manages a computer's hardware, memory, and files, and allows other programs to run. Examples of operating systems include *Microsoft Windows*, *macOS*, and *Linux*.

In contrast, *Microsoft Office* is a *software suite* (a collection of applications) which includes *Word*, *Excel*, and *PowerPoint*, and runs on top of an operating system. These applications require an existing OS to function. Today, you can get many operating systems free of charge when you purchase a gadget, or you can download them for free. However, much application software must be purchased, either via a one-time fee, a time-based subscription, or usage-based tokens – although many free alternatives also exist.

To complicate matters for the uninitiated, we have *Google* (the search engine/company) and *Wikipedia* (a website). These are not software programs that run on top of an OS in the traditional sense; they are web-based services accessed via a browser like *Chrome* or *Edge*.

AI Platforms

A modern evolution of application software includes generative *AI platforms* like *Gemini*, *ChatGPT*, and *Claude*. Like traditional suites, these are applications that run on top of an OS, though they operate primarily as cloud-based web applications accessed via an internet browser.

While they are technically applications, using the word “software” doesn't quite capture their scale because most of the “thinking” doesn't happen on one's actual gadget. It happens on massive external servers.

Because of this, the tech industry usually describes them using three specific terms:

Generative AI Applications: This is the most common consumer term. It means they are application software designed to *generate* new content – such as text, code, or images – based on human prompts.

Cloud-Based Web Applications: Here, individuals and organisations do not need a powerful computer to run Gemini or ChatGPT because the software lives in the “cloud”—that is, on Google’s or OpenAI’s cloud servers. One’s gadget is just a window showing the results.

AI Platforms / Ecosystems: These are increasingly called “platforms” because they are not just single tools anymore. They are ecosystems where Individuals and organisations can build their own custom chatbots, analyse massive data files, or connect to other software (like Google Workspace or Microsoft 365).

AI Pricing Structures

The AI platforms listed above perfectly mirror modern software pricing structures discussed earlier: they offer (1) free basic access, (2) time-based monthly subscriptions for advanced capabilities, and (3) usage-based “token” pricing for developers integrating AI into their own systems. All three pricing structures use a process called ‘**Tokenisation**’, where raw input data is chopped into fundamental building blocks that a machine learning model can mathematically digest. Tokens are basically the thought units of AI – every word it reads, every word it writes, and every decision it makes relies on a token.

As a rule of thumb for English text, one token averages out to about four characters or three-quarters of a word, meaning common phrases remain whole while rare or complex terms are split into multiple fragments. For multimodal inputs, calculation methods depend entirely on the data type: images are typically mapped to a set number of tokens based on their pixel dimensions and resolution grids, whereas audio and video files are calculated at fixed token rates per second of playback.

Note that daily or time-based usage limits for individuals and organisations on monthly subscriptions are calculated fundamentally differently from those of standard pay-as-you-go API keys. While the underlying AI models *always* process information using **tokens**, subscription-based tiers wrap this technical reality into user-facing constraints to manage server demand and prevent platform abuse. Thus, Individuals and organisations using basic AI access and time-based monthly subscriptions have a daily limit, and once reached, the user is shut out from further access for a specified time period.

A serious Claude Code user runs through roughly 10 billion tokens a year. If such a person paid for that usage through a standard API, those 10 billion tokens would cost him or her around \$15,000 a year. That is the real, unsubsidised price. No discounts, no incentives, just the raw compute costs.

Now, that same user on a flat-rate Max subscription pays around US\$100 per month or US\$1,200 for an entire year for the same workload. From \$15,000 down to \$1,200 – a 92% discount!

How is this possible?

Enter the murky world of ‘Tokenisation’. This murky world leads us to the AI pricing trap that is the subject of this article.

The Cheap Pricing Illusion

Individuals and organisations with AI subscriptions ranging from US\$22 to US\$100 appear to have the “*deal of the century*”, because providing even a low-level user using tools like Claude Code is estimated to actually cost about US\$15,000 a year to run for Anthropic, the company providing the platform. However,

the subscriber is only paying a fraction of that because *Venture Capitalists (VCs)* are footing the bill.

Imagine walking into a dealership, picking out a car priced at \$15,000, and being told you only owe \$1,200 because someone somewhere else covered the rest. It does not make sense, and that is the *illusion* created by this pricing model.

This *introductory price* is often referred to as a “*honeymoon period*” or “*bait-and-switch*” depending on how deceptive it is. These *pricing traps*, which involve selling a service below cost, are designed to attract a massive customer base and hook customers into an ecosystem. The costs are usually *subsidised* by future price increases. However, in the case of an AI platform, it is most likely that the usage-based ‘token’ pricing developers will be subsidising the ‘free basic access’ and ‘time-based monthly subscription’ users.

For today’s developers, the free access is a temporary illusion built to get them hooked before the price tags change. However, the reality is that the money is running out. There will be temporary fixes like the *Initial Public Offer (IPO)* of ChatGPT that will rake in trillions, but when this house of cards eventually collapses, the tools developers rely on every day will either vanish or cost them 10 times more.

How long will this illusion last?

The answer lies in OpenAI’s own financial projections that show that the company is on track to lose \$14 billion in 2026 (Muppidi and Palazzolo, 2025). This means that a \$22 monthly subscription covers about 1.7% of what an active power user actually costs to serve. Clearly, such users are not *customers*; they are *bait*. Every prompt typed, every line of code generated, every late-night chat session is being paid for by investors, and they are betting that nobody will be able to live without this product when the real bill finally lands.

Whole industries are being signed up at a loss. Law firms are running document reviews at 5 cents on the dollar. Marketing agencies turning out campaigns at prices that would have been impossible 18 months ago. Hospitals trialling diagnostic tools at sticker prices that no model provider could actually sustain at scale. Every single deal is being propped up by patient venture capital that expects 10 times the returns. If companies are losing money on every user they sign up, why are they racing to sign up more? Because we have seen this exact pricing playbook before, and we know how it ends.

Freemium pricing

Companies commonly use “freemium” models, conventionally called *penetration pricing*, of charging artificially low prices or nothing at all to capture a massive audience. Once customers rely on the product, the company raises prices. There are notable examples of companies that successfully used this strategy. A prime example is *Uber*, which subsidised rides with massive discounts to kill off local taxi competition. Prices then surged dramatically to maximise profits. *Spotify* grew its user base by offering an ad-free trial and cheaper family plans and has since steadily raised the standard monthly fees across global markets. *Adobe* allowed users to buy perpetual software licenses once. They then shifted to a subscription, eventually raising the overall cost of ownership for long-term users.

For example, Uber’s take rate, i.e., the slice of every fare the company keeps, was, in 2022, around 32 cents of every dollar a rider paid. By 2024, that figure had climbed to roughly 42 cents. Drivers got a smaller share. Riders paid more. After years of spending billions of investors’ cash to expand, the company eventually turned a \$1.8bn loss into a \$1.1bn profit in 2023 (Jolly and Wearden, 2024).

Now it is happening in AI. It is the same investors, the same playbook, and the same pricing strategy. Industry analysts expect consumer subscription tiers to roughly double in price over the next two years. *Anthropic* has rolled out *new rate limits* that gently push power users towards higher-priced plans. *Google* is testing *premium-only Gemini* features that used to be free. A 100% price hike is not a rumour. It is already pencilled in on the AI suppliers' calendar.

Enterprise contracts are following the same curve. Custom deals signed in 2024 are being quoted much higher at 2026 renewals. It is the same product, just costing multiple times the price. But there is a key difference between ride sharing and AI. Ride sharing only had to do one thing: move a car from point A to point B. The cost of doing that does not explode as usage rises. More drivers, more density, better routing – if anything, “moving” becomes more efficient. AI works differently. The underlying math of “thinking” does not get cheaper in the same way.

AI executives continue to say that computing is getting cheaper every year, and the unit economics will work out over time. It is not exactly a lie – it is more like a half-truth. It is a fact that the price of running a query through a model has dropped year-over-year. Chips are more efficient. Models are leaner. Each individual word an AI generates is genuinely cheaper to produce than 18 months ago. This is the part AI executives want people to hear.

Now here is the part they do not tell you.

Token Tax

Modern agentic workflows – the kind that power *Claude Code*'s and *ChatGPT*'s deep research tools – burn through anywhere from 5 to 30 times more tokens than simple chat sessions did two years ago. When you ask a code assistant to fix a bug, it does not write 50 words of response. It quietly spawns *subtasks*. Then it rereads your files. It checks its own work. It writes draft after draft, throws most of them away, and quietly runs tests in the background. A single user request can chew through hundreds of thousands of tokens before any answer shows up.

A model might be slightly cheaper per word than before, but it is also producing far more words per request. The total bill is shooting upward. This is known as the token tax. This is not only bankrupting small AI startups burning through their seed capital, but it is also threatening to wipe out one of the most profitable business models in the history of the internet – *Google's* search model.

Killing the Search Goose

For 25 years, *Google* has printed money through a brutally simple formula. A user types in a query, *Google* returns 10 blue links, and the total cost to *Google* is a fraction of a cent per search. The ads next to those results generate much more than that – the margin has been one of the most remarkable financial miracles of modern times.

Now Google is rebuilding that entire system on top of generative AI.

A single AI-powered search response – the kind that writes a paragraph-long answer instead of showing links – costs significantly more to produce than a traditional keyword search. Multiply that across billions of queries a day, and the most reliable profit machine of the 21st century begins to strain. If *Google* fully replaces traditional search with AI overviews, the margins that have funded *YouTube*, *Android*, *Waymo*, and *Gmail* begin to dry up. It does not take much scenario modelling for financial analysts and management accountants to map out the worst-case scenarios – and the results are catastrophic for *Alphabet*, the parent company of *Google*.

It does not take much to envisage that *Google's* advertising model may soon become redundant too. When AI just gives you an answer, nobody clicks on the links, so why would advertisers pay? *Google* is staring at a future where it serves more queries than ever before, costs more to run than ever before, and earns less revenue per query than at any point in its modern history. This is a true management accounting conundrum!

So then why are Tech giants such as Google willingly cannibalising their most profitable businesses by adopting AI?

They have decided the only thing more dangerous than killing a cash cow is letting a competitor kill it first. Business school has a name for this phenomenon: the *innovator's dilemma* (Christensen, 1997).

This dilemma is based on the theory that the adoption rate of innovations is non-linear; i.e., it is slow at first, then rapidly rises before flattening out again as it reaches market saturation. Such growth trajectories are commonly known as '*S-curves*'. There are many examples of great companies that refused to kill their cash cow, resulting in a fast demise. *Kodak* is a prime example of the S-Curve and the innovator's dilemma, where it refused to cannibalise its highly profitable legacy business model (analogue film) itself in favour of a newly emerging disruptive technology (digital cameras) (Lucas and Goh, 2009).

The Cost vs. Quality Compromise

What happens when a product or service becomes too expensive to provide at a competitive price? Why, you just reduce the quality.

An AI model used to answer your prompt in one take. Now it forgets your project halfway through. A chatbot used to write five paragraphs at a stretch. Now it cuts off at three. An image generator that used to render a flawless portrait in 30 seconds now spits out something with seven fingers and asks for an upgrade to the next tier. Nobody is imagining these things. The product is getting worse.

When the numbers stop working, the easiest lever a provider can pull is to quietly water the service down. Message caps that used to refresh every 5 hours suddenly refresh every 8. The default model in an app gets quietly swapped from a flagship to a smaller, cheaper version. Memory features get rolled back. Advanced reasoning gets locked behind a higher price tier. *Reddit* threads about AI tools are full of users who swear their assistant has gotten lazier. Engineers are posting side-by-side screenshots showing the same product producing visibly worse output than 6 months earlier. Companies almost always deny it, sometimes releasing selected benchmarks – clean prompts, controlled conditions, and optimised scenarios designed to demonstrate performance at its best. It buys them some time, but it does not resolve the bigger problem.

The Financing Roundtrip Scam

If unit economics are so bad, such that quality and service delivery are being compromised, how are these same AI companies posting record AI revenues on Wall Street every single quarter? That is where the financing sleight of hand gets interesting. It is called '*Round-tripping*', and it is no different to methods used by *money launderers* and *Bitcoin investors* (Ratnatunga, 2021).

Here is how it works. *Microsoft* commits very publicly to investing \$13 billion into *OpenAI*. The press release is slick, the headlines dramatic, and stock prices rise as a result. But if one reads the fine print, a different story emerges. A significant amount of that investment never actually hits *OpenAI's* bank account. It arrives in the form of *Azure cloud credits* – essentially a gift card that can only be redeemed at *Microsoft's* own data centres. *OpenAI* records

that sum on its balance sheet as capital raised; i.e., *debit* Azure cloud credits (asset) and *credit* share capital (equity). In Microsoft's records, share investment is shown as a debit (asset), while cloud usage is recorded as a credit (revenue). It is an investment and a sale at the same time. Wall street is happy!

OpenAI has separately committed to spending up to \$250 billion on Azure services, locking the loop in for years to come. Then *Nvidia* announces tens of billions in commitments to OpenAI, OpenAI uses that capital to buy *Nvidia* GPUs, *Nvidia*'s quarterly revenue posts a record, and their stock price soars. The whole cycle takes a few months, and almost no real money has actually changed hands – it has simply been given a different name at each stop. Add *Oracle*, *CoreWeave*, and *AMD* to the list. Each company invests and then sells services to the next, recording revenue as the same dollar flows through the cycle.

The technical name for this process in money laundering jargon is 'round-tripping', i.e., a circular scheme where illicit funds are sent out, routed through multiple offshore accounts or shell companies, and returned to the perpetrator's home country masked as 'clean' wealth, such as legitimate foreign investments, consulting fees, or loans (Karhunen et al., 2021).

In Silicon Valley, it is called a strategic partnership.

The Hardware Debt Trap

In 2026, big tech is projected to spend roughly \$700 billion to \$1 trillion on AI infrastructure. Data centres, GPUs, cooling systems, and power delivery – entire grids are reinforcing themselves to handle it. Meanwhile, total global consumer spending on AI services is only about \$12 billion. Hundreds of billions are flowing out while only \$12 billion flows in. The gap is the size of an entire mid-sized country's economy, and it is being filled not with revenue but with debt: corporate bonds, structured credit, and private lending (Lee and Greenbaum, 2026).

Meta alone raised \$30 billion in bond markets in late 2025, with another roughly \$30 billion through a *Morgan Stanley*-arranged joint venture set up to keep liabilities off *Meta*'s public balance sheet. *Microsoft* has signed a 20-year power purchase agreement to restart *Three-Mile Island* (the site of a nuclear accident in 1979). *Google* has partnered with *NextEra Energy* to reopen nuclear power plants. These promises do not go away if AI revenue underperforms.

Furthermore, the hardware itself does not last. A high-end *Nvidia* GPU has a useful life of just one to three years before the next generation makes it outdated, losing most of its book value the moment a new generation hits the market – which now happens roughly every 18 months. Compare that to the dotcom bust. When that bubble popped in 2000, telecom companies left behind millions of miles of fibre optic cable buried underground. New companies bought it for a fraction of its original cost and built *YouTube*, *Netflix*, and *Spotify* on top of it. The crash was brutal, but the wreckage was useful. This AI bubble will leave behind warehouses full of useless silicon, locked into 20-year power contracts and concrete shells in the middle of nowhere (De Vynck, 2024). Utilities will pass higher electricity rates on to households for decades, regardless of whether the AI revenues ever show up.

The Mass AI Extinction

Roughly 40% of AI startups launched in 2024 have already been shut down or "Acqui-hired" by bigger players (CB Insights, 2026). 'Acqui-hire' is the polite term for a fire sale in which a struggling company sells itself for cents on the dollar to a rival. The buyer is not really buying a business – they are getting the engineers, shutting down the product, and absorbing whatever talent they can. These were not hobby projects. These were companies that

closed Series A rounds with serious investors. They had revenue, paying customers, and glowing TechCrunch profiles. Then within 18 months, the lights went off.

The reason is almost always the same, finance. Their *cost of goods sold* – the money they pay to model providers like *OpenAI*, *Anthropic*, and *Google* – is so high that it wipes out any margin they could hope to charge. A startup that offers a polished interface for GPT-4 might charge \$50 a month, but the API usage generated by that same customer can cost the startup \$80. Every active user is negative revenue. The more successful the marketing, the faster the company bleeds out. This is an impossible management accounting dilemma to solve.

When a foundation model provider releases a new feature, it often kills 10 startups overnight. ChatGPT has launched a *native voice mode*, which means that half a dozen voice agent startups are now out of business. *Claude* released *native PDF reading* – and a whole crop of document tools became useless in a single product update. An ecosystem of independent AI companies is falling apart under the weight of compute costs that nobody can profitably absorb. When startups die, cloud providers lose the round-trip revenue that made foundation model investments look like a lucrative business in the first place.

And that is when the final phase begins.

The Finding New AI Drug Pushers

Venture capital firms are no longer willing to absorb losses in the hope of future success. They want to see a path to profit in writing, with quarterly milestones, and they want to see it now. For foundation model companies, that means one of two options for their AI addicts.

The first is a brutal sudden repricing. A \$20 consumer plan becomes a \$100 plan, or it quietly disappears and is replaced by a pro tier that costs 10 times more for the same features. A *Claude Code* user who paid \$1,200 a year suddenly faces an invoice closer to the \$15,000 the API actually costs. A freelance designer who relies on a \$10 image generation subscription gets an email explaining that their plan is moving to a new structure. Small businesses that built workflows on cheap AI face a choice: pay 10 times more or go 'cold turkey' and go back to doing it the old way, using human intelligence. Most will somehow feed their AI addiction, at whatever price!

The second option is even worse for the addict. The AI services they are so dependent on simply get shut down. We have already seen the early signs. Smaller AI companies have folded with 30 days' notice, leaving customers scrambling to move years of work to whatever competitor is still standing. They must feed their AI addiction. Specialised models for legal research, medical imaging, and customer support have been pulled because their economics never worked. An era of cheap AI ends with a thousand small invoices and a thousand small shutdown notices.

The deeper truth is uglier than a price hike. AI in 2026 is on track to become a luxury, not a basic product. The cheap versions trained an entire generation to need it. The expensive version is the only one that balance sheets now allow to exist. Big companies that can afford the new pricing tier will lock in their advantage. Freelancers, small businesses, and early adopters who created the buzz will be priced out first.

Summary

History says crashes do not take years to play out. The dotcom bust took two years from peak to trough. The AI bubble has more leverage, more concentration, and more debt baked into its foundations. When it tips, it can move in months – or even weeks.

When the margins shrink, when the first big enterprise customer publicly walks away from a renewal, that confidence can vanish overnight.

The tools millions rely on every day were never as cheap as anyone thought. Investor money, which is finally starting to dry up, has been propping them up. An AI age might still be coming. But a cheap AI age – one that fooled an entire generation into rebuilding their working lives on top of it – is already over. The bill simply has not arrived yet. And when it does, that price will never feel real again.

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BIG 4 CREDIBILITY – GONE WITH THE WIND

Prof. Janek Ratnatunga, CEO, CMA ANZ



Shame and Scandal in the Profession

I have been resisting saying, “I told you so!” – but now I must.

In an article published in 2023, following the PwC Tax Scandal in Australia, I argued that it is time to seriously regulate the Big 4 (Ratnatunga, 2023b).

There were many similar scandals happening globally at that time. The article listed the biggest accounting scandals of the previous 25 years, including the *Lehman Brothers Scandal* in the USA in 2008 (EY) and the *Satyam Scandal* in India in 2009 (PwC). But the regulators appeared to be ‘toothless tigers’, especially in Australia (Ratnatunga, 2021b).

However, the scandals never stopped.

In fact, in the 2025-2026 period, several major regulatory enforcement actions, internal ethics failures, and data misuse scandals involving the Big 4 accounting firms – **Deloitte, PwC, EY, and KPMG** – have come to light or reached formal resolution.

The good news is that this time around, regulators appear to be taking serious action to rein in these accounting and auditing giants.

Recent Global Scandals

Let us first start with an overview of some of the big scandals globally in the 2025-2026 period.

KPMG Australia – Whistleblower Mishandling & Confidential Data Misuse

The Scandal: Accounting firm KPMG is engulfed in an ongoing scandal that has seen several senior leaders quit their roles and the corporate watchdog launch a formal investigation into the firm’s business dealings. It all centres on an internal whistleblower’s allegations that some of the firm’s senior partners misused confidential client documents.

The KPMG whistleblower raised concerns with the firm’s senior leadership team in 2024 that confidential board papers from construction giant *Lendlease* were used to pitch for and win audit contracts from other firms, including *Westpac Bank* and the *Dexus* property group. An internal investigation did not substantiate the claims, with KPMG further claiming an external investigation by legal firm *Ashurst* supported the initial outcome (Stewart and Ziffer, 2026).

However, Ashurst partner Jane Harvey told the parliamentary inquiry on the scandal that the firm was never engaged by KPMG to undertake an investigation and did not conduct one (Tadros and Wootton, 2026).

Then, after the whistleblower raised further complaints with the board, a different external law firm, *Allens*, was appointed to complete another investigation into the claims. Findings from the Allens investigation corroborated some of the whistleblower’s allegations and uncovered secondary instances of inappropriate document sharing. This resulted in an *Australian Securities and Investment Commission (ASIC)* investigation and a *Department of Finance* review, which is ongoing at the time of writing.

In March 2026, with the protection of parliamentary privilege, *Labor Senator Deborah O'Neill* aired the claims (Stewart and Ziffer, 2026), which then brought the scandal into the public domain. Since then, this audit scandal has led to a “who’s who” of current and former senior leaders from KPMG being hauled before a parliamentary hearing that commenced on June 19, 2026.

KPMG has since released a statement apologising to the whistleblower, stating that the initial investigations “fell short of the firm’s expectations.”

The Fallout: In May 2026, KPMG CEO Andrew Yates and audit partner Julian McPherson both resigned over the handling of the whistleblower’s allegations. COO Eileen Hoggett was also demoted from her role. More than one independent board member has left or signalled their intention to resign.

Consequently, the *Department of Finance* and KPMG reached a mutual agreement that KPMG would not bid for new Commonwealth work until 30 September 2026, during an independent review of KPMG’s governance, culture, ethics and integrity frameworks. Furthermore, the *Reserve Bank of Australia* moved to remove KPMG as manager of its whistleblower hotline.

The scandal triggered a broader government pushback. Federal spending on Big 4 contracts, which had nearly halved from A\$348 million in the 2024-2025 period following the earlier PwC scandal (see Ratnatunga, 2023), was now cut further.

In a far-reaching move, the *Australian Treasury* released draft proposals targeting the Big 4, including potential **structural break-ups** (i.e., separating audit from consulting), **capping partner numbers** at 400 per firm, and introducing **penalties** up to A\$910 million for regulatory breaches. (Reuters, 2026b). [More on this later].

EY Australia – Commonwealth Bank Data Breach

The Scandal: Two former Ernst & Young (EY) graduate employees allegedly accessed the private banking account details of *Australian Prime Minister Anthony Albanese* and a senior EY partner while on secondment at the *Commonwealth Bank of Australia (CBA)*. The Australian Federal Police (AFP) charged the two men with criminal privacy and data access offences (Bharadwaj and Tadros, 2026).

The Fallout: In addition to the criminal charges laid against both employees, the incident sparked national outrage over third-party contractor access to sensitive data and accelerated calls in Parliament for aggressive regulatory restrictions on multinational consultancies.

Deloitte, PwC, and EY Netherlands – Widespread Exam Cheating & Ethics Violations

The Scandal: The *Public Company Accounting Oversight Board (PCAOB)*, headquartered in the USA but having a global reach, said that it had fined the Netherlands arms of *Deloitte*, *Ernst & Young*, and *PwC* a total of \$8.5 million because hundreds of staff and partners cheated on internal exams—including ethics and professional independence tests—over a five-year period from 2018 to 2022 (Kapoor, 2025). Previously, the PCAOB has imposed a series of heavy fines on Big 4 accounting firms globally to clamp down on rampant exam cheating, most notably a \$25 million penalty for KPMG in 2024 for similar exam cheating (Ratnatunga, 2021a).

The Fallout: The scandal resulted in significant *financial penalties* for the firms involved. The PCAOB fined Deloitte Netherlands \$3 million, PwC Netherlands \$3 million, and EY Netherlands \$2.5 million (totalling \$8.5 million). KPMG Netherlands had previously been fined \$25 million. There were also **leadership departures**, with Deloitte Netherlands’ Chief Quality Officer resigning after receiving answers to a mandatory test and a senior PwC partner stepping down. There was also increased **regulatory oversight**, with the Dutch AFM (Authority for the Financial Markets)

placing all three firms under “intensive supervision” and requiring independent root-cause investigations, firm-wide cultural remediation, and mandatory compliance reporting.

PwC China / Hong Kong – Evergrande Audit Enforcement Resolution

The Scandal: Following the collapse of property developer *China Evergrande Group*—which overstated revenues by \$78 billion—regulators found PwC failed to perform basic audit procedures, ignored massive misstatements, and issued misleading audit reports. While mainland Chinese regulators issued penalties in late 2024, the enforcement resolution concluded with Hong Kong regulators issuing final sanctions (Ye, 2026).

The Fallout: Hong Kong authorities ordered PwC to pay HK\$1.3 billion (\$166 million) in fines and compensation, imposed a 6-month ban on onboarding new clients, and fined former audit partners. This action followed the 441 million yuan (US\$62M) fine and 6-month business suspension previously handed down by mainland Chinese authorities. PwC experienced an unprecedented wave of client cancellations across state-owned and listed enterprises in Greater China, alongside widespread layoffs and partner pay cuts as a direct result of the financial penalties and client loss. PwC China and Hong Kong have appointed new leadership, closed the specific audit branch tied to the deficiencies, and implemented governance overhauls. In addition, the Liquidators for Evergrande have pursued massive separate legal claims—seeking up to US\$8.4 billion (57 billion yuan) from PwC entities in the High Court of Hong Kong (Reuters, 2026a)

Global Market Trends and Structural Industry Shifts

High-Risk Client Offboarding by Big 4 Globally

These scandals have heightened audit quality demands by regulators in the USA and Europe, although, as yet, Australian regulators appear to be lagging behind (Ratnatunga, 2021b). As a result, many Big 4 firms are collectively shedding clients they see as too high a risk for the audit fee return. The UK’s *Financial Reporting Council (FRC)* has taken aggressive enforcement actions, prompting the Big 4 to actively purge higher-risk clients in order to avoid severe fines and reputational fallout.

Consequently, the Big 4 has collectively shed dozens of mandates on London’s junior *Alternative Investment Market (AIM)*. This has resulted in mid-tier accounting firms – such as BDO, Grant Thornton, and PKF Littlejohn – expanding their market share on AIM, while Big 4 firms have cut headcount in mid-market audit practice divisions (Ward-Brennan, 2026).

In Australia, The *Treasury* released a landmark **Options Paper**, outlining structural and legislative overhauls targeting the Big 4 partnerships. The *Key Proposals* in the paper are as follows (Australian Treasury, 2026).

Forced Separation: Treasury has proposed either *structural separation* (splitting audit and consulting into completely independent corporate entities) or strict *operational separation* (blocking firms from offering non-audit services to their audit clients).

Capping Partnership Size: This proposal seeks to drastically reduce the statutory cap on the maximum number of partners in an accounting partnership from 1,000 down to 400 (aligning with legal partnerships) to dismantle “too-big-to-govern” corporate models.

Mandatory Firm Tenure Limits: This proposal seeks to mandate *firm-level rotation* (e.g., compulsory retendering or switching audit firms every 10 years), replacing the current rule that only requires rotating individual engagement partners every 5 years.

ASIC Jurisdiction Expansion: This proposal is to bring multi-billion-dollar partnership structures directly under the jurisdiction of the corporate regulator, the *Australian Securities and Investments*

Commission (ASIC), subjecting them to the same corporate reporting, governance, and whistleblower standards as listed companies under the *Corporations Act*.

Similar actions have resulted in the following global market trends & structural industry shifts, as shown in Table 1:

Table 1: Global Market Trends & Structural Industry Shifts

Region / market	Current position	Possible structural outcome
Australia	Treasury options paper released 1 July 2026; consultation closed 12 August 2026. Big 4 currently regulated as state-based partnerships, outside ASIC supervision. ASIC directed to strengthen audit oversight, 16 July 2026.	Firm-level licensing by ASIC; partner cap reduced from 1,000 to 400; structural or operational separation of audit and consulting; continued reduction in Commonwealth reliance on Big 4 advisory work.
United Kingdom / AIM	Big 4 withdrawal from higher-risk junior market audits under FRC enforcement pressure. Big 4 FTSE AIM 100 clients down from 49 to 30 over three years.	Continued consolidation of AIM audit work among specialist and mid-tier firms; further Big 4 headcount reduction in mid-market audit.
Greater China	State-owned and listed entities moving away from PwC following Evergrande enforcement; substantial client attrition already recorded.	Domestic firms gaining market share; sustained reduction in Big 4 local audit capacity.
Public sector procurement	Tighter probity and ethical soundness conditions applied to firms supplying both audit and advisory services.	Sustained reduction in government contract spending with Big 4 consultancies across major jurisdictions.

Enforcement Powers of Statutory Regulators vs. Professional institutes

Many professional accountants, let alone business entities and the general public, are not aware that when a Big 4 scandal occurs, the regulatory enforcement typically splits into two parallel tracks:

- (1) *The Statutory Regulator Track*
- (2) *The Professional Institute Track*

The Statutory Regulator Track (Systemic & Market Focus)

The target is the Big 4 firm entity involved in the scandal (e.g., PwC China or KPMG Australia). Regulators like the FRC or PCAOB step in to protect public markets. They inspect audit engagement files, evaluate structural governance, and assess audit quality failures. If guilty, the outcome is large entity-level fines, multi-year monitoring requirements, or firm-level bans from auditing public companies or government contracts (Ratnatunga, 2021b).

The Professional Institute Track (Individual Conduct & Ethics Focus)

The targets here are individual partners, audit signing partners, and staff members. Institutes like ICAEW or CA ANZ evaluate whether individual members breached the profession's *Code of Ethics* (e.g., honesty, integrity, confidentiality, and professional competence). The outcomes are formal reprimands, mandatory ethics retraining, fines on individual partners, or permanent expulsion—taking away their right to use the “CA” designation and effectively ending their executive accounting career.

Consequently, the *Statutory Regulators* (e.g., PCAOB, FRC, ASIC) and *Professional Institutes* (e.g., CA ANZ, ICAEW, ICAS) operate on fundamentally different legal foundations, target different entities, and wield vastly different enforcement powers. These differences are summarised in Table 2.

Table 2: Direct Comparison of Statutory vs. Professional Regulation

Dimension	Statutory regulators (PCAOB, FRC; ASIC subject to the qualification above)	Professional institutes (CA ANZ, ICAEW, ICAS)
Legal authority and mandate	Government-backed bodies established by legislation, with investor protection and market integrity as their mandate.	Membership bodies operating under royal charter or association rules, with professional standards and ethics as their mandate.
Who and what they regulate	The firm as an entity and registration to audit public companies. In Australia, ASIC currently regulates registered company auditors as individuals, not the partnerships employing them.	Individual members and practice certificates. They generally lack statutory power over corporate or partnership structures.
Investigation powers	Power to compel production of documents, require testimony and conduct inspections of audit working papers.	Authority derived from the member's contractual acceptance of the by-laws. No power to compel third parties or non-members.
Maximum financial penalties	Entity-level penalties reaching tens of millions of dollars, such as the PCAOB's US\$25 million penalty against KPMG Netherlands.	Penalties directed at individuals, typically capped at substantially lower thresholds.
Operational sanctions	Power to restrict or prohibit a firm from auditing listed entities, or to suspend its audit registration.	Power to withdraw the professional designation, cancel practising certificates or expel a member.

Disciplinary Actions Taken by Professional Bodies

All this raises an interesting question: “*What were the disciplinary actions taken by the Institutes of Chartered Accountants to discipline their members involved in the Big 4 firm scandals?*”

Institutes of Chartered Accountants—such as *Chartered Accountants Australia and New Zealand* (CA ANZ), the *Institute of Chartered Accountants in England and Wales* (ICAEW), and the *Institute of Chartered Accountants of Scotland* (ICAS)—serve as professional membership bodies.

All these bodies are members of the *International Federation of Accountants* (IFAC), which is merely an advocacy group for the *financial accounting* profession and not an accreditation or standards body. Despite IFAC's posture that it has some sort of disciplinary enforcement over its member bodies, it has none.

As discussed in Table 2, the regulatory authority and disciplinary mechanics of professional bodies differ significantly from state regulators like the US's PCAOB or the UK's FRC. While state bodies regulate firm-level licenses and corporate audit oversight, professional institutes hold authority only over *individual chartered accountants and firm membership credentials*.

Professional institutes issue a range of penalties for ethics violations, academic misconduct (such as exam cheating), and failure of professional due care by individual members, as follows:

Professional Misconduct

Cautions and Reminders: It was reported that the *Chartered Accountants Australia and New Zealand* (CA ANZ) confirmed that over 200 members at major firms received formal cautions and nearly 100 received professional reminders. This approach has triggered intense public and parliamentary scrutiny regarding transparency and whether lower-level administrative actions adequately deter corporate misconduct (Tadros, 2026).

Financial Penalties & Cost Orders: Professional conduct committees impose monetary fines directly on individual members or registered member entities, although data on these are not easily available.

Severe Breaches

For severe breaches of the Code of Ethics (e.g., tax leak scandals, deliberate confidentiality breaches, or major fraud concealment), the following penalties may apply:

Forfeiture of Membership: Individual partners and staff can be permanently expelled from the institute. Stripping an accountant of their CA designation effectively terminates their ability to act as an official audit sign-off partner or hold executive accounting titles.

Suspension: Members can be barred from practising or using post-nominal letters for specified periods during ongoing investigations.

However, professional bodies face limitations and challenges due to scope restrictions, and Table 3 presents recent industry responses.

Table 3: Enforcement Limitations of Professional Bodies & Resulting Industry Responses

Area	Scope and limitation	Industry response
Individual versus firm jurisdiction	Institutes regulate individuals, which makes it difficult to sanction a partnership as an entity unless firm-level membership rules permit it.	Reform proposals would allow entity-level sanctions on firms, principally through statutory licensing rather than through institute rules.
Confidentiality versus transparency	Institutes withhold the identity of firms involved in complaints in order to protect ongoing proceedings and are criticised in parliament for doing so.	Legislators are pressing for public naming of firms involved in substantiated misconduct to strengthen deterrence.
Whistleblower protection	Traditional partnership structures attract weaker statutory whistleblower protections than corporations.	Institutes have advocated extending corporate whistleblower provisions to partnerships and permitting protected disclosures within audit teams.

The Big 4 Scandals: Why the Public Should Care

The “Big 4” firms come at a significant cost to taxpayers when they advise business and government.

When governments and the larger public sector become unduly dependent on a few big consulting firms, it can cause more harm than good, especially when the consultants are appointed in an opaque process without any perceived expertise in the area. They also carry an expensive price tag and are not accountable when the advice they give is a failure in its implementation (Ratnatunga, 2023a)

In Australia, Ernst & Young, Deloitte, KPMG and PwC have earned about \$21 billion in taxpayer-funded contracts over the past 10 years. The federal government alone currently has 297 active contracts with KPMG, worth \$653 million (Stewart and Ziffer, 2026).

And a similar scandal has happened before. Fellow accounting giant PwC was found to be misusing confidential government information to help multinationals avoid tax. PwC’s arm dealing with public contracts was sold off for a dollar in 2023. PwC mutually agreed that it will not bid for any federal government contracts due to a non-compete clause until 15 July 2025 (Ratnatunga, 2023b).

The taxpayer costs resulting from Big 4 scandals span *direct lost tax revenues, wasteful public procurement, investigation expenses, and remediation costs.*

Direct Lost Tax Revenue & Corporate Tax Avoidance

Undermining Tax Legislation: During the PwC tax scandal, over

50 partners received confidential Treasury policy intelligence regarding the Multinational Anti-Avoidance Law (MAAL). PwC used this information to market tax-structure workarounds to 14 multinational corporations, directly undermining federal tax collection efforts (Ratnatunga, 2023b).

Avoided Tax Revenue: While the Australian Taxation Office (ATO) intercepted scheme implementations—saving an estimated A\$180 million annually in diverted revenue in that specific instance—broader corporate tax avoidance structures designed by global accounting firms cost governments hundreds of billions worldwide (with global corporate tax abuse estimated at over A\$300 billion annually) (Lowrey, 2023).

Wasteful Public Procurement & Substandard Deliverables

Bloated Public Sector Spending: Over a decade, federal and state government contract spending on Big 4 firms surged by over 1,200%, with total public spending on external consultants reaching A\$20.8 billion per year (A\$5 billion federally) (Convery, 2023).

Conflicts of Interest: Government reviews uncovered hundreds of millions in taxpayer-funded contracts (including A\$374 million across specific reviewed deals) that suffered from severe conflicts of interest, inadequate record-keeping, and questionable value (Convery, 2023).

Regulatory, Legal, and Parliamentary Enforcement Costs

Cost of Public Enquiries: Millions of taxpayer dollars have been absorbed by public enforcement, including Senate committee enquiries, *Australian Federal Police (AFP)* criminal investigations, and regulatory enforcement by the ATO, ASIC, and the *Tax Practitioners Board*.

Re-Tendering and Departmental Transition: When government bodies were forced to suspend or terminate contracts with compromised firms (such as getting KPMG not to tender for new federal work or replacing PwC’s whistleblower hotline management at the *Reserve Bank of Australia*), departments incurred substantial administrative, legal, and re-bidding expenses.

Summary

This article discusses a series of scandals involving the Big 4 accounting firms—Deloitte, PwC, EY, and KPMG—between 2025 and 2026, highlighting their significant impact on the accounting profession and regulatory landscape. The article begins by referencing an earlier call for stricter regulation of these firms following a PwC tax scandal in Australia in 2023. It then outlines several recent major scandals globally.

In *Australia*, KPMG faced a whistleblower scandal involving the misuse of confidential client documents, leading to resignations and a ban on bidding for federal contracts. EY was embroiled in a data breach scandal involving unauthorised access to sensitive banking details of high-profile individuals. In the *Netherlands*, Deloitte, PwC, and EY were fined for widespread exam cheating and ethics violations, resulting in financial penalties and increased regulatory supervision. In *China* and *Hong Kong*, PwC faced enforcement actions after failing to perform adequate audits for Evergrande, leading to significant fines, client cancellations, and internal restructuring.

The article further discusses global market trends and shifts due to these scandals, such as the Big 4 firms offloading high-risk clients and mid-tier firms gaining market share. It also explores proposed regulatory changes in Australia, including forced separation of audit and consulting services, capping partner numbers, and imposing stricter compliance measures.

The article contrasts the enforcement powers of statutory regulators, like PCAOB and ASIC, with professional institutes, which focus on individual conduct and ethics. It emphasises the

broadier implications of these scandals, including taxpayer costs from lost tax revenue, wasteful public procurement, and regulatory enforcement costs. The article underscores the need for stronger regulation and transparency to prevent such misconduct in the future.

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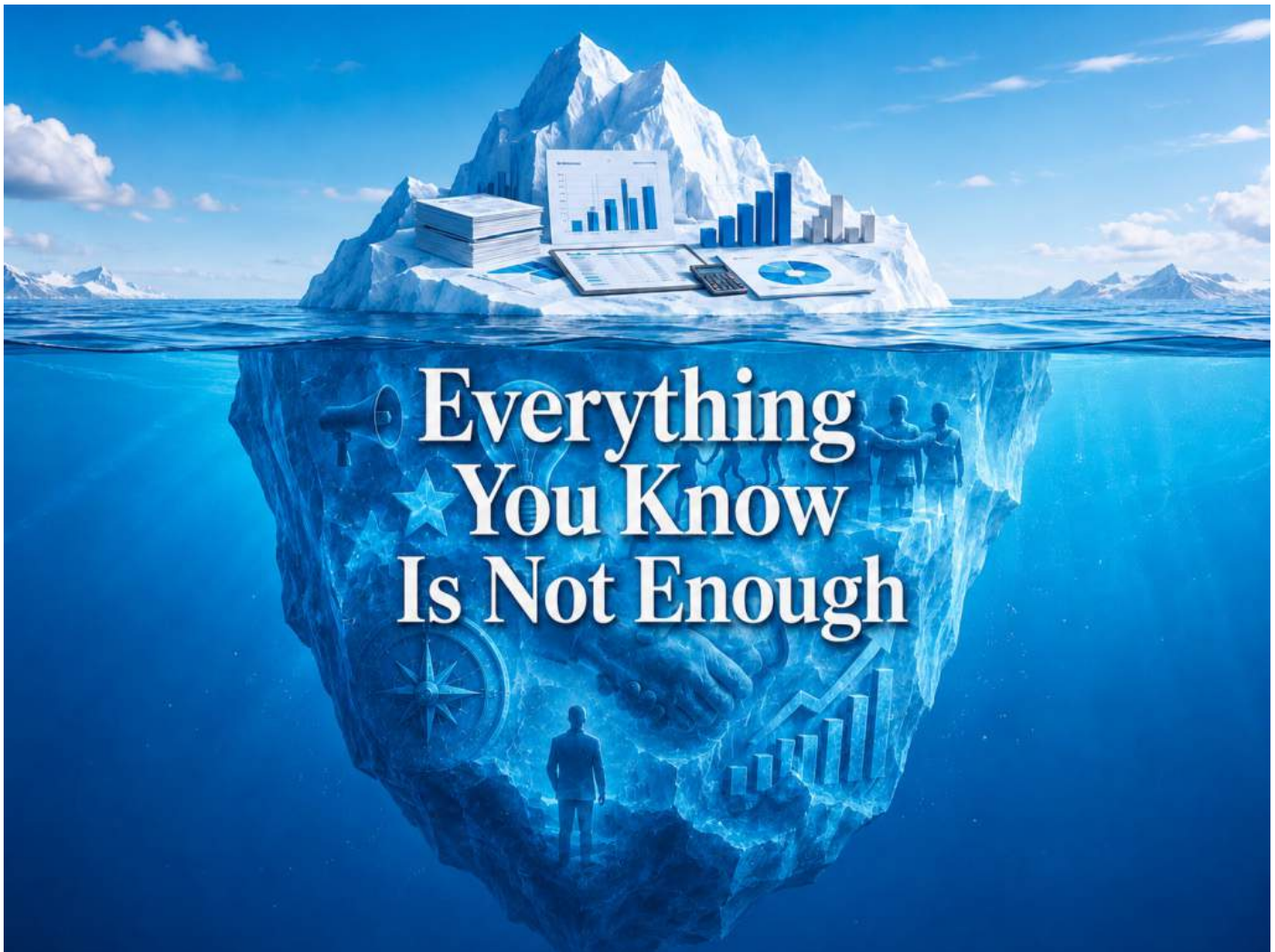
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EVERYTHING YOU KNOW IS NOT ENOUGH

Dr. Chris D'Souza , Deputy CEO of CMA (ANZ)



To know what you know, and what you do not know: that is knowledge. Confucius, Analects, Book II

The Light and the Key

Nasruddin, the wise fool of Middle Eastern folklore, is on his hands and knees under a streetlamp, patting the ground. A neighbour stops to help. "What have you lost?" "My key." They search together for an hour. Nothing. Finally, the neighbour asks where, exactly, he dropped it. "In the house." "Then why are we looking out here?" "Because the light is better here."

The story has survived seven centuries because every generation recognises itself in it. Ours should recognise financial reporting. Our accounts are a streetlamp: precise, audited, comparable and lit. Everything inside their circle is measured to the cent. And the things that decide whether your business survives the next decade sit in the dark, a few metres away, unrecorded, because there is no accounting entry for them.

Consider four things the light of the streetlamp cannot reach. The *cost of equity*, because no invoice ever arrives for it. The *future value of the business* because tomorrow has no journal entry. The impending approach of *failure*, because companies file immaculate accounts until the day they collapse. And the *intangible assets* that now carry roughly ninety-two per cent of the market value of the

S&P 500 yet scarcely appear on the balance sheet at all (Ocean Tomo, 2026). Four of the most consequential facts about any enterprise. None of them in the light.

Artificial intelligence has made this problem more dangerous before it makes it better. It reads a ledger faster than any human who ever lived, flagging at a scale no audit team could approach. It is a magnificent instrument for searching under the streetlamp. The key is still in the house.

The danger is no longer that managers lack information. It is that artificial intelligence gives them the comforting illusion that more information is the same thing as better judgement. It has improved our ability to analyse what can be measured and done almost nothing to improve our judgement about what cannot.

The Man Who Kept the Plan

It's the things that I knew enough to do that I didn't do. Warren Buffett

A student once asked Warren Buffett to name the *worst investment* he had ever made. Buffett looked at him and said: "How long do you have?" Then he said something stranger. The mistakes that cost him most do not show up anywhere. Not in the losses, not in the accounts. They are mistakes of omission, not commission. He

has never lost that much on any single investment. What haunts him is different. Ten billion dollars' worth, he reckoned, of things he knew enough to do and did not.

The ten billion was *Walmart's*. He set out to buy a hundred million shares at about twenty-three dollars. He bought a few. The price ticked up. He thought it might come back. He stopped. Walmart went on to become the largest retailer on earth, and the shares he did not buy are the ten billion. *Charlie Munger*, Buffett's partner of sixty years, had a word for waiting instead of acting, and Buffett has used it ever since: thumb-sucking. What was missing was not information. He had every fact he needed and said so. He was waiting for certainty, and certainty was never coming. The twenty-three dollars was not a valuation. It was a price he had grown fond of, and he let the anchor make the decision the analysis should have made.

He had made the identical error thirty years earlier and been rescued by luck. In 1972 the family controlling the US company *See's Candy* wanted thirty million dollars; Munger said it was worth it, but Buffett would not go past twenty-five, because three times net tangible assets made him gulp. His caution, he later wrote, could have scuttled a terrific purchase, yet the sellers happened to take his bid. *See's* has since earned \$1.9 billion pre-tax on forty million of added investment (Buffett, 2015). The same mistake. Once rescued by luck. Once punished by reality. Three decades apart.

Let me put the counterexample, and it is my own. Twenty-five years ago, I bought a very small apartment in *Bandra*, then as now one of *Mumbai's* most sought-after addresses. I had no model to speak of. Real estate valuation is famously three words, and they are not taught at Harvard: '*location, location, location*'. A few years later the apartment directly above mine came up for sale. I offered the owner more than he was asking for to close it quickly. Sometime after that the adjacent apartment came up, and I paid the asking price without an argument. In all three cases, I bought because of the location.

But three words is still a model, and a model gives you a threshold. My three-word valuation was crude, but enough to tell me that each asking price sat below what the apartment was worth to me. So, when the seller wanted more, I could say yes. A crude valuation beats a precise anchor.

Then something happened that no valuation of any one of the three apartments would have shown. The three together were worth more than the three apart, and that value existed nowhere until I created it. My premium was now seen. With hindsight, the number I could not see on the day of purchase was the only figure that mattered: what the decision would be worth twenty years later.

And it goes deeper still. In 1964 Buffett had agreed verbally to tender his *Berkshire Hathaway* shares to *Seabury Stanton* at \$11.50. The written offer arrived at \$11.375: an eighth of a point chiselled off. Buffett, irritated, refused to sell, bought control, fired Stanton, and found himself owning a dying New England textile mill. He calls it a monumentally stupid decision and says he became the dog who caught the car. He struggled with textiles for eighteen years before closing in 1985 and confesses he delayed far too long. He has since put the cost of that pique at roughly two hundred billion dollars: what *Berkshire* would be worth today had he taken Stanton's price and bought a decent insurer instead.

The eighth of a point appears in the accounts. It is \$0.125, precisely, and it can be audited. The two hundred billion does not appear anywhere at all. No algorithm would have caught it. There is nothing to catch. A transaction that never happened generates no data. The most expensive category of error in the career of the most successful investor in history is, by construction, invisible to every detection system ever built, including the ones now being sold as artificial intelligence.

The Invoice That Never Arrives

That which is seen, and that which is not seen. Frédéric Bastiat, 1850

Bastiat's essay of 1850 is the founding document of opportunity cost. The bad economist, he argued, stops at the visible effect. The good one accounts for the effects that must be foreseen. The visible effect in your own accounts: you borrow at eight per cent, and the interest appears as a line in the profit and loss. It is seen. It is charged. Nobody argues.

Here is what is not seen. Your shareholders also want a return, and more than the lenders, because they rank behind them and carry the risk. But no invoice arrives. No cheque leaves the building. So, the cost of equity, usually the largest single cost your business bears, appears nowhere in your statements. This is why accounting profit is not profit: it is revenue less the costs that happen to send you a bill. Peter Drucker, the father of modern management, put it plainly in 1995. A business that fails to return more than its cost of capital is operating at a loss, however healthy its earnings look.

Economic value added is the profit and loss with the shareholder's invoice put back in. NOPAT, less a capital charge, and the charge is what the money would have earned elsewhere at the same risk. It is Bastiat, with a number attached. And the number is where the discipline lives. Any executive will tell you, over a drink, that a division has been limping for three years. Very few will tell you its economic profit is negative \$4.2 million, because they have never computed it, and once computed, it can no longer be a feeling. It becomes a figure with a sign in front of it, and figures with signs demand meetings.

I have paid for this lesson myself and only found the invoice because I went looking for it. Twenty years ago, I bought a house in *Bentleigh*, a suburb of *Melbourne*, at auction, which is how most property is bought there. Several bystanders were kind enough to tell me I was a fool and that I would regret it. The house is worth about four times what I paid.

By any reading of my own accounts, that was a good decision. Here is the entry that does not appear in them. To buy it, I sold blue chip shares I already owned. Years later I did the sums, and those shares would today be worth considerably more than the value of the house today. The sum is directional, not precise, but the direction is not in doubt. So, the four times is real, and seen, and also a loss. There is no line for it anywhere. It exists only because I bothered to check.

And yet I have never regretted the house, because the value of my home to me has always exceeded its price. That is not sentiment dressed up as analysis. It is the oldest distinction in this discipline: fair market value is what a hypothetical stranger would pay, investment value is what the asset is worth to the person holding it. The bystanders were pricing. I was valuing. They were not wrong. They were answering a different question, and it was not mine. Similarly, the real-estate investments *I never made* would today be worth millions. So are the stock investments, and so, more recently, are the crypto investments *I never made*.

Artificial intelligence will calculate your cost of equity in a millisecond, before you have finished asking, but it will not automatically subtract it from your profit. That is a decision everyone, including experts like Warren Buffett and *Aswath Damodaran*, must make for themselves. It is the one step no machine has ever taken for anyone: charging yourself for money that never sends a bill and letting the smaller number change what you do.

Less Wrong Than Everyone Else

Uncertainty is a feature, not a bug. Aswath Damodaran

So why does a man who knows, not move? Aswath Damodaran,

who teaches valuation at New York University's Stern School and has written five books on it, has spent a career on this question. Uncertainty, he says, is not a flaw in your valuation. It is the valuation. And our responses to it are unhealthy: denial at one end, paralysis at the other (Damodaran, 2013).

Paralysis – that is Buffett and the ten billion dollars.

What makes Damodaran worth listening to is what he admits about himself. He knows he will be wrong on every number he estimates. He publishes them anyway, with his workings. The most qualified valuation teacher alive leads with the certainty that he is mistaken.

His diagnosis of the profession is that it has split into two tribes who do not speak. The numbers people believe valuation is modelling and that stories introduce irrationality. The narrative people believe valuation is about great stories, and that models manufacture false confidence. Both are half right, which is the most dangerous thing to be. A valuation not backed by a story, he writes, is soulless and untrustworthy (Damodaran, 2017).

And his test is the most practical instrument in the field. Any story must survive three questions in sequence. Is it *possible*? Is it *plausible*? Is it *probable*?

Most clear the first question. Almost anything is possible.

Theranos was possible. The company claimed it could run hundreds of blood tests from a single finger-prick, and a device that does that does not violate physics. So, the story cleared question one, and the validation began: the US supermarket chain Safeway retrofitting eight hundred stores for three hundred and fifty million dollars, an FDA clearance for a single test, and a board of two former Secretaries of State, a Defence Secretary, a Senate Majority Leader, an admiral and a general. A board assembled to validate a story rather than evaluate a technology. It contained one epidemiologist. Nobody on it could evaluate the technology, and the technology was the entire company. *Theranos* ceased operations in 2018; its founder *Elizabeth Holmes* and her deputy Ramesh Balwani were convicted of fraud in 2022.

Tesla in December 2020 was plausible. The market valued it at five hundred and fifty-four billion dollars, more than Volkswagen, Hyundai, General Motors and Ford combined, while it built half a million cars, one per cent of the global market. Read the valuation backwards, asking what would have to be true for it to be right, and it required either ten million cars or a margin roughly twenty times Volkswagen's. Plausible. A long way from probable. The third question is the expensive one, and we will come to it at the end, with an airline.

Damodaran's answer is one sentence, and it is the most liberating line in this subject. You do not have to be right. You only have to be less wrong than everyone else.

The Scream Nobody Heard

Tell me where I'm going to die, so I'll never go there. Charles Munger

In Melbourne, on 14 September 2001, *Ansett Australia* went into voluntary administration, and thousands lost their jobs in a city that had regarded the airline as part of its furniture. Apply the Z-score Edward Altman built in 1968, and which has been predicting corporate failure ever since, to Ansett's final accounts and it returns 0.188. The bankruptcy threshold is 1.10. Anything above 2.60 is safe. Ansett was not near the line, nor in the grey area. It was scoring at one sixth of the level at which a company is deemed to be failing.

Now put the others beside it. *Enron* in 2000: 0.86, bankrupt. *One Tel* in 2000: 1.32, grey area. *WorldCom* in 2001: 1.71, grey area. Four companies, four warnings, four sets of audited statements, filed on time, signed off, sitting in the light. The number was screaming in every one, computable in four minutes from four

ratios by anyone who cared. Nobody did. Or rather, plenty did, and it changed nothing, which is more disturbing still.

This is where the artificial intelligence conversation usually starts, and it starts in the wrong place. Machine learning models now outperform Altman, ingesting hundreds of variables where he used four. Detection has become nearly free. Detection was never the problem.

Ansett's problem was not that the score was unavailable. It was that no one would act on a number that implied firing friends and admitting error. A chief executive with capital sunk in a declining operation, Buffett wrote, almost never redeploys it, because doing so requires that long-time associates be fired and mistakes be admitted (Buffett, 2015). He was describing himself and eighteen years of textile mills.

The movement that matters is not from ignorance to detection. That journey is complete, and the machines finished it. It is from detection to anticipation, and from anticipation to action, and no technology has ever helped with the last step. Altman's model is not a verdict. Reverse it. Ask what would have to change in each ratio to move *WorldCom* from 1.71 to 2.60, which of them management could actually move, how fast, and at what cost. Munger's line applies: find out where you are going to die, and don't go there.

Ninety-Two Per Cent

What is essential is invisible to the eye. Antoine de Saint-Exupéry, 1943

At its 2025 fiscal year-end, *Apple* traded at more than fifty-five times its book value. Read that as what it is. Apple's audited balance sheet was describing less than two per cent of Apple. The other ninety-eight per cent was real, generated among the highest profits in the *Fortune* 500, and had no entry. That gap is not sentiment. It is a forecast: the market has already priced the economic profits it expects Apple to earn and is waiting to receive them.

IAS 38 explains why, with perfect clarity and no embarrassment. Internally generated brands, mastheads, customer lists and goodwill are not recognised. Buy an intangible in an acquisition and it appears. Build the same intangible yourself, brilliantly, over twenty years, and it does not.

The standard is not stupid. It was written for a world where value sat in machinery, and in 1975 the position was exactly reversed: tangible assets were 83 per cent of S&P 500 market value and intangibles just 17. But the four largest companies on earth now require almost no net tangible assets. The largest news distributor owns no content, the largest accommodation provider no hotels, the largest taxi companies no vehicles. The instrument was calibrated for a world that has ended, and it is still returning readings.

Artificial intelligence is the sharpest illustration. It is among the most consequential assets on earth, and almost none of it appears on a balance sheet. A company can spend a decade building a data advantage, a trained model and the people who understand both, and the accounts will record expense, expense, expense, and then nothing. Accounting is extraordinarily good at recording yesterday's investment and silent about tomorrow's value. Saint-Exupéry was writing about love. He could have been writing about IAS 38.

The Second Set of Books

You don't have to be right, just less wrong than everyone else. Aswath Damodaran

Almost every case so far has been a man who knew and did not move. Let me end with the opposite, on a scale that dwarfs three apartments in *Bandra*. In September 2020, with *Virgin Australia*

in administration, Bain Capital paid A\$3.5 billion. The headline is misleading, and instructively so: it included roughly A\$2.3 billion owed to secured creditors and A\$450 million in worker entitlements. The equity component was around A\$1.2 billion. Unsecured bondholders, who had put some two billion into the airline, recovered between nine and thirteen cents on the dollar.

Take Virgin's Pre-COVID accounts, run a shareholder value analysis on a two-year horizon, and the corporate value comes out at about A\$1,244 million. Bain paid roughly A\$1.2 billion for the equity. The model, applied to public accounts by an outsider, landed within a rounding error of what the most sophisticated private equity buyer in the market actually paid.

But the model does something else, and this is the part that matters. Stress the seven value drivers Alfred Rappaport identified sales growth, operating margin, cash tax rate, fixed capital investment, working capital investment, the planning period and the cost of capital, and it tells you Bain's price could only be justified if the operating margin moved from two per cent to about six while sales growth fell to five (Rappaport, 1998). In the middle of a pandemic, with borders shut and aircraft parked, that looked close to fantasy.

Now look at what happened. Virgin returned to the *Australian Securities Exchange* on 24 June 2025 at A\$2.90 a share, a market capitalisation of about A\$2.3 billion. The fleet simplified, *Tigerair* closed, long-haul run capital-light through a wet-lease with Qatar Airways, which supplied both the aircraft and the crews, domestic seat share up from twenty-one per cent to 31.2. The EBITDA margin now runs at over fourteen per cent. The margin transformation the model demanded is exactly what Bain manufactured.

So, Bain did not buy a mispriced asset. Bain bought the right to do the thing the arithmetic said would have to be done.

Buffett waited for certainty about a company he already understood. Bain had no certainty available and bought the airline anyway, in a pandemic, with the borders shut and the aircraft parked. The party with less information did more with it.

And that is the whole lesson of this discipline, stated as plainly as it can be:

Valuation does not tell you what a business is worth. It tells you what would have to be true for the price to be right, and then it asks whether you are willing to go and make it true.

The market's verdict is not a fairy tale. The shares reached A\$3.80 in October 2025 and fell to A\$2.15 in April 2026. Could the margins be transformed? Yes. Was the exit price right? Not yet. Two questions, two answers, one company. That is the method working on5 both, honestly.

The Second Ledger

Which returns us to *Nasruddin* under the streetlamp, and to the three problems every senior executive carries at once. There are things you do not know. That is a gap, and gaps are the smallest problem you have.

There are things you know and do not know that you know. Decades of judgement about your own business, sitting in a box you have never opened, because nobody has walked past and asked you what you are sitting on. And there are things you know, and know that you know, and still cannot use. That is Buffett's problem; it is the expensive one, and no amount of information will touch it. He knew about Walmart. He said so himself. And he had made the same mistake thirty years before.

Valuation is the second set of books.

It is the ledger you keep for everything the first set refuses to record: the cost of the equity that never invoices you, the future

that has no journal entry, the distress that files clean statements, the ninety-two per cent that IAS 38 declines to name. Its purpose is not to tell you what you do not know, but to take what you already know, privately, in the part of your judgement no auditor has inspected and convert it into a number you can no longer avoid.

Every one of those numbers will be wrong. Damodaran's numbers are wrong. Buffett's were wrong by two hundred billion dollars over an eighth of a point. Yours will be wrong. Being right was never the point: a wrong number you have to defend beats a right instinct you never acted on.

Buffett says he does not dwell on his mistakes, that he does not look back. He also wrote fourteen pages listing them by name, with the figures attached, and published it to a million shareholders. Those are not contradictory, and the distinction is the whole point. Not dwelling is not the same as not knowing. He does not carry the guilt. He absolutely carries the number.

Goethe understood this two hundred years ago, in a passage he appended to the end of Wilhelm Meister's *Journeyman Years*: *Knowing is not enough; we must apply. Willing is not enough; we must do.* Johann Wolfgang von Goethe, Wilhelm Meisters Wanderjahre, 1829

You will find that line attributed everywhere to Leonardo da Vinci. It is not his. No published occurrence has ever been located before Goethe, and it appears in his own hand in his own book. Which is a fitting way to end. Even the sentence telling us that knowing is not enough turns out to be something the world is quite certain it knows, and does not.

Dr Chris D'Souza is Deputy CEO of CMA Australia and New Zealand

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HISTORY OF CURRENCIES: THE US DOLLAR'S DOMINANCE MAY FADE – BUT IT WILL HAPPEN SLOWLY

John Hawkins



On some measures, China has already overtaken the United States as the world's largest economy. But the US dollar retains a dominant role in the international financial system and trade.

How long will this continue? Looking to history, Barry Eichengreen's new book *Money Beyond Borders* seeks to answer this question.

Eichengreen is a respected professor of economics and political science at the University of California. He is well qualified to write this book. As he notes in his introduction: "This is not the first book about international currencies. It is not even my first book about international currencies."

Traded coins date back to Ancient Greece

Throughout history, it has been usual for one currency to dominate in international transactions. Since the Second World War, this has been the US dollar.

Eichengreen's book goes all the way back to the first coins to be used internationally, the Athenian "owls". The weight, fineness and design remained the same for centuries, helping to build confidence in the currency. Athens was a commercial hub and led the Delian League of Greek city-states.

The Roman denarius served as international currency even beyond the extensive Roman Empire. It reached its maximum extent around 117 CE.

Then, by the fifth century CE, the Byzantine gold solidus was used for trade from Britain to India.

During the Renaissance, the Florentine gold florin flourished as Florence became the European centre of banking and finance. The florin's appearance and gold content were unchanged for three centuries, a key factor in maintaining confidence in a currency.

The Spanish real became the first truly global currency. As eight of the coins amounted to one peso, they were known as "pieces of eight". Later, Dutch guilders bloomed as Amsterdam became the hub of global foreign exchange markets and the Dutch East India Company expanded its operations.

The British pound sterling took over the role in the 18th century as the sun rose on the British Empire and London grew as a financial centre.

The nations issuing these currencies shared common characteristics that gave foreign traders confidence in the coins. They tended to be large hubs for international commerce, were politically stable and economically advanced and often had colonies.

Emergence of the US dollar as the global currency

Eichengreen describes how the international usage of the US dollar spread once the US central bank was established in 1913, the US economy grew, and the UK was weakened by the First World War

The Allied powers met at Bretton Woods in the US in 1944 to plan the post-WWII international financial system. They agreed on an indirect gold standard. The gold price would be fixed in US dollars. Other currencies would then be pegged to the dollar, reinforcing its role as the dominant currency.

Around 90% of transactions in the foreign exchange market now involve the US dollar. US dollar assets make up the majority of international reserves held by the world's central banks. And the US dollar is used for invoicing about 40% of global trade.

The US dollar has an “exorbitant privilege”

This special status of the US dollar has been termed an “exorbitant privilege”.

This unique status increases the global demand for US dollar bonds. This, in turn, allows the US government and companies to borrow at lower interest rates.

As there is more demand for US dollar assets, it also tends to make the US dollar stronger. This is good news for Americans buying imports or travelling overseas. But it also makes their exports more expensive and therefore less competitive.

Increasingly, US dollar dominance has been resented by many other countries. As Eichengreen observes, when Russia was locked out of the global financial system after its invasion of Ukraine in 2022, it triggered: “a global rethink of dollar dependence. Other countries contemplating even the remote possibility that they might end up not being on the best terms with the United States considered steps to avoid being in Russia’s position.”

The life cycle of dominant currencies

Eichengreen shows that “international currency status is not forever”. But historically, currencies have maintained their status for a long time – even centuries – after the issuing country has ceased to be the dominant global economic power.

Eichengreen concludes “no other currency ... is positioned to fill the dollar’s shoes”.

The euro is the second most used international currency. But it lags well behind. This is partly because the euro-area bond market is split between various countries.

The Chinese renminbi lags even further behind, as the government has controls over capital movements into and out of China. Also, as Eichengreen notes, China’s central bank is not fully independent, which may reduce confidence in the renminbi.

None of the privately issued cryptocurrencies actually function as currencies. Almost no legitimate purchases of goods and services are made with them. The price (in Australian dollars) of the best known one, Bitcoin, has halved over the past year.

For some time to come, the US dollar may remain, in Eichengreen’s expression, “the cleanest dirty shirt in the pile”.

A convincing story

Eichengreen’s book is a major scholarly endeavour by a respected authority that makes a convincing case. The endnotes run to 45 pages. There are 30 pages of bibliography and a comprehensive index. It will be a trusted reference.

The economic journalist Martin Wolf called it one of the best economics books in 2026 so far. It is a little dry, however, lacking any graphs, maps or illustrations in its 300-plus pages, which may reduce its appeal for a general reader.

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<https://theconversation.com/this-history-of-currencies-suggests-the-us-dollars-dominance-may-fade-but-it-will-happen-slowly-287572>



CHORES OR NO CHORES? THE ECONOMIC PSYCHOLOGY OF GIVING KIDS POCKET MONEY

Gigi Foster

When I was growing up, many kids earned pocket money by babysitting, mowing lawns, walking dogs or washing cars for their neighbours. Part-time jobs delivering local papers or circulars (junk mail) were also popular.

At home, some kids got a weekly allowance in cash that increased each year slightly. Others didn't – the amount and the "inflation rate" of these payments depended mainly on how wealthy a family was.

The norm for me and my friends was that you did the chores your parents told you to do. Normally, you'd get your allowance whether or not you did your chores.

The rise of kids' money apps, spending trackers and more has changed the landscape for today's children, and for their parents or guardians.

Times have changed, but human nature hasn't. Decisions about pocket money still involve some timeless questions that intrigue behavioural economists like me. Should kids earn cash only in "the market" – such as by doing jobs for neighbours? Or should their efforts at home be rewarded with money, too?

If we do pay our kids for their chores, do we risk creating kids who care more about money than doing good deeds for their own sake?

Doing good for its own sake

The notion that offering monetary payment can "crowd out" someone's intrinsic (independent and internal) motivation to do something is not new.

Behavioural economists have explored this idea for decades – for example, by studying whether offering people money to donate blood makes them less likely to do it.

The evidence on whether this crowding out occurs is mixed. It's also not yet widely understood why it happens in some cases but not others – though new research suggests that giving privileges or "honour"-based rewards instead of money may preserve intrinsic motivation.

In the case of children and chores, like any good economist, let's think about the incentives, as well as the messages being sent, when parents pay them in a few typical situations.

Routine chores

First, suppose parents pay a child for routine, everyday chores such as clearing the table or walking the dog. Assume these chores are not too unpleasant or difficult for the child.

In this case, parents are implicitly telling children that what others in the family do for no extra money or recognition, they will be paid for.

This may risk making children feel they are different from others in the family, in the sense of not having any socially expected (but not materially rewarded) responsibilities.

It may weaken the social norm that "we all contribute every day to our family" in the child's mind.

At the same time, it could send a signal to only contribute when you are paid to do so.

Special jobs

Second, consider a case where a child is offered a special job – such as washing the car or helping parents paint the house – for money.

In this case, the job itself is somewhat challenging, and could be outsourced: the parents could hire someone outside the family to do it. What's more, others in the family do not regularly perform the task.

In this case, the message is that this is a special opportunity to build a skill, save his or her parents some money and get a reward in return.

What about a regular allowance?

If parents can afford a regular allowance to help their child afford small rewards – such as going to the movies once a month with friends – this does not have to be tied to doing chores.

It could instead be presented as a way to help teach the child about money management.

Without any money to manage, a 12-year-old with many material wants might later become a 16-year-old who doesn't know how to save or how to control his or her spending.

The rationale for the regular weekly allowance is more about supporting the child's maturation into a financially prudent adult, and less about compensating the child for work done in the home.

If you can't afford to pay your child a weekly allowance, finding a local job your child can perform for neighbours is a great option.

Opportunities for life lessons

If your child does simple, everyday chores in the home just like the rest of the family, that can be good preparation for becoming an adult with intrinsic motivation to serve others.

Paying for this should not be necessary and may have negative side effects. Instead, consider paying for special jobs that motivate children to master new skills, with less risk that the social norms you want them to absorb will be weakened.

For more pocket money, encourage them to offer their effort to neighbours, and if you can afford it, pay them a modest weekly allowance to teach them money management skills.

Parents can help their children mature into pro-social, financially wise adults if they take a thoughtful approach to work, money and community.

Gigi Foster is Professor, School of Economics, UNSW

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<https://theconversation.com/chores-or-no-chores-the-economic-psychology-of-giving-kids-pocket-money-286834>

REGIONAL OFFICE & BRANCH NEWS

Indonesia

CMA Indonesia Branch Annual General Meeting 2026

The AGM of the Indonesian Branch of the ICMA (ANZ) was held on Friday, August 7th, 2026, between 6.30pm and 9.00pm, at Hotel Ciputra in Jakarta, Indonesia. Amongst those attending from the Australian secretariat were Prof Janek Ratnatunga CEO, and Dr. Chris D'Souza Deputy CEO & CFO. There were more than 100 Indonesian members present (including proxies).



Reports by Branch President Mr. Nursakti Niko Rosandy, Branch Treasurer Mr. Iman Subekti and Branch Secretary Ms. Dwi Novayanti were well received and indicated substantial progress by the Branch in their term of office.



A short talk by Prof Janek Ratnatunga Global CEO of CMA (ANZ) was followed by the Election of Office Bearers Chaired by Dr Chris D'Souza. The following were elected unopposed :

President: Prof. Dr. Ana Sopanah.
Vice President: Dr. Eduard Naibaho.
Secretary General: Diana Purwati Ningsih.
Deputy Secretary General: Reni Kurniawati.
Treasurer: Dr. Harnovisah.
Deputy Treasurer: Midhatul Khasanah

The meeting concluded with dinner.

CMA Batch 19 Intensive Face-to-Face Program Completed

Another CMA program was conducted at Ciputra Hotel in Jakarta on August 1-7, 2026. This was the 19th CMA intensive program organised by Dr Ana Sopanah of RAD Indonesia. The program was facilitated by Professor Janek Ratnatunga, the CEO of ICMA Australia and Dr Chris D'Souza, ICMA COO/CFO.



The organisers, participants and presenters of the 19th CMA Intensive Program in Jakarta



Students listening intently at the training sessions at the 19th CMA program in Jakarta



Participants intensively involved in the simulation game at the 19th CMA program in Jakarta

Continuing Professional Development (CPD)

CPD Training was also conducted for ICMA members who undertook The Certification program of the Academy of Finance and Management Australia (AFMA) organised by Dr. Ana Sopanah of RAD Indonesia. Prof Janek Ratnatunga, ICMA CEO, conducted the Certified Business Valuer (CBV) seminar on August 8 2026 and the Certified Environmental & Sustainability Analyst (CESA) seminar on August 9 2026. They were undertaken by CMAs as part of their CPD requirements.

Thailand

The Fourth CMA program delivered in Thailand in August 2026

In August 2026, the C-Suite Postgraduate Level CMA intensive program from the Institute of Certified Management Accountants (Australia & NZ) was delivered in Thailand at the Mercure Bangkok Sukhumvit 24 Hotel in Bangkok.

This program is world-recognised as the benchmark for those in (or aspiring to) leading roles in strategic finance. The CMA Program consists of two postgraduate level courses, namely: Strategic Cost Management and Strategic Business Analysis.



The organisers, participants and presenters of the 4th CMA Intensive Program in Bangkok, Thailand.

The program was in collaboration with Australian Alumni Association (Thailand) Under The Royal Patronage of His Majesty The King. There were 25 very senior participants, of which 13 were from Thailand, and 12 were internationals from India, Indonesia, Sri Lanka, Dubai, the Philippines and Australia.

The CMA program facilitators were Professor Janek Ratnatunga, CEO ICMA(ANZ) and Dr Chris D'Souza, Deputy CEO ICMA(ANZ).



India

Second Intensive CMA Program in Kerala, India

The CMA Australia and New Zealand Program was successfully conducted from July 4-12, 2026, in Calicut, Kerala, in July 2026 by Expert Edge, with Dr Chris D'Souza, Deputy CEO of CMA (ANZ) as program facilitator.

It attracted 25 participants, including CFOs, finance managers, senior accounting professionals, business leaders and consultants, with participants drawn from organisations operating across India and the Middle East. The program was characterised by vibrant engagement, robust discussions, and meaningful professional exchange



Dr. Chris D'Souza delivering the CMA Intensive program in Calicut



Participant feedback was overwhelmingly positive, with many highlighting the dynamic learning environment, real-life perspectives, inspiring conversations, and the opportunity to reconnect with curious, like-minded professionals. The successful launch represents a significant step in re-establishing the Institute's on-ground presence in India and expanding high-quality CMA delivery across the region.

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CMA EVENTS CALENDAR

- **Jul 4-12, 2026:**
CMA Program Workshop Batch 2, organised by Expertedge, Calicut, India.
- **Jul 20-21, 2026 :**
Visit to CMA House Australia by CMA Philippines.
- **Aug 1-7, 2026 :**
CMA Program Workshop, Jakarta, organised by RAD Indonesia.
- **Aug 10, 2026 :**
International Management Accounting Conference (IMAC), Indonesia.
- **August 15-23, 2026:**
The 4th CMA Program Workshop, Bangkok, organised by the CMA(ANZ) Regional Office in Thailand.
- **Aug 29-31, 2026, Sept 5-7 & 12-13, 2026:**
13th CMA Global Zoom Program in Strategic Cost Management & Strategic Business Analysis, Syme Business School, Australia. (Zoom).
- **Sep 19-27, 2026:**
CMA Program Workshop organised by Academy of Finance, Sri Lanka.
- **Oct 28, 2026:**
ICMA Global International Graduation Ceremony, Marino Beach Hotel, Colombo.
- **October 28 to Nov, 2026:**
CMA program in organised by the Academy of Management Accountancy Nepal (AMAN), Kathmandu Nepal.
- **Nov 7-15, 2026:**
CMA Program Workshop organised by SMART Education Group, Dubai.
- **Nov 26, 2026:**
Global Accounting, Management Accounting and Social Purpose Innovator Hall of Fame Induction, Melbourne, Australia.
- **Jan 23-31, 2027:**
CMA & AFMA Program Workshops, Jakarta, organised by RAD Indonesia
- **February 6 -14, 2027:**
CMA Program conducted by Expertedge, in Kerala, India.
- **Feb 27, 28 Mar 1, 2027, Mar 6-7 & Mar 13-14:**
Fourteenth CMA Global Zoom Program in Strategic Cost Management & Strategic Business Analysis, Syme Business School, Australia. (Zoom)
- **Apr 3-11, 2027:**
CMA Program Workshop organised by SMART Education Group, Dubai
- **Apr 24- May 2, 2027:**
CMA Program Workshop organised by Academy of Finance, Sri Lanka
- **July 3rd to 11th 2027:**
CMA Program conducted by Expertedge, in Kerala, India.
- **Aug 7-15, 2027:**
CMA & AFMA Program Workshops, Jakarta, organised by RAD Indonesia
- **August 21-29, 2027:**
The 5th CMA Program Workshop, Bangkok, organised by the CMA(ANZ) Regional Office in Thailand.
- **Sep 4-6, Sep 11-12 & Sep 18-19, 2027:**
14th CMA Global Zoom Program in Strategic Cost Management & Strategic Business Analysis, Syme Business School, Australia. (Zoom).
- **Sep 25-30, & Oct 1-3, 2027:**
CMA Program Workshop organised by Academy of Finance, Sri Lanka.

PRIVATE PROVIDERS

Wharton Institute of Technology and Science (WITS), Australia

Syme Business School, Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Singapore Management University Academy (SMU Academy)

Business Sense, Inc. , Philippines

Headway, HBSS, Lebanon

Skillpert Training FZE, UAE

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

Segal Training Institute, Iran

Business Number Consulting, Indonesia

RAD Indonesia, Indonesia

New Zealand Academy of Management

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