

STANDARD SETTING



Financial reporting considerations for closing out 2025

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Hong Kong Institute of
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香港會計師公會

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Introduction

This publication highlights key financial reporting reminders and topical areas that are relevant to entities preparing annual financial statements with December 2025 year-end under HKFRS Accounting Standards. The insights may also be applicable to future reporting periods.

The publication is structured into four sections. The first section outlines the amendments to HKFRS Accounting Standards that become mandatorily effective for annual reporting periods beginning on or after 1 January 2025. The second and third sections address topical and emerging topics in relation to evolving tariffs, stablecoins, and IFRS Interpretations Committee (IFRS IC)'s agenda decision that may affect the preparation of financial statements for 2025 and future years. The final section summarizes updates on major new and amended HKFRS Accounting Standards that have been issued but are not yet effective as of 1 January 2025.

While this publication highlights key considerations for current and upcoming financial reporting periods, it does not cover all potential issues that may arise in preparing financial statements. Entities should undertake a thorough and holistic approach when preparing and reviewing their financial statements and related reports, such as sustainability reports, to ensure that disclosures are clear, consistent and reflect up-to-date material information.

Entities should exercise judgement and refer to HKFRS Accounting Standards in the [HKICPA's Members' Handbook](#) for further guidance relevant to their circumstances.

I. Amended HKFRS Accounting Standard mandatorily effective on 1 January 2025

Amendments to HKAS 21 The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability

The HKFRS update cycle for 2025 is relatively light, with only one mandatory amendment becoming effective and no major changes for entities to adopt this year. This amendment relates to the amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* issued by the International Accounting Standards Board (IASB) in [August 2023](#).

Following the IASB's issuance, the HKICPA issued equivalent amendments to HKAS 21 in [September 2023](#). The amendments require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, to estimating the spot exchange rate to use and determining the disclosures to provide. Comparative information shall not be restated when initially applying the amendments¹.

A currency is considered to be exchangeable into another currency when an entity can obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations². Assessing exchangeability between two currencies requires an analysis of different factors³. The assessment is based on the entity's ability to obtain the other currency, not its intention or decision to do so⁴. HKAS 21 does not specify how an entity estimates the spot exchange rate to meet the objective in HKAS 21.19A. An entity can use an observable exchange rate without adjustments (see HKAS 21.A12-A16) or another estimation technique (see HKAS 21.A17)⁵.

Who is affected

The amendments affect only entities exposed to currencies with exchangeability issues, for example, those operating in jurisdictions where government-imposed foreign exchange controls that prohibit exchange of a currency or limit the volume of foreign currency transactions, or those conducting transactions that involve a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. While entities in Hong Kong that deal primarily with freely exchangeable currencies are likely to experience minimal impacts, they should still carefully assess whether they have any exposure that could bring them within the scope of the amendments. These include considering whether the entities and their subsidiaries, joint ventures, joint operations, associates or branches:

- Operate in jurisdictions with foreign exchange restrictions;
- Hold monetary items denominated in currencies that cannot be freely converted; and
- Operate in jurisdictions subject to government capital controls.

¹ See HKAS 21.60M for details of transition requirements.

² HKAS 21.8.

³ HKAS 21.8, 8A-8B and A2-A10.

⁴ HKAS 21.A4 and BC45.

⁵ HKAS 21.A11.

Action and disclosure

Entities should follow the specific guidance in the amendments to assess the exchangeability of the currency. If a currency is not exchangeable into another currency, entities shall estimate the spot exchange rate at the measurement date by applying techniques that meet the objective to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions in HKAS 21.19A.

When an entity estimates a spot exchange rate because a currency is not exchangeable, it shall provide disclosures⁶ that help users assess the nature, financial effects and risks to which the entity is exposed because of the currency not being exchangeable into other currency, as well as the spot exchange rate(s) used and the estimation process. They should also disclose information required by paragraph 28 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*⁷ on initial application.

For further understanding, entities can refer to the application guidance in Appendix A to the amendments, the accompanying illustrative examples and the IASB technical staff [webcast](#) on the IASB website.

II. Topical and emerging issues

While the topics⁸ covered in [Closing Out 2024](#) remain pertinent for 2025 year-end reporting, two emerging areas have gained increased attention this year: global evolution of tariffs and development of digital assets, particularly stablecoins. This section highlights financial reporting considerations associated with the impacts of these two areas.

1. Financial reporting implications of evolving tariffs and other macroeconomic uncertainties

Geopolitical risks remain a significant source of uncertainty for global business operations. In 2025, evolving tariffs and reciprocal measures have heightened these uncertainties. Tariffs are imposed by governments as a percentage of the value of imported goods, aiming to increase the cost of foreign products, thereby reducing their competitiveness against domestic alternatives. They can create ripple effects across supply chains, sales and customer relationships, all of which require careful consideration in financial reporting.

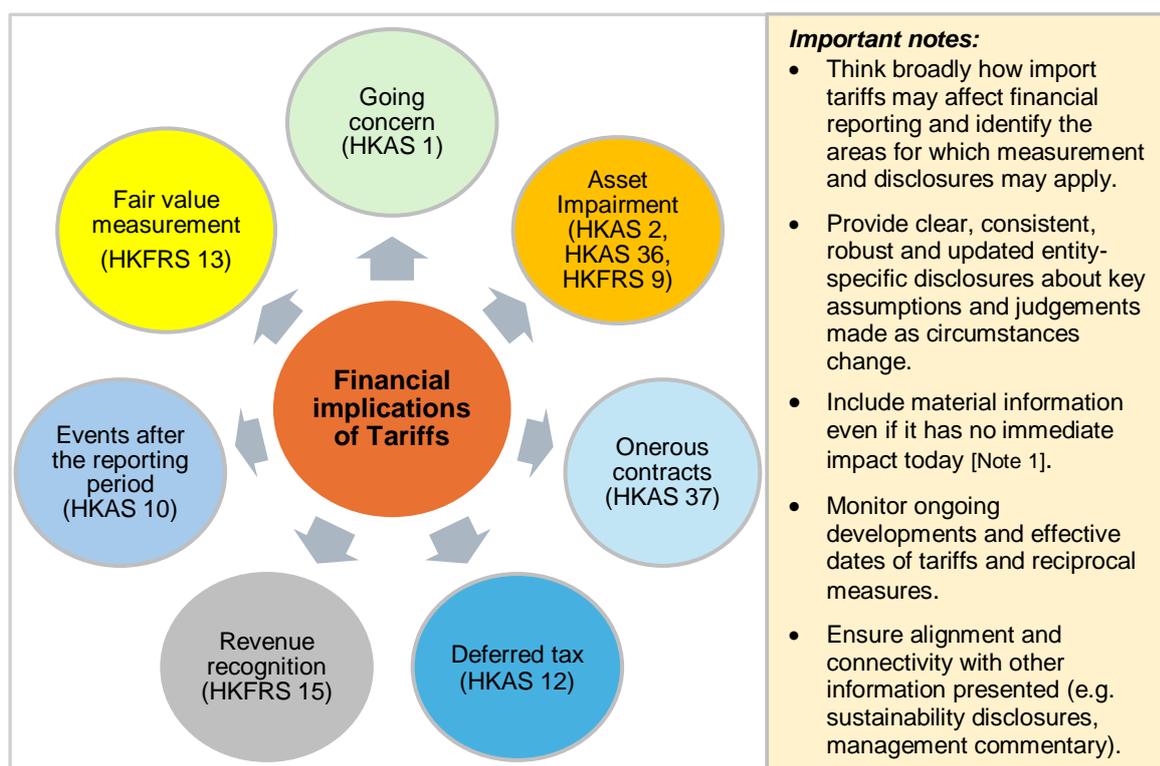
While Hong Kong does not impose tariffs on imports, local entities may still be impacted by tariff measures imposed in other jurisdictions. The diagram below sets out the key HKFRS Accounting Standards typically applicable to entities reporting in Hong Kong. This list is not exhaustive. Entities should refer to HKFRS Accounting Standards relevant to their circumstances.

⁶ HKAS 21.57A-57B and A18-A20.

⁷ From 1 January 2027, HKAS 8 will be retitled to *Basis of Preparation of Financial Statements*.

⁸ Refer to [Closing Out 2024, Section II \(P.9-18\)](#) for local topics on financial implications of tax deductions for lease reinstatement costs, Hong Kong land lease extensions, long service payment subsidies and Pillar Two global minimum tax.

Diagram 1 – Financial reporting impacts of tariffs under HKFRS Accounting Standards



Note 1: Refer to Example 1 in Section II.3A 'Disclosures about Uncertainties in the Financial Statements' for further details.

Practical considerations in the above areas are further explained below:

A. Basis of preparation of financial statements – Going concern (HKAS 1⁹)

Tariffs can lead to higher costs, supply chain disruptions, diminished market competitiveness and broader economic uncertainties. These factors may undermine an entity's ability to continue as a going concern and have a substantial impact on its going concern assessment.

Clear and transparent disclosure is crucial. HKAS 1 *Presentation of Financial Statements* (HKAS 8 from 1 January 2027) sets out disclosure requirements regarding going concern. Entities can also refer to the updated educational material published by IASB in May 2025 '[Going concern – A focus on disclosure](#)' for preparing their disclosures based on their circumstances. The guidance includes a diagram illustrating four scenarios. Notably, where there are material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (i.e. Scenario 3 in the IASB's educational material), disclosures of those material uncertainties¹⁰ and the significant judgements applied¹¹ to support the going concern basis are required.

⁹ Refer to HKAS 8 retitled as *Basis of Preparation of Financial Statements* and HKFRS 18 *Presentation and Disclosure in Financial Statements* as appropriate, from 1 January 2027.

¹⁰ HKAS 1.25 (HKAS 8.6K from 1 January 2027).

¹¹ HKAS 1.122 (HKAS 8.27G from 1 January 2027).

Management should consider all available information about the future for at least twelve months from the reporting date¹² and the events occurring up to the date of authorization for issue of financial statements¹³. For example, if circumstances deteriorate before authorization, making cessation of trading unavoidable, the financial statements shall not be prepared on a going concern basis. Management should continuously monitor tariff developments to ensure the appropriateness of the going concern assumption.

B. Other areas of financial reporting

(i) Asset impairment

a. Inventory valuation (HKAS 2 Inventories)

Inventories shall be measured at the lower of cost¹⁴ and net realizable value¹⁵ (NRV). When inventory cost exceeds NRV, an NRV provision is recognized. Common scenarios related to tariffs that may lead to NRV provisions include:

- *Importers:* Tariffs are capitalized as part of inventory costs¹⁶, resulting in higher overall costs.
- *Exporters:* Tariff implementation by importing countries may reduce export demand, leading to excess inventory. Decreases in export prices to clear accumulated inventories may lower NRV.
- *Manufacturers or suppliers:* Increased tariffs on raw materials raise inventory costs. For work-in-progress inventories, future tariffs may affect estimated cost of completion and hence inventory valuation.

Entities that produce and sell products locally should not underestimate the impact of tariffs. They may be indirectly affected by associated macroeconomic changes, such as reduction in customer demand for their products.

b. Impairment of non-financial assets (HKAS 36 Impairment of Assets)

Tariffs can significantly affect impairment testing under HKAS 36 by introducing changes and uncertainties in the timing and amount of expected future cash flows. Key impact on impairment assessment of assets¹⁷ under HKAS 36 include the following:

Timing of impairment tests

The following table sets out when an impairment test shall be performed under HKAS 36:

¹² HKAS 1.25-26 (HKAS 8.6K-6L from 1 January 2027).

¹³ Paragraph 14 of HKAS 10 *Events after the Reporting Period*.

¹⁴ HKAS 2.10.

¹⁵ HKAS 2.6-7 and 28-33.

¹⁶ HKAS 2.10-11.

¹⁷ HKAS 36 applies to most assets (e.g. property, plant and equipment, right-of-use assets, intangible assets, and goodwill), except for those specified in other HKFRS Accounting Standards. See HKAS 36.2 for assets that are not within the scope of HKAS 36.

Diagram 2 – Timing of impairment tests

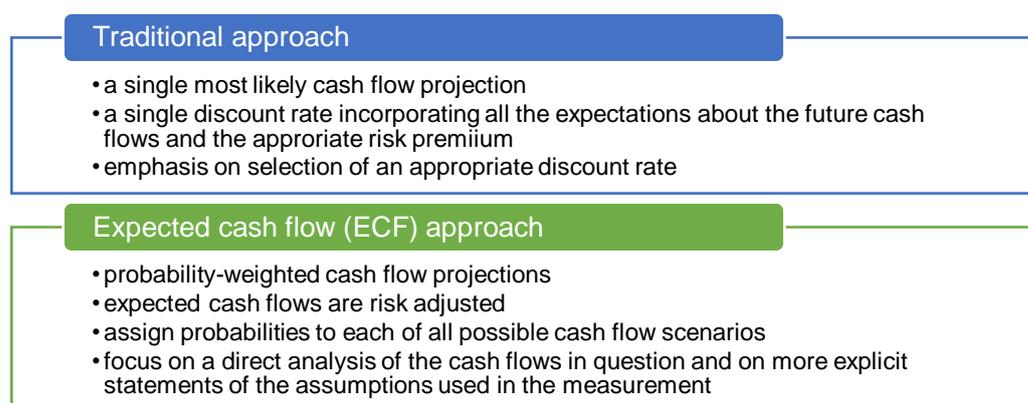
General requirement for all assets within the scope of HKAS 36 ¹⁸		
At each reporting date, an entity assesses whether there is any indication that an asset may be impaired. If yes, the recoverable amount of the asset shall be estimated.		
Annual impairment test for specific assets ¹⁹		
Intangible assets with an indefinite useful life	Intangible assets that are not yet available for use	Goodwill acquired in a business combination
These assets shall be tested for impairment annually <u>and</u> whenever there is an indication of impairment. Such tests may therefore be needed more than once a year if indications arise. The annual test can be conducted at any time during an annual period, provided it is performed at the same time every year. Different intangible assets may be tested at different times. Similarly, different cash-generating units to which goodwill is allocated may also be tested at different times. For newly recognized intangible assets or goodwill acquired in a business combination during the year, the test shall be performed before the end of that reporting period.		

Tariffs may change market conditions and an entity's expectations of future performance. Newly imposed or adjusted tariffs may constitute an impairment indicator, particularly when they undermine an entity's profitability through higher costs, diminished sales, or necessitate significant adjustments to operational strategies. For example, an entity may be compelled to modify its pricing strategy to sustain customer demand, which may compress profit margins or shift expected cash flows. These considerations align with those discussed in Part (a) on inventory valuation. Furthermore, if tariffs negatively affect market participants' view of the value of an entity or an investment (e.g. market capitalization falls below carrying amount of net assets), an impairment assessment is warranted²⁰.

Impact on recoverable amount calculations

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount. Recoverable amount is defined as the higher of an asset's or CGU's fair value less costs of disposal and its value in use²¹. HKAS 36 provides guidance on the following two approaches^{22, 23} for estimating value in use.

Diagram 3 – Present value techniques for value in use estimation



¹⁸ HKAS 36.9.

¹⁹ HKAS 36.10, 90 and 96. These assets require impairment testing at least annually regardless of indicators of impairment.

²⁰ HKAS 36.12(d).

²¹ HKAS 36.6.

²² HKAS 36 Appendix A.A4-A6 for the traditional approach.

²³ HKAS 36 Appendix A.A7-A14 for the expected cash flow approach.

Although the traditional approach may be more common, it relies heavily on discount rate assumptions, which may be more subjective. In contrast, the ECF approach may better reflect uncertainties introduced by tariffs by incorporating a range of possible outcomes in deriving the best estimate of recoverable amount. Entities may need to revisit their approach according to their circumstances.

Management's budgets and forecasts, typically the starting point for estimating future cash flows, should incorporate the impacts of tariffs on strategy, operations and financial performance. Key assumptions (e.g. sales volume, growth rates, inflation and profit margins) should be updated based on reasonable and supportable information²⁴.

Cash flow projection should reflect conditions known at the reporting date, including:

- tariffs enacted during the reporting period;
- announced tariffs expected to be enacted; and
- proposed tariffs with reasonable and supportable information.

Whichever approach is used for measuring value in use, discount rates should not double-count risks already reflected in the estimated future cash flows²⁵.

Impact on disclosure

Entities should ensure disclosures are up to date and tailored to reflect their specific circumstances. For goodwill or intangible assets with indefinite useful lives, HKAS 36 requires specific disclosures including key assumptions used to measure the recoverable amount of the CGU and management's approach used to determine the value assigned to each assumption²⁶. Tariff measures may necessitate sensitivity analysis disclosures, showing how a reasonably possible change in a key assumption could affect impairment assessments²⁷.

Entities should consider disclosing key sources of estimation uncertainty and significant judgements arising from the uncertainties introduced by tariffs, in accordance with the overarching requirements of HKAS 1.122 and HKAS 1.125. For example, this may include management's expectations regarding the duration and magnitude of tariff-related impacts when determining the recoverable amounts. These disclosure requirements apply to all impairment assessments and are not limited to goodwill and intangible assets with indefinite useful lives. They help enhance users' understanding of the impairment assessments performed by an entity on its assets.

²⁴ HKAS 36.33(a) requires cash flow projections to be based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

²⁵ HKAS 36.56, Appendix A.A3 and A15.

²⁶ HKAS 36.134(d).

²⁷ HKAS 36.134(f) and 135(e).

c. *Impairment of financial assets (HKFRS 9 Financial Instruments)*

HKFRS 9 provides guidance on measuring expected credit loss (ECL) for financial assets measured at amortized cost (e.g. trade and other receivables), financial assets measured at fair value through other comprehensive income, lease receivables, contract assets or loan commitments and financial guarantee contracts²⁸. The following table sets out the key impacts of tariffs on ECL measurement under HKFRS 9.

HKFRS 9 requirements	Tariff implications	Actions to take
<p><i>General approach</i> – Stage 1 (12-month ECL), Stage 2 and 3 (lifetime ECL)²⁹:</p> <p>If the asset has experienced a significant increase in credit risk since initial recognition or credit impairment, the ECL measurement shall fall into Stage 2 or 3 respectively, requiring recognition of lifetime ECL.</p>	<p>Tariffs may weaken debtors' ability to repay, increasing credit risk.</p> <p>Significant increase in credit risk or credit impairment moves a financial asset from Stage 1 to Stage 2 or 3 respectively, requiring lifetime ECL.</p>	<p>Entities should closely monitor changes in credit risk attributable to tariff impacts to ensure appropriate staging and measurement.</p>
<p><i>Rebuttable presumption</i>³⁰: Credit risk has significantly increased since initial recognition if contractual payments are more than 30 days past due.</p> <p>When an entity determines that there has been a significant increase in credit risk before contractual payments are more than 30 past due, the rebuttable assumption does not apply. In such cases, lifetime ECL are required even though contractual payments are less than 30 days past due.</p>	<p>Tariff impacts may cause credit deterioration, even if contractual payments are less than 30 days past due.</p> <p>Debtors significantly affected by tariffs may exhibit signs of increased credit risk or credit impairment, triggering recognition of lifetime ECL under Stage 2 or Stage 3, despite contractual payments being less than 30 days past due.</p>	<p>Entities should not solely rely on past due status but also monitor whether tariff-related developments have significantly increased credit risk for affected debtors and adjust the staging and ECL measurement accordingly.</p>
<p>Entities use all reasonable and supportable information without undue cost or effort at reporting date³¹ (past events, current conditions and forecasts of future economic conditions) in measuring ECL.</p>	<p>Tariff implementation and expectations at reporting date affect ECL measurement. If, at the reporting date, tariff impacts are reasonably expected, uncertainty related to these impacts should be carefully assessed and reflected in ECL measurement at the reporting date.</p>	<p>Entities should incorporate forward-looking information including tariff impacts into ECL measurement. However, tariffs which are not reasonably expected but announced after reporting date do not affect the ECL measurement.</p>
<p>Entities factor in guarantees integral to contractual terms of loan arrangements in measuring ECL³².</p>	<p>Guarantees such as those over trade receivables or standby letters of credit may not cover additional costs arising from tariffs or other government-imposed measures. As a result, ECL on relevant receivable balances cannot be mitigated through such guarantees.</p>	<p>Entities should revisit their loan arrangements, particularly the terms of guarantees, and watch out for exclusions (e.g. import taxes or specific government measures), and evaluate whether any effects of the guarantee on ECL measurement remain appropriate.</p>

²⁸ HKFRS 9.5.5.1.

²⁹ HKFRS 9.5.5.1 – 5.5.8.

³⁰ HKFRS 9.5.5.11.

³¹ HKFRS 9.5.5.17(c).

³² HKFRS 9 Appendix A – definition of 'credit loss'.

Impact on disclosure

Entities should update financial instrument risk disclosures under HKFRS 7 *Financial Instruments: Disclosures* to reflect the impact of tariff measures, particularly regarding credit risk exposures. This may involve revising sensitivity analyses and risk management strategies to show how an entity is actively monitoring and managing risks in response to evolving tariff landscape. For example, management may adjust its credit assessment processes and collateral arrangements to mitigate heightened credit risk. For further examples of how macroeconomic changes impact financial risk exposures, entities can refer to [Closing Out 2024](#)³³.

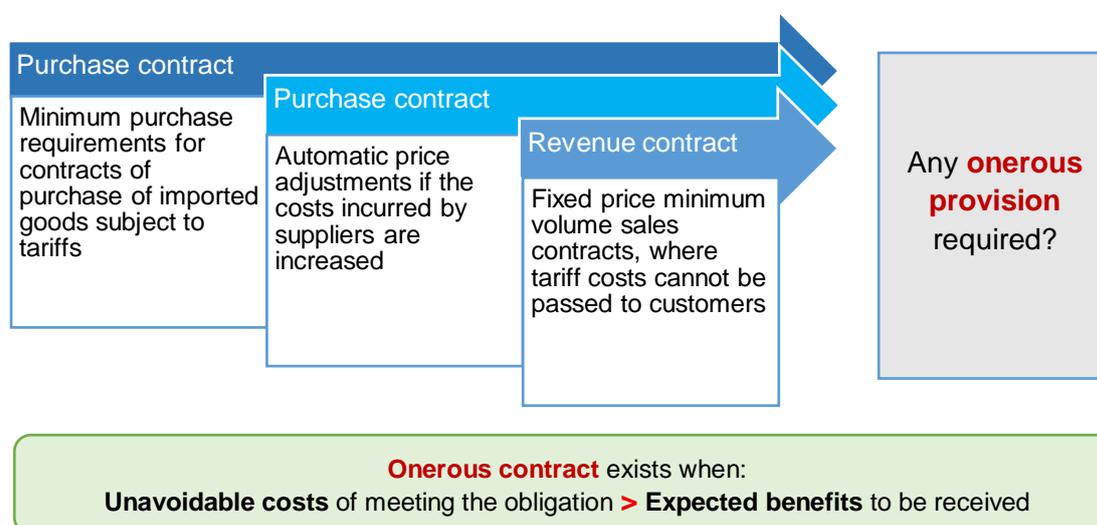
(ii) Onerous contracts (HKAS 37 Provisions, Contingent Liabilities and Contingent Assets)

An 'onerous contract' is defined as one where the unavoidable costs of meeting the obligations under the contract exceed the expected economic benefits to be received³⁴. 'Unavoidable costs' reflect the least net cost of exiting from the contract, determined as the lower of:

- the cost of fulfilling the contract and
- any compensation or penalties arising from failure to fulfill it³⁵.

The following diagram shows examples of contracts that may become onerous due to tariff measures:

Diagram 4 – Examples of circumstances that may lead to onerous contracts



When evaluating whether an onerous provision is needed, entities should carefully review the terms and conditions of their existing contracts. An important step is to determine whether the contract can be terminated without penalties (e.g. enforceable force majeure clauses). If obligation can be avoided, no onerous provision is required.

³³ [Closing Out 2024, Section II.1 \(P.7-9\)](#)

³⁴ HKAS 37.10.

³⁵ HKAS 37.68-68A. HKAS 37.68A further explains the 'cost of fulfilling a contract'.

Onerous contracts fall within the scope of HKAS 37³⁶. If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision. Key considerations include:

- *Impairment losses:* Before establishing a provision for an onerous contract, entities are required to first recognize any impairment loss on assets used to fulfill the contract³⁷.
- *Measurement basis:* Entities measure provisions at the best estimate to settle the present obligation at the reporting date³⁸. Obligations arise only when it is virtually certain that new tariff-related legislation will be enacted³⁹. The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted⁴⁰. However, in practice, it is often impossible to be virtually certain until the law is officially enacted. Similarly, in-process renegotiations with suppliers or customers, or agreements reached after year end, should not be reflected in the provision. Future events can be considered if there is sufficient objective evidence they will occur⁴¹.
- *Judgement:* Significant judgement may be required when assessing whether a contract is onerous and in measuring any resulting provision. For example, estimating expected benefits often involve forward-looking assessments related to fluctuations in sales prices or volume driven by market conditions and customer demand. Judgement may also be required in determining the lower of cost of fulfilling the contract and the cost of exiting from the contract, especially when alternative fulfilment options or termination costs are uncertain or subject to negotiation. Judgements should be applied consistently and supported by a robust assessment, with clear rationale for key assumptions, sensitivity analysis and relevant evidence considered.
- *Disclosures:* Entities should provide disclosures required by HKAS 37⁴², including a description of the nature of the obligations, the expected timing of outflows of economic benefits and uncertainties about the amount or timing of those outflows. Where appropriate, entities should also consider providing disclosures in accordance with the overarching requirements under HKAS 1.122 and HKAS 1.125 regarding key sources of estimation uncertainty and significant judgement applied in determining the provisions.

(iii) Deferred tax (HKAS 12 Income Tax)

a. Deferred tax assets

Tariffs may lower current income or create losses. Such reductions may undermine management's expectations for future profitability, leading to a downward revision of their forecasts of future taxable profits. This downward revision often arises from a more cautious

³⁶ HKAS 37.66-67.

³⁷ HKAS 37.65 and 69.

³⁸ HKAS 37.14 and 36.

³⁹ HKAS 37.22 and Example 2A appending to HKAS 37 related to consideration of legislation in measuring a provision.

⁴⁰ HKAS 37.50.

⁴¹ HKAS 37.48.

⁴² HKAS 37.84-85.

outlook on future sales growth due to decreased consumer spending and changing market dynamics under the impact of tariffs. Consequently, the recognition and recoverability of deferred tax assets based on estimates of future taxable profits may be affected, similar to other assets discussed in Part B(i) on 'Asset impairment'.

Under HKAS 12, for a deferred tax asset to be recognized, entities should assess whether there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity. These differences should be expected to reverse in the same period as the expected reversal of the deductible temporary difference, or in future periods which a tax loss arising from the deferred tax asset can be carried forward⁴³. Where taxable temporary differences are insufficient, deferred tax assets may still be recognized if it is probable that future taxable profit will be sufficient to support their recovery. These estimations should be well-supported by thorough assessments of tariff impacts and entities' future operations.

Entities should also ensure that the assumptions used in forecasting future taxable profits are consistent with those applied in impairment testing, although the forecasts for future taxable profits are made on an undiscounted basis⁴⁴.

b. Deferred tax liabilities

HKAS 12.39 requires an entity to recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except where both of the conditions in HKAS 12.39 are met: (a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference, and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

In the past, some investors might not have recognized deferred tax liabilities for withholding tax on undistributed profits of their investees, typically, subsidiaries, based on the rationale that they could control when the temporary differences would reverse, and the differences would not reverse in the future, as profits were intended to be retained within the subsidiaries for capital reinvestments.

Tariffs may change the above assessment. For instance, tariffs could weaken an investor's financial position, prompting the need to access investees' funds and recover the carrying amount of investments through profits distribution. In such cases, deferred tax liabilities should be recognized for taxable temporary differences related to withholding tax on undistributed profits, even if investors can still control the timing of reversal of those differences. This recognition may increase profit or loss volatility of investors.

⁴³ HKAS 12.28.

⁴⁴ HKAS 12.53.

(iv) Revenue recognition (HKFRS 15 Revenue from Contracts with Customers)

Tariffs may affect how entities assess and apply the revenue recognition requirements under HKFRS 15 across various areas. It is therefore important for entities to ensure that their revenue recognition practices continue to comply with HKFRS 15. The following two areas are particularly noteworthy in situations involving tariff-driven price changes:

a. Variable consideration versus contract modification

Entities may determine if tariff costs can be transferred to customers through price adjustments and whether such adjustments are variable consideration⁴⁵ or contract modifications⁴⁶.

- If the contract includes enforceable terms that allow the importer to automatically pass increased tariff costs to customers, the resulting change in transaction price is a change in the estimate of variable consideration, generally allocated to performance obligations on the same basis as their initial allocation at contract inception⁴⁷.
- A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. If a tariff-related price change is separately negotiated and agreed upon with the customer, contract modification requirements apply. Depending on facts and circumstances, contract modification is accounted for as a separate new contract, a termination of the existing contract and creation of a new one, or as a part of the existing contract⁴⁸.

b. Measuring the progress of completion – input method

Tariff measures can significantly affect entities that use input method to measure progress of performance obligations satisfied over time⁴⁹ and hence their revenue recognition. The uncertainty regarding the timing and duration of tariff measures adds complexity to the application of this method. Entities may find it challenging to accurately estimate costs and determine the appropriate percentage of completion for ongoing projects.

One of the primary effects of tariffs on the input method is that higher total estimated costs, resulting from tariffs, may decrease the percentage of completion. This potentially decreases cumulative amount of revenue recognized for a financial year. Therefore, entities should watch out for such impacts when preparing their financial statements.

⁴⁵ HKFRS 15.50-59 and 84-85.

⁴⁶ HKFRS 15.18-21 and 90.

⁴⁷ HKFRS 15.88.

⁴⁸ HKFRS 15.20-21.

⁴⁹ HKFRS 15.41-43 and B18-B19.

(v) HKAS 10 Events after the Reporting Period

Entities should refer to the applicable HKFRS Accounting Standards (e.g. HKFRS 9, HKFRS 13, HKAS 36 and HKAS 37 as discussed in this section) to assess whether, and how, expected tariffs should be considered in measuring an item at the reporting date. Generally, such measurements would not be affected by subsequent changes in the entity's expectations or by actual tariffs announced after the year end that differ from initial expectations. However, these post-balance sheet developments may still have implications for the going concern assessment (see Part A). They may also provide additional evidence about risks and uncertainties that existed at the reporting date, which could be relevant to impairment assessments (refer to Part B for further discussions on how tariffs may impact impairment assessments).

Entities should disclose all material subsequent events in accordance with HKAS 10, updating disclosures to inform users about conditions at the end of the reporting period, and how these conditions have evolved due to new information received after the reporting date. Disclosures should be clear and highlight the uncertainties arising from tariff-related developments, and explain management's assessment of those uncertainties, thereby enhancing users' understanding of the impact of subsequent events on the entities⁵⁰.

(vi) HKFRS 13 Fair Value Measurement

HKFRS 13 applies when another HKFRS Accounting Standard requires or permits fair value measurements or disclosures about fair value measurement, except for specific exclusions set out in HKFRS 13.6-7. Therefore, HKFRS 13 has broad applicability, covering both financial and non-financial assets and liabilities within its scope.

Tariffs can have a direct and material impact on fair value measurement when they affect the assumptions that market participants would use at the measurement date. They impact items measured at fair value, whether recurring or non-recurring, across various Standards. Tariffs can also affect estimates of fair value less costs of disposal in impairment assessments under HKAS 36. When determining fair value under HKFRS 13, entities should consider the following areas that are impacted by tariffs:

- *Market participants' view:*

HKFRS 13 defines fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. If tariffs are in place or expected by market participants at the measurement date, their effects should be incorporated in the fair value measurement, to the extent that would be considered by market participants, rather than based on an entity's intentions. For example, changes in business models in response to tariff measures or management's beliefs that tariffs are temporary are irrelevant unless these views align with those of market assumptions. The longer a tariff remains in effect, the more likely it is that it will be factored

⁵⁰ Refer to HKAS 10.19-21 for details of requirements.

into future cash flow expectations and risk assessments (e.g. expectations of reduced sales volume and persistently higher costs) when determining fair value.

For impairment assessments, the presence of tariffs may trigger the need for such assessments depending on their impacts on an entity's specific operations. However, fair value estimates under HKFRS 13 remain non-entity-specific. The assumptions used in the measurement must be consistent with those that would be used by market participants (not management) in pricing the assets.

- *Valuation techniques*

Tariffs may require adjustments to the valuation techniques and key assumptions used in those techniques⁵¹, including:

- Income approach: updating cash flow projections to incorporate changes in pricing, demand, costs, discount rate and expected duration of tariffs due to tariff effects.
- Market approach: revising estimates based on new or adjusted comparable transaction data affected by tariffs.
- Cost approach: adjusting replacement cost estimates to account for increased import duties.

All adjustments should be consistent with the assumptions and views of market participants.

- *Fair value inputs and disclosure implications*

HKFRS 13 requires maximizing the use of observable inputs and minimizing unobservable inputs in fair value measurements. Tariffs may reduce the availability or reliability of observable market data and increase the level of uncertainty around inputs. For instance:

- Comparable market transaction volumes may decline if tariffs disrupt trading volumes.
- Inputs previously classified as Level 2 (i.e. observable inputs other than quoted prices included within Level 1)⁵² may become unobservable or may require significant adjustments.

In such cases, entities may need to use Level 3 unobservable inputs and develop internal models using the best information available in the circumstances⁵³, while ensuring that the effects of tariffs are incorporated in a manner that is consistent with market participant perspectives. Additional Level 3 disclosures⁵⁴ should be provided when fair value measurements move to Level 3 of the fair value hierarchy. These include:

- A narrative description of sensitivity for all assets and liabilities categorized within Level 3 of the fair value hierarchy to changes in significant unobservable inputs and a description of any interrelationships between those unobservable inputs; and
- A quantitative sensitivity analysis for financial instruments measured at fair value and categorized within Level 3 of the fair value hierarchy⁵⁵.

⁵¹ HKFRS 13.62 and B5-B11.

⁵² HKFRS 13.81.

⁵³ HKFRS 13.89.

⁵⁴ HKFRS 13.93(e), (f), (g) and (h) for additional Level 3 disclosure requirements.

⁵⁵ HKFRS 13.93(h)(i)-(ii), BC206-209, BC244(i) and Example 19 in IE66.

It is crucial for entities to provide clear and transparent disclosures so that users can understand how tariffs have been considered in the valuation and how sensitive the valuations are to the assumptions and inputs.

C. Other considerations

Tariffs represent a significant source of global macroeconomic uncertainty, but other macroeconomic uncertainties, such as inflation and changing interest rates, highlighted in [Closing Out 2024](#) and earlier publications⁵⁶, will likewise continue to affect 2025 financial reporting. Entities should exercise judgement and make best estimates to ensure that uncertainties to which they are exposed are properly identified, considered and reflected in their financial reporting if material.

Given the complexities and risks involved, regulators have emphasized the need to manage audit risks arising from evolving tariffs effectively. Auditors should remain vigilant, proactively assess and respond to those risks, and ensure compliance with all relevant standards and meeting regulatory expectations⁵⁷.

2. Digital assets – stablecoins

As digital assets, including stablecoins, gain global popularity, the Hong Kong SAR Government has responded by enacting the [Stablecoins Ordinance \(Cap. 656\)](#). Gazetted on 30 May 2025 and effective from [1 August 2025](#), the Ordinance establishes a new regulatory framework for stablecoin activities, empowering the Hong Kong Monetary Authority to regulate fiat-referenced stablecoins and related operations, thereby enhancing protection for the interests of general public and investors.

This development raises important financial reporting questions: *How should entities account for stablecoins held and what are the key considerations in determining the appropriate accounting treatment?*

In June 2019, IFRS IC published an agenda decision on [Holding of Cryptocurrencies](#), explaining how IFRS Accounting Standards apply to holdings of cryptocurrencies. While both cryptocurrencies and stablecoins are subsets of digital assets, their accounting treatments may differ. The [2019 agenda decision](#) focused on cryptocurrencies that meet the specific scoping criteria⁵⁸. According to the agenda decision, these cryptocurrencies are accounted for under IAS 2 *Inventories* (HKAS 2 equivalent) if they are held for sale in the ordinary course of business. If IAS 2 is not applicable, entities apply IAS 38 *Intangible Assets* (HKAS 38 *Intangible Assets* equivalent) to account for holdings of these cryptocurrencies.

⁵⁶ [Closing Out 2024 Section II.1 \(P.6-9\)](#).

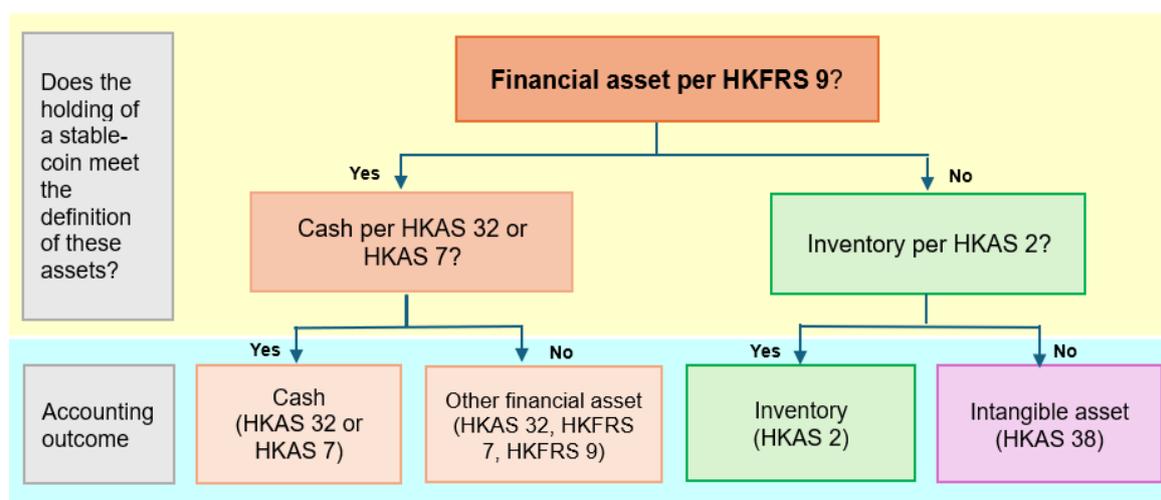
⁵⁷ See the publication '[How should auditors consider tariff disruptions in audits?](#)' issued by the Accounting and Financial Reporting Council in 2025.

⁵⁸ The [agenda decision](#) applies to cryptocurrencies that meet all these characteristics: a) a digital or virtual currency recorded on a distributed ledger that uses cryptography for security; b) not issued by a jurisdictional authority or other party; and c) does not give rise to a contract between the holder and another party.

However, fiat-backed stablecoins may not meet those scoping criteria due to the existence of an issuer and contractual relationships and therefore fall outside the scope of the 2019 agenda decision. To address this, the HKICPA published [guidance](#) in January 2026 on distinguishing cryptocurrencies and stablecoins and determining applicable HKFRS Accounting Standard(s) for fiat-backed stablecoins from a holder’s perspective.

The [guidance](#) sets out a decision tree, accompanied by detailed considerations for its application.

Diagram 5: Determining the applicable HKFRS Accounting Standards for stablecoins



The guidance primarily focuses on the left side of the diagram in relation to the application of HKAS 32, HKAS 7 and HKFRS 9. For considerations relating to HKAS 2 and HKAS 38, as represented on the right side of the diagram, entities can refer to the [2019 agenda decision](#)⁵⁹. The table below highlights the applicable accounting requirements, financial reporting implications and relevant key factors for considerations when determining whether stablecoins should be classified as cash and cash equivalents or other financial assets:

The following table is presented on the assumption that a **stablecoin meets the definition of ‘financial asset’** under HKAS 32:

Definition of a financial asset:

Any asset that is:

- Cash;
- An equity instrument of another entity;
- A contractual right to receive cash or another financial asset from another entity;
- A contractual right to exchange financial assets or financial liabilities with another entity under certain conditions; or
- A contract that will or may be settled in the entity’s own equity instruments and that meets certain conditions.

⁵⁹ Refer to [Section 2 ‘Stablecoins’, P.2-3 of the guidance](#) for relevant considerations or thought process in determining whether the stablecoin falls within or outside the scope of the 2019 agenda decision.

	If a stablecoin qualifies as 'cash'	If a stablecoin is 'non-cash' financial asset
Applicable accounting requirements	<p>1) HKAS 32 – Characteristics of cash</p> <ul style="list-style-type: none"> Is used as a medium of exchange for settling transactions for goods or services. Acts as a monetary unit in pricing goods or services. Serves as a basis for measuring and recognizing transactions in financial statements. [HKAS 32.AG3, 2019 agenda decision] <p>2) HKAS 7 – components of cash</p> <ul style="list-style-type: none"> Cash comprises cash on hand and demand deposits. [HKAS 7.6]. 	Refer to the definition of a 'financial asset', excluding assets that qualify as 'cash', to determine if the stablecoin is 'non-cash' financial asset.
Financial reporting implications	<ul style="list-style-type: none"> Assess whether a stablecoin possesses the characteristics of currency (cash) or demand deposit under HKAS 7 and HKAS 32 as appropriate. Present and disclose information required by HKAS 7. Disclose significant judgements applied [HKAS 1.122]. 	<ul style="list-style-type: none"> Assess whether the entity (holder) has a contractual right to redeem the stablecoin for cash or another financial asset (rather than non-financial asset). Apply the recognition and measurement requirements of HKFRS 9 and disclosure requirements of HKFRS 7. Disclose significant judgements applied. [HKAS 1.122]
Relevant key factors for considerations	<ul style="list-style-type: none"> May require judgement and legal opinions to determine whether the stablecoin qualifies as cash in the relevant jurisdictions under applicable laws and regulations. 	<ul style="list-style-type: none"> Analyze contractual terms, legal rights and obligations, and relevant facts and circumstances, to ascertain if the holder has a present contractual right that supports classification of the stablecoin as a financial asset. Factors to consider include: <ul style="list-style-type: none"> Whether redemption rights are conditional and if so, the nature of those conditions. Whether the conditions reflect characteristics of stablecoin itself, the holder or the issuer. Whether the issuer can refuse or suspend redemptions under specific circumstances. Whether any redemption rights should be accounted for separately under relevant accounting standards. Exercise significant judgement where redemption rights for stablecoins are complex or unclear. Consider legal or professional advice to fully understand the entity's rights and obligations arising from its stablecoin holdings.

If a stablecoin does not qualify as cash, an entity should assess if it meets the definition of 'cash equivalents' under HKAS 7.6 for presentation in the statement of financial position and the statement of cash flows. According to HKAS 7.6 and HKAS 7.7, cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash and subject to insignificant risks of changes in value, and held to meet short-term cash

commitments rather than for investment or other purposes. They typically have a short maturity, generally three months or less from the date of acquisition. When assessing whether stablecoins could be classified as cash equivalents, entities should consider factors such as whether the redemption mechanism allows holders to redeem the stablecoins for cash, without undue notice, fees or penalties.

The guidance emphasizes the need for a careful assessment of the characteristics and contractual terms of stablecoins, including related legal rights and obligations, to understand their nature and economic substance rather than merely legal form. Given the complexity and variations in contractual arrangements, entities may need to seek legal and professional advice to assist their assessment.

With rapid global evolution of digital assets, entities should closely monitor regulatory developments and emerging guidance to ensure compliance. In financial reporting, the IASB has prioritized cryptoassets within its [Intangible Assets project](#), which addresses intangible assets held for investment. Entities should stay updated on this project and related IASB materials, as any future IASB guidance shall prevail over the [guidance](#).

3. Climate-related reporting and connectivity

This year, we highlight two climate-related financial reporting updates that help improve connectivity across reporting and address climate-related financial reporting issues.

A. Disclosures about Uncertainties in the Financial Statements – Amendments to Illustrative Examples on IFRS 7, IFRS 18, IAS 1, IAS 8, IAS 36 and IAS 37⁶⁰

In [November 2025](#), the IASB released *Disclosures about Uncertainties in the Financial Statements*, which adds six new illustrative examples to several IFRS Accounting Standards. These examples illustrate how an entity applies existing disclosure requirements in IFRS Accounting Standards to report the effects of uncertainties in its financial statements. Although the examples do not change the requirements of existing IFRS Accounting Standards, they provide valuable guidance for effectively addressing climate-related risks and other uncertainties in financial reporting, as well as enhance the connectivity, consistency and comparability of information disclosed within and outside the financial statements.

Overview of the illustrative examples

The following table provides a high-level summary of these examples to help entities understand how to implement the guidance in their own situations.

⁶⁰ Equivalent amendments to respective HKFRS Accounting Standards are issued in [February 2026](#).

Important notes:

- Although the examples focus on climate-related scenarios, the principles and requirements illustrated are also relevant to other types of uncertainties.
- No effective date or transition requirements are provided, as the examples are not an integral part of the IFRS Accounting Standards. They are intended to provide additional insights into existing disclosure requirements and should be implemented in a timely manner.
- Although the examples are illustrative, entities should carefully assess how the demonstrated principles may impact their disclosures.

Examples	What is illustrated?	Related Standards
Materiality judgements in relation to additional disclosures		
Example 1	<p>This example explains how an entity assesses materiality of climate-related risks when there appears to be a disconnect between information in financial statements and information provided elsewhere (e.g. accompanying general-purpose financial reports).</p> <p>It demonstrates two scenarios – both of which have no effect on the recognition or measurement of assets and liabilities and for which no specific disclosures are required under IFRS Accounting Standards. It explains:</p> <ul style="list-style-type: none"> • how materiality judgements are applied under IAS 1.31 (IFRS 18.20), aligning with the four-step materiality process set out in paragraphs 33-65 of IFRS Practice Statement 2: <i>Making Materiality Judgement</i>, to determine whether additional disclosures are necessary for users' understanding. • how qualitative factors may or may not result in disclosures beyond explicit IFRS requirements. • the need to consider both quantitative and qualitative factors when evaluating whether additional disclosures are material⁶¹. 	IAS 1.31 IFRS 18.20 IFRS Practice Statement 2
<p>Example 1: Scenario 1 – Materiality judgements leading to additional disclosures</p>	<p>Background: An entity in a capital-intensive industry is exposed to significant climate-related transition risks. It discloses its climate-related transition plan to reduce greenhouse gas in its general-purpose financial report accompanying the financial statements. This plan is strategically important and expected to significantly affect its future operations.</p> <p>In preparing its financial statements, the entity considers that the transition plan does not materially affect its financial position and financial performance.</p> <p>Applying the Standards: No specific IFRS Accounting Standard requires disclosure of the financial effects of the transition plan. The entity therefore considers the requirements in IAS 1.31 (IFRS 18.20), which requires additional disclosures to meet the common information needs of primary users⁶².</p> <p>The entity considers quantitative and qualitative factors⁶³ specific to its circumstances. It also performs a 'step back' review to evaluate whether, without additional disclosures, the financial statements might appear inconsistent with the information in the accompanying general-purpose financial reports⁶⁴. For example, information about changes in manufacturing methods and investment in more energy-efficient technology might suggest potential asset impairments; however, no impairment loss has been recognized.</p> <p>The entity determines that additional disclosures under IAS 1.31 (IFRS 18.20) – explaining the lack of effect of its transition plan on its financial</p>	IAS 1.31 IFRS 18.20 IFRS Practice Statement 2

⁶¹ See IAS 1.BC120 (IFRS 18.BC441) for the IASB's rationale for considering qualitative factors and for the development of Scenarios 1 and 2.

⁶² IAS 1.BC122 (IFRS 18.BC443) explains that an entity focuses on the common information needs of primary users and is not expected to anticipate the information needs of individual users.

⁶³ For entity-specific and external qualitative factors, refer to IAS 1.IG21 (IFRS 18.IE27).

⁶⁴ IAS 1.IG18 (IFRS 18.IE24).

Examples	What is illustrated?	Related Standards
	position and financial performance for the current reporting period – would provide material information and thus include these disclosures in its financial statements ⁶⁵ .	
Example 1: Scenario 2 – Material judgements not leading to additional disclosures	<p><i>Background:</i> A service provider operating in a low-emission industry discloses its greenhouse gas emission policy in a general-purpose financial report accompanying its financial statements. It concludes that this policy does not materially impact its financial performance nor future operations.</p> <p><i>Applying the Standards:</i> In assessing if additional information would provide material information, the entity considers both quantitative and qualitative factors. It determines that 1) its greenhouse gas emission policy is not expected to significantly affect the entity's future operations, and 2) the relevant industry has low greenhouse gas emissions with limited climate-related transition risks⁶⁶.</p> <p>In contrast with Scenario 1, the entity determines that no additional disclosures are warranted under IAS 1.31 (IFRS 18.20), as explaining the lack of effect of its greenhouse gas emission policy, would not provide material information in the context of financial statements taken as a whole⁶⁷.</p>	IAS 1.31 IFRS 18.20 IFRS Practice Statement 2
Assumptions and other sources of estimation uncertainty		
Example 2 – Disclosure of assumptions: specific requirements:	<p>This example illustrates how an entity discloses key assumptions and sensitivity analysis for goodwill impairment, even if no impairment is recognized.</p> <p><i>Background:</i> An entity with high greenhouse gas emissions operates in some jurisdictions subject to greenhouse gas emission regulations. It determines that a CGU's recoverable amount, which includes significant goodwill, exceeds its carrying amount. However, the CGU's recoverable amount is most sensitive to key assumptions about future emission allowance costs.</p> <p><i>Applying the Standard:</i> Considering its circumstances, the entity provides tailored, entity-specific disclosure under IAS 36.134(d)(i)-(ii) relating to determination of the CGU's value in use. The disclosure explains all material assumptions used in impairment assessment, not only the discount rate or growth rate.</p> <p>The entity therefore discloses:</p> <ol style="list-style-type: none"> 1) The key assumptions, including those related to future emission allowance costs assumptions and future emission regulations. 2) Its approach to determining the values assigned to the key assumptions: e.g. whether its assumptions about the future price of emission allowances and future emission regulations are consistent with external information sources; and explain if not. <p><i>Other disclosure consideration:</i> Applying IAS 36.134(f), the entity considers providing sensitivity information. If a reasonably possible change in assumptions about the future price of emission allowances could result in an impairment loss, it discloses additional information, e.g. the amount by which the CGU's recoverable amount exceeds its carrying amount⁶⁸.</p>	IAS 36.134(d)(i)-(ii) and 134(f)
Example 3 – Disclosure of assumptions: general requirements	This example explains that an entity may need to disclose assumptions about the future under IAS 1 (IAS 8), even if no specific disclosure is required by other IFRS Accounting Standards. It illustrates how an entity identifies and discloses assumptions that pose a significant risk of material	IAS 1.125 and 129 IAS 8.31A and 31E

⁶⁵ IAS 1.IG23 (IFRS 18.IE29).

⁶⁶ IAS 1.IG29 (IFRS 18.IE35).

⁶⁷ IAS 1.IG30 (IFRS 18.IE36).

⁶⁸ IAS 36.IE95.

Examples	What is illustrated?	Related Standards
	<p>adjustments to the carrying amount of assets and liabilities within the next financial year.</p> <p><i>Background:</i> An entity operating in capital-intensive industry is exposed to climate-related transition risks, with indication of impairment for a CGU. Although the impairment test concludes that the CGU's recoverable amount exceeds its carrying amount, the test involves the use of assumptions related to climate-related transition risks which include future legal and regulatory developments.</p> <p><i>Applying the Standards:</i> As the CGU contains no goodwill or indefinite-life intangible asset and no impairment loss is recognized, IAS 36 does not specifically require disclosure of assumptions used in the impairment assessment. The entity therefore considers the requirements in IAS 1.125 (IAS 8.31A) which requires disclosure of sources of estimation uncertainties.</p> <p>The entity evaluates its circumstances (see below) and determines that disclosure of key assumptions and details of the nature and carrying amount of the CGU's non-current assets at the reporting date is necessary under IAS 1.125 (IAS 8.31A)⁶⁹:</p> <ol style="list-style-type: none"> 1) The CGU's carrying amount represents a large portion of the entity's total assets and is highly sensitive to the assumptions. 2) The assumptions involve highly uncertain events, increasing the risk of changing the assumptions due to new information or developments. 3) Frequent climate-related market, economic, regulatory and legal developments may revise the assumptions in the next reporting period. <p><i>Other disclosure consideration:</i> Applying IAS 1.129 (IAS 8.31E), the entity considers disclosing qualitative and quantitative information about the nature of assumptions, the sensitivity of non-current assets' carrying amount to these assumptions and the reasons for the sensitivity, if such information allows users to better understand management's judgements.</p>	
<p>Example 4 – Disclosure about credit risk</p>	<p>This example illustrates the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, and factors relevant to assessing materiality of information.</p> <p><i>Background:</i> A financial institution considers the effects of various risks on its credit risk exposures, including climate-related risks. It identifies two portfolios of loans (i.e. loans to agricultural customers and corporate real estate customers) for which climate-related risks have a significant effect on credit risks.</p> <p><i>Applying the Standard:</i> The entity considers the factors below and determines that information about the effects of climate-related risks on its credit risk exposure is material. It therefore considers what information to disclose under IFRS 7.35A-36 based on its circumstances⁷⁰.</p> <p>Factors considered in assessing materiality:</p> <ol style="list-style-type: none"> 1) The two portfolios represent a large portion of the entity's overall lending portfolio. 2) Climate-related risks have significant effects on credit risk exposure, compared to other factors, taking into account loan maturities and the nature, likelihood and magnitude of climate-related risks. 	<p>IFRS 7.35A-36</p>

⁶⁹ See IAS 1.IG36 (Guidance on Implementing IAS 8, paragraph 6.6) for details of factors for consideration in applying IAS 1.125 (IAS 8.31A).

⁷⁰ See IFRS 7.IG22A for examples of information for disclosures in applying IFRS 7.35A-36.

Examples	What is illustrated?	Related Standards
	3) External climate-related qualitative factors such as market, economic, regulatory and legal environment and climate-related developments may make information more likely to influence users' decisions .	
Example 5 – Disclosure about decommissioning and site-restoration provisions	<p>This example illustrates how IAS 37.85 applies to disclosure of information about plant decommissioning and site-restoration obligations, even if their effect on the carrying amount of the related provision is immaterial.</p> <p><i>Background:</i> A manufacturer has plant decommissioning and site-restoration obligations in relation to its facilities but expects to maintain and operate some of its facilities for a very long time. Therefore, the provision determined based on the present value of such obligations is not material.</p> <p><i>Applying the Standard:</i> The entity considers the factors below and determines that information about the above obligations is material and therefore discloses the information about the obligations for each class of provision recognized applying IAS 37.85⁷¹.</p> <p>Factors considered in assessing materiality:</p> <ol style="list-style-type: none"> 1) The costs of settling the obligations are high in nominal terms (i.e. before discounting). 2) The risk of early settling the obligations is significant and increasing. 3) External climate-related qualitative factors such as market, economic, regulatory and legal environment and climate-related developments may make information more likely to influence users' decisions. 	IAS 37.85
Aggregation and Disaggregation		
Example 6 – Disclosure of disaggregated information	<p>This example illustrates the principles of disaggregation in IFRS 18.41-42 and B110, particularly how an entity might disaggregate information in notes for a class of property, plant and equipment (PPE) on the basis of dissimilar risk characteristics to provide material information.</p> <p><i>Background:</i> The entity operates PPE that produces high greenhouse gas emissions. It also invests in alternative, lower-emission PPE within the same class, while continuing to operate the high-emission PPE.</p> <p><i>Applying the Standard:</i> Based on its circumstances, the entity concludes that the two types of PPE have sufficiently dissimilar risk characteristics. As a result, disaggregating information about them in the notes would provide material information to primary users.</p> <p>Factors considered in assessing materiality⁷²:</p> <ol style="list-style-type: none"> 1) The two types of PPE represent a large portion of the entity's total assets. 2) The relevant industry has a high exposure to climate-related transition risks, which may significantly affect how each type of PPE is used and how its carrying amount is recovered. 3) External climate-related qualitative factors such as market, economic, regulatory and legal environment and climate-related developments may make information more likely to influence users' decisions. 	IFRS 18.41-42 and B110

While the IASB expects entities to have sufficient time to implement disclosure changes, timely implementation⁷³ remains crucial to uphold compliance and transparency. The examples

⁷¹ See Guidance on Implementing IAS 37, Section D – Example 2A *Decommissioning and site-restoration obligations*, for information that the entity discloses applying IAS 37.85. For example, applying IAS 37.85(b), the entity may disclose major assumptions made concerning future events, such as expected timing of facility closure.

⁷² IFRS 18.IE41.

⁷³ IAS 1.BC130 (IFRS 18.BC451).

provide further insights into the practical application of the relevant Standards and so some adjustments in existing practices may be required. Notably, even if a climate-related policy does not affect the recognition or measurement of assets and liabilities (as illustrated in Examples 1 and 5), or specific disclosures are not explicitly required under the existing Standards, additional disclosures may still be warranted. Although the financial impacts of climate-related policy are considered not material in both Examples 1 and 5, both entities recognize that climate-related and other uncertainties may still represent material information for primary users of financial statements, necessitating additional disclosures.

In light of the ever-changing macroeconomic and climate-related environment, and the uncertainties and risks arising from those developments, entities should proactively review the examples and assess whether any actions are required while maintaining consistency across financial statements and other reports.

B. Recognition of intangible assets from climate-related expenditure (IAS 38 Intangible Assets)

In April 2025, the IFRS IC released an agenda decision regarding [Recognition of Intangible Assets from Climate-related Expenditure \(IAS 38\)](#). The agenda decision addresses a scenario where an entity committed to reducing its carbon emissions by 2030 and took various actions that resulted in the creation of intellectual capital and establishment of a constructive or legal obligation at the end of the reporting period. The submission questioned whether (1) acquiring carbon credits and (2) spending on research and development (R&D) activities that resulted in intellectual capital qualify as intangible assets under IAS 38.

The IFRS IC focused only on question (2), noting the IASB’s research on pollutant pricing mechanisms (PPMs) and potential future projects that may address question (1). The IFRS IC identified that there is no significant diversity in accounting for R&D expenditures, nor did the scenario have widespread implications. Therefore, it decided not to add a standard-setting project to the work plan.

Although the IFRS IC did not pursue any further actions, we highlight below some related considerations and insights that derived from the agenda decision related to climate-related financial reporting:

Topics	Areas for considerations
Intangible asset recognition – research and development expenditure	<ul style="list-style-type: none"> Entities should ensure that the recognition criteria⁷⁴ for intangible assets in HKAS 38 are applied consistently.
Assets and liabilities recognition – carbon credits	<ul style="list-style-type: none"> Entities acquiring carbon credits should monitor the IASB developments on PPMs and potential future projects and guidance which could significantly affect recognition and measurement of related assets and liabilities.

⁷⁴ See HKAS 38.8 for the definition of intangible asset and HKAS 38.51-67 for the accounting requirements of internally generated intangible assets.

Topics	Areas for considerations
Constructive or legal obligations	<ul style="list-style-type: none"> Entities should evaluate whether commitments (e.g. carbon emission reductions) constitute constructive or legal obligations under HKAS 37⁷⁵ and determine if a provision is required. For provision recognition, entities may refer to another IFRS IC agenda decision published in April 2024⁷⁶.
Disclosures	<ul style="list-style-type: none"> Entities should provide sufficient disclosures⁷⁷ for R&D expenditure and provisions as well as significant judgements made in applying the related accounting policies if they are material information.
Internal controls and processes	<ul style="list-style-type: none"> Entities should ensure robust internal processes and control in place to track commitments, expenditures and obligations for accurate reporting and compliance.

III. IFRS Interpretations Committee Agenda Decision relevant to Hong Kong

The IFRS IC supports consistent application of IFRS Accounting Standards by issuing agenda decisions that clarify their application to specific situations. These decisions provide the IFRS IC's rationale and interpretative guidance that entities are expected to apply on a timely basis. As HKFRS Accounting Standards are fully converged with IFRS Accounting Standards, IFRS IC agenda decisions apply equally to entities reporting under HKFRS Accounting Standards.

In 2025, the IFRS IC finalized and published five agenda decisions⁷⁸. Section II discusses the agenda decision on [Recognition of Intangible Assets Resulting from Climate-related Expenditure \(IAS 38\)](#). This section highlights another agenda decision concerning issued guarantees, which is considered particularly relevant for entities reporting in Hong Kong.

Guarantees Issued on Obligations of Other Entities – issuer accounting⁷⁹

Entities often issue guarantees on obligations of other entities for various purposes. The IFRS IC received a request on how an entity should account for guarantees that it issues on obligations of its joint venture across three fact patterns involving guarantees that make payments to a bank, a customer, or another third party if the joint venture fails to meet its obligations. The question was which IFRS Accounting Standard applies in each scenario.

Given the specificity of the fact patterns and the potential for small differences to change the conclusion, the IFRS IC determined not to conclude on the accounting for the individual scenarios. Instead, it provided a framework for assessing the scoping requirements to help

⁷⁵ See HKAS 37.10 for definition of 'legal obligation' and 'constructive obligation'.

⁷⁶ In April 2024, the IFRS IC published an agenda decision on [Climate-related Commitments \(IAS 37\)](#) on whether a company's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation and, if so, whether that constructive obligation meets the criteria in IAS 37 for recognizing a provision.

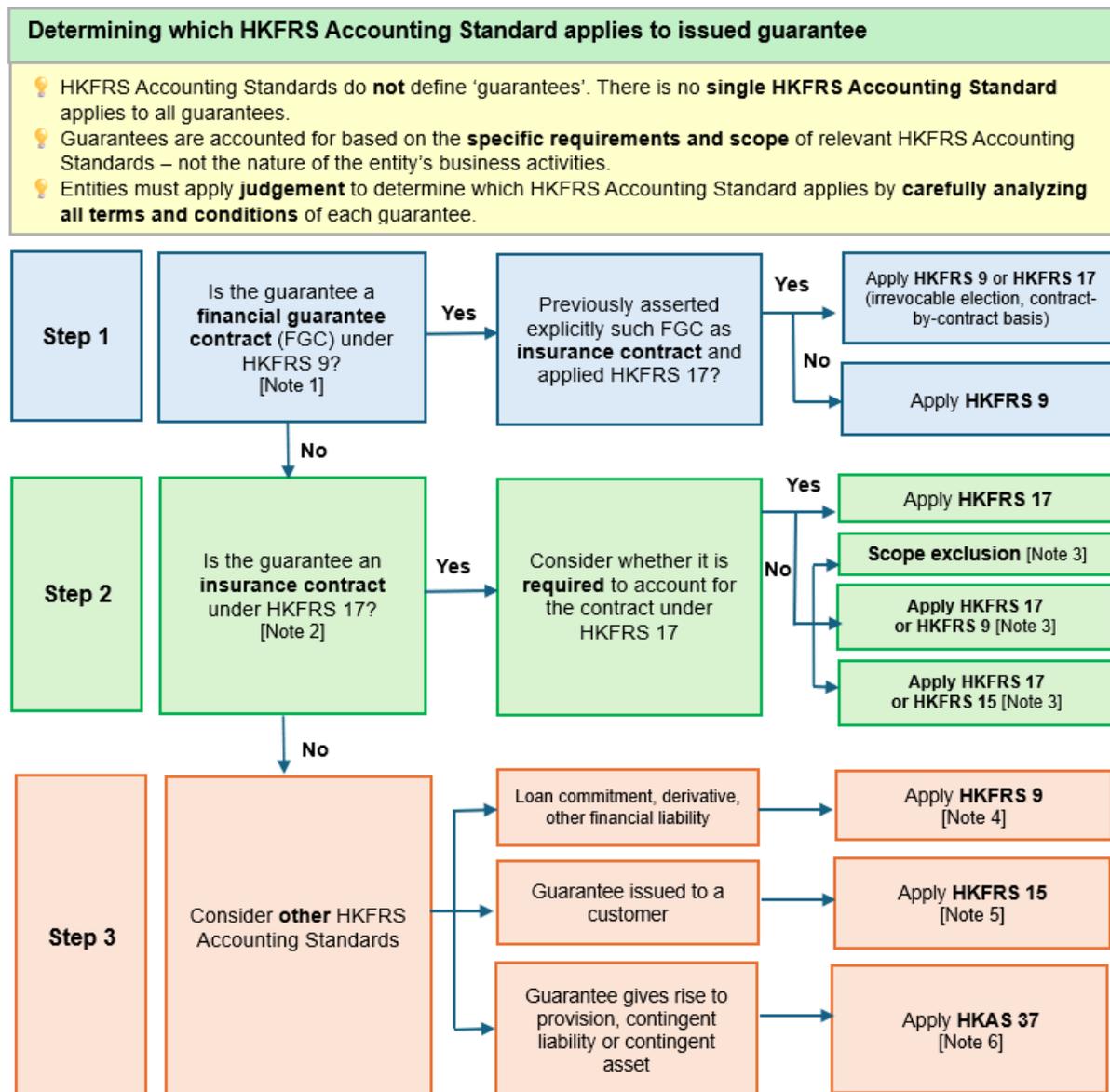
⁷⁷ See HKAS 38.118-128 and HKAS 37.84-92 for the applicable disclosure requirements.

⁷⁸ See Appendix of this publication for the complete list of the agenda decisions published in 2025.

⁷⁹ For details, see [the IFRS IC agenda decision](#) published in April 2025.

determine the applicable IFRS Accounting Standard. The sequence of assessment, adapted to reflect HKFRS terminology, is presented below:

Diagram 6: Guarantees issued on obligations of other entities



Note 1: HKFRS 9 defines FGC as 'a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument'. However, the term 'debt instrument' is not defined in HKFRS Accounting Standards. The IFRS IC concluded that an entity applies **judgement** in interpreting the meaning of this term in determining if a guarantee is an FGC.

Note 2: HKFRS 17 defines an 'insurance contract' as 'a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'.

Note 3: Once an entity has determined that it issues insurance contracts, it considers if it must account for these contracts under HKFRS 17. Meeting the definition of insurance contract does not automatically require accounting under HKFRS 17, as HKFRS 17 has specific scope exclusions (HKFRS 17.7), and permits entities to choose to apply other HKFRS Accounting Standards (HKFRS 17.8-8A) in certain cases. Specifically,

- *Fixed-fee service contracts*: If a contract's primary purpose is to provide services for a fixed fee and specified conditions are met, an entity may elect to apply either HKFRS 15 or HKFRS 17 on a contract-by-contract basis, and the choice for each contract is irrevocable.
- *Contracts with limited insurance compensation*: If a contract limits compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, an entity may opt to apply either HKFRS 9 or HKFRS 17 (unless excluded under HKFRS 17.7). The entity shall make that choice for each portfolio of insurance contracts, and the choice for each portfolio is irrevocable.

Note 4: HKFRS 9 might be applicable if the guarantee is a loan commitment (HKFRS 9.2.3) or a derivative (HKFRS 9 Appendix A), or otherwise meets the definition of a financial liability as defined in HKAS 32.

Note 5: HKFRS 15 might be applicable if the counterparty to the guarantee is a customer, and the guarantee is not within the scope of other HKFRS Accounting Standards (HKFRS 15.5-8).

Note 6: HKAS 37 is applicable only if the guarantee gives rise to a provision, contingent liability or contingent asset that is not within the scope of other HKFRS Accounting Standards (HKAS 37.5).

An entity should assess which HKFRS Accounting Standard applies to a guarantee by thoroughly reviewing the contract's terms, as this assessment can significantly affect the accounting outcomes. For example, under HKFRS 9, unless the contract is designated as measured at fair value through profit or loss at initial recognition, an FGC is initially recognized at fair value and subsequently measured at the higher of the loss allowance under HKFRS 9 and the amount initially recognized, less cumulative amortization of income recognized in accordance with the principles of HKFRS 15⁸⁰. In contrast, HKFRS 17 would require an FGC to be measured at the total of the fulfilment cash flows and any contractual service margin (unearned profit), unless the simplified measurement model (i.e. premium allocation approach) is applied.

Judgement may be necessary, for instance, in determining whether a guarantee is an FGC under HKFRS 9. Entities should disclose the significant judgements made in applying their accounting policies for issued guarantees, as required by HKAS 1.122⁸¹.

IV. HKFRS Accounting Standards issued but not yet effective as of 1 January 2025

2025 is relatively a quiet year, with no new major HKFRS Accounting Standards issued. Among the amendments and new HKFRS Accounting Standards issued but not yet effective, Amendments to HKFRS 9 and HKFRS 7 on classification and measurement of financial Instruments, as well as HKFRS 18 on presentation and disclosure of financial statements, are expected to have more widespread and significant impact on entities reporting in Hong Kong. For key requirements and implications of HKFRS 18 and the amendments to HKFRS 9 and HKFRS 7, please refer to [Closing Out 2024](#)⁸² published in 2025. This section is a high-level recap of key reminders and developments.

⁸⁰ See HKFRS 9.5.1.1 for initial measurement requirements, and HKFRS 9.4.2.1(c) and B2.5 for requirements on subsequent measurement.

⁸¹ HKAS 8.27G from 1 January 2027.

⁸² [Closing Out 2024, Section III, P.21-28](#).

1. Amendments to HKFRS 9 and HKFRS 7 – mandatorily effective in 2026

The amendments address the requirements for the initial recognition or derecognition of financial assets and liabilities, classification of financial assets and related disclosures. While their impact will vary among entities, the amendments may change certain common practices in Hong Kong, such as derecognition of financial liabilities upon issuance of cheques.

As highlighted in [Closing Out 2024](#), it is common for entities in Hong Kong to derecognize a trade payable when a cheque is issued to a creditor. Entities then perform bank reconciliation procedures to reconcile any differences in the closing balance between their bank ledger and bank statements. The amendments will change this practice, requiring an entity to derecognize a trade payable only when the creditor receives the cash. Similarly, a trade receivable should be derecognized when the entity receives cash from the bank following cheque clearance, not at the time when the cheque is received.

Entities should also assess whether other aspects of the amendments apply to their circumstances. For instance, if they hold financial assets with contingent features or investments in equity instruments designated at fair value through other comprehensive income, the amendments provide additional application guidance concerning classification and disclosure.

By now, we expect most entities to have completed their initial impact assessments, with those affected progressing with necessary system and process changes for a smooth transition upon initial adoption in 2026. Those that have not yet begun this process should act without delay.

Although the amendments take effect in 2026, entities are expected to provide disclosures in their 2025 financial statements as required by HKAS 8.30-31, including the known or reasonably estimable information about the possible impact of the amendments on their financial statements in the period of initial application.

2. HKFRS 18 – mandatorily effective in 2027

HKFRS 18, which aims to improve transparency and comparability of information about entities' financial performance, will replace HKAS 1. Although HKFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, it shall be applied retrospectively. This means that 2026 comparatives in the 2027 financial statements will be restated. Furthermore, as required by HKAS 8.30-31, entities should disclose in their December 2025 financial statements the possible impacts of initial application of new or amended HKFRS Accounting Standards. Entities that have not yet begun preparations should act promptly to ensure that necessary changes are in place for preparing 2026 comparatives.

HKFRS 18 is expected to have broad implications across industries due to new presentation and disclosure requirements. Key changes include the requirements to classify all income and expenses into five categories – operating, investing, financing, discontinued operations and income taxes – in the statement of profit or loss, and to present new subtotals for operating

profit or loss and profit or loss before financing and income taxes. HKFRS 18 also strengthens guidance on aggregation and disaggregation of information, introduces new disclosures for management-defined performance measures and removes classification options for interests and dividends in the statement of cash flows.

To gain a deeper understanding of HKFRS 18, entities may refer to the [dedicated webpage](#) developed by the HKICPA, which provides a comprehensive collection of technical resources and guidance on HKFRS 18. Additional implementation support and resources will be added to the webpage throughout 2026, so entities are encouraged to visit the webpage regularly for the latest updates.

Recent developments of IFRS 18

As the effective date of IFRS 18 approaches, entities are identifying practical application questions in the course of implementation. At its November 2025 meeting, the IFRS IC discussed submissions concerning the application of IFRS 18 and published several tentative agenda decisions (TADs) on 8 December 2025 for public comment until 6 February 2026. The TADs cover the following topics:

Topics	Issues raised in the submissions
Classification of Gains and Losses on a Derivative Managing a Foreign Currency Exposure	<ul style="list-style-type: none"> How an entity applies IFRS 18 to classify gains or losses arising from a derivative that is used to manage the foreign currency risk of a net liability exposure, but is not designated as a hedging instrument applying IFRS 9, in its consolidated statement of profit or loss.
Presentation of Taxes or Other Charges that are Not Income Taxes within the Scope of IAS 12 Income Taxes	<ul style="list-style-type: none"> Whether an entity applying IFRS 18 is permitted to present taxes or other charges that are not income taxes within the scope of IAS 12 in the 'income tax expense or income' line item of the statement of profit or loss required by IFRS 18.75(a)(iv) or in the income taxes category of the statement of profit or loss. In this context, the IC proposed further updates to two IFRS IC's agenda decisions for IFRS 18 [November 2025] which it had previously proposed updates: (1) Presentation of payments on non-income taxes (IAS 1); and (2) Classification of tonnage taxes (IAS 12). The IFRS IC is seeking feedback only on the proposed updates, not on other aspects of these two agenda decisions.
Scope of the Requirement to Disclose Expenses by Nature	<ul style="list-style-type: none"> Whether the requirements in IFRS 18.83 apply (1) only when an entity presents operating expenses listed in IFRS 18.75(a)(ii) by function in the operating category of the statement of profit or loss; or (2) when an entity presents any expense by function in the operating category of the statement of profit or loss, including expenses listed in IFRS 18.75(b)-(c).
Assessment of a Specified Main Business Activity for the purposes of the Separate Financial Statements of a Parent	<ul style="list-style-type: none"> How a parent applies IFRS 18 to assess, for the purpose of its separate financial statements, whether it has a specified main business activity of investing in unconsolidated subsidiaries.

Entities can explore the detailed fact patterns, the IFRS IC's analyses and the TADs via the provided hyperlinks. The [IASB's website](#) also provides live and on-demand meeting recordings and related meeting papers for further reference.

Why these developments matter?

The issues raised with the IFRS IC underscore the practical challenges and wide-ranging implications of IFRS 18's new presentation and disclosure requirements. By reviewing the TADs, entities can identify whether similar scenarios exist in their own operations and assess the potential impacts on future financial statements. This review also helps pinpoint areas where updates to accounting policies, systems, or processes may be needed.

These developments reinforce the importance of proactive implementation planning. Early identification of potential issues allows entities to address them adequately through internal analysis, discussions with auditors or consultation with professional advisors before HKFRS 18 becomes effective. Entities should also closely monitor the release of final agenda decisions, as these may have direct implications for their reporting and compliance.

Appendix – New and amended HKFRS Accounting Standards as well as Agenda Decisions issued by the IFRS IC

The following amended HKFRS Accounting Standard became effective as of 1 January 2025:

Standard	Description
Amendments to HKAS 21 <i>The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability</i>	The amendments require an entity to apply a consistent approach to assessing whether a currency is exchangeable into another currency and, when it is not, to estimating the spot exchange rate to use and determining the disclosures to provide.

The following new and amended HKFRS Accounting Standards and Hong Kong Interpretation have been issued but are not yet effective as of 1 January 2025. They are available for early adoption.

Effective from annual periods beginning on or after (in chronological order):	New and amended HKFRS Accounting Standards and Interpretation
1 January 2026	Amendments to HKFRS 9 <i>Financial Instruments</i> and HKFRS 7 <i>Financial Instruments: Disclosures – Amendments to the Classification and Measurement of Financial Instruments</i>
1 January 2026	<i>Annual Improvements to HKFRS Accounting Standards — Volume 11:</i> <ul style="list-style-type: none"> • Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards</i> • Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i> and Guidance on Implementing HKFRS 7 • Amendments to HKFRS 9 <i>Financial Instruments</i> • Amendments to HKFRS 10 <i>Consolidated Financial Statements</i> • Amendments to HKAS 7 <i>Statement of Cash Flows</i>
1 January 2026	Amendments to HKFRS 9 <i>Financial Instruments</i> and HKFRS 7 <i>Financial Instruments: Disclosures – Contracts Referencing Nature-dependent Electricity</i>
1 January 2027	HKFRS 18 <i>Presentation and Disclosure in Financial Statements</i>
1 January 2027	HKFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>
1 January 2027	Amendments to HKFRS 19 <i>Subsidiaries without Public Accountability: Disclosures</i>

Effective from annual periods beginning on or after (in chronological order):	New and amended HKFRS Accounting Standards and Interpretation
1 January 2027	Amendments to Hong Kong Interpretation 5 <i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>
A date to be determined by the IASB	Amendments to HKFRS 10 <i>Consolidated Financial Statements</i> and HKAS 28 <i>Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>

The following [agenda decisions](#) were published by the IFRS IC in 2025:

Publication month	Agenda Decisions
February 2025	<ul style="list-style-type: none"> • Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts – IAS 7 <i>Statement of Cash Flows</i>
April 2025	<ul style="list-style-type: none"> • Recognition of Revenue from Tuition Fees – IFRS 15 <i>Revenue from Contracts with Customers</i> • Recognition of Intangible Assets from Climate-related Expenditure – IAS 38 <i>Intangible Assets</i> • Guarantees Issued on Obligations of Other Entities
July 2025	<ul style="list-style-type: none"> • Assessing Indicators of Hyperinflationary Economies – IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>

About the Standard Setting Department

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorized by law to set and promulgate standards relating to financial reporting, auditing, ethics and sustainability disclosures for professional accountants in Hong Kong. The due process documents of the Standard Setting Department (SSD) explain the processes and procedures for developing local standards and adopting international standards.

To find out more about how SSD contributes to international standard-setting, please visit: <https://www.hkicpa.org.hk/en/Standards-setting/Standards/How-we-set-standards-and-contribute-to-international-standards>

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