Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Key impact of the 2025 revised *HKFRS for Private Entities* Accounting Standard on local entities

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The HKICPA's Standard Setting Department welcomes your comments and feedback on this document, which should be sent to commentletters@hkicpa.org.hk.

In Hong Kong, entities without public accountability[1] can choose to adopt the *HKFRS for Private Entities* Accounting Standard (HKFRS for PE), which provides a simplified set of accounting standards tailored for eligible private entities. The requirements in the HKFRS for PE are based on those of the full HKFRS Accounting Standards, with simplifications to reflect the information needs of users of financial statements and the resources available to private entities.

The HKFRS for PE was revised in April 2025 (revised HKFRS for PE) to improve the information provided to users of private entities' financial statements while maintaining the simplicity of the standard. The revised HKFRS for PE is effective for annual periods beginning on or after 1 January 2027, with early application permitted.

The revision in 2025 covered several aspects of the standard. The table on the following pages summarises the major amendments to the HKFRS for PE and their key impacts on local entities currently applying the extant HKFRS for PE in their financial statements. The discussions in the table are not exhaustive. Entities are reminded to read the original text of the revised HKFRS for PE to understand how the amendments will affect their financial reporting based on their specific facts and circumstances.

[1] Refer to paragraphs 1.3 to 1.4 of the HKFRS for PE for the definition of public accountability.

Major amendments and their key impacts

Section in the revised HKFRS for PE	**Major amendments**[2]	**Key impacts on local entities**[3]
Section 2 *Concepts and Pervasive Principles*	(i) Revised based on the *Conceptual Framework for Financial Reporting* issued in 2018. The revised section introduces new concepts related to measurement, presentation and disclosure, and guidance on derecognition. It also clarifies the concepts of prudence, stewardship, measurement uncertainty and substance over form. (ii) Added an overriding principle that the requirements in other sections of the revised HKFRS for PE take precedence over Section 2 in order to resolve any potential inconsistency between Section 2 and other sections of the revised HKFRS for PE.	Entities will need to apply the new concepts in the revised section to develop accounting policies when other sections of the revised HKFRS for PE do not specify the accounting requirements. The new concepts and clarifications will help entities apply judgement in developing accounting policies in such circumstances.

[2] Adapted from the Project Summary issued by the IASB.
[3] Adapted from the Feedback Statement and Effects Analysis issued by the IASB.

Section in the revised HKFRS for PE	**Major amendments[2]**	**Key impacts on local entities[3]**
Section 9 *Consolidated and Separate Financial Statements*	(i) Updated the definition of control to align with HKFRS 10 *Consolidated Financial Statements*, which uses the definition as the single basis for consolidation (control model). (ii) Introduced requirements for a parent that loses control of a subsidiary to measure its retained interest in the former subsidiary at fair value (instead of at carrying amount under the extant HKFRS for PE) on the date control is lost, with any resulting gain or loss recognised in profit or loss.	(i) Entities will have a single basis for assessing control, which they will use for all investees. Having a single basis removes the uncertainty about which requirements in Section 9 apply to which entities (including special purpose entities). The rebuttable presumption that control exists when an investor owns the majority of the voting rights of an investee has been retained, which simplifies the application of the control model. It is expected that entities with simple group structures will not be affected by the single model for assessing control. The amended definition may affect entities with complex structures or interests in special purpose entities. (ii) The amendments align Section 9 with those in Section 19 *Business Combinations and Goodwill* for an acquisition achieved in stages (step acquisitions), facilitating their application by entities. Entities will need to allocate time and incur costs to assess the fair value of the former subsidiary on the date control is lost for accounting purposes.

Section in the revised HKFRS for PE	**Major amendments[2]**	**Key impacts on local entities[3]**
Section 11 *Financial Instruments*[4]	(i) Added a supplementary principle for classifying financial instruments based on contractual cash flow characteristics. (ii) Added the definition of a financial guarantee contract and amended the requirements for issued intragroup financial guarantee contracts. Intragroup financial guarantee contracts issued at nil consideration are in the scope of Section 21 *Provisions and Contingencies*. Other financial guarantee contracts are within the scope of Section 11 and will continue to be measured at fair value. (iii) Added disclosure requirements for intragroup financial guarantee contracts that are within the scope of Section 21 to explain their nature, purpose and possible effects on cash flows.	(i) Supplementing the list of examples in Section 11 with a principle for classifying financial instruments provides a clear rationale for entities to classify and measure financial instruments at either amortised cost or fair value. The principle would assist entities in making judgement if the financial instrument does not match with the characteristics in the examples. (ii) The amendments will affect entities issuing intragroup financial guarantee contracts. Including intragroup financial guarantee contracts in the scope of Section 21 simplifies the requirements for entities, removing the complexities of measuring these contracts at fair value. (iii) The additional disclosures are not expected to impose a significant burden on entities issuing intragroup financial guarantee contracts, as they relate to basic information that should be readily available before entities consider issuing those

[4] Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instrument Issues* were combined into a single section, renamed Section 11 *Financial Instruments*.

Section in the revised HKFRS for PE	Major amendments[2]	Key impacts on local entities[3]
	(iv) Added new disclosure requirements for financial assets and financial liabilities. These disclosures include: an ageing analysis of financial assets and maturity analysis for financial liabilities. (v) Removed the option to apply the recognition and measurement requirements of HKAS 39 *Financial Instruments: Recognition and Measurement.*	contracts. (iv) It is not expected that these analyses will be costly for private entities to prepare, as similar analyses are typically generated by most entities' reporting systems for managing receivables and assessing the liquidity and solvency positions of the entities. (v) The removal of the fallback option to HKAS 39 will only affect entities that are currently adopting such an option. These entities will need to apply the transitional requirements in paragraph A11 of the revised HKFRS for PE to transition from HKAS 39 to Section 11 of the standard.

Section in the revised HKFRS for PE	**Major amendments[2]**	**Key impacts on local entities[3]**
New Section 12 *Fair Value Measurement*	(i) Combined the fair value measurement requirements in other sections of the HKFRS for PE into this new section. (ii) Updated the fair value measurement requirements to align with certain aspects of HKFRS 13 *Fair Value Measurement*, including the definition of fair value, the principles of fair value hierarchy, and the disclosure requirements, for example, a description of the valuation techniques used for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, as well as the inputs used in these measurements.	(i) The amendments do not change the requirements for when to measure assets and liabilities at fair value. However, moving all the fair value measurement requirements into a single section improves accessibility of the requirements for entities applying the revised HKFRS for PE. (ii) The definition of fair value from HKFRS 13 is clearer and more comprehensive than the definition in the extant HKFRS for PE. The new definition and guidance will lead to greater clarity and consistency when entities estimate fair values. However, entities will need to invest more time and resources in preparing the additional disclosures related to the valuation techniques and inputs.

Section in the revised HKFRS for PE	**Major amendments[2]**	**Key impacts on local entities[3]**
Section 19 *Business Combinations and Goodwill*	(i) Updated the definition of a business to align with the definition in HKFRS 3 *Business Combinations.* (ii) Added accounting requirements for acquisitions achieved in stages (step acquisitions). (iii) Added new requirements explaining that an entity newly formed to effect a business combination may not be the acquirer in the combination. (iv) Updated the requirements for the recognition and measurement of assets acquired and liabilities assumed, and goodwill. These include: • clarifying that an acquirer cannot recognise a contingent liability that does not meet the definition of a liability; • requiring entities to measure contingent consideration at fair value, if it can be measured reliably without undue cost or effort; and	(i) The new definition of a business is clearer than the existing definition and will help entities decide when to apply Section 19. (ii) Entities will benefit from the requirements for step acquisitions and guidance for a new entity formed in a business combination. The new requirements and guidance will remove the need for entities to apply judgement in setting an accounting policy for these events and transactions. (iii) Ditto. (iv) The amendments clarify certain aspects of the accounting for business combinations, which would enhance consistent application. The clarifications relating to contingent consideration and acquisition-related costs can enhance the information provided to users regarding the cost of the business combinations.

Section in the revised HKFRS for PE	**Major amendments[2]**	**Key impacts on local entities[3]**
	• requiring entities to recognise acquisition costs as an expense in profit or loss at the time of the acquisition.	
Section 23 *Revenue from Contracts with Customers*[5]	(i) Introduced a comprehensive framework for recognising revenue, based on the five-step model in HKFRS 15 that requires an entity to recognise revenue when the customer obtains control of goods or services. The requirements from HKFRS 15 have been simplified to make the five-step model easier for entities to apply. (ii) Provided transition relief allowing entities to apply their current revenue recognition policy to contracts already in progress at the date of initial application.	Entities should assess when and how much revenue to recognise for goods and services under the new comprehensive revenue recognition framework. The revised Section 23 may result in changes to the accounting for transactions with customers for some entities. Entities should also assess whether systems and operational changes are necessary to apply the requirements in the revised section.

Entities are required to apply the new and amended requirements in the revised HKFRS for PE retrospectively. However, some relief from retrospective application is available for entities applying certain amendments. Please refer to paragraphs A3 – A49 of the revised HKFRS for PE for details.

[5] Previously titled Revenue.

Key areas for which the revised HKFRS for PE were not amended

The following key areas of the revised HKFRS for PE have either been retained or not amended:

- The concept of 'undue cost or effort' in Section 2.
- The rebuttable presumption in Section 9 that control exits when an investor owns the majority of the voting rights of an investee.
- The incurred loss model for the impairment of financial assets measured at amortised cost.
- The accounting requirements in Section 20 *Leases.* They were not amended to align with HKFRS 16 *Leases.*

Implementation support

The IASB has made available the following support materials to assist entities in the implementation process:

- *Project Summary:* An overview of the project and a highlight of the major amendments.
- *Feedback Statement and Effects Analysis:* Description of the likely costs and benefits for entities and the users of their financial statements regarding the implementation of the key amendments to the standard.
- *Podcasts:* Highlight the key updates to the standard, the IASB's approach to updating it, and the engagement with stakeholders throughout the project.
- *Webcasts*: Provide an overview of the standard and the main changes from the previous edition.

The Institute will also offer a series of training programmes to help entities understand and implement the standard effectively.

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