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Determining the applicable HKFRS Accounting Standards for cryptocurrencies and stablecoins

The Chief Executive's 2025 Policy Address reaffirms support for the development of fintech in Hong Kong, underscores the new regime for stablecoin issuers (i.e. [Stablecoins Ordinance \(Cap.656\)](#) which came into effect on 1 August 2025) and commits to exploring a wider range of digital asset products and services to professional investors.

This policy direction highlights the growing importance of digital assets in Hong Kong's financial landscape, making it essential to consider their accounting implications. Currently, no IFRS/HKFRS Accounting Standards¹ specifically address digital assets. As such, the principles in existing Standards should be applied when determining the appropriate accounting for such assets.

Cryptocurrencies and stablecoins are subsets of digital assets². This publication highlights the distinction between cryptocurrencies and stablecoins, and how to determine which accounting standard(s) to apply to them from a holder's perspective.

1) Cryptocurrencies

In June 2019, the IFRS Interpretation Committee (IFRS IC) issued an agenda decision on '[Holdings of Cryptocurrencies](#)' (2019 Agenda Decision) which applies to cryptocurrencies that meet all of the following characteristics (Scoping Criteria):

- (a) it is a digital or virtual currency recorded on a distributed ledger that uses cryptography for security;
- (b) it is not issued by a jurisdictional authority or other party; and
- (c) it does not give rise to a contract between the holder and another party.

The IFRS IC concluded that a holding of cryptocurrency that meets all of the above Scoping Criteria is not a financial asset under IAS 32 *Financial Instruments: Presentation* because it is not cash, nor is it an equity instrument of another entity. It does not give rise to a

¹ HKFRS Accounting Standards are fully converged with IFRS Accounting Standards.

² There is no universally agreed definition of digital assets. [The Securities and Futures Commission's Circular on expansion of products and services of virtual asset trading platforms](#) dated 3 November 2025 defines 'digital assets' to include virtual assets, tokenised securities (which is a subset of digital securities), and stablecoins.

contractual right for the holder and it is not a contract that will or may be settled in the holder's own equity instruments.

The IFRS IC concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies that meet all of the above Scoping Criteria.

The 2019 Agenda Decision also provided guidance on disclosure requirements.

2) Stablecoins

Stablecoins are not defined in HKFRS Accounting Standards. There is also no universally agreed legal or regulatory definition of a stablecoin. The Financial Stability Board defines a stablecoin as a 'crypto-asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets'.³ The Stablecoins Ordinance (Cap.656) defines a stablecoin as a cryptographically secured digital representation of value that:

- (a) is expressed as a unit of account or store of economic value;
- (b) is used or intended to be used as a medium of exchange accepted by the public for payment for goods or services, discharge of a debt, and/or investment;
- (c) can be transferred, stored or traded electronically;
- (d) is operated on a distributed ledger or similar information repository; and
- (e) purports to maintain a stable value with reference to a single asset, or a pool or basket of assets.⁴

There are different types of stablecoins, e.g. algorithmic stablecoins⁵, reserve-based stablecoins⁶ (such as fiat-backed stablecoins⁷) and commodity-backed stablecoins, each of which aims to maintain a stable value through different means. This publication focuses on fiat-backed stablecoins held by an entity.

Fiat-backed stablecoins would fail the second or the third Scoping Criterion if they have an issuer or if there is a contractual relationship between the holder of the stablecoins and another party (generally the issuer of the stablecoins or an affiliate of the issuer), and therefore fall outside the scope of the 2019 Agenda Decision. The appropriate accounting treatment for fiat-backed stablecoins would depend on the facts and circumstances of each case. Entities should thoroughly review the contractual rights and obligations, applicable laws and regulations, and the specific facts and circumstances of each case; as well as seek legal and other professional advice to determine the appropriate accounting treatment for such stablecoins. Relevant considerations / thought process could include:

- What are the documents accompanying the issue and subscription of the stablecoin?
- Which jurisdiction's laws and regulations are applicable to, and what are the applicable laws and regulations governing, the issue, subscription and other features (e.g. redemption) of the stablecoin?
- What are the specific rights and obligations associated with the stablecoin holder, issuer and other relevant parties, e.g. are there any redemption rights in relation to the stablecoin?

³ [High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements](#), final report, published on 17 July 2023, p19.

⁴ Refer to section 3 of the Stablecoins Ordinance for the exact wording.

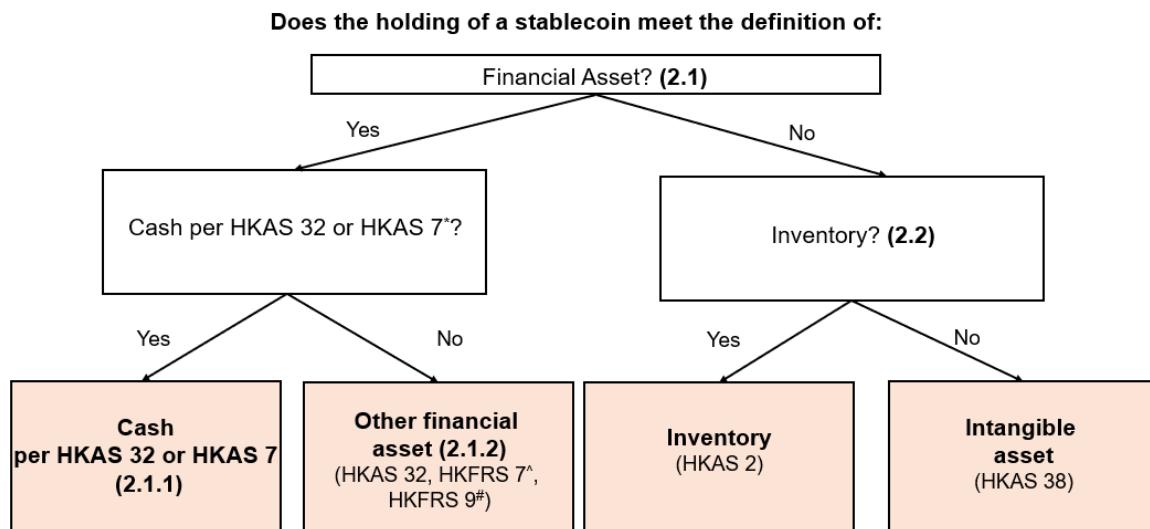
⁵ Supra note 3, p17. An algorithmic stablecoin is one that purports to maintain a stable value via protocols that provide for the increase or decrease of the supply of the stablecoin in response to changes in demand.

⁶ Supra note 3, p18. A reserve-based stablecoin is one that aims to maintain a stable value with a dedicated pool of reserve assets.

⁷ Supra note 3, p18. A fiat-backed stablecoin is one that aims to maintain a stable value with reference to one or several fiat currencies and has the potential to be used as a means of payment and/or store of value.

- Are the promises or representations in the stablecoin issue documents 'contractual' within the context of HKAS 32 which refers to 'an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law'⁸
- Are the rights and obligations of the parties involved clearly defined, or are they ambiguous, thereby necessitating legal analysis or opinions before concluding on the appropriate accounting treatment?
- What is the entity's intended use of the stablecoin?
- How does the stablecoin derive its value?

The decision tree below is intended to assist entities in determining which HKFRS Accounting Standards to apply to fiat-backed stablecoins that meet the definition of an asset.



^aHKAS 7 *Statement of Cash Flows*

^bHKFRS 7 *Financial Instruments: Disclosures*

^cHKFRS 9 *Financial Instruments*

2.1 Financial Asset

Paragraph 11 of HKAS 32 defines a financial asset. In summary, a financial asset is 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.

The more relevant parts of the financial asset definition as they apply to stablecoins are discussed below.

⁸ Paragraph 13 of HKAS 32 states that '[in] this Standard, 'contract' and 'contractual' refer to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts, and thus financial instruments, may take a variety of forms and need not be in writing'.

2.1.1 Cash per HKAS 32 or HKAS 7

Paragraph AG3 of HKAS 32 states that 'currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument against the balance in favour of a creditor in payment of a financial liability.' The IFRS IC noted in the 2019 Agenda Decision that 'the description of cash in paragraph AG3 of IAS 32 implies that cash is expected to be used as a medium of exchange (i.e. used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.'

In practice, certain stablecoins may be used as a medium of exchange for particular goods or services and may exhibit other typical characteristics of cash to a certain extent, e.g. the stablecoin is being used as a unit of account, store of value or legal tender in a particular jurisdiction.

In addition to the description of cash (currency) in paragraph AG3 of HKAS 32, HKAS 7 defines cash as comprising cash on hand and demand deposits. As such, an entity should consider if its holdings of stablecoins possess the characteristics of (i) currency (cash) per paragraph AG3 of HKAS 32 **or** (ii) demand deposits per HKAS 7 to conclude whether the stablecoins could be considered as cash. Judgement and legal opinions on how the matter is viewed in a jurisdiction may be required to arrive at the appropriate conclusion.

2.1.2 Other financial asset

A financial asset is defined to include a contractual right to receive cash or another financial asset from another entity. An entity holding a stablecoin that is not cash per HKAS 32 or HKAS 7 (see 2.1.1 above) should evaluate the contractual terms and conditions, legal rights and obligations, as well as other relevant facts and circumstances to assess whether it has a contractual redemption right for its stablecoins, and whether that redemption right is a right to receive *cash or another financial asset* (as opposed to any other assets) on redemption. This is an area that may require significant judgement as the terms and conditions regarding redemption rights could be complex and/or vague, and entities should consider consulting legal and/or professional advisors to obtain clarity on its position in this regard. Relevant considerations include:

- Are the redemption rights limited by any conditions? What are those conditions? Are those conditions characteristics of the stablecoins or do they reflect the characteristics of the stablecoin holders or the stablecoin issuer?
- Does the issuer have discretion under specific circumstances to refuse or suspend redemption requests?



If the obligation of the issuer to deliver cash or another financial asset is subject to certain conditions, the stablecoin holder may not have a present, contractual right to redeem the stablecoin. In such cases, entities must carefully assess the nature of those conditions that limit the holders' redemption rights when determining whether the stablecoin meets the definition of a financial asset. Redemption restrictions that reflect characteristics of the stablecoin holder, e.g. clauses that restrict the redemption rights of residents of certain jurisdictions, would not affect the assessment of whether the stablecoin is a financial asset.

There may be cases (albeit highly distinctive or atypical) where a stablecoin grants its holder a right to the residual interest in the net assets of the issuer, or a redemption right that should be accounted for separately from the stablecoin. Given the wide range of fact patterns, each of which has its own specific terms and conditions, entities should consider consulting legal and/or professional advisors to evaluate the contractual rights and obligations associated with their holdings of stablecoins to obtain a thorough understanding of the legal positions of the parties involved, including whether:

- the stablecoin holder has a contractual right to an interest in the net assets of the issuer upon liquidation or bankruptcy of the issuer, such that the stablecoin might be an equity instrument of the issuer and hence meet the definition of a financial asset for the holder;
- the holder's interest in the stablecoin represents a security interest in the underlying assets backing the stablecoin, or a residual interest in the issuer's net assets;
- there are any indications that the redemption right should be accounted for as a separate unit of account from the stablecoin.

2.2 Inventory or Intangible asset

When the stablecoin does not meet the definition of a financial asset, an entity should *consider its purpose of holding the stablecoin* to apply the appropriate accounting standard. Generally, HKAS 2 would apply if the stablecoins are held for sale in the ordinary course of business; otherwise, HKAS 38 would apply.

2.3 Further considerations

Stablecoin holders should also consider how items are aggregated for presentation in the statement of financial position and statement of cash flows. Paragraph 54(i) of HKAS 1 *Presentation of Financial Statements*⁹ requires an entity to include a line item in its statement of financial position that presents the amount of 'cash and cash equivalents'. If the stablecoin does not meet the definition of cash, an entity would also have to determine if a stablecoin meets the definition of cash equivalents in accordance with paragraph 6 of HKAS 7 when preparing its statement of cash flows. The pertinent question would be whether it represents a short-term, highly liquid investment that is readily convertible to a known amount of cash and which is subject to an insignificant risk of changes in value. Paragraph 7 of HKAS 7 indicates that cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes and that an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. An entity should assess whether its holdings of stablecoins meet all of the above criteria, including for example, whether the redemption mechanism allows holders to redeem the stablecoins for cash without an undue period of notice and without incurring undue fees or penalties, when determining whether the stablecoins could be classified as cash equivalents. Given the diversity of contractual terms and conditions and other relevant facts and circumstances, entities may need to exercise considerable judgment when assessing whether these holdings qualify as cash equivalents.

3) Concluding remarks

Once an entity has determined the appropriate HKFRS Accounting Standards to apply to its holdings of stablecoins, it should recognise, measure, present and disclose the stablecoins

⁹ Paragraph 103(k) of HKFRS 18 *Presentation and Disclosure in Financial Statements* for annual reporting periods beginning on or after 1 January 2027.

in accordance with the relevant standards. In particular, where stablecoins meet the definition of financial assets, they should be recognised and measured in accordance with HKFRS 9 with disclosures provided in accordance with HKFRS 7 and HKAS 7 as appropriate. Entities should also consider whether stablecoins meet the definition of cash equivalents under HKAS 7 when presenting the statement of financial position and the statement of cash flows. In the light of the wide range of stablecoins and other digital assets in the market, each with its own unique terms and conditions, it would be impracticable for the FRSC to provide any definitive views on the appropriate accounting treatment for these items.

It must be emphasised that entities should take care to conduct a comprehensive assessment of the contractual and legal rights and obligations associated with these items, obtain a clear understanding of the nature and substance (in addition to legal form) of relevant terms, as well as take relevant facts and circumstances into account, when determining the appropriate accounting treatment for holdings of stablecoins and other digital assets. Entities should also consider obtaining legal and/or other professional advice to assist them in this regard. This process may require significant judgement and appropriate disclosures should be made in accordance with paragraph 122 of HKAS 1¹⁰ to the extent material.

This guidance reflects information available as of the date of writing. Stakeholders should keep themselves informed of the developments related to stablecoins and other digital assets in the market and any further applicable guidance. It should be noted that the International Accounting Standards Board (IASB) has identified cryptoassets as a priority topic during work on its *Intangible Assets* project as part of a broader topic of intangible assets held for investment. Should the IASB publish any standards, amendments or guidance on this topic, the IASB requirements and guidance shall prevail over this publication.

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¹⁰ Paragraph 27G of HKAS 8 *Basis of Preparation of Financial Statements* for reporting periods in which an entity applies HKFRS 18.