Agenda Item 11-B

IESBA | International Ethics Standards Board for Accountants | **AN IFEA BOARD**

Trends Risks and Opportunities

Autumn Report

December 2026



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Executive Summary

- **The report.** This Autumn 2026 report brings to the Board developments from 15 April to 15 October 2026 that may affect IESBA's standards, strategy, work plan or voice in international debate. It informs the Board's deliberations without implying that new standard-setting or other actions are required.
- **What it covers**. Drawing on a curated database of 270 entries, the report presents 20 selected developments across four areas: financial and economic; industry and institutional; enforcement, sanctions and inquiries; and standard setting, regulatory and policy. Based on an assessment of the full database, it identifies five trends, risks and opportunities for Board consideration and six for noting. An "In Focus" section examines stablecoins.
- **Main findings.** Professional judgment and accountability are under pressure from several directions at once. The five matters for Board consideration are:
    - AI puts verification, supervision and the development of judgment under strain
    - Mandatory assurance of stablecoin reserves brings new ethics and independence challenges
    - Firms' ethical culture and governance mechanisms tested under pressure
    - Fragmenting sustainability rules complicate international reporting and assurance
    - Recent cases test how far global networks are accountable for member firms' conduct

For each, the report sets out questions to help the Board decide on next steps, including monitoring, research, implementation support or other action.

- **Methodology.** The report follows a five-step, AI-assisted process under the TRC's Terms of Reference, with staff verifying and deciding at every step and a full audit trail.

Sources

270
Number of entries considered

105
AI-assisted entries

41
Number of institutions mentioned in TRO report



Institutions mentioned in TRO report

Regulators and oversight authorities: Bank of England (BoE); Financial Stability Board (FSB); Accounting and Financial Reporting Council (AFRC); Securities and Futures Commission (SFC); Public Company Accounting Oversight Board (PCAOB); Financial Reporting Council (FRC); Canadian Public Accountability Board (CPAB); Australian Securities and Investments Commission (ASIC); US Securities and Exchange Commission (SEC); US Federal Reserve (Fed); European Commission (EC); Committee of European Auditing Oversight Bodies (CEAOB); Authority for the Financial Markets (AFM); International Forum of Independent Audit Regulators (IFIAR); Accounting and Corporate Regulatory Authority (ACRA)

Those charged with governance and preparers: Evergrande; Lendlease; Macquarie; GFG Alliance; Babcock; Go-Ahead; North Midland Construction (NMCN)

Independent jurisdictional standard setters and international standard setting boards: International Sustainability Standards Board (ISSB); External Reporting Australia

Professional accountancy organizations: Chartered Accountants Australia and New Zealand (CA ANZ)

Accounting firms and sole practitioners: Deloitte; Ernst & Young (EY); KPMG; PricewaterhouseCoopers (PwC); BDO; Urish Popeck; King & King

Others: Organisation for Economic Co-operation and Development (OECD); World Bank; Asian Development Bank (ADB); ASEAN+3 Macroeconomic Research Office (AMRO); International Monetary Fund (IMF); Bank for International Settlements (BIS); Palantir; Alation; Principia Advisory

Word Cloud



IESBA
International Ethics Standards Board for Accountants
AN IFEA BOARD

Selected Developments

Period considered: April 15 to October 15 - If connected or relevant, developments close to cut-off dates are sometimes considered

Financial and Economic

Selected economic and financial developments affecting reporting, assurance and accounting services



1. Inflation prompts further rate rises

- September 2026 rate increases in the euro area, US, Japan and Australia highlighting renewed inflation pressures.
- Higher borrowing costs affect financing assumptions and valuations, with implications for going-concern assessments. Rising input costs also affect margins and suppliers.

2. Growth forecasts show resilience and uneven risks

- For 2026, the Organization for Economic Co-operation and Development projected 2.9% global growth in September, and the World Bank projected 2.5% in June. The Asian Development Bank projected 5.0% for developing Asia and the Pacific. The ASEAN+3 Macroeconomic Research Office projected 4.1% for Southeast Asia, China, Japan and Korea.
- Publication dates and geographic coverage differ. Energy disruption, weather and financial conditions remain risks.

3. Nonbank leverage and private-credit opacity draw scrutiny

- The International Monetary Fund (IMF) and Bank of England flagged leverage, opaque valuations and refinancing pressures as risks to financial stability. Liquidity demands and forced sales could amplify stress despite market resilience.

4. AI infrastructure financing deepens interdependence

- The Bank for International Settlements examined providers investing in AI developers that buy their products or services. These links can concentrate risk exposures and complicate cash-flow and valuation assessments.

5. Stablecoins and tokenization extend digital finance

- The Financial Stability Board (FSB) flagged stablecoin vulnerabilities and monitoring gaps. The IMF examined tokenization's benefits and risks. For reserve-backed stablecoins, reserve assets and redemption rights affect holders' ability to redeem. Across digital assets, users need clarity about the scope and limitations of professional reports and assurance.

Industry and Institutional

Selected developments in firms, professional bodies and standard-setting institutions

1. Firms announce agentic AI audit capabilities

- Deloitte announced connected AI audit agents in June. EY announced similar audit capabilities on April 7, before the scan. Independent evidence of effects on audit quality remains limited.

2. Accuracy concerns prompt publication withdrawals

- In the reporting period, KPMG International and EY Canada withdrew public non-audit publications following accuracy concerns involving reported use of AI-generated content. This follows similar incidents with other firms previously.

3. KPMG Australia faces audit-tender setbacks.

- Lendlease announced an auditor change. Macquarie dropped its plan to recommend KPMG, citing audit capacity and disclosure culture. KPMG has also lost clients and government contracts and has reportedly asked KPMG International for financial support.

4. Firms expand commercial AI and data alliances

- The Big Four announced or expanded partnerships, for example, PwC with Palantir and Alation. This follows other agreements between audit firms and AI labs and data labs in last quarters. The arrangements expand access to external technology capabilities.

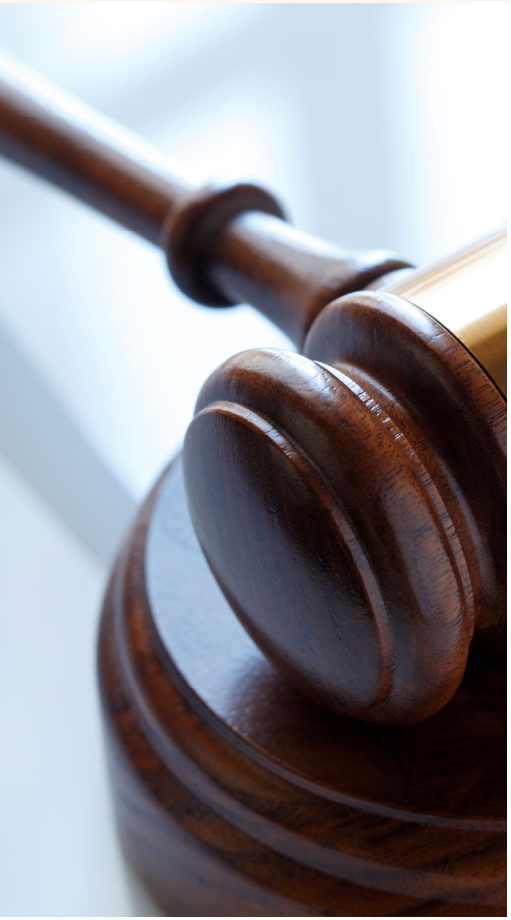
5. Australia restructures reporting standard setting

- Legislation establishing External Reporting Australia brings together financial reporting and assurance standard-setting institutions. Commencement is scheduled for December 1, 2026, with transition arrangements governing the transfer of responsibilities.



Enforcement, Sanctions and Inquiries

Selected findings, sanctions and settlements announced by oversight authorities



1. Evergrande audit: sanctions, compensations and discussion about network´s responsibilities

- Hong Kong's Accounting and Financial Reporting Council fined PwC HK$300 million over its Evergrande work. In other agreement with the Securities and Futures Commission, PwC Hong Kong set aside HK$1 billion for eligible independent minority shareholders, without admitting liability. With separate civil litigation against PwC International still under way, the case raised questions about how responsible global network leadership is for overseeing member firms.

2. Independence cases examine commercial relationships

- The US Public Company Accounting Oversight Board (PCAOB) sanctioned Urish Popeck for independence violations linked to its BDO Alliance relationship. The UK Financial Reporting Council sanctioned King & King for failures involving economic dependence on GFG Alliance audit clients.

3. UK cases identify evidence and professional skepticism failures

- Concluded Financial Reporting Council cases concerning PwC's Babcock audits and Deloitte's Go-Ahead audits identified serious deficiencies in audit evidence and professional skepticism.

4. EY Canada settles an internal-assessment case

- The Canadian Public Accountability Board reported widespread answer-sharing in internal training assessments from 2017 to mid-2020, with fewer incidents through 2024. The settlement recorded cooperation and remediation, without admission or denial of the stated facts. It adds to a series of similar cases at other firms in recent years.

5. BDO sanctioned over construction-group audit

- The UK Financial Reporting Council sanctioned BDO and an engagement partner for deficiencies in the 2019 audit of NMCN plc, formerly North Midland Construction. Findings concerned audit evidence, professional skepticism and going-concern work.

Standard Setting, Regulatory and Policy

Selected standards, policy decisions and proposals affecting reporting and assurance

1. EU revises sustainability reporting and develops assurance requirements

- Following the significant reduction in the scope of mandatory reporting, the European Commission adopted simplified reporting standards in July. Separately, the Committee of European Auditing Oversight Bodies (CEAOB) advised on a future limited-assurance standard based on ISSA 5000, with proposed modifications.

2. Sustainability disclosure rules diverge

- Brazil repealed the planned listed-company mandate and retained voluntary reporting with conditions although a June court challenge sought reinstatement. The UK adopted comply-or-explain rules for specified listed issuers. US state attorneys general separately questioned Big Four climate commitments.

3. Dutch regulator clarifies control and leadership

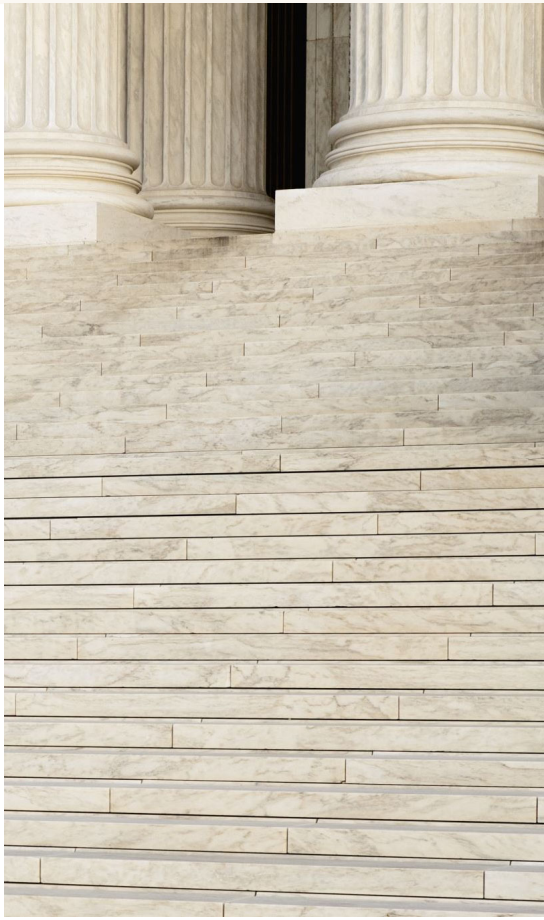
- The Authority for the Financial Markets (AFM) clarified auditors' decisive influence in their firms when external investors are involved. A separate policy addresses the suitability of senior decisionmakers, with effect in January 2027.

4. Audit oversight bodies address AI use

- The International Forum of Independent Audit Regulators (IFIAR) reported observations on the development and use of technology in audits. Singapore's Accounting and Corporate Regulatory Authority (ACRA) issued guidance on responsible AI use, including professional judgment, accountability and confidentiality.

5. Stablecoin regulation advances through distinct models

- The US Federal Reserve proposed requirements for payment stablecoin issuers it supervises. Singapore consulted on Payment Services Act amendments. In April, Hong Kong granted its first two stablecoin issuer licenses, which have since launched their respective stablecoins.



Trends, Risks and Opportunities

For consideration

Period considered: April 15 to October 15 - If connected or relevant, developments close to cut-off dates are sometimes considered

AI puts verification, supervision and the development of professional judgment under strain

What is happening

Generative and agentic AI are changing how professional accountants research, analyze, communicate and perform audits, promising efficiency gains while creating risks to trust in their work.

Reliable outputs: In 2026, KPMG International and EY Canada withdrew publications after reported AI-generated errors; Deloitte and PwC have faced similar cases. These cases raise questions about pre-release verification.

Audit agents: All Big Four firms have announced or are piloting audit agents that extract data, analyze evidence and prepare documentation and preliminary conclusions for review. Independent evidence on audit quality effects remains limited. (See points 1, 2 and 4 under Industry and Institutional Developments.)

Accountability: Where agents choose actions or delegate work, reviewers must understand the sequence and where to intervene. Professionals remain responsible for evidence, exceptions and conclusions, requiring clear limits on agents' actions and arrangements for authorization, review, escalation and audit trails. Ethical questions concern appropriate reliance, competence to challenge outputs, confidentiality and accountability.

Judgment: Reliable outputs and professional judgment are connected. Junior staff learn by assessing evidence and explaining conclusions; senior oversight may determine whether AI supports learning or dependence. Studies suggest risks from unrestricted automated answers, benefits from structured tutoring, and links between confidence in AI and less self-reported critical thin, though accounting-practice evidence is lac.

For IESBA's Consideration

Accountability: Where agents perform connected steps, do the fundamental principles, conceptual framework and technology-related provisions make clear what meaningful authorization, supervision and review require, or are there gaps the Board should address?

Reliable outputs: Do recent publication withdrawals (KPMG International and EY Canada) indicate a need to highlight how the Code applies to verifying AI-assisted work and communications, including outside audit?

Judgment and competence: Should IESBA explore how AI affects the development of professional judgment and competence early in careers?

Response: Which response best fits each issue: monitoring, further non-authoritative material or standard-setting? Where is coordination needed?

Mandatory assurance of stablecoin reserves brings new ethics and independence challenges

What is happening

Stablecoins, whose reserve, redemption and custody arrangements vary, offer a test of how users read professional reports on digital assets, and regulation is ma those reports a central source of public confidence.

Reliance: The FSB's October 2026 note finds that cross-border stablecoin monitoring is limited by data gaps (see point 5 under Financial and Economic Developments). Token holders, who cannot inspect reserves themselves, rely on issuers' public reports on whether reserves exist and cover the tokens in issue. Regulators are building this reliance into law: the EU already requires six-monthly reserve audits, and Hong Kong's regime, Singapore's proposed framework, the US GENIUS Act (from January 2027) and the UK (from October 2027) all require periodic practitioner assurance of reserves, but frequency and assurance standards differ.

Expectation gap: Issuers already refer to audits, assurance or reserve examinations, but these terms describe materially different work. A financial statement audit covers the statements as a whole; a reserve report must be read against its subject matter, criteria, date and level of assurance; agreed-upon procedures reports give findings without assurance.

Ethics and independence: The novelty and complexity of these assets and divergent cross-border rules test professional competence and due care, professional behavior and objectivity, and make clear communication essential. Assurance standards are also unsettled: US accounting bodies asked regulators to specify which attestation standards apply, and the rules name none at this point.

For IESBA's Consideration

Expectation gap: Are IESBA members aware of reserve reports being read as more than they cover, for example as proof of full bac at all times? Would guidance help?

Independence: Reserve reports are recurring and public, and may be commissioned by a third party or signed by the issuer's auditor. Should IESBA highlight how Part 4B applies?

Pressure and escalation: In the US, issuers' executives will certify monthly reserve reports. Do the Code's provisions on pressure and on non-compliance with laws and regulations give enough support?

Research: Should IESBA, alone or with the IAASB, gather evidence on how users rely on reserve reports and on the competence these engagements require?

Firms' ethical culture and governance mechanisms tested under pressure

What is happening

Under the 6 months considered in the report, two cases raised questions about whether firms' ethical culture and governance mechanisms work in practice when individuals are under pressure.

Confidentiality and speak-up: A whistleblower alleged that KPMG Australia partners misused confidential client information to pitch for audit work; scrutiny then shifted to how the firm treated the whistleblower. (See point 3 under Industry and Institutional Developments.) CA ANZ's review of KPMG's systems as of July 2026 made nine recommendations, including independent processes for investigating whistleblower reports; conduct investigations, including by ASIC, remain open. ASIC is also reviewing how the Big Four handle whistleblower disclosures.

Culture and governance: An independent review by Principia Advisory (October 2026) found strong ethical culture in many teams but inconsistency across KPMG Australia, a "say-do gap" between leadership statements and actions, and employee concerns that speak up could bring retaliation. Staff need confidence that concerns can be raised safely and investigated fairly, including when senior or commercially influential people are involved.

Monitoring: CPAB's order against EY Canada, effective July 31, 2026, sanctioned widespread improper answer sharing on internal training assessments from 2017 to mid-2020, with controls not tested for effectiveness until 2024. Similar cases have occurred at other firms. (See point 4 under Enforcement, Sanctions and Inquiries.)

Framework: IESBA is developing a firm culture and governance (FCG) framework that builds on existing Code provisions to offer a comprehensive approach and will complement existing quality management requirements under ISQM 1. These developments highlight where such mechanisms may come under strain.

For IESBA's Consideration

Lessons: What do these cases suggest about the conditions that make firms' ethical culture and governance mechanisms effective under pressure?

Near-term guidance: Are there areas, such as whistleblowing mechanisms, confidentiality and integrity, that IESBA should already highlight regarding how the current Code applies, i.e. with regards to NOCLAR PIR?

Guidance: Are there any factors the FCG PT should take into consideration when determining the scope of the FCG scenario-based guidance, which is planned for 2028?

Fragmenting sustainability rules complicate international reporting and assurance

What is happening

Sustainability reporting rules are diverging, and in several jurisdictions becoming less demanding, complicating international reporting, assurance and the application of ethics standards.

Divergence: The EU narrowed mandatory reporting scope and simplified its standards; Brazil dropped its planned ISSB mandate in favor of voluntary adoption, although a June court challenge seeks its reinstatement; and the UK adopted ISSB-based standards on a comply-or-explain basis from 2027 (See Points 1 and 2 under Standards Setting, Regulatory and Policy Developments.) These differences affect which companies report, what and when.

Complexity: International groups must reconcile requirements, reporting boundaries and data definitions, while investor and contractual expectations may persist where legal requirements recede. Incomplete data and developing systems require significant judgment, particularly in early cycles of sustainability assurance. For professional accountants and other assurance practitioners, this complicates coordinating cross-border work and communicating what assurance covers.

Ethics: Greater discretion may create pressure to omit material information, present information selectively across jurisdictions or overstate assurance coverage, engaging integrity, objectivity, and professional competence and due care.

Implementation: Divergence also complicates the cross-border adoption and implementation (A&I) of ethics frameworks, including IESBA's sustainability standards. IESBA's A&I WG and IIMAG will continue monitoring adoption and implementation to identify challenges.

For IESBA's Consideration

Ethics: Do IESBA's standards and guidance sufficiently address pressure to omit or selectively present information, or overstate assurance coverage, where sustainability reporting is voluntary or comply-or-explain?

Implementation: Which A&I challenges should IESBA prioritize, and what kinds of implementation support would be most useful as regimes diverge?

Recent cases test how far global networks are accountable for member firms' conduct

What is happening

Recent cases are testing how far global accounting networks are responsible for, and able to act on, ethical and governance failures in their legally separate member firms.

Evergrande: Hong Kong regulators sanctioned PwC's local firm, while in August 2026 a Hong Kong court refused to strike PwC International out of the liquidators' civil claim, allowing them to pursue an alleged duty of care in monitoring member-firm audits. The merits remain unresolved. (See point 1 under Enforcement, Sanctions and Inquiries Key Developments.)

Network responses: Networks generally describe their role as coordination or oversight rather than control, but network bodies have taken significant action when serious concerns arose, including leading the investigation and leadership changes at KPMG South Africa (2017) and appointing new leaders at PwC Australia (2023) and PwC China (2024). KPMG's global leadership has supported KPMG Australia's governance reset, and the local firm has reportedly sought financial support from the network.

Escalation: KPMG Australia's whistleblower had escalated concerns to KPMG International. At EY Canada, EY US passed information on possible answer sharing to EY Global, but EY Canada's leadership decided an investigation was not required.

Governance: Shared brands and methodologies do not by themselves create central authority; member-firm autonomy, regulation and contracts shape what networks can do. Effective oversight depends on clarity over who can receive concerns, require remedial action and monitor it, and on information arriving in time to act.

For IESBA's Consideration

Escalation: How are ethical concerns identified, escalated and addressed across legally separate member firms, and where might information fail to reach those able to act?

Network considerations: Are there any factors the FCG PT should take into consideration when preparing the FCG Practical Implementation Insights package (planned for release in 2027) which will include, among other matters, network considerations?

Research: Would a focused review of documented cases help the Board distinguish legal responsibility from the practical ability of network bodies to address ethical risks?

Trends, Risks and Opportunities

For noting

Period considered: April 15 to October 15 - If connected or relevant, developments close to cut-off dates are sometimes considered

For Noting (1): Pressures on professional judgment and objectivity

Audit quality improves, but unevenly across firms and judgment areas

Recent PCAOB publications report lower deficiency rates in selected Big Four audits. UK FRC's 2026 report acknowledged continued improvements in audit quality and progress by the largest firms in strengthening their systems of quality management, while it identified inconsistencies across firms, particularly in areas requiring significant professional judgment, and differences in the maturity of quality management systems among smaller firms.

Refinancing pressures strain financial-reporting integrity

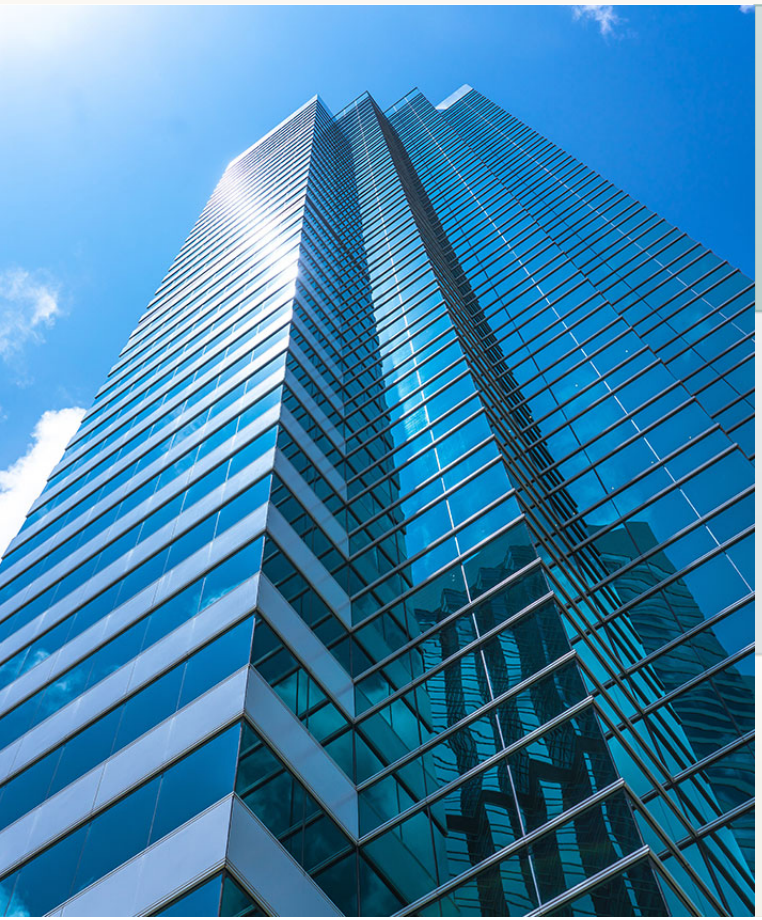
Corporate finance leaders face difficult reporting judgments as higher refinancing costs and uncertain valuations put pressure on cashflow forecasts, going concern assessments and disclosures. How much this affects reporting depends on the terms of the debt and on access to funding in the relevant market. Professional accountants therefore need supportable financing assumptions and clear explanations of material uncertainty, particularly where refinancing terms have yet to be agreed. These circumstances make it harder to exercise professional judgment, maintain objectivity and resist pressure to present overly optimistic assumptions or disclosures. Selected US Securities and Exchange Commission (SEC) cases on reporting safeguards and professional representations show how such failures can undermine the reliability of market information.

Difficult private credit valuations and liquidity mismatches test disclosures

Infrequent trading in private credit loans makes valuations more dependent on models and assumptions about borrowers' ability to repay. Leverage can increase exposure to losses, while funds offering periodic redemptions also face potential mismatches between withdrawal requests and assets that take time to sell. Questions are raised about whether valuations respond to changing credit conditions and whether disclosures explain the uncertainty in the fund structures concerned.



For Noting (2): Market and structural shifts with ethics and independence implications



Circular AI sector financing adds reporting complexity

The Bank for International Settlements' (BIS) October 2026 analysis describes AI sector arrangements in which a provider invests in a developer that then purchases the provider's computing products or capacity. These links can make a provider's investment value and expected sales depend on the same customer's financial position. Assessing the reporting implications requires examination of the contracts and evidence supporting revenue and asset recoverability.

Oversight shift toward firm-wide systems

The PCAOB adopted amendments to QC 1000 on September 9, with its announcement retaining a December 15, 2026 effective date subject to approval. The PCAOB also announced a shift toward a more risk-based and targeted inspection approach, with greater attention to the effectiveness of firms' systems of quality control and the underlying causes of audit deficiencies. Together they point to an evolving balance between engagement inspections, firm-wide systems, supervisory coordination and enforcement.

Private equity and mergers reshape the mid-tier firm market

There is increasing evidence of relevant changes in the mid-tier firm market, reflecting different routes towards the common objectives of achieving greater scale, expanding capacity and improving operational efficiency. These include both private equity investments in accounting firms and mergers and cross-border integration, of which the BDO UK–Ireland combination, effective from July 4, 2026, is one of the latest examples.

In Focus

Stablecoins: Recent Developments and Implications

1. Executive summary
2. Stablecoins: how they work, uses, and risks
3. Regulatory and accounting developments
    - 3.1 Issuers: reporting and assurance
    - 3.2 Holders: accounting and evidence
4. Way forward

1. Executive summary

STABLECOINS: RECENT DEVELOPMENTS AND IMPLICATIONS – EXECUTIVE SUMMARY

This paper gives the Board an overview of how stablecoins work, recent market and regulatory developments, and their potential implications for professional ethics and independence. As the TRO on mandatory assurance of reserves sets out, the reporting and assurance of issuers' reserves raises the most pressing questions for IESBA at this point. This paper places those questions in the broader context of this financial innovation, including the position of companies that hold stablecoins.

2026 has been an active year, and 2027 is likely to be more so, as new rules take effect in the US and other key jurisdictions. This will bring accounting and assurance to the center of a market now worth about $300bn, which banks forecast could reach about $2tn by 2030.

The EU's rules already apply, and in October the EU named USDC, the second-largest stablecoin, its first "significant" stablecoin, supervised directly by the European Banking Authority (EBA) since November 12. Hong Kong licensed its first issuers in April. In August, Tether, the issuer of the largest stablecoin, announced its first full audit by a Big Four firm, and the US Financial Accounting Standards Board (FASB) proposed how stablecoins can count as cash equivalents. In 2027, the US GENIUS Act takes effect on January 18 and the UK regime on October 25, while Singapore is preparing legislation.

These developments matter for the reliability of information that users increasingly depend on. Issuers must prepare reserve information and have it assured by independent practitioners, and the first reports differ in scope, timing, and the ethics framework they cite. Companies holding stablecoins must decide how to account for them, and those who prepare and audit their financial statements must apply the relevant accounting, auditing, and ethics requirements, often relying on information from issuers. The paper covers the US, the EU, the UK, Hong Kong, and Singapore, using evidence available on November 21 2026. It is for information and does not propose standard-setting or other action.

1. Executive summary - Key Messages

STABLECOINS: RECENT DEVELOPMENTS AND IMPLICATIONS

1. **A large, concentrated market, little used for payments.** Stablecoins are worth about $300bn, two dollar-based issuers account for about 85% of supply, and actual payments are estimated at about 0.02% of global payments.
2. **Regulation at different speeds.** EU and Hong Kong rules already apply, the US and UK regimes start in 2027, and Singapore is still legislating.
3. **Two dominant issuers under very different rules.** Tether's USDT, with about 60% of the market, is issued from El Salvador and is not authorized in the EU, while Circle's USDC, with about a quarter, is issued by a US company and, in the EU, by a French entity under EBA supervision.
4. **Reserve assurance is not a guarantee of redemption.** Published reserve reports are snapshots of one or two dates, none of the rules reviewed sets an assurance standard for them, and what is made public varies by issuer.
5. **The IESBA Code is already cited in practice.** BDO (ISAE 3000 (Revised)) expressly cites the IESBA Code; Deloitte (AICPA attestation standards) refers to "relevant ethical requirements" without naming a code.
6. **Holders face unsettled accounting.** Whether a stablecoin counts as a cash equivalent depends on the holder's own redemption rights and on reserve information from the issuer, and the accounting guidance is still evolving.
7. **Most identified illicit crypto activity uses stablecoins.** Chainalysis estimates that stablecoins carried 84% of the illicit crypto activity it identified in 2025, although illicit activity was under 1% of all crypto volume it tracked.



2. Stablecoins: how they work, uses, and risks

STABLECOINS: RECENT DEVELOPMENTS AND IMPLICATIONS

A stablecoin is a digital token designed to hold a steady value, usually one US dollar; the peg is an objective, not a guarantee. Customers pay money to the issuer, which creates the tokens and invests the money in reserve assets, such as short-term government debt and bank deposits, held with custodians. The tokens then circulate on blockchains, so a token can trade in one country while its issuer and reserves are elsewhere. Holders keep tokens in their own digital wallets or with an exchange or custodian. To turn a token back into money, a holder can sell it on the market or, if it has the right, redeem it with the issuer at face value. That right is often limited: Circle, for example, redeems directly only for holders with a Circle Mint account in good standing and, where rules require it, for eligible users in the EU. The same token can therefore carry different rights for different holders.

Size and uses. The Federal Reserve puts the market at around $310bn, little changed over the past year, with Tether's USDT (about $183bn) and Circle's USDC (about $73bn) dominating. Issuers are significant holders of government debt: Tether reported $122.8bn of US Treasury bills at September 30, 2026, and the Federal Reserve Bank of San Francisco finds that since 2023 the two largest issuers have added more short-term Treasury securities than Japan.

According to the Bank for International Settlements (BIS), crypto trading remains the main use, with a smaller role as a source of dollars in some emerging markets. Headline volumes overstate payment use because they include trading and transfers between wallets belonging to the same owner: McKinsey and Artemis estimate actual payments at about $390bn a year, around 0.02% of global payments. Chainalysis, a blockchain analytics firm, measures something different: cross-border stablecoin flows, whatever their purpose, which it puts at $220.3bn in the year to June 2026.

2. Stablecoins: how they work, uses, and risks

Risks. International bodies see both potential and risks. The FSB recognizes that stablecoins could make cross-border payments faster, cheaper, and more transparent, while the BIS concluded in June that current designs fall short as money and argued for a tokenized financial system anchored in central bank money.

The FSB, the IMF, the BIS, and the European Systemic Risk Board (ESRB) point to several risks. A run could force an issuer to sell reserve assets quickly and spread stress to the traditional financial system. A shift from local currencies to dollar tokens can weaken domestic monetary policy and help evade capital controls. Deposits moving into stablecoins can reduce bank funding. Where the same token is issued by entities in different jurisdictions, as USDC is, a run could be harder to contain; the ESRB has raised this concern for the EU. The FSB also notes that gaps in data on who holds stablecoins limit monitoring. Chainalysis estimates that stablecoins carried 84% of the illicit crypto activity it identified in 2025, while illicit activity was under 1% of all the volume it tracked; the BIS counts financial integrity among the main weaknesses of current designs.

These risks matter to professional accountants where they affect the information others rely on, the judgments professional accountants make, or the claims attached to their reports.

3. Regulatory and accounting developments

STABLECOINS: RECENT DEVELOPMENTS AND IMPLICATIONS

Stablecoins are moving from the margins toward the regulated core of finance, and most new rules take effect in 2027. Regulators are treating them as a category of their own: in the US, payment stablecoins issued by permitted issuers are by law neither securities nor commodities, while the EU regulates them under the Markets in Crypto-Assets Regulation (MiCA) as e-money or asset-referenced tokens. Because almost all fiat-backed stablecoins are tied to the US dollar, and the GENIUS Act also reaches foreign issuers whose coins are offered in the US, US rules will shape much of the market.

How each issuer is supervised there will depend on its route. Circle has a trust bank supervised by the US Office of the Comptroller of the Currency (OCC), while its US issuance is reportedly set to move to a New York trust company; foreign issuers face restrictions from January 2027 and broader offer-and-sale restrictions from July 2028. In the EU, the European Securities and Markets Authority (ESMA) has told crypto firms to stop serving non-compliant stablecoins, allowing a short, supervised wind-down of existing holdings.

3.1 Issuers: reporting and assurance

STABLECOINS: RECENT DEVELOPMENTS AND IMPLICATIONS – REGULATORY AND ACCOUNTING DEVELOPMENTS

What is changing:

The regimes require independent checks of issuers' reserves, often called reserve assurance:

- **European Union (in force since June 2024):** an independent audit of reserves every six months for stablecoins referenced to a basket of assets and for those designated "significant," as USDC was in October 2026, published within two weeks of notifying the supervisor, unless the supervisor orders a delay.
- **Hong Kong (in force since August 2025):** an independent auditor's assurance report, at a frequency acceptable to the Hong Kong Monetary Authority, covering the period-end and at least one randomly selected day, published on the issuer's website.
- **United States (from January 18, 2027):** monthly public reserve reports, examined by a registered public accounting firm and certified to the regulator by the chief executive and chief financial officer; issuers above $50bn that do not report to the US SEC must also publish accounts audited under PCAOB standards.
- **United Kingdom (from October 25, 2027):** quarterly statements on reserves, and an annual reasonable-assurance review of those made over the previous 12 months.
- **Singapore (proposed):** reserve assurance and disclosure under the 2023 framework, with implementing legislation consulted on in September and October 2026.

3.1 Issuers: reporting and assurance

These regulations set what must be checked but largely leave open how. None names an assurance standard, and in the US the OCC's final rule "does not mandate any particular criteria" for the monthly examination and, unlike Hong Kong, does not require a random-day check. Circle uses American Institute of Certified Public Accountants (AICPA) attestation standards; Tether uses International Standard on Assurance Engagements (ISAE) 3000 (Revised). BDO expressly cites the IESBA Code; Deloitte does not name a code. The reports for September 2026 compare as follows.

	Circle (USDC)	**Tether (USDT)**
Accountant and standard	Deloitte; AICPA attestation standards	BDO; ISAE 3000 (Revised)
What was examined	Management's assertion that reserves equaled or exceeded USDC in circulation	Financial figures and reserves report, against criteria set by the issuer's board
Dates covered	September 4 and 30	September 30
Ethics framework cited	"Relevant ethical requirements"	IESBA Code
Exclusions stated	—	Notes; going-concern assessment; valuations assume normal market conditions
2025 annual accounts	Audited by Deloitte; public	Audited by KPMG; not public

3.1 Issuers: reporting and assurance

Why this matters for professional accountants:

- **Snapshots, not continuous assurance.** Reserve reports do not show that reserves were sufficient between the dates examined, or that the issuer could meet redemptions under stress.
- **Not everything is public.** Circle's controls report on its Circle Mint service (October 2024 to September 2025) is restricted. Tether's audited accounts are known only through Tether's announcement and KPMG's confirmation that it issued an unqualified opinion under AICPA standards.
- **Different entities, different roles.** USDT is issued by Tether International, S.A. de C.V., but BDO was engaged by a Tether fund. USDC is issued by Circle Internet Financial, LLC, and Deloitte also audits its parent, Circle Internet Group. Such differences, like the reference to different ethics codes, do not by themselves indicate non-compliance, but readers need them to understand whose figures were examined and under which rules.
- **Standards are still settling.** AICPA revisions effective in June 2026 clarify how its independence rules apply to attestation engagements; in the IESBA Code, the equivalent requirements are in Part 4B. The AICPA and the Center for Audit Quality have asked US regulators to specify the standards for the monthly examinations.
- **New responsibilities inside issuers.** Those who prepare and certify monthly reserve reports will take on new responsibilities, which may fall to professional accountants in business.

3.2 Holders: accounting and evidence

What is changing:

Surveys and central bank research suggest that few companies outside the crypto sector hold stablecoins so far. Stablecoins are widely used in crypto trading and transfers, including through exchanges and intermediaries. Corporate and institutional uses are emerging: companies mainly to move cash between their own accounts, often across borders, rather than to pay suppliers or customers. Investment funds and trading firms hold them mainly for trading and liquidity. Even brief holdings must be accounted for at a reporting date. The questions this raises differ with the instrument, the holder's rights, and the way it is held. For companies, one central question is whether stablecoins count as cash or cash equivalents, which affects presentation and reported liquidity; classification as a financial asset is a separate question. The answer is not yet settled:

- **US GAAP:** FASB's August 2026 proposal (comments closed November 19) illustrates the existing cash-equivalents definition. Its examples consider redemption rights and reserve assets; classification remains fact-dependent. It also proposes disclosure of significant cash-equivalent components.
- **IFRS Accounting Standards:** there is no specific standard. In November 2026, the International Accounting Standards Board (IASB) added a crypto-assets project to its work plan, including whether some stablecoins could be cash equivalents. KPMG's analysis suggests that a stablecoin is a financial asset only if the holder has an enforceable right to redeem it for cash.
- **UK GAAP:** the Institute of Chartered Accountants in England and Wales (ICAEW) notes that it is unclear whether a stablecoin counts as cash, an intangible asset, or inventory.

Stablecoin rules often sit within wider crypto-asset rules, as in the EU and the UK. Accounting for other crypto assets is a larger question, not covered here.

3.2 Holders: accounting and evidence

Why this matters for professional accountants.

- **Rights differ by holder.** Classification depends on the holder's own rights, not the token's.
- **Reserve reports help but do not settle the question.** They cannot by themselves show the holder's ownership, access, or ability to redeem, and may cover a different date or entity.
- **Custody matters.** For companies and funds alike, wallet balances do not prove ownership, and control may rest on private keys or shared signing.
- **Reserves are investments too.** Circle states that most of USDC's reserves sit in a money market fund managed by BlackRock, so their custody and valuation matter to anyone relying on them.
- **Skills and pressure.** Preparers and auditors may need specialist skills and may face pressure to treat holdings as cash or to rely too readily on issuer reports.

4. Way forward

The TRO on mandatory assurance of stablecoin reserves, one of the five TROs in this report, asks whether IESBA should do more on four matters: users reading reserve reports more broadly than they allow; how independence requirements apply to recurring, public reserve assurance reports; pressure and escalation for those who certify and examine reserve reports; and evidence on how users rely on these reports and on the competence and custody knowledge they require. This paper provides context and evidence for those questions and does not assume any gap in the Code.

Beyond the TRO, three other topics may be worth keeping in view:

- **Holders' information and evidence.** Holders depend on their own rights and on information from issuers; custody arrangements add complexity; and pressure to present holdings as cash equivalents can affect judgment.
- **Independence beyond reserve engagements.** Firms and their personnel may hold client-issued tokens, accept them as fees, or receive rewards, which matters for audit relationships as well as assurance engagements on reserves.
- **Digital assets more broadly.** Stablecoin rules reach into those for other crypto assets, where accounting and audit evidence raise larger questions.

As possible next steps, IESBA should decide on the opportunity and the best way to monitor developments. It could also coordinate with the International Auditing and Assurance Standards Board (IAASB) on reserve assurance and engage with the regulators that set assurance requirements. Looking further ahead, IESBA could consider a wider fact-finding exercise on digital assets, including holders and intermediaries, building on the 2022 report of its Technology Working Group and the technology-related revisions to the Code.

Appendix – Methodology

For more information, please consult: Agenda Item X

How the TRO report is built

METHODOLOGY

- **Purpose:** horizon scanning under the TRC's Terms of Reference and Work Processes (March 2026). It brings to the Board developments that may affect the IESBA's standards, strategy, work plan or voice in international debate.
- **Not only new issues:** it also tracks developments relevant to ongoing workstreams. Workstreams comment on proposed matters to confirm what is already being addressed.
- **Informs, does not prescribe:** matters raised do not necessarily require new standard-setting or other actions.
- **Evidence base:** a database (of 270 entries for Autumn 2026), curated by the IESBA Staff Insights Group. It is not statistically representative, and coverage cannot be exhaustive.
- **Three components:**
  - **Selected developments:** chosen comparatively against six criteria (significance, IESBA relevance, breadth, timeliness, distinctiveness, evidence). There is no target number.
  - **Trends, risks and opportunities:** assessed through a public-interest lens and classified as Category A (for Board consideration) or Category B (for noting).
  - **In Focus:** concise overviews of selected subjects, with no technical conclusions.

Responsible use of AI

METHODOLOGY

- **AI assists, staff reviews, edits and decides:** every output is verified, challenged and decided by staff, from each database entry to the TROs presented to the TRC.
- **Five-step process, AI-supported at each stage:**
  - Database enrichment
  - Selection of developments
  - TRO identification and assessment
  - Focused fact-finding
  - Report drafting
- **What AI added:** broader research capacity, comparison of evidence, and identification of connections across developments.
- **Safeguards:**
  - documented data and prompts
  - retained records
  - checks against original sources
  - traceable outputs
  - explicit uncertainties
  - human oversight of every step
- **Full audit trail:** every reported matter can be traced from the final wording, through the analysis and human decisions, to its supporting evidence.
- **Independent challenge:** a separate AI stress test, run without access to the main workspace or its history, tested assumptions, gaps and alternative readings. It complements staff review but is not professional judgment and final decision.
- **Accountability stays with Team and Board:** the IESBA Staff Insights Team and the TRC remain responsible for all judgments and conclusions.

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