



# The 2026 US–Israel–Iran Conflict: What It Means for Financial Reporting

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## The Conflict and Its Economic Footprint

On February 28, 2026, coordinated strikes by the United States and Israel against Iran set off a rapidly evolving conflict across the Middle East. Iran responded with missile and drone attacks, and tensions quickly spread beyond borders, affecting Lebanon and major global shipping routes.

The economic impact was immediate. The International Energy Agency has described the disruption as the largest in the history of the global oil market. With the Strait of Hormuz effectively closed, oil prices moved above \$100 per barrel, supply tightened, and emergency reserves were released at record levels.

But the real story is how quickly those shocks began moving through the broader economy. What started in energy markets is now feeding into agriculture, supply chains, and overall business costs. Fertilizer supply disruptions are pushing up agricultural costs at a critical time in the growing cycle. Inflation expectations are rising. Economists are beginning to factor in a greater risk of recession. For businesses, these shifts are already showing up in higher input costs, delayed shipments, and less certainty in planning.

And that uncertainty does not stay contained in operations. It flows directly into financial reporting. Assumptions that felt stable even a few weeks ago may no longer reflect reality. The question for many companies now is how to translate a changing environment into accurate, transparent financials.

## Which Industries Are Most Exposed?

Some industries felt the impact almost immediately, particularly those closely tied to energy markets and Middle East trade flows. Energy companies, airlines, shipping businesses, and manufacturers with Middle East exposure are other industries expected to be heavily affected. Defense contractors and commodity traders are also closely tied to these developments.

At the same time, the reach of this situation is much broader than it first appears.

Agriculture and food producers are dealing with rising input costs, driven in part by a roughly 30 percent increase in fertilizer prices. Travel and hospitality companies are adjusting to flight cancellations and restricted airspace. Insurance

providers are seeing more claims tied to war risk and cargo losses. Financial institutions are reassessing credit exposure while navigating a more complex sanctions environment. Technology and infrastructure companies are operating under increased cybersecurity pressure.

Even companies without direct ties to the region are feeling the effects. Rising energy and transportation costs move through supply chains and eventually show up in margins, pricing decisions, and customer demand.

## **Key Financial Reporting Areas to Watch**

While the accounting rules themselves have not changed, the assumptions behind many financial statements have. Economic shifts are impacting how companies measure results, affecting earnings, asset values, liquidity, and risk disclosures.

For business owners and finance leaders, this matters because these changes can influence reported earnings, asset values, liquidity, and risk disclosures. In some cases, they may also affect lender relationships, investor expectations, or audit scrutiny.

The sections below highlight many of the areas where these pressures are most likely to show up. The relevance will vary by company, but most organizations will see some impact, whether directly or through broader economic effects.

### **Subsequent Events and Loss Contingencies (ASC 855, ASC 450)**

For companies with reporting periods ending around late February, the escalation of the conflict raises an immediate question: were the conditions that this conflict affects present at the balance sheet date, or did they arise afterward? That distinction determines whether impacts are recorded in the financial statements or disclosed in the notes, and in practice, it often requires careful judgment.

At the same time, new loss contingencies may be emerging. Contract disruptions, sanctions exposure, cybersecurity incidents, and potential physical losses all come into focus, but recognition depends on whether a loss is both probable and reasonably estimable. In a fast-moving environment, companies may find themselves revisiting that assessment more frequently as conditions develop.

### **Going Concern (ASC 205-40)**

As attention moves beyond immediate impacts, the question often becomes one of resilience. Higher operating costs, supply chain disruption, and increasing recession risk can all factor into whether substantial doubt exists about a company's ability to continue operating over the next twelve months.

The analysis does not stop there. Management must also consider whether its plans are likely to address those risks, and even when the conclusion is positive, disclosure is still required. In the current environment, this often means looking beyond a single forecast and considering how more sustained disruption or elevated costs could affect liquidity and operations.

### **Asset Impairments (ASC 360, ASC 350, ASC 323)**

In a period like this, it is worth taking a fresh look at asset values. Higher input costs, supply chain disruption, and changes in customer demand can all affect expected cash flows, which is often where impairment questions begin. When you layer in greater market uncertainty and higher discount rates, those signals can become more pronounced.

What is different right now is how widely these pressures can show up. Even companies without direct exposure to the Middle East may start to see the effects through costs or demand. For equity method investments, this may also mean stepping back to consider whether a decline in value is temporary or something more lasting, especially if the underlying business is tied to the affected region.

### **Inventory Valuation (ASC 330)**

Inventory is often where disruption becomes most visible. Longer shipping routes, higher freight costs, and rising input prices are increasing the cost to sell, while market conditions may not always support higher pricing.

Under these conditions, companies may need to reassess whether inventory values remain recoverable under a lower of cost or net realizable value approach. This is particularly relevant for industries like agriculture and food production, where fertilizer price increases are adding pressure at a critical point in the production cycle.

### **Financial Instruments, Hedging, and Fair Value (ASC 815, ASC 825, ASC 820)**

Market volatility has been significant, especially in energy and currency markets, and that volatility can affect both hedging strategies and valuation. When forecasted transactions become less certain due to disruption, hedge accounting may no longer be appropriate, which can lead to earnings volatility.

At the same time, fair value measurements may require more judgment. When observable market inputs become more volatile, less reliable, or unavailable, companies may need to rely more heavily on internal assumptions, increasing both complexity and disclosure requirements.

### **Expected Credit Losses (ASC 326 – CECL)**

Credit loss estimates depend on forward-looking assumptions, and those assumptions are shifting. Higher inflation, changing economic forecasts, and increased stress in certain industries may all affect expected credit losses.

Companies may need to revisit the scenarios and inputs used in their models, particularly for portfolios with exposure to industries such as energy, logistics, hospitality, and agriculture. In a changing environment, the pace at which risk evolves can outstrip what historical data alone would suggest.

### **Revenue Recognition (ASC 606)**

Shipping disruptions across the Strait of Hormuz and the Red Sea are already extending transit times, with rerouting in some cases adding several weeks to delivery. For companies that recognize revenue based on shipment or delivery milestones, that shift in timing may directly affect when revenue can be recognized.

At the same time, these disruptions can lead to changes in contract terms, whether through delays, penalties, or force majeure provisions. When those changes affect pricing, timing, or when control transfers, it is important to reassess how revenue is measured and recognized so it continues to reflect the underlying economics of the arrangement.

### **Insurance Recoveries (ASC 450, ASC 610-30)**

As physical and operational risks increase, insurance recoveries become more relevant, but the timing of recognition remains important. Property damage recoveries are recognized when recovery is probable, while business interruption recoveries are generally recognized as losses are incurred and recovery becomes realizable. This difference can create timing gaps between when losses are recorded and when related recoveries are reflected, making careful evaluation necessary to ensure appropriate treatment.

## Debt Covenants, Liquidity, and Foreign Currency (ASC 470, ASC 830)

Rising costs and operational disruption can put pressure on cash flow and bring companies closer to covenant thresholds. This may lead to discussions with lenders, amendments to terms, or changes in how debt is classified.

At the same time, increased foreign exchange volatility can affect remeasurement and translation, particularly for companies with international operations. In some cases, it may also prompt a reassessment of functional currency, adding another layer of complexity to reporting.

## The Evolving Regulatory and Compliance Landscape

### SEC Disclosure Considerations

In periods of uncertainty, disclosure becomes just as important as measurement. While there is no conflict-specific guidance, SEC expectations remain focused on clear, specific communication around how current conditions are affecting operations, liquidity, and financial performance.

This often means more detailed MD&A discussion, updated risk factors, and greater transparency around estimates and judgments. The goal is to help users of the financial statements understand not just what has changed, but how the business is responding.

### Sanctions Compliance

Sanctions enforcement has increased sharply, both in scope and intensity. The Office of Foreign Assets Control (OFAC) has sanctioned more than 180 vessels tied to Iranian petroleum shipping since the start of the Trump administration, and in 2025 alone designated more than 875 individuals, vessels, and aircraft as part of its maximum pressure campaign. Additional actions targeting shadow banking networks and weapons procurement channels have continued into 2026.

What matters for many companies is that this risk is not limited to those with direct ties to the region. The complexity of global supply chains and financial relationships means exposure can arise indirectly. OFAC has also made it clear that professional service providers, including accountants, attorneys, and investment advisors, are expected to act as gatekeepers, with a growing responsibility to understand and manage sanctions risk.

### Cybersecurity

Cyber risk has become a more visible part of the current environment. Joint advisories from CISA, the NSA, the FBI, and the Department of Defense Cyber Crime Center have urged increased vigilance around Iranian-affiliated cyber activity targeting US critical infrastructure. Several hacktivist groups tied to a newly formed Electronic Operations Room have claimed attacks across the energy, financial, healthcare, and government sectors. The Department of Homeland Security has also issued a National Terrorism Advisory System bulletin highlighting the elevated threat.

For public companies, this carries direct reporting implications. SEC rules require material cybersecurity incidents to be disclosed on Form 8-K within 4 business days of determining materiality, which places real pressure on detection, assessment, and response efforts. In practice, this means cybersecurity is no longer just an IT concern but one that is closely connected to financial reporting and governance.

## What the Current Environment May Call For

Given how quickly conditions have shifted, many of the assumptions behind recent financial statements may no longer reflect the current environment. This is less about changes to the rules than about reassessing key judgments with updated information. That may include continuously evaluating the effect of subsequent events right through filing, updating impairment analyses that relied on earlier projections, and revisiting credit loss models to reflect shifting economic conditions. Hedge relationships tied to forecasted transactions may also need a second look if those transactions are now uncertain or delayed. Inventory values can be another pressure point, especially where higher freight costs, rerouted shipping, and a 30 to 35 percent increase in fertilizer prices are affecting what can realistically be recovered.

Beyond the numbers, there is a broader need to reassess risk. Liquidity planning and covenant testing under more stressed scenarios may be more relevant than base case forecasts. Sanctions compliance programs may need to be revisited as OFAC enforcement expands, and cybersecurity response processes should be evaluated in light of both increased threat activity and SEC reporting timelines.

For public companies, clear and specific disclosure is also key. Investors and regulators are looking for insight into how current conditions are affecting the business and how management is responding. Companies that navigate this well tend to stay proactive, revisit assumptions early, and maintain open communication with auditors, boards, and stakeholders.

Companies that navigate periods like this most effectively tend to identify where they are exposed early, test their assumptions under different scenarios, and stay in close communication with their advisors, auditors, and leadership as conditions evolve.

## Looking Ahead: What Makes This Situation Distinctive

What makes this situation different is not just the scale of disruption, but how many risks are developing at the same time. Energy supply constraints, fertilizer shortages, cybersecurity threats, expanding sanctions, and rising recession risk are all unfolding together, and they often reinforce one another.

Fertilizer supply is one area that may not be getting as much attention, but could have meaningful downstream effects. Roughly one-third of globally traded fertilizer moves through the Strait of Hormuz, and prices have already risen by 30 to 35 percent. Unlike oil, there are no strategic reserves, which means the impact may show up over time in agricultural costs, food prices, and inflation.

The duration of the Strait of Hormuz disruption remains one of the biggest unknowns. Economic outcomes can vary widely depending on how long it lasts, which makes forecasting more difficult and increases the level of judgment involved in financial reporting.

At the same time, cybersecurity and sanctions risks continue to evolve quickly. Cyber threats introduce a different type of exposure that can affect both operations and reporting, while the pace of sanctions activity is creating new compliance considerations that extend beyond companies with direct ties to the region.

The full impact of these developments will continue to unfold. As conditions change, the most effective approach is to stay flexible, revisit key assumptions, and work closely with advisors to ensure financial reporting keeps pace with the broader environment.

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