

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Issues Paper – High-level summary of Crypto-Assets (Liabilities)

Discussion Paper outreach

Objective

- 1 The objective of this paper is to provide an update on the outreach activities on the [Discussion Paper on Accounting for Crypto-Assets \(Liabilities\): A Holder and Issuer Perspective \(DP\)](#) performed so far and an initial high-level summary of the feedback received from constituents during the outreach.
- 2 A detailed feedback statement will be developed and presented after the completion of the outreach in July.

Executive Summary

- 3 On aggregate, the still-open survey interim results are showing that there is an expectation of only a modest increase in entities' holdings of crypto-assets. The feedback from interviews and surveys indicates support for further standard-setting to clarify the accounting for crypto-assets (liabilities) with a variety of ideas including the development of a comprehensive asset standard that would address requirements related to non-financial assets that are held as investments.
- 4 Several respondents to the interviews and surveys consider the application of IAS 2 and IAS 38 inadequate as crypto-assets are considered equivalent in economic substance to financial instruments and therefore need to be measured at fair value through profit or loss. There is also support to further align the accounting, legal and regulatory definition of crypto-assets.
- 5 However, presentations made to the Accounting Standards Advisory Forum (ASAF) and International Forum of Accounting Standard Setters (IFASS) showed that national standard setters (NSS) have mixed views on whether and what form of standard-setting activity is needed to address the accounting for crypto-assets (liabilities).
- 6 At a presentation of the DP at the European Accounting Association, the IASB staff member indicated four options are under some level of review and consideration at the IASB. These options (scoping out crypto-assets from IAS 38 *Intangible Assets*, developing an investment standard, amending the IAS 38 revaluation approach, and clarifying eligibility for cash classification) overlap with some of the possible areas of amendment of IFRS requirements highlighted in the DP.

Background

- 7 The DP was issued by EFRAG in July 2020 and is open for consultation until 31 July 2021. Related outreach activities commenced in Q4 2020 and will continue until early July 2021.
- 8 The DP sets out three possible options for developing IFRS requirements:

*High-level summary of Crypto-Assets (Liabilities) Discussion Paper outreach
- Issues Paper*

- (a) **Option 1:** No amendment to current applicable IFRS Standards. In effect, preparers will continue to apply existing IFRS including having to develop their own accounting policy (IAS 8).
 - (b) **Option 2:** Amend and/or clarify IFRS Standards – this option proposes that several amendments or clarification guidance to current IFRS Standards (such as IAS 38, IAS 2 *Inventories*, IAS 32 *Financial Instruments: Presentation*, IAS 7 *Statement of Cash Flows*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurement* and IFRS 15 *Revenue from Contracts with Customers*) might be needed for the accounting by holders and issuers of crypto-assets (liabilities).
 - (c) **Option 3:** A new IFRS Standard to address crypto-assets (liabilities) with a possibility to also cover digital assets (liabilities) – this option would require developing a new standalone IFRS Standard for crypto-assets (liabilities).
- 9 The EFRAG Secretariat intends to facilitate a comprehensive and structured outreach approach with the aim to:
- (a) create awareness of the DP amongst all possible relevant target audiences;
 - (b) stimulate stakeholders’ participation in the outreach activities; and
 - (c) maximise comment letter responses and feedback to the DP to ensure there is sufficient feedback to inform the IASB on stakeholders’ expectations on the standard-setting requirements for the topic.
- 10 The following outreach activities have been executed since Q4 2020 based on which the feedback was gathered:
- (a) EFRAG Secretariat have conducted six one-on-one interviews with stakeholders;
 - (b) Presentations on the DP have been made during the stakeholder meetings and workshops are outlined in the Table below.

Date	Title	Organised by
30 September 2020	Virtual meeting with IFASS	IFASS (International Forum of Accounting Standard Setters)
10 December 2020	Virtual meeting with ASAF (Accounting Standards Advisory Forum)	IASB
13 April 2021	Virtual meeting: PwC Focus - Actualite des crypto-actifs	IMA (Institute of Management Accountants)
23 April 2021	Virtual workshop on Accounting for Crypto-Assets (Liabilities)	EAA (European Accounting Association)

- (c) EFRAG published a [survey](#) on 2 April 2021. The survey included the same questions as those included in the DP on the following aspects:
 - (i) Trends and market developments;

*High-level summary of Crypto-Assets (Liabilities) Discussion Paper outreach
- Issues Paper*

- (ii) Overall approach to develop IFRS requirements;
- (iii) Accounting for holders;
- (iv) Accounting for issuers; and
- (v) Valuation.

The survey is intended to enable formal feedback from constituents that may be constrained in providing a comment letter. So far, we have received 15 responses of which a third (5) are from Europe-based respondents. A significant proportion (40%) of respondents have a research (including academic) background. The Table below has a breakdown of the functional role of different respondents.

Functional role of respondent	Nr of responses	%
Accounting standard setter	1	7%
Adviser (e.g., legal, consultant)	3	20%
Auditor	1	7%
Financial reporting preparer (CFO, controller, treasurer)	1	7%
Institutional investor	1	7%
Other	1	7%
Prudential or securities regulator	1	7%
Researcher including academic	6	40%
Total	15	100%

- (d) In early March 2021, the Accounting Standard Board of Japan (ASBJ) published a Japanese translation of the DP.
- (e) EFRAG published a series of educational podcasts on 14 April 2021 as detailed below:
 - (i) [Accounting for Crypto-Assets \(Liabilities\) – Holder’s perspective](#) with external speaker Ana Rosa Cortez (formerly-KPMG Spain);
 - (ii) [Accounting for Crypto-Assets \(Liabilities\) – Issuer’s perspective](#); and
 - (iii) [Accounting for Crypto-Assets \(Liabilities\) – Valuation](#) with external speaker Heiko Petry (University of St. Gallen).

Summary of the feedback received during outreach activities

11 For ease of reference, stakeholders that provided feedback are referred to as “respondents” or “participants”.

Stakeholder interviews

12 This section provides a high-level summary of the feedback received from interviews with six respondents (i.e., preparer, two auditors, legal academic, financial institutions risk manager/ex-crypto-broker, advisor on crypto-related services) during the various outreach activities undertaken.

13 *Overall approach to address IFRS requirements:* So far, respondents have all been in favour of further standard-setting and clarification of the accounting for crypto-assets and liabilities. However, they are divided between either amending current IFRS Standards (option 2) or developing a new IFRS Standard (option 3). A respondent commented that either a new Standard or amendments to existing Standards could be a solution. He, however, proposed a general assets standard

as opposed to a unique crypto-assets (liabilities) standard. Some respondents favoured a unique crypto-assets Standard.

- 14 *Holders- recognition and measurement of crypto-assets:* Several respondents added noted that measuring crypto-assets at fair value through profit or loss is the most appropriate accounting method as it captures the economic reality. IAS 38 does not allow for FVPL measurement, while the fair value option under IAS 2 needs to be “stretched” to include any financial instruments-related-specific adjustments (e.g., prudent valuation adjustment, etc).
- 15 A respondent emphasised that there is no single accounting treatment applicable to all crypto-assets, but instead should be based on the specific characteristics of the instrument. Payment tokens for example could be suitable for IAS 38 or IAS 2 accounting. However, a distinction should be made between high versus lower quality payment tokens. The higher quality payment tokens (top 20 based on liquidity in the market) could be in scope of IAS 2 and the lower quality payment tokens could be in scope of IAS 38. Other crypto-assets like stable coins, security tokens are considered financial assets and should be valued at fair value through profit or loss.
- 16 *Holders- possible classification of some crypto-assets as cash:* The DP highlighted that some crypto-assets such as stablecoins that are pegged to fiat currencies and central bank digital currencies (CBDCs) could be suited to be classified as either cash or cash equivalents. Two respondents confirmed that considering crypto-assets as cash equivalents could only be the case when they are accepted as a legal tender and backed by governments, which is not the case currently. Another respondent noted the challenges of categorising stable coins as cash regardless of whether they are pegged to fiat currencies. The respondent noted that the fact that they are pegged does not mean they have equivalent characteristics to fiat currency.
- 17 *Holders and issuers of crypto-assets-Alignment with regulators’ definition of securities:* Several respondents considered crypto-assets and liabilities to be equivalent to financial instruments in economic substance. Several respondents proposed aligning the accounting classification of crypto-assets as financial assets/liability with the regulatory definition of securities. One respondent highlighted that the German banking regulation considers crypto-assets as financial instruments by decree without changing the definition of financial instruments. However, another respondent highlighted the challenges associated with the enforceability of smart-contracts-based crypto-assets rights and obligations.
- 18 *Accounting by issuers:* One respondent noted that it is important to consider the substance of a crypto-liability in order to determine the accounting. In general, IFRS 15 is not expected to be applicable as no enforceable contracts with customers are likely to be in place. However, the mining activity where revenue is earned by creating a cryptocurrency is considered to be based on an implicit contract and accordingly in scope of IFRS 15.
- 19 *Valuation considerations:* Respondents agreed on the fact that IFRS 13 provides sufficient guidance to determine an active market for crypto-assets and liabilities. However, there was a mixed view in determining an adequate method for valuation. One respondent noted that the valuation methods as indicated in the DP could be sufficient depending on the type of crypto-assets. On the other hand, the respondent challenged the current valuation techniques by questioning the feasibility of determining relevant cash flows and discount rates (that capture for example the risks related to obsolescence of cryptography technology due to quantum computing, cybercrime, etc.). Another respondent also questioned the appropriateness of IFRS 13 as it is based on the presumption to convert the

High-level summary of Crypto-Assets (Liabilities) Discussion Paper outreach

- Issues Paper

instrument into cash, while this is not necessarily the case for crypto-assets (i.e. crypto exchanges allow both crypto-to-crypto and crypto-fiat currency exchanges).

- 20 *Other matters:* Two respondents expressed the need for setting requirements for mining activities as there is no applicable IFRS Standard for this activity. Concern was expressed about the impact of the crypto market on sustainability. The proof-of-work mining (i.e. solving cryptographic puzzles to validate new transactions) of some cryptocurrencies consumes a significant amount of energy resources, which is not congruent with the sustainability objectives.

Ongoing survey- High-level summary of results

- 21 The below is a high-level interim summary of results from the ongoing survey.
- 22 *Trends and market developments:* A majority of respondents (8 or 53.3%) expected a moderate increase in holdings of crypto-assets by entities, with 20% expecting a significant increase, and 26.7% expecting no insignificant increase. A respondent who expected a significant increase noted that the low/negative interest rate may result in crypto-assets serving as a substitute to interest-bearing assets.
- 23 *Overall approach to address IFRS requirements:* The results show that respondents find it necessary to have further standard-setting activities:

Proposed options	Nr of responses	%
A new Standard on crypto-assets (liabilities) or digital assets (liabilities)	6	40%
Amend and/or clarify existing IFRS requirements	8	53%
Other	1	7%
Total	15	100%

- 24 *Accounting by holders:* The strong majority view is that respondents agree with the limitations of IAS 2 and IAS 38 (67%) and have a preference to apply IFRS 9 where possible (80%). The most prevalent argument is that the market considers these assets as a form of financial instruments and classifying them as inventory or intangible assets does not fit the substance. In addition, there seems to be a majority that supports the view that crypto-assets are cash and cash equivalents by referring to the fact that these are currently used instead of cash (stable coins) and seen as non-convertible currency.
- 25 *Accounting by issuers:* There is also support for further guidance on the accounting for crypto-liabilities arising from Initial Coin offerings (ICO's) and similar offerings, specifically regarding the question of whether a transfer of ownership occurs and how the liability of the issuing party should be valued.
- 26 *Valuation:* The survey results show a mixed view on the adequacy of the guidance in IFRS 13 to determine an active market and to determine the fair value in absence of an active market.

Virtual meeting with IFASS on 30 September 2020

- 27 The participants supported some form of further standard-setting on the accounting for crypto-assets and liabilities without a strong view on option 2 or option 3 as suggested in the DP.
- 28 As an alternative to considering the DP's proposed options as mutually exclusive, one participant expressed a preference for a phased approach. The first phase would remove cryptocurrencies from the scope of IAS 38 *Intangible Assets* and allow entities to apply IAS 8 and develop their own accounting policies. The second phase would develop a new standard solely dedicated to crypto-assets (liabilities).

*High-level summary of Crypto-Assets (Liabilities) Discussion Paper outreach
- Issues Paper*

Virtual meeting with ASAF on 10 December 2020

- 29 Members generally agreed that the nature and the use of crypto-assets (or liabilities) and the market for those are still developing. Two ASAF members specifically indicated that the market for crypto-assets has not developed as rapidly as they had anticipated.
- 30 Some ASAF members did not have a strong view on the need for immediate standard-setting but rather preferred to continue applying the existing applicable IFRS Standards. Two ASAF members noted that laws and regulations on the use of crypto-assets (or liabilities) are still under development. There is no immediate need to undertake standard-setting. Any action the IASB might take in the near term could be perceived as legitimising the use of crypto-assets (or liabilities). One ASAF member added that US GAAP includes requirements that apply to crypto-assets and crypto-liabilities based on the nature of the rights and obligations arising for an entity. There is no need to undertake standard-setting.
- 31 However, some other ASAF members supported either the amendment of existing IFRS requirements or the development of a unique new crypto-assets (liabilities) Standard. An ASAF member argued that standard-setting would help to ensure transparency about the types of crypto-assets and crypto-liabilities.

Virtual workshop – PwC Focus Actualite des crypto-actifs - IMA France on 13 April 2021

- 32 The IMA event had approximately 100 market practitioners attending. In addition, to the EFRAG Secretariat's presentation of the DP, there were three presentations on:
- (a) Blockchain business models' and crypto-asset market trends;
 - (b) Central bank digital currencies (CBDCs) trends; and
 - (c) Key developments in crypto-assets regulation.
- 33 Aligned with the DP's proposed approach of focusing on economic substance and characteristics of crypto-assets while developing accounting requirements, the presenter on regulation noted the need for a technology-neutral approach towards the development of regulatory requirements and he also supported the need for regulatory clarity.

Virtual workshop on Accounting for Crypto-Assets (Liabilities) with the EAA on 23 April 2021

- 34 The focus of this workshop was the input from the academic perspective which confirmed that:
- (a) Further increase in the crypto market is expected;
 - (b) There is not much academic research on this field due to the embryonic state of market development and limited data;
 - (c) There is a lack of adequate accounting guidance to ensure consistent information being reported in the financial statements;
 - (d) The valuation of crypto-assets can be complex as cryptocurrencies/tokens are strongly connected to the specific crypto platform. The valuation techniques need to consider all the aspects and interrelation of the whole platform instead of a standalone valuation of a cryptocurrency. Current valuation techniques can only be applied by analogy to existing investment types. And are not suitable to derive the specific fair value of crypto-assets and crypto-liabilities.

*High-level summary of Crypto-Assets (Liabilities) Discussion Paper outreach
- Issues Paper*

- 35 The IASB staff member presented four possible (and not necessarily mutually exclusive) choices for standard-setting as a response to the feedback on accounting of crypto-asset and liabilities. These included the following:
- (a) Changing the scope of existing IFRS Standards: the IASB could place holdings of cryptocurrencies within the scope of IFRS 9 or IAS 40 rather than IAS 38;
 - (b) Develop an investment IFRS Standard: the IASB could create a new IFRS Standard that includes within its scope a range of investments like investments in cryptocurrencies;
 - (c) Change the IAS 38 revaluation model: the IASB could change IAS 38 to require or permit changes in fair value to be recognised in the income statement rather than in other comprehensive income; and
 - (d) Change the definition of cash: the IASB could make it clearer what assets qualify as cash when applying IFRS Standards.
- 36 The polling during the event (with approximately 100 participants) showed that:
- (a) Participants expect further standard-setting in relation to the accounting for crypto-assets (liabilities) and don't find IAS 2 and IAS 38 adequate;
 - (b) Participants considered the need for guidance for ICOs;
 - (c) There is a preference for a new Standard (60% of the participants) compared to amendments to existing Standards (40% of the participants);
 - (d) A majority (51%) of the participants consider IFRS 13 to be inadequate to determine a fair value for crypto-assets in absence of an active market; and
 - (e) A mixed view (50%) whether the definition of cash and cash equivalents needs to be updated to consider crypto-assets as cash equivalents.

Questions for EFRAG TEG

- 37 Does EFRAG TEG have any comments on the outreach performed so far?
- 38 Does EFRAG TEG have any comments on the summary of the feedback received?