

Date: 8 August 2021

EFRAG
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Submitted via email: cryptoassets@efrag.org

Subject: Discussion Paper (DP) on Crypto Assets (Liabilities)

Dear Jean-Paul Gauzes,

I like to thank the EFRAG leadership and technical staff for publishing this excellent [DP](#) comprehensively covering issues relating to crypto assets. I believe this is a neglected topic in accounting literature which is set to become very important as the world enters the post-covid-19 recovery phase.

I appreciate the opportunity to comment on the DP. I provide my comments as an independent investor with a total experience of over 18 years working in financial services, with last 6 years working in an analytical role.

I believe the crypto topic is very closely interlinked with digital economy and considering the level of complexity, this topic should be covered under a separate standard. There are elements in crypto offerings that include intangible assets, currency, financial assets, and type of funding instruments characteristics. Current thinking to fit crypto instruments within existing standards is incorrect and flawed. Therefore, I would support a separate standard (referred as option 3 in the DP) to be developed that covers crypto transactions – and is explicitly excluded from the scope of other standards.

The race to develop Central Bank Digital Currency (CBDC)¹ further supports the notion that accounting needs to catch up with the fast-evolving interconnected digital world. Businesses investing or developing crypto assets in future could either reap huge rewards or misallocate capital resulting in losses for investors. It is critical that accounting accurately reflects economic substance of transactions, so investors and markets can accurately price such transactions in a timely manner.

My specific responses to the DP questions are included in the attached appendix.

Please do not hesitate to contact me if you require any clarification or further information relating to this comment letter.

Yours sincerely,

[Kazim Razvi](#)
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¹ [Banks Face Uncertain Future](#) published in May 2021 covers CBDC impact on banks and problems in the current IFRS standards.

APPENDIX

Q2.1 Do you agree that there is need to address accounting topics not in scope of the IFRS IC agenda decision on cryptocurrencies? Please explain.

Yes, I agree. As an investor, I would like all crypto transactions to be covered in one standard to ensure consistency and high-level comparability.

Q2.2 Which of the three options do you consider to be the most appropriate solution to address IFRS requirements?

As mentioned above, I believe there is a need for a separate standard (option 3) to cover crypto transactions. In my opinion the entire eco-system relating to crypto transactions should be included within a new standard. However, if some aspects merit a similar treatment to existing standards, then this standard should refer to those specific standard(s) requirements.

The advantage of the above approach would be to cover and update crypto standard without impacting other standards. Also, if the references to other standards are no longer applicable then this crypto standard could be updated with a revised accounting guidance.

Q3.1 Do you agree that standard-setting activity is needed to address the limitations of IAS 2 and IAS 38 requirements towards addressing non-financial asset investments; namely that: IAS 38 does not allow FVPL when cryptocurrencies are held as trading or investment assets; and IAS 38 does not allow fair value measurement when markets are inactive? Please explain.

Yes, I agree that standard-setting activity is needed to ensure consistent and relevant accounting is applied in practice instead of forcing such transactions to existing standards. In my opinion, generally, the holder of crypto assets should have a policy choice either to account for them at fair value through profit or loss or treat them as cash and cash equivalents.

Q3.2 Do you agree that there is need to clarify crypto-asset holders' eligibility to apply IFRS 9? Please explain.

Do you have views on whether or not IAS 32 needs to be updated to include crypto-assets (tokens) with functional equivalence to equity or debt securities, within the IAS 32 definition of financial instruments (financial assets for holders and financial liabilities for issuers) or alternatively whether crypto-assets should be classified as a unique asset and allowing accounting treatment similar to financial instruments where appropriate? Please explain.

Yes, I agree there is a need to clarify crypto-asset holders' eligibility to apply IFRS 9. I don't think the existing standards should be modified to provide guidance for crypto transactions. Instead, a separate standard for crypto transactions should refer to a specific existing standard like IAS 32 where crypto transactions are similar to the transactions specifically covered under that standard.

Q3.3 Do you have views on whether or not the definition of cash or cash equivalents needs to be updated? Please explain.

Yes, this is a view I have been consistently advocating for. The definition of cash and cash equivalents should not be limited to the central banks' issued currency. I would draw your attention to M-Pesa in Kenya as a case study. The convenience of using a digital currency as payment is possible without any state support. However, for such alternative currencies to play a role as a medium of exchange in the long-term is heavily dependent on a friendly regulatory regime.

Q4.1 Do you consider that existing IFRS Standards provide a suitable basis to account for crypto-liabilities by issuers of ICOs, IEOs and STOs? Please explain.

No, I don't think they are suitable to address ICOs, IEOs and STOs.