

EFRAG Discussion Paper on Crypto-assets (liabilities) Outreach Questionnaire

1.

BACKGROUND INFORMATION

1. Please provide some information about your activities:

Your name

Jan Peter Larsen

Your organisation

Danish Accounting Standards Committee/FSR-Danish Auditors

Please provide your e-mail if you agree to be contacted for any follow-up questions

2. Functional role (Please select one of the following)

Auditor

Comments: Response is given representing FSR and DASC, so both an accounting standard setter and an auditor.

3. Where appropriate, please identify the nature of your organisation's crypto-asset related business activities (buying, holding and issuing) (Please select the most representative category)

Other (Please specify)

Comments: A member organization representing Danish auditors that may potentially have to deal with crypto-assets/liabilities in the financial statements both from an accounting and an audit perspective.

4. Please indicate the region or country in which you are based

EU, UK, Norway, Liechtenstein and Switzerland

TRENDS AND MARKET DEVELOPMENTS

5. What do you expect will be the level of holdings or issuance of the current generation of private-issuer crypto-assets (i.e., payment tokens, utility tokens, investment tokens) by large institutions (e.g., listed institutions) in the next 3-5 years? As needed, please explain your response.

Do not know

Comments: In DK, it is difficult to respond to at this stage.

OVERALL APPROACH TO DEVELOP IFRS REQUIREMENTS

6. The EFRAG Discussion Paper proposes three options to develop IFRS requirements, namely: no amendment to existing IFRS requirements; amend and/or clarify existing IFRS requirements; and a new Standard on crypto-assets (liabilities) or digital assets (liabilities).

Which of the three proposed options do you consider to be the most appropriate approach to developing IFRS requirements?

(To the extent you can, please elaborate on your choice)

Other

Comments: We propose it be considered if an IFRIC interpretation related to IFRS 9 could do the job. If not, a standard based on the thinking in the withdrawn standard IAS 25. In this process IASB should identify what the issues are, for instance is it mining, payment with or investment in crypto assets. We think such approach may solve the problem for the vast majority of companies engaged in crypto activities.

ACCOUNTING FOR HOLDERS

7. In 2019, the IFRS Interpretation Committee (IFRS IC) issued an agenda decision that clarified the accounting requirements for a subset of crypto-assets (i.e., cryptocurrencies where there is no claim on the issuer such as bitcoin) ought to be classified as either intangible assets or inventories if held in the course of normal business and fall within the scope of IAS 38 *Intangible Assets* or IAS 2 *Inventories*.

The EFRAG Discussion Paper (Chapter 3) notes that there are situations where the measurement requirements under IAS 2 or IAS 38 may not allow FVPL or FVOCI to reflect the economic characteristics of crypto-assets with trading or investment asset attributes. For example, under IAS 38 revaluation approach, FVOCI is only allowed if there is an active market. Other commentary has also pointed to additional limitations including that: under the IAS 38 revaluation approach, revaluation gains remain in OCI even when the asset is sold and gain is realised (no recycling); and there is inconsistency and subjectivity in impairment testing.

From your perspective, is further standard-setting needed to address the limitations of IAS 2 and IAS 38 requirements to address crypto-assets that fall within the scope of these Standards? (To the extent you can, please elaborate on your choice)

No opinion

Comments: See our response to Question 6

8. The EFRAG Discussion Paper (Chapter 3) suggest that there may be a need to update IAS 32 *Financial Instruments Presentation* such that crypto-assets that have similar characteristics or functional equivalence to equity or debt securities (e.g. rights to profit, stakes in partnership arrangements, voting rights, right to cash flows from entities) but do not meet the current definition of financial assets under IAS 32, can be classified as financial assets.

Should IAS 32 be updated to include crypto-assets (tokens) with functional equivalence to equity or debt securities? Please explain.

No opinion

Comments: See our response to Question 6

9. The EFRAG Discussion Paper (Chapter 3) suggests that the IFRS definition of cash or cash equivalents may need to be updated to include some of the stable coins that are pegged to fiat currency on a 1:1 basis, cryptocurrencies that qualify as e-money and CBDC.

Should the IFRS definition of cash or cash equivalents be updated? (To the extent you can, please elaborate on your choice)

No opinion

Comments: This would probably be needed because crypto-currencies differ from all that is known as C&CE today.

10. The EFRAG Discussion Paper (Chapter 3) suggests that the clarification of IFRS requirements is needed for holders on behalf of others (e.g., custodial services) including on interpretation of the indicators of economic control. Clarification is also needed for accounting by holders of utility tokens and hybrid tokens, and for holdings arising from barter transactions (transaction in which goods/services are exchanged for crypto-assets) and proof-of-work mining activities.

Do you agree that the aforementioned areas need clarification in IFRS requirements as has been identified in this DP? Please explain.

No opinion

Comments: See our response to Question 6 & 7.

ACCOUNTING FOR ISSUERS

11. The EFRAG Discussion Paper (Chapter 4) notes that issuers can apply one or a combination of the following IFRS Standards: IFRS 9 *Financial Instruments*; IAS 32; IFRS 15 *Revenue from Contracts with Customers*; and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Do you consider that existing IFRS Standards provide a suitable basis to account for the crypto-liabilities of issuers of Initial Coin Offerings (ICOs), Initial Exchange Offerings (IEOs) and Security Token Offerings (STOs)? (To the extent you can, please elaborate on your choice)

No opinion

Comments: See our response to Question 6. This also applies to Question 12-13.

12. The EFRAG Discussion Paper (Chapter 4) highlights a number of areas that could pose concerns with the application of IFRS 15 for an entity issuing crypto-assets through ICOs (or other offerings such as IEOs and STOs).

In cases when the issuance of crypto-assets falls within the scope of IFRS 15, do you consider there is a need for further guidance/clarification on how to apply the IFRS 15 principles?

No opinion

13. The EFRAG Discussion Paper (Chapter 4) highlights a number of areas that could pose concerns with the application of IAS 37 for an entity issuing crypto-assets through ICO (or other offerings such as IEOs and STOs).

In cases when crypto-liabilities qualify as a financial liability under IAS 32/IFRS 9 or as a provision under IAS 37, do you consider there is a need for further guidance/clarification for entities on how to apply these Standards?

No opinion

VALUATION

14. The EFRAG Discussion Paper (Chapter 5) observes that when considering fair value measurement under IFRS 13 *Fair Value Measurement*, determining an active market for crypto-assets is not always straightforward.

Do you consider that the guidance in IFRS 13 provides an adequate basis to determine an active market for crypto-assets (and, if applicable, related crypto-liabilities) when these are measured at fair value? (To the extent you can, please elaborate on your choice)

Yes

Comments: Assuming it is possible to identify those variables that is included in determination of the fair value in case there is no active market. This also covers our response to Question 15.

15. The EFRAG Discussion Paper (Chapter 5) observes that there is an emergence of valuation methodologies, that might differ from the fair value measurement guidance in IFRS 13, tailored for crypto-assets.

In the absence of an active market under IFRS 13, do you consider that IFRS 13 provides an adequate basis to determine an appropriate valuation technique to measure crypto-assets (and, if applicable, related crypto-liabilities) at fair value?

Yes

2. Thank You!

Thank you for taking our survey. Your response is very important to us.