

## **Crypto-Assets – Outreach Draft Questionnaire**

### **Introduction**

- 1** EFRAG issued a [public call](#) for crypto-assets experts to participate in the EFRAG research project on the accounting for crypto-assets (hereafter referred to as EFRAG project). As highlighted in the public call, interviews will be conducted with those that accepted to participate in the EFRAG project (hereafter referred to as respondents).
- 2** This questionnaire has been designed to allow an effective and structured information gathering from respondents before and during a scheduled one-hour interview.
- 3** In addition to questions on the respondents background, the questionnaire has been divided into the following sections that are key focus areas of the EFRAG project:
  - (a) [Section 1: crypto-assets issuance, holding and related services activities](#)
  - (b) [Section 2: crypto-assets rights, obligations and contractual arrangements](#)
  - (c) Section 3: crypto-assets regulation and consumer protection
  - (d) Section 4: crypto-assets accounting guidance
  - (e) Section 5: crypto-assets market developments and trends
- 4** The organisation of the questionnaire into the above sections is also meant to help respondents to identify and focus on the questions that they are well suited to address.
- 5** Respondents are **not required to answer all the questions** but only those that they can readily address from their existing knowledge and where they do not need to undertake research and data gathering efforts.
  - (a) All respondents are encouraged to consider responses to the questions in [Sections 1 and 2 \(marked in blue\)- as the interviews will prioritise these two sections and any other area that the respondent would like to cover.](#)
  - (b) To the extent that respondents have feedback on the prevailing regulation, accounting guidance and market development, they may respond to the questions in Sections 3, 4 and 5.
- 6** To optimise the information gathering, the following is requested from respondents:
  - (a) To the extent possible, complete and submit the questionnaire prior to the scheduled one hour interview; and/or
  - (b) identify the areas they would like to prioritise for discussion during the scheduled one hour interview.

## Respondent profile

7 Please provide some information about your activities:

(a) Your name and organisation

8 Functional role (Please select one of the following)

- Accounting standard-setter
- Auditor
- Prudential or securities regulator
- Institutional investor
- Researcher including academic
- Adviser (e.g. lawyer, consultant)
- Crypto-assets rating professional
- Crypto-assets trader or intermediary
- Financial reporting preparer (e.g. CFO, Controller)
- DLT platform or software developer
- Other (please specify below)

(a) Where appropriate, please identify the nature of your organisation's crypto-asset related business activities (Please select)

- Crypto-asset developer platform
- Crypto-assets rating agency
- Custodial services firm or trading platform
- Credit, electronic money or payment services firm
- Non-financial entity including blockchain token economy
- Other (please specify below)

(b) Region or country

- EU, Norway, Liechtenstein and Switzerland
- Other (please specify below)

- 9 To what extent are you aware of/involved with crypto-asset activities? Please explain.

## Section 1: Crypto-assets issuance, holding and related services

- 10 The questions are divided into the following sections:
- (a) Issuance of crypto-assets
  - (b) Holders of crypto-assets
  - (c) Related services (i.e. custodial services and mining).

### Issuance of crypto-assets

- 11 Crypto-assets can be issued through :
- (a) by crypto-asset developers;
  - (b) through initial coin offerings (ICOs), security tender offerings (STOs) and similar offerings;
  - (c) as a reward to certain types of mining activities (e.g. proof of work mining); and
  - (d) by airdrops where coin project issue tokens for free.
- 12 Due to the significant associated volume, the EFRAG project is mainly focusing on the issuance of tokens through ICOs, STOs and similar offerings.

#### *Questions on issuance of crypto-assets*

- 13 How prevalent are ICOs, STOs and similar offerings in your jurisdiction and what industries and type of entities are involved in the issuance of tokens?

- 14 If readily available, can you provide any noteworthy examples of recent ICOs, STOs or similar offerings including the amounts involved, the purpose of the project(s) and whether an issuance document (e.g. White paper or any other product-related document) was issued?

- 15 Are you aware of the valuation approaches applied by issuers to value crypto-assets at ICO or STO stage? If so, please briefly describe these valuation approaches.

## **Holding of crypto-assets**

### *Types of crypto-assets*

- 16** The economic nature of different crypto-assets ought to determine the appropriate accounting requirements. Regulator, legal firm, accountancy firm and academic literature has classified crypto-assets into the following key categories of coins or tokens:
- (a) Cryptocurrencies (coins and payment or exchange tokens): These are means of exchange but do not meet the definition of e-money as they are not backed by any central authority and have no claim on any counterparty.
  - (b) E-money tokens: Tokens that meet the regulatory authorities definition of e-money including there being a claim on the issuer. Some stable coins, payment, utility and security tokens can meet the definition of e-money.
  - (c) Utility tokens: Tokens that can confer a variety of network-associated rights including granting holders access to a current or prospective product or service.
  - (d) Security or asset tokens: Tokens with specific rights and obligations similar to specified investments (equity, debt, unit investment).
  - (e) Hybrid tokens are those with multiple characteristics during their holding lifecycle (e.g. having utility token and security token features at the same time).
- 17** There are also different types of stable coins. They can be a derivative, a unit in a collective investment scheme, a debt security, e-money, or another type of specified investment. Existing literature outlines the following types of stable coins:
- (a) Fiat currency backed stable coins
  - (b) Other crypto-currency backed stable coins
  - (c) Asset backed stable coins
  - (d) Algorithmically stabilised coins (i.e. algorithm that either increases or decreases supply of coins to influence volatility of value)
- 18** In addition to the above described coins and tokens, there are 'direct-token pre-sales' or pre-functional tokens, which are tokens that are transferable via a protocol on the DLT network, but cannot yet offer utility on the network. Effectively, these are tokens issued before the network is launched and will typically convert to utility tokens once the network is active.

*Questions on types of crypto-assets*

- 19** The EFRAG project is seeking to identify examples of “grey areas” in the classification of crypto-assets by regulators and market actors as these can be indicative of items where it may be challenging to determine the appropriate regulation and/or accounting. Are you aware of any examples of the following:
- (a) cryptocurrencies within jurisdictions that are not stable coins and would qualify as e-money based on the definition of applicable banking and monetary policy authorities
  - (b) hybrid, multi-purpose tokens where the nature of crypto-assets may not be clear (e.g. tokens that have a ‘utility’ purpose and are being used as a means of payment or as an investment or for speculative purposes)

If so, please provide these examples and a description of their main features including holder rights and issuer obligations

- 20** In your opinion, are there any stable coins in your jurisdiction or elsewhere with features that make it difficult to assess their essential nature (e.g. whether they are derivatives, investments, e-money based on regulatory authority definition etc)? Please elaborate with examples and features of these stable coins

- 21** Is the issuance of pre-functional tokens common within your jurisdiction? If so, please describe the key features of these pre-functional tokens

*Holder entities*

- 22** Due to the challenge of finding entity-level data in publicly available databases and crypto-assets literature, the EFRAG project seeks to investigate the prevalence of entities that are holders of crypto-assets either on their own behalf or on behalf of their clients.
- 23** A variety of financial services entities including credit institutions, electronic money institutions investment firms, payment service firms and trading platforms are likely to be holders of crypto-assets. These entities can collectively undertake the following crypto-asset related activities:
- (a) Owning crypto-assets;
  - (b) Lending against crypto-asset collateral;
  - (c) Clearing or trading with derivatives with crypto-asset underlying;
  - (d) Investing in products with crypto-assets’ underlyings;
  - (e) Lending to entities dealing directly or indirectly with crypto-assets;

(f) Providing exchange services for crypto-assets to fiat currencies or for other crypto-assets.

**24** Besides financial services entities, non-financial entities including blockchain token economy companies could be holders or issuers of crypto-assets.

*Questions on prevalence of holder entities*

**25** How prevalent are credit institutions, investment firms and payment service firms that undertake crypto-assets activities within your jurisdiction? If possible, please indicate the significance or materiality of crypto-asset holdings and transactions within these entities.

**26** How prevalent are crypto-asset trading platforms operating in your jurisdiction? If existing, do they charge a trading fee? If possible, please indicate the significance or materiality of crypto-asset holdings and transactions within these entities.

**27** How prevalent are non-financial entities that use crypto-assets as a means of employee compensation or those that are blockchain token economy participants and use or accept crypto-assets as a means of payment for goods or services or settlement of obligations? If you aware, please indicate the significance or materiality of crypto-asset holdings and transactions within these non-financial entities.

### **Related services**

*Intermediary entities that hold crypto-assets on behalf of clients including custodial and storage services*

**28** The EFRAG project seeks to assess the prevalence of intermediary entities that hold crypto-assets on behalf of their clients (e.g. crypto-asset exchanges, custodial services and wallet providers, brokers and other financial institutions). An important distinction for accounting purposes could be whether it is such intermediary entities or their clients that have legal ownership of the crypto-assets.

*Question on prevalence of intermediary holders on behalf of clients including custodial services providers*

**29** How prevalent within your jurisdiction are intermediary entities that hold crypto-assets on behalf of their clients? And how common is it for such intermediaries rather than their clients to have direct legal ownership of the crypto-assets? Please elaborate

*Mining Services*

- 30** Mining activities are part of the process of recording new transactions on the blockchain. Miners or transaction processors are incentivised by fees and other rewards to verify transactions by solving cryptographic puzzles and adding transactions to the distributed ledger technology (DLT) platform. Two commonly described types of mining and transaction activities are:
- (a) Proof of work- where, as part of validating and recording the transaction on the DLT-blockchain, miners on the network compete to solve a cryptographic puzzle and the winner gets a transaction fees and a new unit of crypto-currency that is created as part of the reward. Proof of work is a computing capacity and energy intensive process.
  - (b) Proof of stake- a single validator is selected to validate transactions and create a new block. The validator is selected based on the proportion of cryptocurrencies held and staked by all network participants.

*Questions on prevalence of mining service entities*

- 31** How prevalent are proof of work mining activities by entities within your jurisdiction? If existing, what type of entities are undertaking such activities (e.g. cloud mining services, remote hosting services, mining pool)? Please elaborate

- 32** If applicable, which type of mining and transaction processing activity (proof of work versus proof of stake) currently dominates the issuance of crypto-assets in your jurisdiction? Do you expect there to be a change in the dominance of a particular type of mining activity? Please elaborate.

## **Section 2: Crypto-assets rights, obligations and contractual arrangements**

### **Sources of information the rights and obligations associated with crypto-tokens**

- 33** EFRAG project seeks to identify the most useful documents for identifying rights and obligations because it is generally difficult to obtain information on the rights, obligations and economic characteristics from documents in the public domain

*Questions on sources of information on crypto-assets rights and obligations*

- 34** How useful did you find the issuing entities' communication and documents (e.g. white paper or any other relevant document) in terms of understanding the purpose of the ICO and the rights and obligations attached to the issued token? Please provide some examples if possible.

- 35 Which source of information would you consider to be most reliable and comprehensive to obtain a clear understanding of the rights and obligations associated with tokens (e.g. utility tokens)? Please elaborate

**Identifying specific crypto-assets rights and economic characteristics**

- 36 The nature of rights and obligations of transactions has implications for determining the appropriate accounting. However, it is challenging to readily identify all the key unique rights, obligations and economic characteristics associated with crypto-assets due to their variety (i.e. >2000 different types) and sometimes hybrid economic characteristics. This challenge seems to be more pronounced for utility tokens and security tokens.
- 37 Legal firm, academic and regulator literature outlines the following description of rights associated with utility tokens:
- (a) Rights to access products or services of Token Platform
  - (b) Rights to purchase or sell existing or future products or services
  - (c) Right to partial ownership of a product
  - (d) Rights to mining activities
  - (e) Rights to contribute labour, effort or resource to a system
  - (f) Right to contribute, programme or create features of a system
  - (g) Right to decide on products, services, functionalities to be offered or deleted within the Token Platform
  - (h) Rights to vote on matters of governance, management and operation of Token Platform
- 38 In addition, pre-functional rights are described as rights to access products or services of a network that is yet to be operational.

*Questions on crypto-assets rights and obligations*

- 39 Do you agree with the above description of the rights characteristics of utility tokens and pre-functional tokens? If needed, please clarify your response

- 40 If you are aware of additional rights beyond those outlined above related to utility and pre-functional tokens, please elaborate on these additional rights.

- 41 Legal firm, academic and regulator literature outlines the following security tokens rights and economic characteristics
- (a) Fungibility, tradability and transferability
  - (b) Contractual entitlement to ownership interest or control of the token issuer
  - (c) Revenue or profit rights- rights to financial benefits from revenue streams or profits of the issuer/operator
  - (d) Debt- right to set cash flows from the economic activities of the issuer/operator
  - (e) Claims in bankruptcy as equity interest holder or creditor
  - (f) Rights similar to derivatives instruments (e.g. Reference to other crypto-assets as underlying, granting the holder an option to purchase one or more investment interests)
  - (g) Rights to future tokens (e.g. Simple Agreement for Future Tokens)
  - (h) Convertibility of a non-security token into a token or instrument with one or more investment interests
  - (i) Property ownership rights, Usufruct- Right to fruit from property

42 Do you agree with the above description of the rights and economic characteristics of security tokens? If needed, please clarify your response.

43 If you are aware of additional rights beyond those outlined above related to security tokens, please elaborate on these additional rights.

44 To the extent you can, please give specific examples of crypto-assets for the following below identified and any additions rights of crypto-assets

Rights	Examples of crypto-assets
<b>Utility tokens</b>	
Rights to access products or services of Token Platform	
Rights to purchase or sell existing or future products or services	
Right to partial ownership of a product	
Rights to mining activities	
Rights to contribute labour, effort or resource to a system	
Right to contribute, programme or create features of a system	

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Right to decide on products, services, functionalities to be offered or deleted within the Token Platform	
Rights to vote on matters of governance, management and operation of Token Platform	
Other security token rights not specified above (please specify the rights and give examples of related tokens)	
<b>Pre-functional tokens</b>	
<b>Security tokens</b>	
Contractual entitlement to ownership interest or control of the token issuer	
Revenue or profit rights- rights to financial benefits from revenue streams or profits of the issuer/operator	
Debt- right to set cash flows from the economic activities of the issuer/operator	
Claims in bankruptcy as equity interest holder or creditor	
Rights similar to derivatives instruments (e.g. Reference to other crypto-assets as underlying, granting the holder an option to purchase one or more investment interests)	
Rights to future tokens (e.g. Simple Agreement for Future Tokens)	
Convertibility of a non-security token into a token or instrument with one or more investment interests	
Property ownership rights, Usufruct-Right to fruit from property	
Other security token rights not specified above (please specify the rights and give examples of related tokens)	

**Rights and obligations related to intermediary crypto-assets holders on behalf of clients**

- 45 The EFRAG project seeks to assess the rights and obligations of intermediary entities that hold crypto-assets on behalf of their clients (e.g. crypto-asset exchanges, custodial services and wallet providers, brokers and other financial institutions).
- 46 An important distinction for accounting purposes could be whether it is such intermediary entities or their clients that have legal ownership of the crypto-assets. Holding of the private key to the crypto-assets wallets enables access and the ability to transfer crypto-assets and it could be one of the factors that helps to determine legal ownership. In some cases, the clients have the private key that allows transfer of crypto-assets but in other situations it is the intermediary that has the private key.
- 47 The EFRAG project also seeks to understand whether there are unique economic implications including on the nature and amount of crypto-assets owned and/or legal ownership implications for the intermediary entities or clients whenever a hard fork occurs on the DLT platform (i.e. an alternative and additional software protocol for updating the block chain is enacted) and as a result an additional alternative cryptocurrency is created.

*Questions on rights and obligations of intermediary holders on behalf of clients*

- 48 To your knowledge, does holding of the private key by the intermediary always or only sometimes equate to legal ownership of the crypto-assets? Please elaborate and indicate any other factors that are considered in determining whether or not the intermediary entity has legal ownership of the crypto-assets

- 49 Do intermediary entities including custodial service providers operating in your jurisdiction have an enforceable agreement with their clients that stipulates the respective rights and obligations? If so, please elaborate on the nature of these agreements.

- 50 Are you aware of any circumstances, where the intermediary holder/s on behalf of clients has had direct ownership of the crypto-assets and a hard fork has occurred? In this situation, what, if any, was the impact of the hard fork on the nature and amount of crypto-assets owned by the intermediary entities?

- 51 In respect of the preceding question, what, if any, was the impact of the hard fork on the nature and amount of intermediary entities' obligations to its clients?

### Section 3: Crypto-assets regulation and consumer protection

- 52 The prevailing regulatory requirements can be indicative of the economic characteristics of different crypto-assets and can serve as an input to formulating the appropriate accounting guidance.
- 53 Several publications highlight the challenge of assessing whether some tokens are effectively similar to securities with investment value or are *de facto* utility tokens with their value primarily derived from the consumption of network product or services. For example, pre-functional tokens that convert to utility tokens at a future date seem to be considered to be securities in some jurisdictions (e.g. US) with accompanying Simple Agreements for Future Tokens (SAFTs) that are open only for accredited investors. But these tokens could also be considered as being simply pre-network launch product sales that should be available for any consumer. It is not clear whether there is a common view on the appropriate regulation of pre-functional tokens across jurisdictions.

#### *Questions on crypto-assets regulation*

- 54 Are ICO's, STO's and similar offerings regulated in your jurisdiction? Please briefly explain the regulation or provide suitable references.

- 55 Are the holding of cryptocurrencies, utility tokens, security tokens and pre-functional tokens regulated in your jurisdiction? Please briefly explain the regulation to each of these categories of tokens or provide suitable references.

- 56 Are intermediaries including crypto-asset exchanges/dealer broker platforms, wallet providers and custodial services regulated in your jurisdiction? Please briefly explain the regulation to each of these categories of intermediaries or provide suitable references.

- 57 Are crypto-asset mining activities regulated in your jurisdiction? If so, please briefly explain the regulation or provide suitable references.

- 58 Are there any consumer protection regulation or related measures within your jurisdiction? Please elaborate or provide suitable references.

- 59 In your opinion, should all documents related to the issuance of crypto-assets be regulated? Please elaborate

#### **Section 4: Crypto-assets accounting guidance**

- 60 In March 2019, the IFRS Interpretation Committee (IFRIC) clarified that cryptocurrencies should be accounted for under IAS 2 *Inventories* when held for sale in the ordinary course of business or else they should be accounted for under IAS 38 *Intangible Assets*. Nevertheless, there are unresolved accounting questions because the IFRIC clarification did not cover the full range of crypto-assets- it only addressed cryptocurrencies but not utility tokens, security tokens and other tokens nor did it address accounting for issuance of crypto-assets (e.g. ICOs).
- 61 Several jurisdictions have guidance. However, the differing fact patterns across jurisdictions makes it inappropriate to generalise on whether the accounting guidance that has so far been issued in different jurisdictions addresses all potential accounting gaps related to crypto-assets activities.

##### *Questions on accounting guidance*

- 62 Is there accounting guidance for reporting entities that undertake ICO's, STO's and similar offerings in your jurisdiction? If so, please briefly explain the requirements or alternatively please outline what you would consider to be appropriate recognition and measurement approaches for the issuance of crypto-assets.

- 63 Is there accounting guidance for reporting entities that are crypto-asset holders within your jurisdiction? If so, please briefly explain the requirements or alternatively please outline what you would consider to be appropriate recognition and measurement approaches for cryptocurrencies, utility tokens, security tokens and pre-functional tokens.

- 64 Is there accounting guidance for custodial and storage services within your jurisdiction? If so, please briefly explain the requirements or alternatively please outline what you would consider to be appropriate recognition and measurement approaches for custodial service providers.

- 65 Is there accounting guidance for crypto-asset mining activities within your jurisdiction? If so, please briefly explain the requirements or alternatively please outline what you would consider to be appropriate recognition and measurement approaches.

## Section 5 :Crypto-assets market development and trends

*Questions on crypto-assets market development and trends*

- 66 To what extent are payments in crypto-assets accepted in your jurisdiction? Which ones are most accepted and do you envision changes in the extent of acceptance of crypto-assets as a means of payments in the foreseeable future? Please elaborate.

- 67 To what extent are crypto-assets currently part of the portfolios of institutional investors in your jurisdiction? Do you envision any significant changes in levels of institutional investors allocation to crypto-assets in the foreseeable future? Please elaborate.

- 68 Does your jurisdiction have its own stable coin? If so, please explain its main features (e.g. if and to what extent it is pegged to physical assets/ fiat currency) and do you consider stable coins as fulfilling any unique economic role?

- 69 Are you aware of trading of crypto-asset derivatives (such as Bitcoin futures) or exchange-traded products (ETP's) done through trading platform or financial institutions in your jurisdiction? How widespread are these crypto-asset based financial products? Please elaborate.

- 70 Do you consider the current or emerging crypto-asset markets (within or outside your jurisdiction) to have sufficient liquidity to be considered as 'active markets' for valuation purposes? Please elaborate.

- 71 Do you have a view on whether blockchain token economy based entities that issue their own tokens (utility or similar tokens) will become more widespread in your jurisdiction, region or globally? What factors will influence the scale of blockchain token economy based entities and the supply/demand of utility or similar tokens? Please elaborate.

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- 72** Are there any other factors you consider to be important to the potential development and general acceptance of crypto-assets in your jurisdiction, region or globally? Please elaborate.

- 73** What would you consider to be the possible enhancements and differentiating economic and technological features and underlying rights of the next generation of crypto-assets or similar DLT-enabled economic assets? Please elaborate.