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EFRAG Discussion Paper - Crypto-Assets (Liabilities) – Holders and Issuers Perspective

Status of EFRAG outreach and next steps

Objective

- 1 The objective of this session is to ask CFSS members how they and their respective organisations could engage in the EFRAG outreach activities to promote and collect input on the [EFRAG Discussion Paper on Accounting for Crypto-assets \(liabilities\)](#) (DP).

Agenda Papers

- 2 In addition to this cover note, agenda paper 09-02 – *ASAF presentation of the EFRAG Discussion Paper – Crypto-assets(liabilities)* – has been provided as background information.

Background

- 3 In July 2020, EFRAG published the DP with a 12-month comment period from the date of issuance until 31 July 2021. The long comment period was granted to give stakeholders sufficient time to comment on the EFRAG DP after taking account of stakeholders' constraints arising from the covid-19 crisis.
- 4 This DP was conducted in the following two research phases:
 - (a) A “**preliminary desktop research**” phase during which the EFRAG research team conducted a review of related IASB and NSS, accounting firms, regulatory, legal, academic and specialist literature; and
 - (b) A **phase to corroborate and enhance findings** that included outreach to crypto-assets experts. Outreach involved participation of experts with diverse functional backgrounds from 13 jurisdictions including leading markets.
- 5 Recent EU regulatory and national accounting developments on crypto-assets related activities include:
 - (a) The PACTE Law in France, enacted in May 2019, marked a key milestone in creating a legal environment for the issuance and holding of crypto-assets and giving legitimacy for related market activities.
 - (b) The March 2020 announcement by the Federal Financial Supervisory Authority (BaFin) of Germany that cryptocurrencies are to be defined as financial instruments, will provide a level of clarity and facilitate related transactions in Germany allowing for growth potential in the crypto-asset market.
 - (c) The EU has started developing regulation for markets in crypto-assets (MiCA) which would consider regulating crypto-asset service providers, regulation for

issuers and crypto-assets not covered elsewhere under the EU financial services regulation and regulating so-called ‘stablecoins’.

- 6 The IASB has been monitoring developments in crypto-assets since December 2016. So far, the IASB has decided not to undertake standard-setting mainly because the evidence obtained by the IASB staff indicated that crypto-asset transactions are not prevalent amongst entities preparing financial statements applying IFRS Standards.
- 7 Nonetheless, in March 2019, the IFRS Interpretations Committee (IFRS IC) discussed the accounting for cryptocurrencies (a sub-set of crypto-assets that represent a significant proportion of the overall crypto-assets market capitalisation) and in June 2019 issued an agenda decision clarifying the appropriate accounting treatment for cryptocurrencies.
- 8 Some stakeholders consider the IFRS IC clarification, at this stage, to be sufficient, given that the crypto market is at an early stage of development and not highly prevalent for the IFRS reporting community. However, other stakeholders including some of those who participated in the EFRAG research outreach have called for further clarification and development of IFRS requirements for crypto-assets (liabilities).

Objective and scope of the DP

- 9 The focus of this DP is on the accounting by holders and issuers of crypto-assets- as these are broad topics that encompass most of the accounting issues that are likely to be relevant for IFRS entities. The DP has the following objectives:
 - (a) Provide both a problem definition and propose possible preliminary approaches and areas of focus in developing IFRS requirements. The problem definition aspect primarily outlines existing approaches and identifies issues related to accounting for crypto-assets whilst assessing factors that can justify the need for clarification of IFRS requirements. These factors include the significance of crypto-assets activities, related economic characteristics, rights and obligations, regulatory requirements, trends and potential market developments.
 - (b) The DP had initially intended to focus on problem definition as a first phase to be followed by accounting solutions development. However, ongoing developments have prompted the EFRAG research project to also formulate and propose next steps for IFRS development.
 - (c) Obtain constituents’ feedback on the above. The DP content and constituents’ feedback can inform the next IASB agenda consultation and the contents of a potential future IASB project.
- 10 The scope of the DP which are the first but not only use case of blockchain technology. The scope excludes the extended applications of blockchain of which some may meet the definition of accounting assets or liabilities and/or have gaps in their accounting requirements.
- 11 To facilitate the reading of this DP, background information on crypto-asset activities, market development, economic characteristics and related regulation is provided in the accompanying appendices in the DP. A glossary and definitions of the terms used in the EFRAG research is available in an appendix. The terms were derived from different source material and publications examined during the development of this DP

Key findings and proposed accounting options in the DP

- 12 The DP identifies the following areas for possible clarification and amendments of IFRS requirements for holders and issuers of crypto-assets (liabilities):

- (a) Enhancing IFRS accounting guidance for holders of crypto-assets and specifically the application of IAS 38 *Intangible Assets*, IAS 2 *Inventories*, IAS 7 *Statement of Cash Flows* and IAS 32 *Financial Instruments: Presentation to holders*;
 - (b) Clarifying IFRS accounting for issuers of crypto-assets and specifically the application of IFRS 15 *Revenue from Contracts with Customers*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRS 9 *Financial Instruments* and IAS 32 to issuers; and
 - (c) Emergent valuation/measurement considerations under IFRS 13 *Fair Value Measurement* or other applicable IFRS Standards.
- 13 The DP sets out the following possible options for developing IFRS requirements:
- (a) **Option 1:** No amendment to current IFRS Standards – this option entails no change in applicable IFRS Standards. In effect, preparers will continue to apply existing IFRS including having to develop their own accounting policy (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).
 - (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, IAS 32, IAS 7, IAS 37, IFRS 9, IFRS 13 and IFRS 15) 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) on the premise that they are unique assets and liabilities. A new IFRS Standard can address the multiple issues on different topics related to crypto-assets (liabilities), including those that are summarised and intended to be addressed under Option 2.
- 14 Constituents are being asked which of the three options listed in paragraph 13 they consider to be the most appropriate solution or whether they consider there to be other possible approaches to address the IFRS accounting for crypto-assets (liabilities). Constituents are also asked specific questions on the various solutions explored in options 2 and 3.
- 15 The DP also highlights a cross-cutting gap in IFRS requirements for non-financial assets held as investments, which arose after the withdrawal of the previously applicable IAS 25 *Accounting for Investments*. Such requirements would have been applicable to a broad set of transactions including crypto-assets that are held as investments but do not qualify as financial assets and other non-financial assets (e.g. gold held as investments by monetary authorities). As a result, the DP proposes that for its future agenda, the IASB could also consider developing a new Standard for non-financial instruments held as investments.

Status of the EFRAG outreach on the DP

- 16 EFRAG has developed a communication plan intended to facilitate a comprehensive approach for outreach to stakeholders on the DP during the 12 months open consultation period. The execution of this plan is intended 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 that are being held from Q4 2020 onwards; 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. The outreach will aim to encourage early responses from constituents wherever this is feasible for them.

- 17 The targeted stakeholders include: national standard setters; accountancy firms; market players in the crypto-assets ecosystem including brokerages, financial services firms, rating agencies and research firms; institutional investors; regulators, supervisory and policy bodies; legal firms; academic researchers and thought leaders.
- 18 As part of its outreach initiatives, EFRAG presented the DP to the International Forum of Accounting Standard Setters (IFASS) in September 2020.

Feedback from the IFASS discussion [extract from the draft IFASS report]

- 19 IFASS members shared mixed views on the possible options for developing IFRS requirements:
 - (a) One IFASS participant preferred a phrased approach, where the first phase would remove cryptocurrencies from the scope of IAS 38 and IAS 2 and allow entities to develop their own accounting policies and the second phase would develop a new standard solely dedicated to crypto-assets.
 - (b) Another IFASS participant preferred the development of a new standard.
- 20 Another IFASS participant observed that (1) even though IFRS Standards did not refer to the terms 'ICO' nor 'crypto' as far as accounting by issuers is concerned, there are implicit IFRS requirements as there must be an IFRS Standard that applies to these transactions, (2) consideration should be given to measurement uncertainty when the project moves forward, and (3) the possibility of updating the definition of financial instruments should be considered whereby there could be need to consider the definitions of financial instruments applied by securities regulators as a guide for the classification of crypto-assets (liabilities) as financial assets (liabilities).

Next steps

- 21 The DP will be presented to the ASAF at its meeting on December 10, 2020. The ASAF presentation is included as agenda paper 09-02.
- 22 As noted, EFRAG has begun undertaking outreach activities from Q4 2020 and this will continue in H12021. EFRAG is inviting stakeholders that participated in outreach during the development of the DP and their contacts to indicate their willingness and availability to participate in these outreach activities. To facilitate stakeholder education on the topic, the EFRAG Secretariat will soon release a series of podcasts that provide an overview of the content of the DP.

Questions for EFRAG TEG-CFSS members

- 23 At this stage, do you have any recommendations on:
 - (a) If, how and when EFRAG could jointly host virtual outreach activities involving stakeholders in your jurisdictions;
 - (b) EFRAG could create awareness of the DP amongst stakeholders in your jurisdiction and encourage their comment letter responses including letting them know that early responses are welcome.
 - (c) If there are other suitable stakeholders, over and above, the targeted stakeholders identified in paragraph 17, that the EFRAG Secretariat could reach out to.