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## **Preliminary recommended options on developing IFRS requirements for Crypto-Assets (Liabilities)**

### **Objective**

- 1 This paper provides EFRAG Secretariat's preliminary recommended options on the way forward, which have been developed based on the feedback received to the EFRAG [Discussion Paper on Accounting for Crypto-Assets \(Liabilities\)](#) (DP).
- 2 This paper will inform the formulation of EFRAG's position on the way forward for developing IFRS requirements by the EFRAG TEG. In addition to the EFRAG Secretariat's preliminary recommended option on the way forward, the Appendix to this paper outlines the pros and cons of different options for developing IFRS requirements.

### **EFRAG Secretariat preliminary recommended options**

#### *Preliminary recommended options on Way Forward in developing IFRS requirements*

- 3 Constituents' feedback received was more supportive of Option 2 (i.e., amend or clarify existing IFRS requirements) than was the case for Option 3 (develop a unique crypto-assets (liabilities) standard).
- 4 Constituents' feedback also shows that the need for amendment of IFRS Standards is mainly related to holders' accounting Standards (IAS 38 *Intangible Assets* and possibly IFRS 9 *Financial Instruments* and IAS 40 *Investment Property*) while the need for clarifying IFRS requirements is related to multiple holders-, issuers- and valuation-related Standards. The feedback showed that Option 2 can be applied in different ways including:
  - (a) Issuance of interpretations through agenda decisions similar to the 2019 IFRS IC agenda decision on cryptocurrencies with no claim on the issuer.
  - (b) Development of application guidance within existing IFRS Standards related to a range of holders, issuers, and valuation topics. However, there will be a need for such guidance to focus on transactions where there is consensus on the economic substance of the transactions.
  - (c) A narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 *Inventories* and IAS 38 and either allow an accounting policy choice through IAS 8 or 'manually' include them in the scope of IFRS 9 as done for own use derivatives or include them in the scope of IAS 40. If crypto-assets are to be included in the scope of IFRS 9, there may be a need to amend IFRS 9 to mitigate against unintended consequences such as creating structuring opportunities.

- (d) Amending existing IFRS Standards (IAS 2 and IAS 38) to make them suitable for crypto-assets (e.g., targeted amendments to allow fair value disclosures under IAS 38, allow FVPL under IAS 38).
- 5 Another option proposed by some constituents was an interim standard that could include application guidance, which refers to existing IFRS Standards (i.e., it has an element of Option 2- clarify IFRS), but it could also provide additional guidance where existing IFRS Standards do not sufficiently address crypto-transactions (e.g. mining activities, hybrid tokens) or where required IFRS (e.g. IAS 38) do not reflect the economic substance of these transactions.
- 6 After weighing these pros and cons of the above alternatives, the EFRAG Secretariat recommends a focus on a combination of the variants of Option 2 listed in paragraph 3, specifically, the development of clarifying application guidance addressing a range of holders, issuers and valuation topics alongside scoping crypto-assets out of IAS 2 and IAS 38 into IFRS 9 or IAS 40.
- 7 The EFRAG Secretariat recommends that, in the medium to long term, the IASB could consider the amendment of IAS 38 to allow FVPL for certain intangible assets including crypto-assets. The development of a non-financial investment standard could also be an alternative to the amendment of IAS 38 and would help to future proof and make IFRS requirements suitable for a broad range of transactions.
- 8 The EFRAG Secretariat does not recommend the immediate development of a unique crypto-assets (liabilities) Standard due to the risk of its obsolescence (i.e., the IASB should avoid developing IFRS requirements that could be outpaced by the crypto-ecosystem evolution). We also note that while an interim Standard could provide application guidance by referencing existing IFRS and address gaps in existing IFRS, there could be questions around its scope, shelf-life, and whether it will be endorsed.
- 9 The EFRAG Secretariat also notes that EFRAG has in the past expressed reservations about guidance that is provided outside of Standards (e.g., through IFRS IC agenda decisions and educational material). Hence, we would recommend any approaches to developing IFRS requirements should primarily focus on the amendment of existing Standards including providing application guidance within these Standards and/or, as noted, the development of a new Standard for non-financial assets held as investments.

*Preliminary recommendations for holders' accounting*

- 10 *Intangible asset or inventory classification:* As noted above, the EFRAG Secretariat recommends a narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 and IAS 38 and to either allow an accounting policy choice through IAS 8 or to include crypto-assets in the scope of IFRS 9 or IAS 40.
- 11 In the medium to long-term, the EFRAG Secretariat recommends that the IASB does either of the following: a) amend IAS 38 to allow FVPL and permit more intangible assets held for trading (including crypto-assets) to be measured at fair value, or b) develop a Standard for investments in non-financial assets. Either of these choices should ensure that the business model and economic characteristics are considered whilst determining the appropriate recognition and measurement for crypto-assets. Should IAS 38 be amended, EFRAG's Discussion Paper [Better Information for Intangibles- Which way to go?](#) would be a useful reference for holistically considering issues around the accounting for intangibles. We consider that the development of a Standard for investment in non-financial assets could complement the various tangible and intangible asset Standards (IAS 2, IAS 16, IAS 38 and IAS 40).
- 12 *Financial asset classification:* The EFRAG Secretariat does not recommend updating IAS 32 definitions to either incorporate financial-instruments-like crypto-

arrangements where there is no enforceable contractual arrangement or to include cryptocurrency flows that are not equivalent to fiat-currency cash flows. We note the concern of unintended consequences from changing IAS 32 definitions of financial instruments and financial assets (liabilities). Instead of amending IAS 32, the EFRAG Secretariat considers that crypto-assets could be ‘manually’ included in the scope of IFRS 9 and/or the IASB could develop application guidance that clarifies, if and when, crypto-assets are eligible to be in the scope of IFRS 9.

- 13 *Cash or cash equivalent classification:* The EFRAG Secretariat agrees with the feedback from some constituents that there are various aspects of clarification on the eligibility of some crypto-assets for cash or cash equivalent classification needed. However, we do not consider an immediate update of the IAS 32 definition of cash (currency) or the IAS 7 definition of cash and cash equivalent to be necessary. This is because: a) there seems to be no ambiguity amongst stakeholders that CBDCs qualify to be classified as cash (i.e., CBDCs are in substance equivalent to fiat currency); and b) the IASB could clarify the eligibility of stablecoins for cash equivalent classification without needing to update the definition of cash or cash equivalent. Therefore, we recommend the IASB provides application guidance within IAS 7 that clarifies if/when some fiat-currency-backed stablecoins or crypto-assets labelled as e-money by authorities would qualify for the cash equivalent classification.
- 14 *Other topics for clarification in accounting by holders:* The EFRAG Secretariat recommends application guidance that clarifies the following:
- (a) accounting by intermediary holders as this type of holding is likely to become prominent and, in the absence of guidance, there is likely to be diversity in practice.
  - (b) guidance on accounting for holdings due to mining activities.
  - (c) accounting for hybrid tokens. Specifically, whether the predominant component should dictate the accounting choice.

*Preliminary recommended options on issuer accounting*

- 15 Based on feedback received, the activities relating to raising funds using ICOs and similar offerings are still in an early stage of development and still not sufficiently prevalent for IFRS reporting entities. The EFRAG Secretariat, therefore, agree with many respondents that it may be premature at this stage of the issuance ecosystem lifecycle to develop a new standard for accounting for issuance of crypto-assets.
- 16 Furthermore, although not specifically noted by respondents, the EFRAG Secretariat is aware that future developments in raising funds are likely to move away from the traditional early-stage Initial Coin Offerings (ICOs), Security Token Offerings (STOs) and initial Exchange Offerings (IEOs) fundraising models into a more complex decentralised mechanism involving Initial Dex Offerings (IDOs) and more recently Initial Stake Pool Offerings (ISPOs). This may be another reason why a solution based on developing a new standard may be premature at this stage, and a more appropriate and perhaps faster alternative would be to leverage existing IFRS requirements and amend or provide guidance to existing IFRS requirements where guidance is lacking or is unclear.
- 17 IDOs started launching in recent years (2020, 2021) and involve a project that launches a token through a decentralised liquidity exchange. Unlike ICOs, the IDO model allows crypto startups to raise funds through build-in liquidity pools without depending on intermediaries. ISPOs are even more recent and involve a crypto holder “staking” a particular token into a designated wallet (for example the Cardano wallet) and are rewarded with newly released tokens. The ISPO model is at an early stage of development and more research would be needed to understand it better and the underlying accounting implications. These latest fundraising/token raising

models are part of emerging developments such as DeFi and NFTs. However, at this stage, it is mainly retail investors, startups and venture capitalists that partake in these types of issuance activities.

- 18 Furthermore, as noted by some respondents, the regulatory environment in the different jurisdictions will also continue to develop and will provide greater clarity over crypto-asset activities including ICOs and similar offerings.
- 19 Similar to what some respondents noted, the EFRAG Secretariat acknowledges that absent a contractual agreement with a customer, application of IFRS 15 and IAS 32 might be difficult. The proposed application guidance could clarify this issue further. The guidance in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* offers a broad basis for application when neither IAS 32 *Financial Instruments: Presentation* nor IFRS 15 *Revenue from Contracts with Customers* would apply.
- 20 However, the EFRAG Secretariat consider that further research is needed to determine whether the issuance of hybrid tokens, which typically operate through smart contracts or a decentralised mechanism, involves a virtual or intangible contractual arrangement, before concluding that IAS 37 would apply. The ongoing development of regulation could also provide clarity in this regard. Therefore, following Option 2 (amend or clarify IFRS requirements) as a way forward might pose the best solution at this stage.

*Preliminary recommended options on valuation*

- 21 The EFRAG Secretariat recommends that similar to the recommendation for issuer accounting any clarifications needed for valuation of crypto-assets (liabilities) are included in either of the alternatives that fall within Option 2 - Amendments to existing IFRS Standards or application guidance that incorporates the relevant references to the fair value guidance in IFRS 13 and provides additional guidance where needed.
  - (a) Both alternatives would provide guidance on a measurement basis for crypto-assets (liabilities). In case, fair value was considered an appropriate measure, the fair value measurement principles and valuation techniques within IFRS 13 would be generally applicable.
  - (b) However, either of the two alternatives would need to consider whether additional fair value guidance is needed that is more specific for crypto-assets. One respondent that is involved in crypto-asset valuations noted that additional guidance would be needed in relation to the following areas in IFRS 13, and provided suggestions on how they could be addressed:
    - (i) Active market determination and level 1 inputs definition
    - (ii) Principal market
    - (iii) Fair value definition and “exit price” requirement.

**Questions to EFRAG TEG**

- 22 Does EFRAG TEG have comments on and agree with the EFRAG Secretariat's preliminary recommended options on developing IFRS requirements?
- 23 Does EFRAG TEG have comments on and agree with the EFRAG Secretariat's preliminary recommended options on accounting by holders?
- 24 Does EFRAG TEG have comments on and agree with the EFRAG Secretariat's preliminary recommended options on accounting by issuers?
- 25 Does EFRAG TEG have comments on and agree with the EFRAG Secretariat's preliminary recommended options on valuation requirements?

## Appendix: Possible Way forward in IFRS requirements- Pros and Cons

- 1 The outlining of the pros and cons of options for the possible way forward in IFRS requirements in Table 1 below has been developed to facilitate the EFRAG TEG members' evaluation and development of an EFRAG position on the way forward for developing IFRS requirements. These pros and cons have been modified from those outlined in Chapter 6 of the DP to reflect options put forward by constituents in their feedback to the DP.

**Table 1:** Summary of considerations in assessing possible approaches to clarification or development of IFRS requirements

Possible approaches to clarification or development of IFRS requirements	Reasons for possible approaches to clarification or developments of IFRS requirements	Considerations
<b>Option 1: Do nothing</b>		
No change to applicable IFRS Standards, preparers apply applicable IFRS or develop own accounting policy where needed	Doing nothing is predicated on crypto-assets (liabilities) not being currently pervasive amongst IFRS entities.	<p>Pros</p> <ul style="list-style-type: none"> <li>• Can allow market maturation before decisions on appropriate accounting requirements can be made.</li> <li>• Appropriate for a subset of transactions that are little understood, immature or where there may be no consensus on the economic substance of transactions (e.g. newer products- DeFi, NFTs, some utility tokens). For these items, stakeholders have suggested the IASB should undertake ongoing research and monitoring activities.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Retains stakeholders' lack clarity on the applicability of IFRS Standards in accounting for crypto-assets (liabilities).</li> <li>• Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements).</li> <li>• Effectively encourages own accounting policy and contributes to diversity in practice.</li> </ul>

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<b>Option 2: Possible clarification or amendment of existing IFRS Standards</b>		
<p>Interpretations- agenda decisions and other non-standard setting mechanisms such as educational material clarifying applicable IFRS Standards for different holder, issuer accounting and valuation topics</p>	<p>Agenda decisions will be similar to the 2019 IFRS IC agenda decision and address the topics that need clarification that were not addressed (e.g., accounting by holders on behalf of others, cash equivalent classification for stable coins, hybrid tokens, barter transactions, mining activities, issuers eligibility for IFRS 15 and IAS 37, identification of crypto-assets active markets).</p> <p>One survey respondent suggested an IFRS IC interpretation of the applicability of IFRS 9 and a comment letter respondent suggested an IFRS IC interpretation on whether IFRS 15 is applicable for mining transactions if there is no contract.</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Can address some of the questions/areas of ambiguity faced in practice and reduce diversity in practice.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Will not have the authoritative stature of IFRS Standards</li> <li>• Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements).</li> </ul>
<p>Develop clarifying application guidance within existing IFRS Standards covering areas for clarification across different holder, issuer accounting and valuation topics</p>	<p>Areas that may need clarifying application guidance are identified in both the DP and stakeholders' feedback to the DP (e.g., accounting by holders on behalf of others, cash equivalent classification for stable coins, hybrid tokens, barter transactions, mining activities, issuers eligibility for IFRS 15 and IAS 37, identification of crypto-assets active markets).</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Will allow market maturation before decisions on appropriate accounting requirements can be made.</li> <li>• Can address some of the questions/areas of ambiguity faced in practice and reduce diversity in practice.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• If the application guidance is not included as part of a Standard, it will have less authoritative stature than a Standard</li> <li>• Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements).</li> </ul>
<p>Possible narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 or IAS 38 and either allow accounting policy choice or 'manually' scope crypto-assets into IFRS 9 or IAS 40</p>	<ul style="list-style-type: none"> <li>• IAS 2 and IAS 38 requirements do not explicitly address non-financial tangible and intangible assets that are held as investments.</li> <li>• IAS 2 and IAS 38 allows fair value measurement (FVPL is allowed under IAS 2 for crypto-assets held in the ordinary course of business and FVOCI is allowed under the IAS 38 revaluation method), but these Standards also allow measurement approaches (net realisable value, cost) which some</li> </ul>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Easier and quicker to implement scope exclusions than amending the requirements of IAS 2 and IAS 38.</li> <li>• Avoids disrupting existing requirements.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• There could be unintended consequences of including crypto-assets in the scope (liabilities) of IFRS 9 or IAS 40</li> <li>• Requiring the development of own accounting policy choice will exacerbate the diversity in practice.</li> </ul>

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	<p>stakeholders claim do not result in decision-useful information for crypto-assets with trading or investment asset attributes.</p> <ul style="list-style-type: none"> <li>• IAS 38 revaluation approach is not applicable when there is no active market for crypto-assets.</li> </ul>	<ul style="list-style-type: none"> <li>• A narrow-scope amendment to attain FVPL could be perceived as implicit support for broader application of FVPL including for all financial instruments.</li> </ul>
<p>Possible targeted amendments to IAS 2 and IAS 38 requirements to explicitly address situations where non-financial tangible and intangible assets are held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights)</p>	<ul style="list-style-type: none"> <li>• The previously applicable IAS 25 was superseded by IAS 39 and IAS 40 and this left a gap in IFRS literature for the accounting of non-financial assets that are held as investments including crypto-assets, commodities, emission trading rights and water rights</li> <li>• As noted in IASB Agenda Consultation Request for Information targeted amendments, for example <ul style="list-style-type: none"> <li>○ develop additional disclosures about the fair value of cryptocurrencies (small project);</li> <li>○ permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (medium-sized project).</li> </ul> </li> </ul>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Can enhance the accounting for crypto-assets and other non-financial asset investments that may fall in the scope of IAS 2 and IAS 38.</li> <li>• As noted by some respondents to the IASB Agenda Consultation Request for Information, the treatment of cryptocurrencies and related transactions should be part of a project to undertake a comprehensive review of IAS 38. This is likely to be more effective than an asset-by-asset approach for emerging new assets that did not exist when IAS 38 was developed.</li> <li>• A focus on a broader set of transactions will future-proof IFRS requirements and result in enhancements that will be useful regardless of the future of the current generation of crypto-assets.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Likely to have lengthy due process before addressing accounting gaps faced by current practice.</li> </ul>
<p><b>Option 3: Issuance of new crypto-assets (liabilities) Standard</b></p>		
<p>Development of standalone Standard that explicitly addresses crypto-assets (liabilities)</p>	<p>Takes the view that crypto-assets (liabilities) are unique and this justifies a new standalone Standard for crypto-assets.</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Could comprehensively provide relevant recognition, measurement, presentation and disclosure requirements for all crypto-assets (liabilities).</li> <li>• Avoids disruptive amendments of multiple existing IFRS Standards.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Crypto-assets (liabilities) could be considered not to be a separate type of asset as they result from arrangements that</li> </ul>



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		<p>embody rights and obligations like any other contractual agreement.</p> <ul style="list-style-type: none"> <li>• A standalone crypto-assets (liabilities) Standard could be perceived as legitimising and enabling the development of risky products.</li> <li>• Lengthy due process before a new standard can be developed.</li> <li>• The risk that a new Standard would neither fit well nor complement the current IFRS Standards as it may localise cross-cutting issues.</li> <li>• Risk of obsolescence if new standard developed while the market is rapidly evolving</li> </ul>
<p><b>Additional options highlighted in stakeholders’ feedback to the EFRAG DP and the IASB Agenda Consultation RFI</b></p>		
<p>A phased approach starting with an interim standard</p>	<p>Two of the twelve comment letter respondents suggested that the IASB could issue an interim Standard in an analogous fashion to its issuance of IFRS 14 <i>Regulatory Deferral Accounts</i> in 2012</p> <p>An interim standard can, as part of application guidance, refer to existing IFRS Standards, but it can also provide additional guidance where existing IFRS Standards do not sufficiently address crypto-transactions (e.g., by providing guidance for mining activities, hybrid tokens) or address where existing IFRS fail to address the economic substance (e.g., by allowing FVPL for crypto-assets (liabilities)).</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Avoids the challenges of amending multiple standards</li> <li>• Could serve as both application guidance on existing IFRS Standards and address areas where there are gaps in existing IFRS Standards</li> <li>• Allows ongoing monitoring of market developments before possibly developing a unique crypto-assets (liabilities) final Standard.</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• It will be difficult to determine what topics should be in the scope of an interim standard versus what areas need further research.</li> <li>• Due to the rapidly evolving market, there is a lack of clarity on whether an interim Standard will ultimately become a dedicated crypto-assets (liabilities) Standards</li> <li>• It may be as challenging to develop an interim standard as it is to develop a standalone standard</li> <li>• It is challenging to transition from an interim to final Standard as has been the case so far for IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> and IFRS 14</li> <li>• An interim Standard may not be endorsed</li> </ul>

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<p>Development of a new Standard for non-financial assets held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights) – this option was analysed but not presented as one of the three main options of the way forward for IFRS requirements in the EFRAG DP</p>	<p>Several comment letter respondents suggested the development of a non-financial asset investment Standard similar to IAS 25</p> <p>The Agenda Consultation Request for Information indicated that the IASB could create a new Standard that includes within its scope a range of investments such as investments in crypto-assets, commodities.</p> <p>As noted by some respondents to the IASB Agenda decision RFI, it is beneficial to consider commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms together instead of separate projects. Such a project could consider if these assets are within the scope of an existing IFRS Standard and, if not, developing a new IFRS Standard.</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Can enhance the accounting for crypto-assets and other non-financial asset investments</li> <li>• Would note that many respondents to the Agenda Consultation Request for Information considered pollutant mechanisms to be a high priority and it is one of the topics that could be addressed collectively with crypto-assets.</li> <li>• A focus on a broader set of transactions will future-proof IFRS requirements and result in enhancements that will be useful regardless of the future of the current generation of crypto-assets</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Likely to have lengthy due process before addressing accounting gaps faced by current practice.</li> </ul>
<p>New standard related to a subset of crypto-transactions (mining activity, hybrid tokens)</p>	<p>Some feedback showed the need for guidance for mining transactions and hybrid tokens</p>	<p>Pros</p> <ul style="list-style-type: none"> <li>• Standard setting targeted at a subset of transactions could result in timely resolution in specific areas of urgent need</li> </ul> <p>Cons</p> <ul style="list-style-type: none"> <li>• Risk of obsolescence due to the rapidly evolving market. For example, due to concerns on sustainability, proof-of-work mining may be phased out</li> </ul>

