

RECOMMENDATIONS AND FEEDBACK STATEMENT

EFRAG DISCUSSION PAPER ON ACCOUNTING FOR CRYPTO- ASSETS (LIABILITIES)

February 2022



Index

Introduction	3
QUESTION 1 – USE OF CRYPTO-ASSETS (LIABILITIES)	12
QUESTION 2 – WAY FORWARD IN DEVELOPING IFRS REQUIREMENTS	13
QUESTION 3 – ACCOUNTING FOR HOLDERS	15
QUESTION 4 – ACCOUNTING FOR ISSUERS	18
QUESTION 5 – VALUATION	19
APPENDIX 1 – Profile of Respondents	21
APPENDIX 2 – Detailed EFRAG Recommendations and NSS Guidance	26

Introduction

In July 2020, EFRAG issued the Discussion Paper [Accounting for crypto-assets \(liabilities\): holder and issuer perspective](#) ('DP'). EFRAG requested comments by 31 July 2021.

The 'EFRAG Recommendations and Feedback Statement' includes EFRAG's recommendations for developing IFRS requirements and a summary and analysis of the feedback received from the DP consultation.

The structure of this document is as follows:

- Purpose and use of this publication
- Objective and scope of the DP
- EFRAG's recommendations for developing IFRS requirements
- Feedback from respondents
- Summary of responses received
- Analysis of responses
- Appendix 1- Profile of respondents
- Appendix 2- Breakdown of EFRAG recommendations and NSS guidance

Purpose and use of this publication

This statement includes EFRAG recommendations for developing IFRS requirements for crypto-assets (liabilities) for the IASB to consider, should it decide to undertake a project on this topic. These recommendations are based on the feedback received to the DP and have been developed guided by the EFRAG TEG and EFRAG Board. The stated EFRAG recommendations are tentative positions at this stage and do not necessarily reflect EFRAG's future positions.

EFRAG recommendations have been included in this statement after considering that accounting for cryptocurrencies and related transactions was one of the highest priority topics for most respondents¹ to the 2021 IASB Agenda Consultation Request for Information as was the case for constituents that responded to EFRAG's Draft Comment Letter to the IASB Agenda Consultation. Furthermore, several other major accounting standard-setters² have either faced similar calls or are undertaking (have undertaken) standard-setting activity on this topic.

The DP reviewed the accounting challenges for crypto-assets (liabilities) broadly without presenting an EFRAG position. Thus, taking a step further and presenting EFRAG recommendations after considering the feedback to the DP can be a helpful input for the IASB whilst considering whether and how to address the accounting challenges of crypto-transactions that have been identified.

¹ IASB staff paper - [November 2021 Agenda Paper 24D, December ASAF Agenda Paper 2D](#)

² In December 2021, the FASB included exchange-traded digital assets and commodities in its research agenda. During the EFRAG outreach, the ASBJ indicated they are in the process of developing accounting requirements.

This statement also includes the feedback that has been prepared as a formal record of the feedback received from comment letters, surveys and outreach activities and provides a summary of the messages from respondents and notes any key themes identified.

This statement should be read in conjunction with the [Discussion Paper Accounting for crypto-assets \(liabilities\)](#), which is available on the EFRAG website.

Objective and scope of the DP

Following the EFRAG 2018 Research Agenda consultation, the EFRAG Board approved the inclusion of a research project on crypto-assets in EFRAG's workplan.

The research project was conducted from late 2018 through to 2020 and encompassed a problem definition by providing an analysis of the crypto-ecosystem (economic characteristics, rights and obligations, and regulatory regimes) and an in-depth analysis of the current gaps in accounting requirements. It also proposed preliminary options for addressing IFRS requirements and covered the following topics:

- Accounting for holders
- Accounting for issuers
- Valuation
- Way forward in developing IFRS requirements.

The scope of the DP was on the full spectrum of crypto-assets (liabilities) (i.e., it had a broader scope than the [2019 IFRS Interpretation Committee \(IFRS IC\) agenda decision](#) that, based on stakeholder request, focused on holders of cryptocurrencies with no claim on the issuer).

The DP considered three possible options for developing IFRS requirements:

- **Option 1:** No amendment to current applicable IFRS Standards. In effect, preparers will continue to apply existing IFRS including having to develop their own accounting policy (policies) (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)
- **Option 2:** Amend and/or clarify IFRS Standards – this option proposes that possible amendments or clarification guidance to several current IFRS Standards (such as IAS 40 *Investment Properties*, IAS 38 *Intangible Assets*, IAS 2 *Inventories*, IAS 32 *Financial Instruments: Presentation*, IAS 7 *Statement of Cash Flows*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurement* and IFRS 15 *Revenue from Contracts with Customers*) might be needed for the accounting by holders and issuers of crypto-assets (liabilities)
- **Option 3:** This option would require the development of a new standalone IFRS Standard for crypto-assets (liabilities) with a possibility to also cover other digital assets (liabilities)

The DP sought stakeholders' feedback on the above three and/or any other option that could be considered in developing IFRS requirements. The DP also sought feedback on the identified challenges related to accounting by holders and issuers and the valuation of crypto-assets (liabilities).

EFRAG recommendations for developing IFRS requirements

As noted above, EFRAG has included recommendations in this statement that are intended as input that the IASB can consider if it includes a project on cryptocurrencies and related transactions in its standard-setting agenda.

The EFRAG recommendations provided below are tentative positions at this stage and do not necessarily reflect EFRAG's future positions; they reflect the outcome of the public consultation on the DP but have not been exposed for comments.

Recommended way forward

EFRAG supports Option 2 (clarify or amend existing Standards) to be undertaken through a two-step approach as described hereafter. As a first step, EFRAG recommends an immediate scoping of crypto-assets (i.e., cryptocurrencies³ with no claim on the issuer that are exchangeable for fiat currency⁴ or a financial instrument) out of IAS 38 and allowed to be measured at FVPL, either by scoping them into either IFRS 9 or IAS 40 (with a special accounting treatment accorded in both cases). Alternatively, IAS 38 could be amended to allow FVPL for cryptocurrencies or other intangibles within the scope of the Standard. There are other aspects of holder accounting (i.e., for other crypto-assets besides cryptocurrencies) that need clarification (e.g. the treatment of fiat-currency pegged stable-coins, utility tokens, some security and asset tokens that may have functional equivalence to debt and equity securities but do not qualify as financial instruments, hybrid tokens, holdings on behalf of others) as elaborated in the EFRAG recommendations on holders accounting below and in Appendix 2- EFRAG detailed recommendations and NSS guidance.

EFRAG acknowledges that constituents' feedback has supported the prioritisation of amendments related to holder accounting requirements to address the immediate accounting challenges faced by IFRS entities. However, EFRAG also notes the challenges arising from the ambiguity on the nature of rights and obligations associated with the novel and fast-evolving crypto transactions. EFRAG considers that also addressing issuer accounting provides an important starting point for further understanding the rights and obligations of these transactions and thereafter informing the appropriate accounting requirements for both holders and issuers.

Hence, as a second step, the IASB could address issuer accounting after further research on the economic substance of issuer transactions. Before that, as part of the first step, the IASB could consider disclosures by issuers of crypto-assets similar to that from some National Standard Setters (France-ANC). Such disclosures are an important practical step in developing an understanding of the rights and obligations of crypto-transactions.

EFRAG 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).

³ The 2019 IFRS Interpretations Committee agenda decision clarified that holders of cryptocurrencies with no claim on the issuer are within the scope of either IAS 38 or IAS 2. The agenda decision did not address other types of crypto-assets (i.e. utility tokens, security and asset tokens, hybrid tokens, stable coins etc).

⁴ Some crypto-assets cannot be monetised into fiat currency and are only exchangeable with other crypto-assets.

EFRAG also notes that while an interim Standard as was proposed by some respondents to the DP could be beneficial, as it 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 would be endorsed in the EU. Furthermore, the argument against a standalone Standard that the market is rapidly evolving, could be extended to an interim Standard.

EFRAG also notes the proposal of some respondents to, in the medium to long term, consider developing a new IFRS Standard for non-financial assets held as investments (i.e., addressing crypto-assets, commodities and pollutant pricing mechanisms): such an approach could be a way of addressing the accounting challenges for a broad set of current and emerging transactions. However, EFRAG acknowledges that it will be challenging to provide an effective solution that deals with the specificities of different asset types with different characteristics within a single Standard.

EFRAG has in the past expressed reservations about guidance that is provided outside of IFRS Standards (e.g., through IFRS IC agenda decisions and educational material). Hence, EFRAG would recommend that any approaches to developing IFRS requirements/guidance should primarily focus on the amendment of existing Standards. EFRAG's recommended approach is explained in more detail in the paragraphs below in relation to accounting for holders, issuers and valuation.

Holder accounting

EFRAG considers that the IASB should focus on accounting by holders when considering the amendment or clarification of existing IFRS Standards and there could be a list of issues to be considered including the applicability of hedge accounting requirements. Overall, EFRAG would support the following in the amendment or clarification of IFRS Standards related to holders (see Appendix 2 for a further description of EFRAG recommendations on clarification required for the accounting by holders of different types of crypto-assets):

- In the immediate term, scoping crypto-assets (i.e. cryptocurrencies⁵ with no claim on the issuer that are exchangeable for fiat currency or a financial instrument) out of IAS 38 and IAS 2 and scoping them into either IFRS 9 or IAS 40 (with a special accounting treatment accorded in both cases). Nonetheless, EFRAG considers there is a need to define instances where some crypto-assets could remain under the scope of IAS 38, making it important to have a clear definition of intangibles and to assess when current recognition and measurement under IAS 38 and IAS 2 is appropriate for crypto-assets. For instance, cryptocurrencies that are only exchangeable for other cryptocurrencies (e.g. some of the less liquid altcoins) should remain within the scope of IAS⁶ 38.
- There will be a need to consider the pros and cons of scoping crypto-assets (i.e. cryptocurrencies in the scope of either IAS 38 or IAS 2) into either IFRS 9 or IAS 40. EFRAG notes there is both support for and concerns about unintended consequences of scoping crypto-assets into IFRS 9. For example, there will also be need to:

a) define a cryptocurrency;

⁵ As noted, the 2019 IFRS Interpretations Committee agenda decision clarified that holders of cryptocurrencies with no claim on the issuer are within the scope of either IAS 38 or IAS 2.

⁶ IAS 38 has requirements for non-monetary exchanges.

- b) come up with a rationale for why cryptocurrencies are different from commodities that are readily convertible to cash;
 - c) design disclosures in IFRS 7 *Financial Instruments Disclosures* that would apply to cryptocurrencies; and
 - d) consider whether cryptocurrencies are more like debt or equity or 'other category' for purposes of a classification model.
- EFRAG also notes there is support and concerns about the suitability of IAS 40 as a host Standard as it would be a key departure from the scope of investment properties.
 - If cryptocurrencies with no claim on the issuer that are exchangeable for fiat currency are scoped into IFRS 9, there should be clarification on the objective of being within the scope of IFRS 9 and whether FVPL should be required in all instances. **[Note to EFRAG TEG: the following is in brackets as it is under discussion in this meeting. Due to the inherent volatility of crypto-assets price/value - EFRAG supports FVPL in all instances regardless of the business model of the holder for crypto-assets that are exchangeable for either cash or financial instruments.]**
 - An alternative to manually scoping cryptocurrencies with no claim on the issuer out of IAS 38 and into IFRS 9 or IAS 40 would be the amendment of IAS 38 to allow FVPL for crypto-assets and other intangible assets within the scope of that Standard.
 - EFRAG considers that there is no need to update the definition of financial instruments, cash and cash equivalents. However, EFRAG acknowledges that there could be circumstances where there could be questions on whether some of the fiat-currency-pegged stablecoins and cryptocurrencies are cash (e.g., El Salvador adoption of bitcoin as legal tender). Hence, EFRAG considers there is a need to clarify whether and when fiat-currency-pegged stable coins can be deemed to be cash equivalents under IAS 7.
 - For transparency and an understanding of the rights and obligations, there should be required disclosures of the rights, obligations and economic characteristics and key features of the crypto-assets held or issued.
 - There are other aspects of accounting by holders identified in the DP and backed by feedback to the DP as needing clarification. In particular, the accounting by intermediary holders including custodial services, brokers and exchanges who hold crypto-assets on behalf of clients and where different factors could be used to distinguish between the principal versus agent. Appendix 2 has a further description of EFRAG recommendations on clarification required for the accounting by holders of different types of crypto-assets.

Issuer accounting

EFRAG considers that the issuance of crypto-assets under Initial Coin Offerings (ICOs) or similar offerings is currently not a prevalent issue for IFRS reporting companies and remains an area that continues to evolve and poses a number of uncertainties around the contractual terms of the transactions and how they work in practice.

For example, Initial Dex Offerings (IDOs) started launching in recent years (2020, 2021). Unlike ICOs, the IDO model allows crypto startups to raise funds through build-in liquidity pools without depending on intermediaries. Initial Stake Pool Offerings (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 Decentralised Finance-DeFi and Non-fungible tokens-NFTs. However, at this stage, it is mainly retail investors, startups and venture capitalists that partake in these types of issuance activities.

Notwithstanding the nascent nature of the issuance market, as noted earlier, EFRAG considers that also addressing issuer accounting provides an important starting point for further understanding the rights and obligations of these transactions and thereafter informing the appropriate accounting requirements for both holders and issuers. Hence, EFRAG recommends further research on the economic substance of issuance transactions as a prerequisite for, as a second step, deciding on any amendments and clarification of issuer accounting requirements.

Meanwhile, as part of the first step, EFRAG recommends that IASB requires disclosures by issuers of crypto-assets as required by some National Standard Setters (France-ANC). Such disclosures are an important practical step in developing an understanding of the rights and obligations of crypto-transactions.

Appendix 2 has a breakdown of EFRAG’s recommendation for the clarification required for the accounting by issuers of different types of crypto-assets. It also has details of the available NSS guidance that were cited in the EFRAG DP (France-ANC and Lithuania).

Valuation

EFRAG considers that no changes should be made to IFRS 13. In EFRAG’s view, the difficulties in applying IFRS 13 are not unique to crypto-assets as there were difficulties with the valuation of many other instruments.

EFRAG also notes that some IFRS reporting entities hold crypto-assets indirectly through investment funds and would value such investments under the applicable guidance in IFRS 13.

However, considering the unique features of crypto-markets and valuation methodologies, EFRAG recommends the development of educational material- related to determining the fair value of crypto-assets.

Feedback from respondents

EFRAG received feedback in the form of comment letters, survey responses and outreach activities. The following terms are used to describe the extent of responses.

Term	Extent of response
Most	80% - 100%

Many	50% - 80%
Some	25% - 50%
A few	more than one to 25% of respondents

Comment letters

EFRAG has received and considered twelve (12) comment letters on the EFRAG DP. These comment letters are available on the [EFRAG website](#). The comment letters received came from National Standard-Setters, a business association, a professional organisation and other constituents. Further information about the comment letter respondents can be found in the Appendix.

One of the twelve respondents mainly commented on crypto-assets valuation under IFRS 13. The other respondents answered most of the questions either directly or indirectly.

Responses to the surveys

To maximise constituents' input (i.e. those constrained in submitting a comment letter), EFRAG also allowed for feedback through a [survey questionnaire](#) that posed similar questions to those in the DP.

Twenty-nine (29) survey responses were received. Further information about the survey respondents can be found in the Appendix.

Outreach activities

EFRAG conducted various outreach activities after the issuance of the DP until the end of the consultation period in July 2021. For a detailed list of these activities refer to the Appendix.

Summary of the responses received

Overview of the feedback received

Respondents generally welcomed the DP published by EFRAG as useful input to the debate on accounting for crypto-assets (liabilities).

Respondents' feedback to the DP showed unanimous support for standard setting relating to crypto-assets (liabilities) and the need for the IASB to go beyond the clarification of the 2019 IFRS IC agenda decision whose scope was on holders of cryptocurrencies with no claim on the issuer.

Enhancing IFRS requirements for crypto-assets (liabilities) can contribute to globally comparable reporting by entities with related exposures. The appetite for a global solution can also be seen in the profile of respondents to the DP whereby more than 40% of comment letters and survey responses were from outside the EU.

Topic 1 – Proposed way forward in developing IFRS requirements

Respondents noted a need for clarification across a range of holder and issuer accounting and valuation topics. It also showed that the need for either amending existing IFRS Standards or developing a new Standard is mainly related to holders' accounting.

Respondents had an aggregate preference (i.e., from both comment letters and survey responses) for Option 2 (amend or clarify existing IFRS Standards) relative to Option 3 (develop a unique crypto-assets (liabilities) Standard). However, the feedback showed that Option 2 can be applied in different ways (issuance of IFRS interpretation, developing application guidance or amending current IFRS Standards).

Topic 2– Holder accounting

Intangible asset or inventory classification: The overall feedback showed consensus on the current unsuitability of IAS 2 and IAS 38 requirements for both the recognition and measurement of crypto-assets and other intangibles held for trading or investment. There was also near unanimity on the need for standard-setting activity in response to the limitations of these two Standards if applied to crypto-assets.

Financial asset classification: Many respondents agreed with clarifying the applicability of IFRS 9 to crypto-assets that possess characteristics equivalent to financial instruments, such as hybrid tokens that have equity- and debt instrument like features. Only a minority of comment letter respondents supported an update to the definition of financial instruments and financial assets (liabilities) in IAS 32.

Cash and cash equivalent classification: Respondents' feedback showed that the majority of respondents were open to either clarification or an updated definition of cash and cash equivalent in the IFRS literature to encompass stablecoins pegged to fiat currencies and Central Bank Digital Currencies (CBDCs).

Other topics for clarification in accounting by holders: The feedback showed support for either further research or clarification on different aspects of holder accounting identified in the DP, namely: a) accounting by holders on behalf of others; b) accounting by holders of utility and hybrid tokens; c) accounting by holders due to mining activities.

Topic 3 – Issuer accounting

Most respondents considered that further guidance is needed to account for crypto-assets (liabilities) from an issuer perspective. These respondents considered that clarification was needed to determine whether liabilities resulting from the issuance of ICOs and similar offerings should be classified as equity or as a liability and if there was a liability whether it was a financial liability.

However, some respondents noted that ICOs and similar offerings by listed companies reporting under IFRS were not prevalent in their jurisdiction and thus considered that for the time being developments in ICOs and similar offerings should only be monitored.

Topic 4 – Valuation

Active market: There are mixed views from respondents on whether IFRS 13 provides adequate guidance in relation to an active market. Almost half of the total respondents agreed with the adequacy of IFRS 13 to determine an active market. The other half of respondents considered IFRS 13 to be inadequate to determine an active market and identify a principal market.

Determining fair value under IFRS 13 in the absence of an active market: There are mixed views from respondents about whether the guidance in IFRS 13 is adequate to determine a valuation technique for crypto-assets in the absence of an active market.

Analysis of responses

QUESTION 1 – USE OF CRYPTO-ASSETS (LIABILITIES)

Question 1.1 - Please describe the areas in which your company (or institutional clients) use/hold or expect to use/hold crypto-assets (liabilities).

Respondents provided the following examples of use cases for crypto-assets.

- Payment remittance, especially cross-border and cross-fiat currencies, utilising digital assets and stablecoins (quite important for markets that do not have access to traditional banking services), payment of dividends in digital assets
- Means of exchange. payment for goods, services, investments, real property, both digital assets and stablecoins
- Store of value and investment purposes - long and short-term investments with an intent to either hold for value appreciation, as a hedge in an inflationary fiscal environment or use the assets for a short-term investment or trading purposes
- Serves as the underlying asset for derivative instruments - financial instruments/ownership rights such as ETFs or futures contracts
- Tokenisation of physical commodities and real property, examples include physical gold, other precious metals, oil, art, real estate, etc.
- Digital assets used as rewards/points/miles in retail transactions
- Smart contracts are used to create an automated/permissionless financial contract between two parties with rights and obligations under certain conditions.

Some respondents noted that during 2020 and 2021 the participation in the digital asset market shifted strongly from retail investors to institutional investors. Looking at the level of growth of the market capitalisation from 2018 till Q1 2021, for example, Bitcoin (USD 276 billion to USD 1.1 trillion), which equals 10% of the global market capitalisation of gold and other similar developments, it is unrealistic to assume that digital assets will not become mainstream. However, the level of mainstream adoption and use cases varies across jurisdictions and is likely to also depend on regulatory developments.

Question 1.2 - What are the main factors influencing the usage of crypto-assets (liabilities)?

Overall respondents (from comments letters, surveys and outreach) noted that crypto-assets are still not widely used and that there is only limited information available on the purpose of crypto-assets and which entities/institutions are using them. However, some noted that the crypto-ecosystem is rapidly increasing and noted the shift to a digital world.

Some respondents noted that entities in their jurisdiction are mostly directly engaged in blockchain and crypto-assets activities as their primary line of business. These entities tend to be start-ups and do not report under IFRS Standards. However, there is rising interest from pension funds, endowment funds, hedge funds and other institutions to invest a portion of their assets in crypto-assets. The main reason for an increase in institutional holding is that the crypto-ecosystem provides an alternative investment opportunity in the current macroeconomic environment and the suppression of yields by most central banks around the world. One of the outreach participants referred to a publication by PwC [PwC 3rd](#)

[Annual Global Crypto Hedge Fund Report 2021](#) which presents the developments in the crypto hedge fund markets, and highlights that around a fifth of hedge funds are investing in digital assets, the average percentage of their total hedge fund AUM invested in digital assets is 3%. The publication notes that more than 85% of those hedge funds intend to deploy more capital into the asset class by the end of 2021.

One respondent from an investment firm emphasised the rapid growth of the digital ecosystem and observed a wider adoption of crypto-assets in the financial sector with Exchange Traded Products (ETP) approved and listed in Canada, Brazil, Germany, France, and Switzerland. The approval of ETP products in the US market is also expected in the foreseeable future. Furthermore, feedback from outreach highlighted that the crypto-market had experienced significant growth during 2020 pointing out to increasing trends such as stablecoins, Central Bank Digital Currencies (CBDCs), Decentralised Finance (DeFi) and Non-fungible Tokens (NFTs).

Respondents generally highlighted that technology developments could further improve the blockchain infrastructure and decentralised finance opportunities. This together with developments in regulatory oversight (including investor protection) and increased regulatory certainty across jurisdictions could enhance institutional interest.

Survey question only- *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?*

In the survey responses, there were mixed views on the expected level of holdings or issuance of the current generation of crypto-assets. The table below summarises the responses from the 29 survey respondents.

Level of holdings or issuance	Percent	Number of responses
Significant	28%	8
Moderate	45%	13
Insignificant	14%	4
Do not know	13%	4
Total	100%	29

QUESTION 2 – WAY FORWARD IN DEVELOPING IFRS REQUIREMENTS

Question 2.1 - *Do you agree that there is need to address accounting topics not in scope of the IFRS IC agenda decision on cryptocurrencies? Please explain.*

Many respondents agreed that there is a need to address accounting topics not covered in the scope of the IFRS IC agenda decision. These respondents provided the following comments:

- As the classification of a crypto-asset (liability) determines the applicable recognition and measurement requirements, it is important to define the different subsets of crypto-assets (liabilities). Currently, jurisdictions adopt different terminology. A possible solution would be to develop a glossary based on the proposals already included in Article 3 of the European Commission's Proposal for a Regulation of the European Parliament and the Council on Markets in Crypto-Assets (MiCA) and/or criteria proposed by the Bank for International Settlements (BIS)
- When determining the scope and the definition of crypto-assets (liabilities), technology-neutral language needs to be used as other types of technology than the distributed ledger technology can be applied for digital assets (liabilities).

Question 2.2 - Which of the three options do you consider to be the most appropriate solution to address IFRS requirements? If you consider there to be other possible approaches towards clarifying and developing IFRS requirements for crypto-assets, please explain. If a new standard is to be developed, what should be in its scope?

Respondents had an aggregate preference (i.e., from both comment letters, survey responses and outreach feedback) for Option 2 (amend or clarify existing IFRS Standards) relative to Option 3 (develop a unique crypto-assets (liabilities) Standard).

The comment letters showed that 58% supported Option 2 either exclusively or in combination with other options while 33% supported Option 3 either exclusively or in combination with other options. Similarly, the survey responses showed that 62% supported Option 2 either exclusively or in combination with other options while 42% supported⁷ Option 3 either exclusively or in combination with other options.

The feedback showed that Option 2 can be applied in different ways, such as:

- The issuance of interpretations through agenda decisions in a similar manner to the 2019 IFRS IC agenda decision on cryptocurrencies with no claim on the issuer. For example, one survey respondent suggested the issuance of an IFRS IC interpretation on the applicability of IFRS 9 to crypto-assets. One comment letter respondent suggested an IFRS IC interpretation on whether IFRS 15 is applicable for mining transactions if there is no contract with a customer
- The development of clarifying application guidance within existing IFRS Standards related to a range of holders, issuers, and valuation topics
- A narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 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
- 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).

⁷ The combined percent of those support Options 2 or 3 exclusively or in combination with other options is greater than 100% as some respondents supported Option 3 in the longer term and aspects of Option 2 in the near term.

The feedback highlighted the disadvantages of the IASB exclusively choosing either Option 2 or Option 3. For example, Option 2 could result in a potentially disruptive modification and changing of the scope of many different Standards while Option 3 is premature and could result in an obsolete Standard due to the rapidly-evolving crypto-ecosystem.

Some of the comment letters, survey and outreach respondents suggested the development of a new Standard for non-financial assets that are held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights). There were also suggestions for a new Standard for only a subset of crypto-transactions (e.g. hybrid tokens and mining transactions).

Finally, some of the feedback was in support of a phased approach. A survey respondent and some comments provided during the outreach indicated support for scoping crypto-assets out of IAS 38 and allowing an accounting policy choice in the immediate term (i.e., a variant of Option 2) followed by a new Standard for crypto-assets (liabilities) in the long-term (Option 3). Some of the comment letter respondents suggested a phased approach that includes an interim Standard that includes both application guidance by referencing existing IFRS Standards and appropriate guidance wherever existing applicable IFRS Standards (IAS 38) do not reflect the economic substance of crypto-assets transactions. An interim Standard would allow the IASB to further monitor market developments before potentially developing a unique crypto-assets (liabilities) final Standard.

QUESTION 3 – ACCOUNTING FOR HOLDERS

Question 3.1 (related to intangibles and inventory classification) - *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.*

The overall feedback showed consensus from comment letters, survey responses and outreach feedback on the current unsuitability of IAS 2 and IAS 38 requirements for both the recognition and measurement of crypto-assets and other intangibles held for trading or investment. There was a view that the business models/holding purpose of holders of crypto-assets are not always adequately catered for by these two Standards, and further clarification on scope might be required. There is also near unanimity on the need for standard-setting activity in response to the limitations of these two Standards. The range of options related to holders of crypto-assets (i.e., those considered to be intangible assets or inventory held for investment or trading purposes such as cryptocurrencies with no claim on issuers, some utility tokens, non-fungible tokens) suggested by constituents include:

- Applying FVPL measurement for high-quality (i.e., high liquidity) crypto-assets and cost measurement for the rest
- Scoping crypto-assets out of IAS 2 and IAS 38 and either allowing IAS 8 or ‘manually’ scoping into IFRS 9 even when they do not meet the definition of financial instruments - similar to own use derivatives
- Scoping crypto-assets out of IAS 2 and IAS 38 and developing an interim Standard with application guidance for accounting by holders
- Amending the IAS 38 revaluation approach to allow FVPL for crypto-assets

- Developing a new standard for non-financial assets held as investments
- Developing asset recognition and measurement principles that depend on the holder's business model/purpose, useful-life horizon and economic characteristics and with no distinction made between tangible and intangible assets.

Question 3.2 (related to financial asset classification) - Do you agree that there is need to clarify crypto-asset holders' eligibility to apply IFRS 9?⁸ 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.

The comment letters' feedback shows majority support (83.4%) for clarifying the eligibility of some crypto-assets to be in the scope of IFRS 9 (i.e., those with functional equivalence to equity and debt securities). One respondent also proposed the inclusion of cryptocurrencies with no claims on the issuer (e.g., bitcoin) within the scope of IFRS 9 as these have financial-instruments-like attributes. This view was also proposed in a [February 2021 Footnote Analyst article-Bitcoin and the financial reporting challenge for investors](#). Some of the outreach participants expressed the need to align the accounting and regulatory definition of financial instruments or securities but there was also a concern raised that regulatory definitions can focus on form over substance. Furthermore, as noted in the DP, there is diversity in the definition of securities across jurisdictions (e.g., EU MiCA/MiFiD definitions may not be the same as those of the US SEC) and the risk that standard setting becomes subject to regulatory decisions.

At the same time, only a minority of comment letter respondents (33.3%) supported an update to the definition of financial instruments and financial assets (liabilities) in IAS 32. These respondents noted: the "right to receive cash flows" could be amended or clarified to include "right to receive cryptocurrency flows" and not only fiat-currency-based cash flows; the need to clarify that currency means fiat currency; and an amendment to include crypto-arrangements without legally enforceable contracts. However, an equal minority of comment letter respondents (33.3%) were opposed to changing IAS 32 noting concerns about unintended consequences of any amended definitions. In contrast to the comment letter feedback, the majority of survey respondents (76%) supported the updated definition of financial instruments and financial assets (liabilities) in IAS 32.

Question 3.3 - Do you have views on whether or not the definition of cash or cash equivalents needs to be updated? Please explain.

A majority of the comment letter respondents (58.3%) were open to either clarification or an updated definition of cash and cash equivalent in the IFRS literature to encompass stablecoins pegged to fiat currencies and CBDCs. Similarly, the majority of the survey respondents (69%) agreed with updating these definitions. Respondents indicated that IFRS has loose and circular definitions of cash and the existing IFRS definition or description of currency (cash) and cash equivalent across IAS 7, IAS 21, and IAS 32 can create uncertainty on the eligibility for classification as cash or cash equivalent of stablecoins and some cryptocurrencies. These items can either meet the definition of money under economic theory (means of exchange, unit of account, store of value) and/or meet the definitions of money, cash

⁸ This question was not included in the survey questionnaire

(currency) by different supervisory and monetary authorities but may fail to qualify for cash or cash equivalent classification under IFRS. Furthermore, as the feedback shows, stablecoins can have similar economic characteristics to those considered for cash equivalent classification (i.e., convertible to a known amount of cash, subject to an insignificant risk of changes in price). For example, an [empirical study](#) in the Australian Accounting Review showed that nine out of an evaluated eleven stablecoins fulfilled the IAS 7 requirements for the cash equivalent classification.

At the same time, 41.7% of comment letters and 24% of survey respondents disagreed with updating the cash or cash equivalent definitions. The reasons being that stablecoins have unique risks from fiat currency (e.g., limited transparency, counterparty risk, liquidity risk) and their uptake by individuals and institutions is currently limited. There is also a concern about the consequences of updated definitions of cash and cash equivalent (e.g., heightened financial stability risks for financial institutions).

Question 3.4 - *Do you agree that the aforementioned areas (see Chapter 3: Paragraphs 3.79 to 3.93 of DP) need clarification in IFRS requirements as has been identified in this DP? Please explain.*

The feedback showed support for either further research or clarification on different aspects of holder accounting identified in the DP, namely: a) accounting by holders on behalf of others; b) accounting by holders of utility and hybrid tokens; c) accounting by holders due to mining activities. The following are points of note from the feedback:

- It was considered important to clarify the accounting by intermediary holders as this type of holding is likely to grow amongst financial institutions, trading platforms and providers of custodial services. Furthermore, there are depositor protection intermediary-depositor contractual arrangements across different jurisdictions such that it is easy to identify the underlying rights and obligations of these arrangements. At the same time, the feedback indicated that there is diversity in practice in the judgement and indicators applied to determine whether to recognise the asset on the statement of financial position. Thus, it would be helpful to provide guidance that identifies which indicators must be emphasised when determining which party has economic control
- Some stakeholders indicated there was a gap in and urgency for clarifying guidance on accounting for inventory holdings due to mining activities. As pointed out in the DP, it is challenging to ascertain which costs should be capitalised versus expensed by miners. For instance, there is no normal production capacity as successful proof-of-work mining is based on a winner-take-all model of solving cryptographic puzzles before earning/creating new units of cryptocurrency
- Other topics identified for clarification besides those in the DP are the accounting by holders of Decentralised Finance (DeFi) tokens, Non-fungible Tokens (NFTs), Simplified Agreements on Future Tokens (SAFTs), pre-functional tokens, airdrop-sourced tokens, and community tokens. However, some respondents noted that before determining the appropriate standard-setting activity, the IASB should conduct further research on topics where there is no consensus on the substance of transactions (e.g., utility tokens).

QUESTION 4 – ACCOUNTING FOR ISSUERS

Question 4.1 - *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.*

Most respondents (75% comment letters and 45% from surveys) considered that further guidance is needed to account for crypto-assets (liabilities) from an issuer perspective. The following comments were made:

- Several respondents noted that a key issue for issuer accounting is identifying the obligation and what type of liability should be recognised. There was also a question of whether an ICO or similar offering involved a contractual obligation or a contract with a customer (which was necessary for a financial liability under IAS 32, an obligation under IFRS 15). In cases when the issuer's obligation is unclear, it would be helpful to have guidance on which IFRS Standard to apply (such as IFRS 15, IAS 37)
- Clarification is needed to determine in which cases there is a financial liability of ICOs or similar offerings. Clarification is also needed to determine whether ICOs and similar offerings are equity instruments. A question that arises is: what if the structure of the coin/token(hybrid) is within the scope of none or more than one IFRS Standard?
- Amendments to existing IFRS Standards were necessary to address the accounting for crypto-liabilities (as well as accounting for stablecoins and derivatives in relation to crypto-assets) and avoid different interpretations and practices and an increased risk of inadequate or misleading information being provided to users of financial statements.

However, several respondents noted that ICOs and similar offerings are currently not prevalent among companies reporting under IFRS, and therefore considered the guidance to be provided when the market has evolved. These respondents thought that existing IFRS Standards can provide an interim solution for addressing challenges faced by token issuers. However, standard setting may be required to address more complex hybrid token issuances and any diversity in practice should token offerings become more prevalent diversity in practice is observed. These respondents also considered that further research is recommended to monitor the developments in practice before any standard-setting activity.

A minority of respondents (17% comment letters and 35% survey respondents) considered that current IFRS Standards provided a suitable basis for issuer accounting. These respondents noted that ICOs and similar offerings by listed companies were not prevalent in their jurisdiction and thus considered that for the time being developments in ICOs and similar offerings should only be monitored.

Question 4.2 – *In cases when an issuing entity establishes that the issuance of crypto-assets falls within the scope of IFRS 15, which areas, if any, would you consider need further guidance/clarification for an entity to apply the principles in IFRS 15? Please explain.*

Many respondents (58% comment letters and 38% survey respondents) confirmed that further guidance is needed to determine the applicability of IFRS 15. The following comments and arguments are provided to support the further guidance:

- There is a lack of enforceability or a low level of details in the written contracts for some issued tokens (utility and hybrid tokens) to determine the rights and obligations and whether a contract

with a customer exists. Further guidance on the applicability of IFRS 15 or IAS 37 in case the obligation is unclear, would be helpful. For example, only in rare circumstances where it can be clearly established that the issuer has no obligations towards the subscriber (e.g., case of a donation), a profit could be recognised

- In practice, in the context of ICO tokens, there are cases where the issuer undertakes certain obligations to provide goods or services but the economic value of such goods or services is lower than the consideration received. In such cases, the difference between the consideration received and the value of goods or services could be considered a profit (revenue) and recognised immediately. Some question whether immediate profit recognition is appropriate in all circumstances. . If these cases are not exceptional further clarification is needed.

Further guidance is needed especially for:

- Issuance of crypto-assets with an associated service, where the acquirer obtains it as a store of value
- Tokens that are reacquired by the issuer either by acquiring them from the market or accepting them as a means of payment in exchange for goods or services
- Treatment of cost of the issue, as these costs should be treated in a similar way to the costs in the provision of services, to the extent that current income is to be obtained. It would be necessary to regulate what should be the treatment of costs in those issues that have a certain risk of not going ahead and it is necessary to return the amounts obtained.

Question 4.3 - *In cases when an issuing entity establishes that the issuance of crypto-liabilities qualify as a financial liability under IAS 32/IFRS 9 or as a provision under IAS 37, which areas, if any, would you consider need further guidance/clarification for an entity to apply these Standards? Please explain.*

Some respondents (42% comment letters and 41% survey respondents) noted that further guidance was needed to determine which IFRS Standard should be applied in case of a lack of details to determine the rights and obligations. These respondents also requested guidance to determine which costs should be included in the provision (obligation) relating to the issuance of tokens.

QUESTION 5 – VALUATION

Question 5.1 - *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?*

There were mixed views from respondents (from comments and surveys) on whether IFRS 13 provides adequate guidance in relation to an active market. Specifically:

- Almost half of the total respondents (42% comment letters and 48% survey respondents) agreed with the adequacy of IFRS 13 to determine an active market, although some of these respondents recognised the challenges in determining an active market for crypto-assets, particularly those with a lower transaction volume and also noted that valuation challenges may occur with emerging issues
- The other respondents (42% comment letters and 45% survey respondents) considered IFRS 13 to be inadequate to determine an active market and in identifying a principal market. One argument used for further guidance in determining an active market is that liquidity is currently

in markets where crypto-assets are traded against stablecoins and the minority is in the fiat-currency market. The issue with identifying a principal market is that Bitcoin and most crypto-assets are traded in multiple platforms (and may therefore be difficult to identify the most active exchange) and sometimes at different prices. One respondent noted that applying the concept of the principal market in IFRS 13 to crypto-assets can be unrepresentative, and determining the most advantageous market could be risky. Furthermore, valuation methods for crypto-assets should consider the fact that there is no concept of end-of-day and no closing-day in a crypto market.

- The remaining respondents (10%) did not respond to this question.

Question 5.2 - *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? If not, what alternative measurement bases do you propose?*

There were mixed views from respondents about whether IFRS 13 is adequate to determine a valuation technique for crypto-assets in the absence of an active market. Specifically:

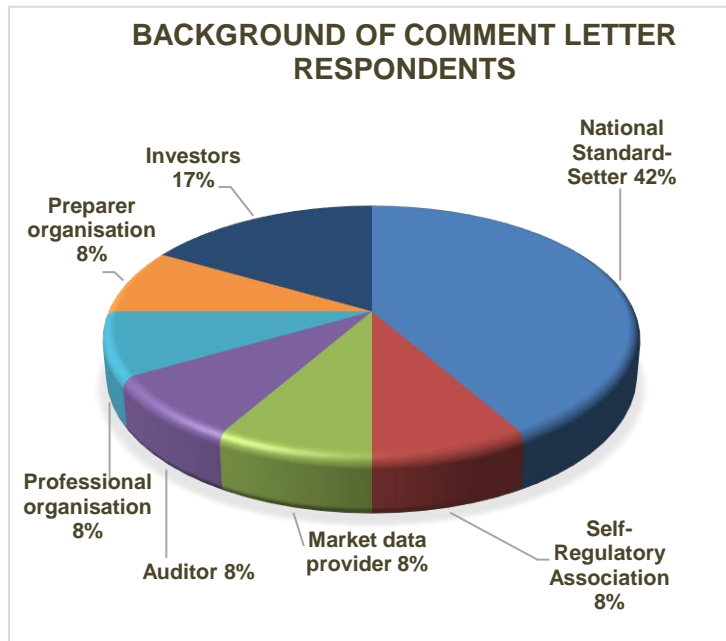
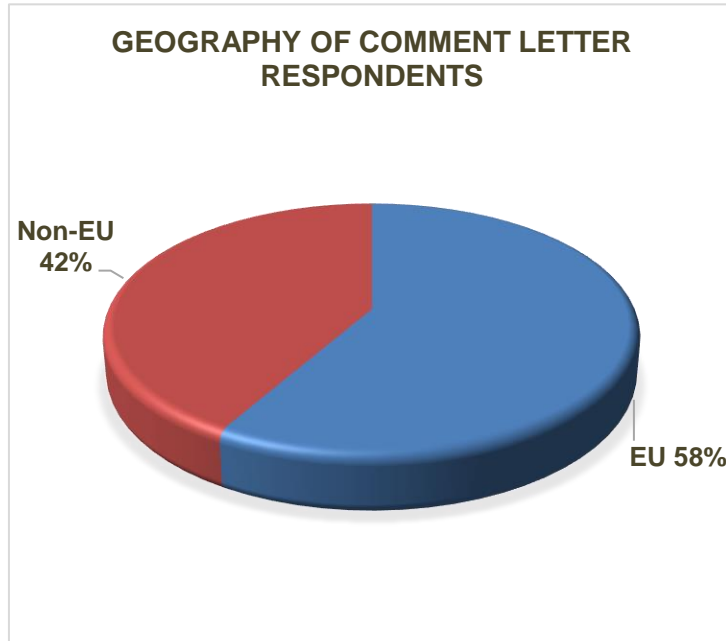
- Almost half of the respondents (43% comment letters and 48% survey respondents) agreed that IFRS 13 was adequate for measuring crypto-assets arguing that the fair value determination under IFRS 13 has always been complex. Developing new valuation guidance for crypto-assets outside of IFRS 13, might in some way undermine IFRS 13 requirements and result in requests for exceptions to using IFRS 13 for financial assets. However, some of these respondents noted a need for further monitoring and research to determine any future need for the determination of active market and valuation guidance
- A significant minority of respondents (33% comment letters and 38% survey respondents) disagreed that IFRS 13 provided an adequate basis to determine fair value in case of the absence of an active market. In their view, the determination of fair value is very difficult due to the lack of historical data or other inputs when under current circumstances the most liquid markets are being considered as not active. However, some of the respondents disagreeing that IFRS 13 provided sufficient guidance highlighted that crypto-assets are highly volatile and there is not yet a market consensus of how to value crypto-assets, irrespective of the accounting guidance.
- The remaining respondents did not answer this question.

APPENDIX 1 – Profile of Respondents

List of comment letter respondents

Comment Letter Respondent	Country	Type
Austrian Financial Reporting and Auditing Committee (AFRAC)	Austria	National Standard-Setter
Dutch Accounting Standards Board (DASB)	The Netherlands	National Standard-Setter
Global Digital Asset & Cryptocurrency Association (GDCA)	United States of America	Digital Asset Self-Regulatory Association
Koinju	France	Market data provider
Mazars	France	Auditor
Canadian Accounting Standards Board (AcSB) (staff response)	Canada	National Standard-Setter
CPA Australia & Chartered Accountants Australia and New Zealand (CPA Australia & CA ANZ)	Australia and New Zealand	Accountancy professional organisation
Accounting Standards Board of Japan (ASBJ)	Japan	National Standard-Setter
European Association of Co-operative Banks (EACB)	Europe	Preparer organisation
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard-Setter
Kazim Razvi	UK	Independent investor
Flow Traders	The Netherlands	Investment company

The graphs summarise the geographical location and the background of the 12 respondents who send a comment letter.

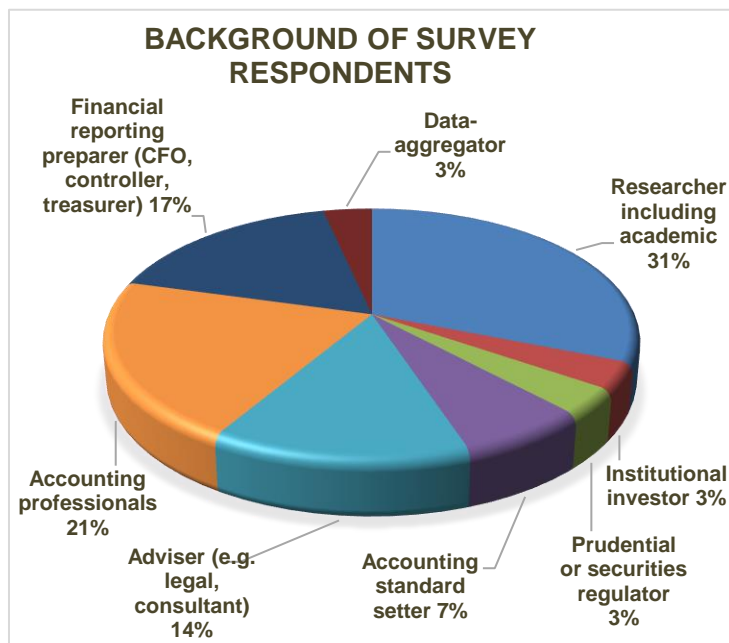
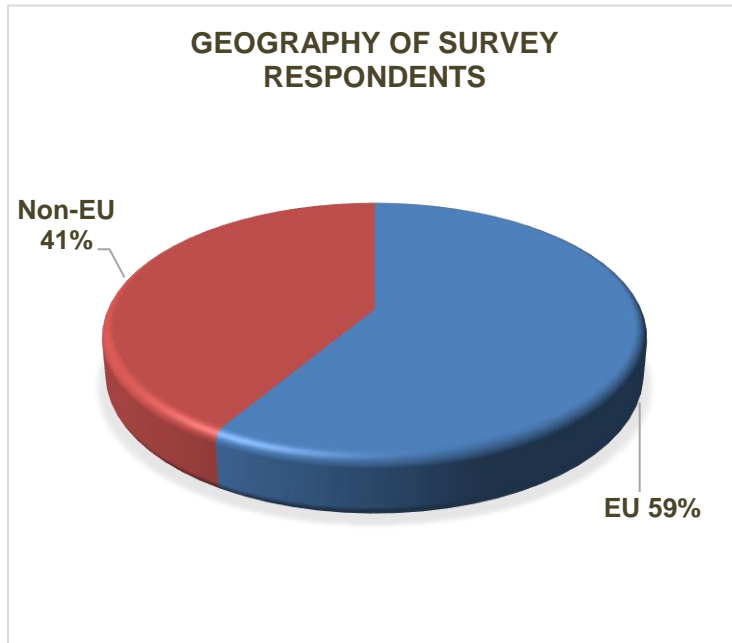


List of survey respondents who agreed to the publication of their responses on the EFRAG website

Survey Respondent	Country	Type
Korea Accounting Standards Board (staff response)	Korea	National Standard-Setter
*Rodrigo Morais – Accounting Pronouncements Committee (CPC)	Brazil	National Standards-Setter
*Martin Petrov – Sofia International Securities JSC	Bulgaria	Investment firm
*Luz Parrondo – UPF Barcelona School of Management	Spain	Academic
Boris Palašćak	Czech Republic	Financial reporting preparer
*Marina Muchakova – Vesta Accounting LTD	Bulgaria	Accounting and Tax consultancy
Danish Accounting Standards Committee (DASC/FSR)	Denmark	National Standard-Setter
*Maria Erviti – BBVA	Spain	Financial institution

*These respondents agreed to have their responses posted to the EFRAG website. Their responses also reflect their Organisational affiliation. However, these responses do not represent the respondents' Organisation's official position.

The following graphs summarise the geographical location and the background of the 29 respondents that completed the survey.



List of outreach activities

Activity	Date	Organised by
Virtual meeting with IFASS	30 September 2020	IFASS (International Forum of Accounting Standard Setters)
Presentation at IAWG	26 November 2020	IAWG
Presentation at EFRAG TEG-CFSS meeting	2 December 2020	EFRAG TEG-CFSS
Virtual meeting with ASAF (Accounting Standards Advisory Forum)	10 December 2020	IASB
Presentation at EACB reporting committee virtual meeting	17 March 2021	EACB
Virtual webinar: PwC Focus – Actualite des crypto-actifs	13 April 2021	IMA (Institute of Management Accountants)
Virtual EAA workshop on Accounting for Crypto-Assets (Liabilities)	23 April 2021	EAA (European Accounting Association)
A three-series podcast on holders' accounting, issuers' accounting and valuation	April 2021	EFRAG
Presentation during June 2021 CRUF virtual meeting	29 June 2021	CRUF
EFRAG Webinar on Accounting for Crypto-Assets (Liabilities)	6 July 2021	EFRAG
Virtual meeting with ASBJ and Japanese stakeholders (JICPA, SAAJ)	19 July 2021	ASBJ (Accounting Standards Board of Japan)
Nine interviews with different stakeholders	From July 2020 to July 2021	EFRAG

APPENDIX 2 – Detailed EFRAG Recommendations and NSS Guidance

Accounting for holders- Breakdown of EFRAG recommendations

The Table below outlines EFRAG’s recommendations to the IASB for the accounting by holders of different categories of crypto-assets (with a distinction made by classification taxonomy applied in the DP) based on constituents’ feedback and consideration of NSS guidance. EFRAG’s recommendations are broken into two steps (Step 1- immediate term changes and Step 2- changes after further research).

HOLDING	ECONOMIC CHARACTERISTICS AND HOLDER RIGHTS	CLARIFIED OR ASSUMED APPLICABLE IFRS ACCOUNTING	EFRAG recommendation to the IASB based on constituents’ feedback and consideration of NSS guidance
Cryptocurrencies with no claim on the issuer	<ul style="list-style-type: none"> No claim on the issuer Implied rights to exchange for equivalent fiat currency, other crypto-assets or goods and services with counterparties that accept 	As per the 2019 IFRS IC agenda decision, either IAS 38 or IAS 2 is applicable for cryptocurrencies with no claim on the issuer.	<p>STEP 1</p> <p>Alternative 1</p> <ul style="list-style-type: none"> Revision of IAS 2 and IAS 38 to exclude cryptocurrencies with no claim on the issuer that are exchangeable for fiat currency from the scope of these Standards Scope cryptocurrencies with no claim on the issuer that are exchangeable for fiat currency into either IFRS 9 or IAS 40 Define intangible asset Identify when crypto-assets should be within the scope of IAS 38 Require disclosures of fair value, economic characteristics and feature cryptocurrencies (e.g. if only exchangeable for other crypto-assets) <p>Alternative 2</p> <ul style="list-style-type: none"> Possible amendment of IAS 38 measurement requirements to allow

			FVPL for crypto-assets and other intangible assets within the scope of the Standard
<p>E-money tokens- Crypto-assets with a claim on the issuer that qualify as e-money under jurisdictional definitions</p> <p>Stable coins</p> <p>CBDCs</p>	<ul style="list-style-type: none"> • Fungibility, tradability, and transferability • Claim on issuer • implicit rights to exchange for equivalent goods and services with counterparties that accept 	<ul style="list-style-type: none"> • Assume either IFRS 9 when financial instruments definition is met or IAS 7 for CBDCs are applicable • Needs clarification on when stable coins are eligible to be classified as cash equivalents 	<p>STEP 1</p> <p>Clarification of when stable coins, e-money tokens can be classified as cash equivalent</p> <p>Require disclosures of fair value and key features of e-money tokens and stable coins</p>
<p>Security and asset tokens</p>	<ul style="list-style-type: none"> • Fungibility, tradability, and transferability • Contractual entitlement to ownership interest or control of the token issuer • Claim on the issuer or delegated issuer delegated counterparty 	<ul style="list-style-type: none"> • IFRS 9 for those that meet the definition of financial instruments • Unclear which Standard is applicable for those that do not meet the definition of financial instruments 	<p>STEP 1</p> <ul style="list-style-type: none"> • Require disclosures of economic characteristics, rights and obligations of security and asset tokens that may not meet the IFRS definition of financial instruments <p>STEP 2</p> <ul style="list-style-type: none"> • Further research and clarification on the accounting treatment of security and asset tokens that may not meet IFRS definition of financial instruments (financial asset)

Utility tokens	<ul style="list-style-type: none"> • Fungibility, tradability, and transferability in some cases • Can include non-fungible tokens • Claim on the issuer or delegated issuer delegated counterparty 	<ul style="list-style-type: none"> • Needs clarification, assume to be in the scope of IAS 2 or IAS 38 or could be prepayment assets 	STEP 1 <ul style="list-style-type: none"> • Require disclosures of economic characteristics, rights and obligations of and utility token holdings, STEP 2 <ul style="list-style-type: none"> • Further research on the nature of rights of utility tokens and clarification of appropriate accounting treatment
Hybrid tokens	<ul style="list-style-type: none"> • Combination of utility, security or payment token features • Claim on issuer or issuer delegated counterparty 	<ul style="list-style-type: none"> • Needs clarification, assume accounting could depend on either the predominant nature of underlying rights and business purpose of the holder or the bifurcation of different underlying rights 	STEP 1 <ul style="list-style-type: none"> • Require disclosures of economic characteristics, rights and obligations of and hybrid token holdings, STEP 2 <ul style="list-style-type: none"> • Further research and clarification of principles for the accounting for holders of hybrid tokens.
Pre-functional tokens	Will convert to tokens (usually but not necessarily to utility tokens)	<ul style="list-style-type: none"> • Needs clarification, similar to utility tokens, assume to be in the scope of IAS 2 or IAS 38 or could be prepayment assets 	STEP 1 <ul style="list-style-type: none"> • Require disclosures of economic characteristics, rights and obligations of and pre-functional token holdings,

			<p>STEP 2</p> <ul style="list-style-type: none"> Further research and clarification of the applicable IFRS for pre-functional tokens including principles of appropriate classification of utility tokens (i.e. intention of holder versus nature of the tokens it will convert to).
SAFTs that are typically issued with pre-functional tokens	Rights to future tokens and considered as securities	<ul style="list-style-type: none"> Needs clarification, assume to be in the scope of IFRS 9 if meets the definition of financial instrument Unclear which Standard is applicable for those that do not meet the definition of financial instruments 	<p>STEP 1</p> <ul style="list-style-type: none"> Require disclosures of economic characteristics, rights and obligations of the SAFT holdings. <p>STEP 2</p> <ul style="list-style-type: none"> Further research and clarification on whether IFRS 9 with a financial asset classification is applicable for all SAFTs.
Holders on behalf of others (brokers, custodians)		There are no explicit requirements within IFRS on the accounting by holders on behalf of others. Issues on principal versus agent accounting arise across different IFRS standards.	<p>STEP 1</p> <p>Clarification of IFRS requirements for accounting by holders on behalf of others including on the following:</p> <ul style="list-style-type: none"> Clarifying the application of indicative criteria to determine which party (depositor client versus intermediary holder) has economic control of the crypto-assets;

			<ul style="list-style-type: none">• Clarifying which IFRS respectively applies for the depositor client that records an asset receivable and the intermediary holder (IAS 2, IAS 38, IFRS 9); and• Clarifying whether the custodian credit risk exposure should be considered when determining the value of the receivable asset.
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Country-specific application of IFRS and different NSS holders' guidance

The Table below shows a breakdown of a selection of NSS guidance related to holders.

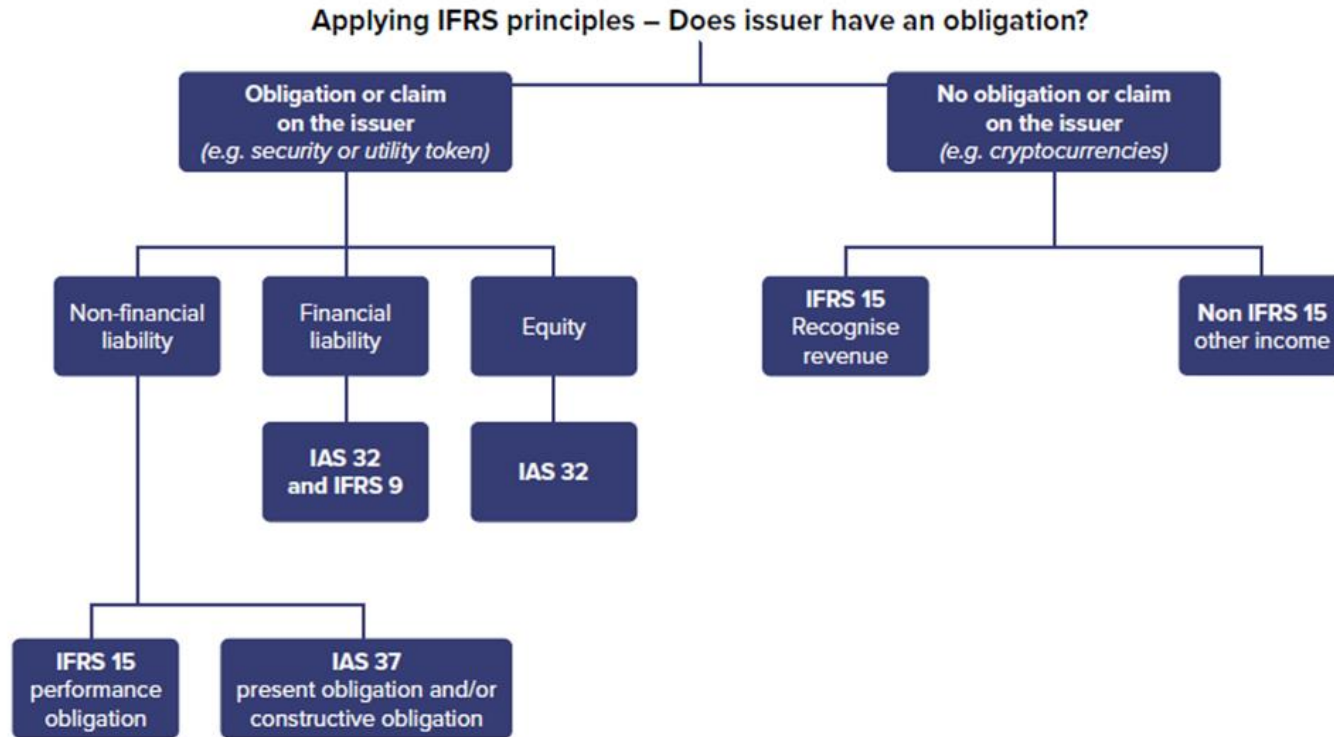
Jurisdiction	Nature	Recognition and Measurement
IFRS related Guidance		
Canada	Assessment to qualify as an asset necessary for each individual cryptocurrency <ul style="list-style-type: none"> • Intangible assets • Inventory 	IAS 38 <i>Intangible Assets</i> Subsequent measurement: either at cost (cost method) or fair value (revaluation method) IAS 2 <i>Inventories</i> Lower of cost and net realisable value
NSS Guidance		
France	Excluding tokens with the characteristics of securities (to which usual accounting requirements apply), tokens fall within one of the two following categories (based on the holders' business purpose): <ul style="list-style-type: none"> • Tokens held for consuming the related goods or services beyond the current reporting period ('own use') (recorded as an intangible asset) • Tokens that are not held for consuming the related goods or services beyond the current reporting period ('investments') (specific investment category) 	<i>Tokens held for own use</i> Amortised over useful life (period of expected services) applying existing requirements for intangible assets Disclosures on the number, carrying amount, depreciation or amortisation of such tokens <i>Tokens held as investments</i> Fair value measurement Fair value gains or losses deferred until realisation In case of deferred loss position, provision to P&L for the amount Disclosures on the number and carrying amount of such tokens. Disclosures on conditions of fair value determination due to current characteristics of markets
Japan	Uncertain whether legal property rights can be attached to virtual currencies. Nevertheless, they are seen as assets for accounting purposes. Seen as an independent category of assets.	Active market: FVPL, When there is no active market, measurement is required at historical cost, written down to expected disposal value (including zero) when the expected disposal value is less than the historical cost
Lithuania	Financial asset with categorisation depending on the holders' business purpose <ul style="list-style-type: none"> • Investment: other investments • Held for payment: financial asset recorded as current assets 	FVPL

Slovakia	Short-term financial asset other than cash	Fair value
Switzerland	<p>Accounting policies are derived from the law (i.e. Swiss Code of Obligations). The following categories depending on the holders' business purpose</p> <ul style="list-style-type: none"> • Financial asset (current assets or non-current assets) • Inventory • Intangible assets 	<p>Financial asset - Fair value</p> <p>Inventory - lower of cost or fair value</p>
Netherlands	<p>The following categories depending on the holders' business purpose:</p> <ul style="list-style-type: none"> • Intangible fixed asset • Inventory • Other investment 	<p>Intangible fixed asset: acquisition cost or at fair value</p> <p>Inventory: acquisition price</p> <p>Other investments: initial cost or fair value (through profit or loss or through OCI with recycling)</p>

Accounting for issuers – Breakdown of EFRAG recommendations

The identified possible applicable accounting for issuers of crypto-assets are summarised as follows:

Figure 4.2: Summary of Applicable Accounting for Issuers



Source: EFRAG Discussion Paper- Accounting for Crypto-Assets (Liabilities)-Page 81

The Table below outlines EFRAG’s recommendations to the IASB for the accounting by issuers of different categories of crypto-assets (with a distinction made by classification taxonomy applied in the DP) based on constituents’ feedback and consideration of NSS guidance. EFRAG’s recommendations are broken into two steps (Step 1- near-term steps and Step 2- changes after further research).

ISSUED CRYPTO-ASSET	ISSUER OBLIGATIONS	ASSUMED APPLICABLE IFRS ACCOUNTING	EFRAG recommendation to the IASB based on constituents’ feedback and consideration of NSS guidance
Cryptocurrencies (payment tokens) with no claim on the issuer	<ul style="list-style-type: none"> None However, need to consider whether the transaction is an exchange transaction 	<ul style="list-style-type: none"> Recognise revenue under IFRS 15 or Gain in profit or loss 	<p>STEP 1</p> <p>Require disclosures of type and economic characteristics of cryptocurrency issued (e.g. if only exchangeable for other crypto-assets)</p> <p>STEP 2</p> <p>Further research and clarification of accounting treatment including whether mining transactions fall within the scope of IFRS 15</p>
E-money tokens: and some emergent stable coins with claims on issuer	<ul style="list-style-type: none"> Claim on the issuer, implicit obligations 	<ul style="list-style-type: none"> Recognise revenue under IFRS 15 when issuer meets obligation(s) 	<p>STEP 1</p> <p>Require disclosures of features/type of stable coins issued</p>
Security and asset tokens	<ul style="list-style-type: none"> Contain characteristics that are similar to securities, could have a claim on the issuer 	<ul style="list-style-type: none"> Recognise a financial liability under IAS 32 and IFRS 9 	<p>STEP1</p> <p>Require disclosures of rights, obligations and features of security and asset tokens issued</p> <p>STEP 2</p> <ul style="list-style-type: none"> Further research on diverse rights and obligations of security and asset tokens and clarification on whether their issuance

			results in a financial liability under IAS 32 and IFRS 9
Utility tokens	<ul style="list-style-type: none"> Claim on the issuer, explicit and implicit obligations 	<ul style="list-style-type: none"> Recognise revenue under IFRS 15 when issuer meets obligation(s) and/or Recognise a provision (such as a constructive obligation) if the transaction falls outside of the scope of IFRS 15 	<p>STEP1</p> <p>Require disclosures of rights, obligations and features of utility tokens issued</p> <p>STEP 2</p> <ul style="list-style-type: none"> Further research on diverse rights and obligations of utility tokens and clarification on whether their issuance results in the application of IAS 37 in case the transaction is not within the scope of IFRS 15
Hybrid tokens with multiple features including some stable coins	<ul style="list-style-type: none"> Claim on the issuer, explicit and implicit obligations combined with no claim (in case of payment feature) 	<ul style="list-style-type: none"> Accounting based on a combination of cryptocurrency (payment token) and utility token 	<p>STEP 1</p> <p>Require disclosures of rights, obligations and features of hybrid token issued</p> <p>STEP 2</p> <ul style="list-style-type: none"> Further research on diverse rights and obligations of hybrid token and clarification on their appropriate accounting treatment.
Pre-functional tokens and SAFT	<ul style="list-style-type: none"> Claims on the issuer will depend on the type of token – payment/security/utility 	<ul style="list-style-type: none"> Accounting will depend on the type of pre-functional token issued and the issuer obligations 	<p>STEP 1</p> <p>Require disclosures of rights, obligations and features of security and asset token issued</p> <p>STEP 2</p>

			<ul style="list-style-type: none"> • Further research on pre-functional tokens and SAFT and clarification on their appropriate accounting treatment.
Free tokens, issuance costs, unissued tokens, reacquired tokens	<ul style="list-style-type: none"> • Requires further examination and clarification 	<ul style="list-style-type: none"> • Requires further examination and clarification 	<p>STEP 1</p> <p>Require disclosures of economic features of unissued and reacquired tokens</p> <p>STEP 2</p> <ul style="list-style-type: none"> • Further research and clarification on the appropriate accounting treatment

Existing NSS guidance on Issuers

There are at least two EU countries, France and Lithuania, that have developed specific accounting guidance for ICO issuers and related issues. Jurisdictions such as Japan are considering the developing guidance for ICOs.

France

The Loi Pacte in France passed into law in the summer of 2019, includes a comprehensive legal framework for ICO issuers and businesses dealing with tokens that are legally defined. France's accounting standard setter (ANC) issued accounting Regulation N°2018-07 on 10 December 2018 that applies to tokens (as defined by the French law) issued or held. Regulation N°2020-05 published on 24 July 2020 specifies requirements applicable to token loans, derivatives having tokens as underlying items and platforms. The relevant features of Regulation N°2018-07 are summarised below.

Bitcoin or ethers and more generally payment/exchange tokens (this is, regular cryptocurrencies) usually meet the definition of 'tokens' in French law.

When developing the accounting regulation, it was decided not to classify tokens between security/currency/utility, considering the lack of consistent definitions and the pace at which the underlying technology is evolving making any definition of a token short-lived and subject to ongoing changes. The approach retained instead focused on assessing the rights and obligations related to the tokens.

Accounting for ICOs by the issuer

The accounting treatment of the tokens will depend on the rights and obligations associated with the token and on the commitments made by the ICO issuer regarding each token category issued as expressed in the white paper of the ICO and any other relevant document. ICO issuing entities are required to distinguish between tokens featuring characteristics of securities (as defined by the French law) and other tokens.

Applying the requirements in French GAAP, an entity does not recognise unissued (unsubscribed) tokens in its statement of financial position. Regulation N°2018-07 however specifies disclosure requirements in the notes to the financial statements for such tokens.

No specific accounting requirements were developed for tokens featuring characteristics of securities. Given that such tokens have similar characteristics similar to securities and equity instruments (such as shares and bonds), the accounting treatment follows standards for similar financial instruments under the French accounting framework.

Other tokens

The issuing entity will recognise consideration for other tokens based on the amount paid by subscribers - net of VAT or similar taxes, if any (these are recognised separately). The issuing entity will recognise a liability for the consideration received in an ICO based on the commitments/obligations associated with the token issued and recognise revenue in profit and loss based on the delivery of goods or services, as follows:

- If tokens have features similar to debt, they are recognised as "loans and similar debts";
- If the tokens represent services to be provided or goods to be delivered in the future, they will be recognised as "prepaid income". The issuer will recognise income in profit or loss according to the delivery of goods or services; or

- If the issuer has no implicit or explicit obligation to the token holders, the funds collected by the issuer will be recorded as income in profit or loss.

If the tokens have a hybrid feature (for example, utility token plus security features), the accounting will be based on the two separate features.

The issuer will need to disclose various information concerning the issuance, the rights and obligations attached to the tokens, the accounting principles applied with respect to the issued tokens, unissued tokens, the tokens' market value as at the end of the period and other relevant information concerning the impacts of the tokens in case of conditions and disclaimers attached to tokens.

Pre-functional tokens and Own tokens exchanged for third-party/employee services

The French regulation addresses the accounting for pre-functional tokens and SAFT agreements when they are refundable.

The French regulation specifies that for tokens allocated to employees and other contributors to the activities of the issuer at privilege conditions and ICO issuer must recognise a discount by reference to the price paid by independent parties (or market value in case of absence of subscription to the ICO open to such parties at the date of token allocation).

Lithuania

The accounting by the ICO entity is premised on whether ICO tokens are in circulation (issued) or not and also on the rights and obligations arising from the tokens. Issued tokens are tokens that the ICO token has launched to the public and which it does not keep for own purposes.

Similar to the French accounting guidelines on ICO issuance, the Lithuania guidelines state that the value of tokens circulated during an ICO depends on the commitments and obligations undertaken by the ICO issuer to the purchaser of the tokens, the rights or powers granted to the holders of the tokens, and the period of the use and liquidity. The Lithuanian guidelines explain that, usually, all essential ICO conditions, including the rights granted to the purchasers of the tokens, commitments of the issuer and other terms and conditions should be specified in the white paper that accompanies the ICO and could be considered as a prospectus equivalent to when issuing securities.

The issuing entity must record a liability depending on the rights granted to holders of the ICO tokens. Guidance is provided in relation to:

- accounting for pre-ICO expenses; and
- accounting for ICO issuance.

Accounting for pre-ICO expenses

An ICO is often carried out by issuing tokens by the issuing entity in exchange for another crypto-asset or, in rare cases, for fiat currency.

Before undertaking an ICO, the ICO entity must decide which platform it will use to launch the ICO, obtain the necessary licences for ICO purposes, prepare a white paper for their circulation, create a Smart Contract corresponding to appropriate login protocols and perform other work. During this preparatory period, the costs of the company are covered from the own capital of the company or borrowed capital. If these costs do not meet the definition of “Intangible assets” under local GAAP, they are recognised as expenses. If costs satisfy the requirements for recognition as intangible assets, they may be shown as intangible assets.

Accounting for the ICO issuance

ICO tokens that are not circulated (issued) during an ICO (and remain the property of the issuers) are recognised in the financial statements only when the active market of token stabilises. Some ICO issuers choose to keep some tokens generated through the ICO to use as a means of payment for goods or services or employee services.

The rights granted to the purchasers of tokens by the ICO entity may be the same as the rights of the holders of securities. Therefore, the liabilities of an issuer of tokens will depend on the nature of the rights granted. They may be similar to the rights of the holders of debt, equity instruments or other financial instruments. The issuer recognises a liability if it has an obligation or commitment to the holder:

- Payment tokens: these tokens generally do not grant clear rights in the future for their holders to get a specific service, goods or assets from the company circulating them. The consideration received by the issuing entity of such tokens may be designated for the establishment of the payment platform and its ongoing functioning – in this case, the issuer recognises a liability as a payment received in advance (pre-payment). The liability is derecognised once the issuer commitments or obligations towards the holders have been fulfilled;
- Security tokens: the right granted to the purchasers of ICO tokens may be the same as the rights of the holders of securities. Therefore, the accounting by the issuer of a security token may be similar to the rights of the holders of debt, equity instruments or other financial instruments under local Lithuanian GAAP; and
- Utility tokens: the issuer recognises a liability for the obligation to the holder of the tokens for goods or services to be provided in the future; the issuer must assess whether the liability is fixed or variable.

Other issues related to ICO issuance

Additional specific issues that needed further analysis include:

- ICO issue costs: accounting for ICO issue costs incurred by the issuer including development costs associated with setting up a platform to launch an ICO. These are analogous to IPO costs. The guidelines under Lithuanian GAAP address this issue and account for issue costs either as intangible assets (if they meet the definition) or as expenses recognised immediately in profit or loss. Lithuanian GAAP does not differentiate between issue costs incurred for different types of tokens;

- Own ICO tokens: accounting for crypto-assets that remain in the property of the issuer of the ICO (also often the founder of the crypto-asset) and are not placed in circulation; and
- Airdrops: accounting for “airdrops” (i.e. crypto-assets given away for free in an ICO (or subsequent to the ICO)).