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Crypto-Assets – Outreach Plan and Holders Issues Paper

Introduction

Crypto-assets research project scope and approach

- 1 As discussed and agreed during past EFRAG TEG meetings, the EFRAG research project on crypto-assets (EFRAG project) is being conducted in two phases. Phase I focuses on the problem definition and primarily aims to identify accounting issues related to crypto-assets whilst considering the significance of crypto-assets activities and key factors that could have accounting implications including related rights and obligations and regulatory requirements. Phase II will focus on considering proposals to address any identified accounting issues including where clarification or enhancement of IFRS requirements may be required. The scope of the EFRAG project includes the following crypto-assets categories:
 - (a) Crypto-currencies (coins and payment tokens);
 - (b) Asset or security tokens;
 - (c) Utility tokens;
 - (d) Other types of tokens (e.g. hybrid tokens, pre-functional tokens)
- 2 Furthermore, in the context of considering the issuance, buying, holding and selling of crypto-assets, the EFRAG project includes the following crypto-assets related activities:
 - (a) *Crypto-assets issuers*: Initial Coin Offerings (ICOs) (and similar offerings);
 - (b) *Crypto-assets holders*: Payment services, investment and other holding objectives (e.g. access to distributed network goods and services);
 - (c) *Crypto-assets related services*: Storage and custodial services and mining services.
- 3 The analysis of crypto assets activities is focused on entities and not individuals.
- 4 As highlighted in Table 1 below, at the May 2019 meeting, EFRAG TEG members gave input on an [ICOs issues paper](#) and recommended a breakdown of the analysis of crypto-assets issues into separate deliverables for the effective feedback from stakeholders. Hence, the EFRAG project will consist of two discussion papers during the problem definition phase, namely:
 - (a) A discussion paper that combines the issuance and holding of crypto-assets as there are likely to be symmetrical considerations whilst assessing issuer and holder accounting issues.

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- (b) A discussion paper to be issued in 2020 that focuses on related services (i.e. custodial services and mining).

Table 1: Coverage of crypto-asset research project in TEG and TEG-CFSS meetings

	Related TEG Meeting	Related TEG-CFSS meeting
Two-phase approach and scope of phase I (problem definition) (see related paper)	February 2019	
ICOs and custodial services issues paper (see related paper)	May 2019	
Invitation for CFSS members to participate or facilitate gathering of relevant fact patterns in their jurisdictions		July 2019. Further to the invitation at the TEG-CFSS, the IASB publicised the outreach to global standard setters.
Outreach approach and holders issues paper		September 2019

Objective of the Session

- 5 This meeting has the following objectives:
- (a) Provide to the EFRAG TEG and CFSS members with an update of the project activities, illustrate the relevant material collected to date and highlight our understanding of key holders related accounting questions to be addressed in the problem definition phase. As mentioned in Paragraph 4, the first EFRAG project deliverable will be a discussion paper that combines the issuance and holding of crypto-assets. During the May 2019 TEG meeting, the EFRAG Secretariat presented an issues paper on ICOs. During this meeting, in preparation of the first discussion paper, the EFRAG Secretariat is seeking input from EFRAG TEG and CFSS members on considerations related to the holders of crypto-assets.
 - (b) The EFRAG project team plans to conduct an [outreach to crypto-asset experts](#)¹ during the months of October and November 2019. The outreach will be supported by an [expected to be hired external consultant](#). To support the outreach, **Paper 11-03- outreach draft questionnaire (draft questionnaire)** has been developed to help gather information from the crypto-assets experts. The EFRAG Secretariat is seeking feedback from EFRAG TEG and CFSS members on the outreach approach and questionnaire. In addition, further to the call for involvement made during the July TEG-CFSS meeting, EFRAG TEG and CFSS members' input is sought in possibly identifying crypto-assets experts in their jurisdictions that can contribute to the EFRAG project.
- 6 The input from EFRAG TEG and CFSS members will help to refine the information to be gathered during the planned outreach and areas of focus related to holders of crypto-assets to be included in the first discussion paper.
- 7 The topics related to crypto-assets holders in the first discussion paper will include: economic characteristics, rights of holders, regulatory requirements, prevalence and identified accounting issues.
- 8 Hence the following sections and related questions for TEG-CFSS members focus on the outreach objective and crypto-assets holders considerations.

¹These include but are not limited to experts within the following functional roles or organisation types: accounting standard-setters; auditors; regulators; crypto-asset developers; ICO issuing firms; Institutional investors; researchers including academics; blockchain token economy experts; ICO and other crypto-asset rating agencies; brokers; advisers (e.g. lawyers, consultants); exchange/dealer platforms, custodian and wallet providers; credit institutions, electronic money institutions with crypto-asset holdings.

Outreach objective and sought input

- 9 The planned outreach has the following objectives:
- (a) identifying use cases (e.g. tokens where accounting questions may arise) within and beyond EU jurisdictions;
 - (b) identifying the associated rights and obligations from both holder and issuer perspectives;
 - (c) obtaining an understanding of current and potential market development across different jurisdictions and any other observations related to crypto-asset activities that would help inform the EFRAG research project; and
 - (d) understanding the level of current or emerging regulation (including self-regulation) applicable within jurisdictions (EU and beyond).
- 10 The need for the outreach to crypto-asset experts arises for the following reasons:
- (a) The difficulty in readily obtaining empirical data on entities' crypto-asset holdings. Furthermore, current public sources (websites etc) differ with regard to their classification methodologies, the completeness of data coverage and access to the underlying raw data;
 - (b) The opacity and assumed lack of legal enforceability status of ICO white papers makes it difficult to readily obtain information on the rights, obligations (claims) and economic characteristics of issued tokens or other forms of crypto-assets from these documents.
 - (c) The need to enhance an understanding of trends and potential significance of crypto-assets due to rapid and ongoing innovation, including from both a DLT platform and economic application standpoint (e.g. the variety of stable coins that have been launched, the prospective launches of permissioned network crypto-currencies by Facebook and several major economies' central banks).
 - (d) The need to enhance an understanding on if there are any unique economic, legal obligations with accounting implications that may arise from:
 - (i) the operational features of distribution ledger technology (DLT) platforms; and
 - (ii) crypto-assets related business models and activities (e.g. custodial service providers, mining activities).
- 11 The EFRAG Secretariat has developed the draft questionnaire to obtain feedback from crypto-asset experts on areas related to the outreach objectives.

Questions for EFRAG TEG and CFSS members on outreach approach, questionnaire and participation

- 12 Do EFRAG TEG and CFSS members have any feedback on the EFRAG project outreach approach and the draft questionnaire?
- 13 Are there any additional topics that should be included in the draft questionnaire?
- 14 Are EFRAG TEG and CFSS members aware of crypto-assets experts that they can recommend to provide the information sought in the draft questionnaire?

Crypto-assets holders considerations

- 15 **Paper 11-02- crypto-assets holders supplemental issues paper (holders supplemental issues paper)** includes an analysis of crypto-asset holder related issues that will be included in the discussion paper. The outcome of the outreach will complement these initial findings. The supplemental paper is broken into the following sections:
- (a) Crypto-assets overview
 - (b) Holders' accounting issues
 - (c) Appendix
 - (i) Economic features and rights of different crypto-assets
 - (ii) Regulatory requirements for different crypto-assets
 - (iii) National accounting standards setter guidance
 - (iv) Prevalence of crypto-assets related business models
 - (d) Glossary of terms
- 16 Below is a summary of issues and implications for the EFRAG research project drawn from the holders supplemental issues paper.

Possible accounting issues

- 17 The following primary questions arise when assessing the accounting for crypto-assets:
- (a) What type of assets are they? Are they a unique asset type? When are they *de facto* securities or *de facto* e-money and what are the implications for their recognition and measurement?
 - (b) Are there special accounting considerations for holders on behalf of others?
 - (c) Are there any unique accounting issues for holders that arise from the operational features of DLT platforms?
- 18 The consideration of the above questions underscores the initial analysis of crypto-asset holders accounting issues in the supplemental holders issues paper where the analysis of issues is broken into the following:
- (a) IFRS Interpretation Committee (IFRS IC) clarification on accounting for cryptocurrencies
 - (b) Unresolved issues following IFRS IC clarification on cryptocurrencies
 - (c) High-level analysis of national standard setters (NSS) guidance for holders
 - (d) Holder on behalf of others - accounting issues
 - (e) Possible accounting for crypto-assets outside the scope of the IFRS IC clarification on cryptocurrencies
- 19 In clarifying² the accounting of cryptocurrencies, the IFRS IC considered the accounting requirements for intangible assets, inventory, cash and financial asset and decided that cryptocurrencies have the characteristics of either intangible asset or inventory depending on the purpose of holding the cryptocurrency. Thereafter, the measurement basis requires consideration of the intention of the acquirer/holder with the following accounting outcomes:

² <https://www.ifrs.org/-/media/feature/meetings/2019/june/ifric/ap12-holdings-of-cryptocurrencies.pdf>

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- (a) Cryptocurrencies held as an investment- accounted for under IAS 38 *Intangible Assets* with two measurement alternatives cost model and revaluation model (using other comprehensive income rather than recognising changes through profit or loss)
 - (b) Cryptocurrencies held in the ordinary course of business - accounted for under IAS 2 *Inventory* with measurement at the lower of cost or net realisable value
 - (c) Broker-trader business model where cryptocurrencies are held for trading similar to commodities- accounted for under IAS 2 paragraph (3(b)) with measurement at FVPL
- 20 Though the IFRS IC only addressed a subset of crypto-assets (i.e. cryptocurrencies) in its agenda decision, the analysis of the IFRS IC clarification and related constituent feedback highlights considerations that are relevant for other crypto-assets. These include the following:
- (a) There is need for an enhanced understanding of the economic characteristics and accounting implications for crypto-assets that are not in the scope of the IFRIC clarification (e.g. stable coins, cryptocurrencies with a claim on the issuer such as JP Morgan coin, security tokens, utility tokens and hybrid tokens).
 - (b) The definition of cash under IFRS Standards may need to be updated.
 - (c) There may be need to clarify the presentation of crypto-asset holdings (i.e. current versus non-current assets and whether they can be presented as held for sale).
 - (d) From the perspective of some stakeholders including national standard setters, there remains a need for further development of principles of accounting tailored to the specific and unique economic characteristics of crypto-assets.
 - (e) The feedback to the IFRS IC draft agenda decision consultation shows evidence of diversity in application of IFRS Standards within certain jurisdictions and the diversity of viewpoints on the principles that should determine the measurement of cryptocurrencies (e.g. purpose of holder versus a single measurement such as FVPL for all cryptocurrencies).
- 21 A high-level analysis of NSS' guidance (both national GAAP and in jurisdictions that apply IFRS) affirms the view that there is diversity of requirements and underlying principles across jurisdictions. The outreach to expert stakeholders will aim to update the understanding of prevailing and emerging NSS guidance across different jurisdictions. Nevertheless, the already demonstrable diversity in requirements and underlying principles across different NSS guidance and some evidence of diversity in practice by holders within the jurisdictions supports the case for reviewing existing requirements in IFRS Standards.
- 22 There are other holder accounting issues identified in accounting firm publications³ that require further information gathering during the EFRAG project outreach. These issues include:

³ Ernst and Young, August 2018, Applying IFRS, Accounting for Holders of Crypto-Assets

[https://www.ey.com/Publication/vwLUAssets/EY-applying-ifs-accounting-by-holders-of-crypto-assets/\\$File/EY-applying-ifs-accounting-by-holders-of-crypto-assets.pdf](https://www.ey.com/Publication/vwLUAssets/EY-applying-ifs-accounting-by-holders-of-crypto-assets/$File/EY-applying-ifs-accounting-by-holders-of-crypto-assets.pdf)

Ernst and Young. IFRS (#) Accounting for crypto-assets

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- (a) Asset recognition issues for intermediary holders on behalf of clients and their clients particularly when the intermediary entities have direct legal ownership
- (b) Economic and accounting implications of DLT hard forks⁴ for intermediary holders on behalf of clients and their clients and for short sellers of crypto-assets

Identification of economic characteristics and rights of crypto-assets.

- 23 The identification and analysis of rights and obligations of crypto-assets will inform the assessment on whether further IFRS clarification or standard setting activity is required.
- 24 The holders supplemental issues paper contains an initial assessment of economic features and rights of crypto-assets (cryptocurrencies, e-money tokens, utility tokens, security tokens, hybrid tokens and pre-functional tokens). The assessment is based on a review of related regulatory, academic, accounting and legal firms literature.
- 25 The outreach to crypto-assets experts will be used to update and refine the understanding of crypto-assets' rights and obligations.

Understanding regulatory requirements

- 26 There has been heightened attention by different types of regulators on crypto-assets market developments and related risks. These includes from regulators whose purview is consumer protection, financial stability, market integrity and investor protection.
- 27 The economic characteristics of different crypto assets (e.g. whether or not they are economically equivalent to either securities or to fiat e-money) has an influence on the type of regulation that is applied to them in different jurisdictions- and influences the respective requirements related to the issuance, secondary trading and holding of crypto-assets.
- 28 Although regulatory definitions can differ from accounting standards definition (e.g. the financial instruments definition), the prevailing regulatory requirements can be indicative of the economic characteristics of different crypto-assets and can serve as a reference point whilst assessing the appropriate accounting for both issuers and holders of crypto-assets.
- 29 The holders supplemental issues paper includes an initial analysis of a selection of regulatory requirements and it shows significant variation across jurisdictions. The EFRAG project outreach will aim to further enhance the understanding about the nature of prevailing regulatory requirements across jurisdictions to the extent that these are indicative of the economic nature of different crypto-assets.

Assessing prevalence of holder entities

- 30 As noted in the papers presented to EFRAG TEG during the February and May 2019 meetings, research conducted by the IASB staff and presented to the IFRS IC and the IASB during the course of 2018 indicated that very few IFRS preparers reported holding crypto-assets in their 2017 financial statements. Various publications from key oversight bodies (e.g. Financial Stability Board, European Banking Authority) and EFRAG's own research confirms the difficulty in obtaining data on entities' holdings of crypto-assets.

[https://www.ey.com/Publication/vwLUAssets/EY-IFRS-Accounting-for-crypto-assets/\\$File/EY-IFRS-Accounting-for-crypto-assets.pdf](https://www.ey.com/Publication/vwLUAssets/EY-IFRS-Accounting-for-crypto-assets/$File/EY-IFRS-Accounting-for-crypto-assets.pdf)

⁴ When a disagreement in the update of software protocols on the DLT update results in the creation of an additional alternative cryptocurrency

- 31 However, as discussed during the May 2019 EFRAG TEG meeting, the absence or limited data on prevalence of crypto-asset holding entities for IFRS reporting entities should not be an impediment to the EFRAG project's review and where necessary proposal of ideas for the clarification or enhancement of IFRS guidance. This is because
- (a) Smaller unlisted entities that are holders or issuers of crypto-assets may become listed and thereafter become IFRS reporting entities meaning that the potential universe of IFRS reporting entities with crypto-assets activities could grow in the future;
 - (b) At an aggregate level, there are significant holdings of crypto assets by unlisted entities and these entities could be counterparties to IFRS reporting entities;
 - (c) Regardless of the status of prevalence, resolving accounting challenges related to crypto-assets could be relevant for other aspects of IFRS literature (e.g. commodities); and
 - (d) Investor protection is an objective of clarifying or enhancing existing crypto-assets accounting guidance.
- 32 In effect, although the demonstration of prevalence is not a precondition for the EFRAG project's review and where necessary proposal of ideas for clarification or enhancement of IFRS guidance, the EFRAG project will continue to seek data on prevalence of crypto-assets activities. Hence, the outreach questionnaire has questions related to prevalence of entities undertaking crypto-assets activities. The holders supplemental issues paper highlights the type of financial institutions that may be holders of crypto-assets in an EU context as well as non-financial entities that may be part of the blockchain token economy and the research will seek information on the prevalence of these entities.

Questions for EFRAG TEG and CFSS members on crypto-assets holders considerations

- 33 Do EFRAG TEG and CFSS members have any feedback on the summary of issues and implications for the EFRAG project in relation to crypto-assets holders, as outlined in paragraphs 17 to 32?
- 34 Are there additional accounting issues related to holders of crypto-assets beyond those highlighted in this issues paper paragraphs 17 to 32 that the EFRAG project should consider? If so, please elaborate on these additional issues.

Time permitting can address the below question or else to be addressed at a future TEG meeting

- 35 Paper 11-02-holders supplemental issues paper has a detailed analysis of the issues highlighted in paragraphs 17 to 32 of this paper. Furthermore, the holders supplemental issues paper reflects some of the potential draft content related to crypto-assets holders to be included in the first discussion paper. Do EFRAG TEG and CFSS members have any feedback on the content in the holders supplemental issues paper?