Crypto-Assets – Holders and Issuers Draft Discussion Paper - Paper to Guide TEG Members' Input

Objective

1 This paper is to facilitate a discussion by EFRAG TEG members on the draft Discussion Paper (DP) (**paper 12-02**). The DP excludes: key conclusions in the executive summary; and questions that are to be posed to constituents. The excluded sections will be developed after the input of EFRAG TEG members.

2 The objective of this session is to obtain EFRAG TEG members' input that can enable an improvement of the DP as needed. The proposed focus is on following topics:

(a) Possible areas for IFRS enhancement and clarification in accounting by holders of crypto-assets

(b) Possible areas for IFRS enhancement and clarification in accounting by issuers of crypto-assets

(c) Valuation considerations with implications for accounting under IFRS

(d) Possible approaches to IFRS standard setting

3 Finally, the session aims to get EFRAG TEG members' feedback and approval of the structure of the DP. Approval of content of the DP's completed sections may be sought during the session or afterwards in writing, subject to the degree of changes needed based on EFRAG TEG members' comments

Possible areas for IFRS enhancement and clarification in the accounting by holders of crypto-assets

Areas for enhancing and clarifying the classification, recognition and measurement by holders of crypto-assets

Overview of existing holder accounting approaches

4 As noted in the DP (Paragraphs 3.8 to 3.19), in 2019, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision clarifying the accounting treatment of cryptocurrencies with no claim on the issuer and these encompass a significant proportion of the crypto-assets universe. The IFRS IC clarification concluded that the classification and measurement of the considered cryptocurrencies depends on the intention of the holder and that they should be either be classified as intangible assets or inventory with the following approaches to the their recognition and measurement:

(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 ordinarily in the course of business- accounted for under IAS 2 *Inventories* with measurement at the lower of cost or net realisable value

(c) Broker-trader business model where cryptocurrencies held for trading similar to commodities- accounted for under IAS 2 under paragraph (3b) with measurement at FVPL

5 Furthermore, the DP (paragraphs 3.20 to 3.29) describes the classification of crypto-assets within the guidance that is provided by some[1] national standard setters (NSS). Unlike the IFRS IC clarification which only focuses on cryptocurrencies, the combination of the analysed NSS guidance covers all crypto-assets with the following noteworthy features:

(a) There is varied categorisation of crypto-assets across the NSS guidance and in many cases it depends on the business purpose of the holder. The categorisation of crypto-assets include:

(i) Unique or independent asset category (Japan ASBJ recognises crypto-assets as a unique asset);

(ii) Intangible asset category usually applied for cryptocurrencies and utility tokens within different NSS guidance when not held in the ordinary course of business;

(iii) Inventory category usually applied for cryptocurrencies and some utility tokens within different NSS guidance if held in the ordinary course of business;

(iv) Financial asset (including long-term and short term investment) category usually applied for security and asset tokens within different NSS guidance;

(v) Prepayment asset category usually applied for some utility tokens within different NSS guidance. It is the appropriate classification because a prepayment asset is recorded where an entity has paid for services before delivery of those goods and services.

(b) Across the NSS guidance, there are varied approaches towards the measurement of crypto-assets:

(i) FVPL if there is active market (e.g. Japan)

(ii) Measurement based on intention of acquirer (e.g. France guidance where measurement depends on if held for own use or held for investment)

(iii) Lower of cost or net realisable value when crypto-assets are recognised as inventories

(iv) Cost or revaluation approach for subsequent measurement of crypto-assets recognised as intangible assets

(v) Own accounting policy choice (IAS 8 *Accounting Policies and Accounting Estimates*)

6 In essence, as is the case with the IFRS IC agenda decision, for most of the analysed NSS guidance, the classification and measurement consider the intention

[1] These only include NSS' holders guidance that the EFRAG research project team is aware of and is not necessarily exhaustive (i.e. there could be other NSS guidance that the EFRAG research project team is not aware of).

of the holder (i.e. except for the Japan guidance where crypto-assets are considered a unique asset type). The asset classification is determined through combination of considering the business purpose of holding the crypto-asset and, to varied extent, considering the underlying economic characteristics of (i.e. asset type is determined by function or business purpose and by nature).

Preliminary view on conceptual approach to determining accounting for holders

7 The preliminary view of the EFRAG research project is that the combined consideration of the function and nature is a sufficient basis for determining their classification, recognition and measurement but there is need for greater consideration of the nature (i.e. specific rights) including considering whether the measurement approaches under existing IFRS guidance result in the faithful representation of the economic nature of crypto-asset transactions. This point is further discussed below in respect of possible revision of IAS 38 and other applicable IFRS requirements.

8 The EFRAG research project team acknowledges that to develop accounting standards for holders of crypto-assets considering both their function and nature, means that accounting standard setters ought to have the ability to describe and categorise crypto-asset transactions of a similar economic nature (i.e. transactions ought to be capable of being standardised). However, as noted in the DP (Appendix 2), there is diversity in types, relative opacity of rights and obligation and an ongoing and rapid innovation of crypto-asset products. The DP (Appendix 3) also highlights that there is no consensus or harmonisation in the classification taxonomies applied by regulators across different EU jurisdictions and globally. The combination of these factors, could easily lead to a conclusion that there are so many “moving and unknown” parts associated with crypto-assets and these are not conducive and do not enable accounting standard setting at this point in time.

9 Nonetheless, the following arguments can be made justifying the ability to develop accounting standards for crypto-asset holders based on existing or to be developed classification taxonomies:

(a) The DP highlights that a Cambridge 2019 publication[2] on the regulatory landscape of crypto-assets, which reviewed the classification of crypto-assets across 23 jurisdictions, found that 32% of them make a distinction and have an explicit classification for different crypto-assets.

(b) The existence of taxonomies, which are at least applied by some regulators, means that a similar categorisation of crypto-assets ought to be also possible for accounting standard setting purposes. Some stakeholders have argued against current taxonomies that classify crypto-assets into three main categories (i.e. payment tokens, utility tokens and security tokens) with the view that these categories are static and risk being overtaken by innovation and they do not take full account of the hybrid features of crypto-assets.

(c) However, the fundamental rights and economic characteristics of a broad spectrum of crypto-assets are in substance economically similar to existent “non crypto-assets” transactions (e.g., foreign currency holding, investment in commodities, holders of loyalty miles, emission rights). These fundamental characteristics are not fast moving and are unlikely to become obsolete economic features whether it is in relation to crypto-assets or to analogous transactions. Hence, for a subset of existing and next generation of crypto-

[2] Cambridge Center for Alternative Finance, 2019, *Global Cryptoasset Regulatory Landscape Study*

https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2019-04-ccaf-global-cryptoasset-regulatory-landscape-study.pdf assets, a taxonomy classification can have ongoing relevance for accounting standard setting purposes.

(d) The DP (Appendix 2) has a granular breakdown of the fundamental distinctive rights for utility tokens and security tokens and gives some examples of crypto-assets that have these fundamental distinctive rights. The granular breakdown of rights can mitigate potential concerns that "utility tokens" and "security tokens" classification may be too broad for accounting purposes. It can also enable comparison to analogous "non-crypto-asset" transactions and thereafter consideration of the appropriate accounting treatment.

(e) Some of the noted rapid innovation may be in the hybridisation of crypto-asset features rather than in their fundamental economic characteristics. Therefore, a taxonomy that clearly identifies fundamental distinguishing economic characteristics and rights- would seem to enable rather than blur the conceptual thinking about the appropriate required accounting for hybrid tokens. For instance, a taxonomy classification ought to enable conceptual thinking on how the bifurcation of component attributes could occur for accounting purposes and it also helps to identify the predominant component features of hybridised crypto-assets.

(f) Finally, the EFRAG research project team is not aware of any evidence showing that the growth of hybrid tokens has impacted the existence of crypto-assets with "pure play" features (e.g. those that are exclusively payment tokens). Hence, a taxonomy classification is also still directly useful for a not insignificant subset of crypto-assets (i.e. those that are not hybrid tokens).

10 Hence, even if there is no global consensus on a taxonomy classification and there is legitimate criticism of the usefulness of the current commonly referenced taxonomy that divides crypto-assets into three main categories (payment tokens, utility tokens and security tokens); there is no reason why any other more suitable classification taxonomy cannot be developed to guide the consideration of the accounting of economically similar crypto-asset transactions. As described in the DP (Appendix 2), there is ongoing conceptualisation[3] on the development of classification taxonomies alongside the commonly referenced taxonomy and this should at least enable accounting standard setting.

11 On the basis of the principle of considering the function/business purpose and nature (i.e. holder rights), Table 3.3 in the DP outlines what are assumed to be the applicable IFRS requirements for different crypto-assets.

Preliminary view on areas of holders accounting that need IFRS clarification

12 *Accounting by holders of utility and pre-functional tokens needs clarification*: As detailed in the DP (Appendix 3 and outlined in paragraphs 3.49, 3.50 and Table 3.3), there are unique economic characteristics and holder rights associated with different crypto-assets. For example, there are a variety of rights associated with utility tokens. There seems to be a need for clarification on whether it is either the intrinsic rights of different utility tokens or the holders business purpose and/or intended holding period that should **predominantly** guide their accounting.

13 Furthermore, while utility tokens can be considered as prepayment assets, as has been noted by accounting firm publications, there is limited guidance within IFRS for accounting for prepayment assets.

14 *Accounting by holders of hybrid tokens including certain stable coins needs clarification*: As discussed in the DP (paragraphs 3.41 to 3.47), hybrid tokens can

[3] A recent academic research paper proposed 14 classification categories -Lausen, J. 2019. *Regulating Initial Coin Offerings? A Taxonomy of Crypto-Assets*. Research Paper.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3391764 pose accounting challenges due to their multiple features and their nature changing over time or depending on the context and/or effective use by their holders. There is need for IFRS clarification on the accounting of different hybrid tokens including certain stable coins.

Need for review of relevance of existing applicable IFRS guidance

15 As noted in the DP (paragraphs 3.34 to 3.39), while not disagreeing that some crypto-assets can be considered as intangible assets (i.e. identifiable non-monetary assets without physical substance, separable and capable of being sold individually), some stakeholders have questioned the relevance of both IAS 38 and IAS 2, as these standards were not written with cryptocurrencies in mind, particularly when considering their price volatility and use as speculative investments. These respondents observed that the requirements of IAS 38 and IAS 2 do not provide useful information.

16 Some stakeholders observe that assets that are capable of being sold independently are capable of producing cash flows directly, or are subject to variability in their cash flow, or whose values are sensitive to market factors or other risks; the current value such as fair value or value in use is likely to be more relevant than a cost based measure.

17 Stakeholders' expectations for a possible revision was also highlighted in the 2019 December IASB ASAF meeting staff paper[4] on the 2020 IASB agenda. The staff paper indicates that some stakeholders expect the following:

(a) revision of IAS 38 definition of intangibles and allowing accounting policy choice (IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*) in the near term; or

(b) development of a new crypto-assets standard in the long term.

18 One of the participants in the EFRAG outreach to crypto-assets experts indicated that in their particular jurisdiction, some holders are not satisfied with applying the intangible asset accounting model in IAS 38 to holdings of crypto-assets because of the following reasons:

(a) The aforementioned holders think that the cost model (cost less amortisation less impairment) is not representative of their business and that such accounting (particularly useful life and impairment) is judgmental and operationally challenging.

(b) These holders also think that the revaluation model's use of other comprehensive income is not representative of their business. They also think that the model's reference to an "active market" is unhelpful as "active market" can be difficult for some holders to evidence. Issues related to identifying an "active market" are further discussed in Chapter 5 of the DP.

(c) Some have questioned whether the exclusions in paragraph[5] 7 of IAS 38 should be applied to crypto-assets as is the case for insurance contracts or expenditure on the exploration for, or development and extraction of, oil, gas and mineral deposits.

(d) Some holders prefer fair value through profit or loss measurement for crypto-assets because this measurement could better reflect the performance of their investments.

[4] December 2019 ASAF Staff Paper, https://cdn.ifrs.org/-/media/feature/meetings/2019/december/asaf/ap1-agenda-consultation.pdf

[5] Paragraph 7 states that " Exclusions from the scope of a Standard may occur if activities or transactions are so specialized that they give rise to accounting issues that may need to be dealt with in a different way….".

19 Some stakeholders also expressed the view that the cash flow statement information does not yield relevant information to users of financial statements when IAS 38 is applied for cryptocurrencies in cases where entities accept fiat currencies or crypto-assets as a means of payment for their deliveries and supplies. In general, there is a need to consider if/how the accounting for non-cash considerations ought to be updated to reflect the exchanges involving crypto-assets.

Need to clarify IFRS guidance for holders on behalf of others

20 The DP (Paragraphs 3.51 to 3.68) highlights issues relating to entities that are holders on behalf of others and whether these entities need to recognise held crypto-assets on the statement of financial position with a corresponding liability while the depositor client records a receivable asset that is tied to the value of the crypto-asset. Technological features of crypto-assets (i.e. private keys and wallet arrangements) can impact how crypto-assets are stored and managed by entities during custodial arrangements. Accordingly, they can be indicative of who has economic control in such arrangements (i.e. principal versus agent) and needs to recognise the crypto-assets on the statement of financial position.

21 As outlined in the DP (summarised in Paragraph 3.66 and Table 3.5 of the DP), there are a whole raft of indicators that have been highlighted by different publications. Other than the application of IAS 8, these is no explicit guidance within IFRS on the accounting treatment of entities in a principal versus agent relationship in the holding of crypto-assets.

22 The accounting for holders on behalf of others needs IFRS clarification including on the following:

(a) Clarifying the application of indicative criteria to determine which party (depositor client versus intermediary holder) has economic control of the crypto-assets

(b) Clarifying which IFRS respectively applies for the depositor client that records an asset receivable and the intermediary holder (IAS 2, IAS 38, IFRS 9 *Financial Instruments*).

(c) Clarifying whether the custodian credit risk exposure should be considered when determining the value of the receivable asset.

Need to review and possibly update the definition of cash

23 The DP (paragraphs 3.69 to 3.71) point to the observation by some stakeholders that IFRS requirements for the definition of cash may be too restrictive. For example due to the following situations:

(a) Where some crypto-assets may qualify as e-money based on jurisdictional regulatory definitions. According to the EBA, there are known cases in some EU jurisdictions where certain crypto-assets would qualify as e-money

(b) Where next generation of crypto-assets may include stable coins that are tied to an underlying basket of currencies and other money market instruments issued by states and central banks of different jurisdictions;

(c) Where holding of some cryptocurrencies may be economically equivalent to holding of foreign currencies that do not qualify as functional currencies. Such foreign currencies are still treated as cash for accounting purposes but cryptocurrencies are not.

24 In effect, some stakeholders have interpreted that current IFRS requirements imply that cryptocurrencies have to be a unit of account to be considered as cash and they take the view that existing IFRS cash definition requirements need to be reviewed and updated.

Crypto-assets disclosures for holders need enhancement

25 The DP (paragraphs 3.73 and 3.74) highlights some additional disclosures that have been proposed by stakeholders that may go beyond the disclosure requirements of existing standards that are applicable to holders of crypto-assets. There is need to review whether existing disclosures for crypto-assets holders need to be updated within the applicable IFRS Standards.

Other issues

26 As noted in the DP (paragraph 3.33), a stakeholder highlighted that holders struggle to ascertain whether there is no claim on issuer on their cryptocurrencies holdings such that these holdings fall within the scope of the IFRS IC agenda decision clarification. Therefore, there may be need for the IASB to clarify how holders can determine if their cryptocurrencies have no claim on any issuer.

27 As noted in the DP (paragraph 3.33), another issue raised by a stakeholder was that there could be implications for current and potential bank holdings of cryptocurrencies due to their classification as intangible assets. Because intangible assets are deducted from own funds for purposes of determining the regulatory capital, banks may be disincentivised from holding cryptocurrencies other than for trading purposes.

Questions for EFRAG TEG members-accounting for <u>holders of crypto-assets</u>

28 Do EFRAG TEG members agree with the identified areas for clarification in classification, recognition and measurement of crypto-assets (utility tokens, hybrid tokens)? If so, what are the EFRAG TEG members preliminary views on the principles that should guide the accounting for utility tokens and hybrid tokens? Are there other areas for IFRS clarification that EFRAG TEG members consider to be needed?

29 Do EFRAG TEG members support the amendment of existing applicable IFRS standards to address the issues raised by stakeholders on accounting for crypto-assets under existing IFRS (e.g. as intangibles and prepayment assets)- as highlighted in the DP (paragraphs 3.34 to 3.39) and paragraphs 15 to 19 above?

30 Do EFRAG TEG members agree with the need for clarification of the accounting by depositor clients and those holding assets on behalf of depositor clients based on the description of issues in DP summarised in paragraphs 20 to 22 above?

31 Based on the perceived restrictive definition of cash in the eyes of some stakeholders as described in paragraphs 23 and 24, do EFRAG TEG members agree with the need for an updated definition of cash for crypto-assets?

32 What are the EFRAG TEG members views on the disclosure requirements for holders highlighted in the DP (paragraphs 3.73 and 3.74)? Should the possible update of disclosure requirements for crypto-assets holders be considered within existing IFRS standards?

33 What should be the questions that are posed to constituents related to the accounting for holders of crypto-assets?

Possible areas for IFRS clarification or enhancement in the accounting by issuers of crypto-assets

34 The review of guidance from accounting firm publications and national standard-setters (NSS) across jurisdictions shows that there is less guidance for issuers of crypto-assets (through an Initial Coin Offering 'ICO' or similar process),and issuers guidance was also not part of the IFRS IC agenda decision clarification. Nonetheless, some questioned why the IFRIC IC had not addressed the accounting for issuances and related issues.

35 Due to poor documentation and limited regulatory oversight over the issuance of most crypto-assets other than those that quality as securities, and thus subject to securities regulation, determining the precise nature of the issuers obligations and future commitments (promised future goods or services) is one of the biggest challenges in identifying the accounting implications for issuers of crypto-assets.

36 Key findings from the EFRAG research indicates that issuers can apply one or a combination of different IFRS Standards (IFRS 9, IAS 32 *Financial Instruments: Presentation*, IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) when engaging in an ICO and issuing crypto-assets to subscriber, depending on the type of crypto-assets issued.

(a) Payments tokens - payment tokens generally do not grant clear rights to their holders for future goods or services to be provided by the token issuer. On this basis the issuer would recognise either revenue under IFRS 15 (when the IFRS 15 conditions are met) or income in profit or loss. However, if the consideration received by the issuing entity is intended to develop a payment platform and/or maintain the platform in future periods, the issuer would recognise 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.

(b) Security tokens - the right granted to the holders 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 IFRS 9.

(c) Utility tokens – typically 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 how it will meet the obligation and over which period. The is a question about whether the transactions would fall under IFRS 15 or whether the effective constructive obligation should be accounted for as provision under IAS 37.

37 However, the EFRAG Research has identified several issuer accounting areas that would likely need clarification or enhancement of existing IFRS Standards:

(a) The applicability of IFRS 15 for issuance of utility tokens (for example entitle holders to network goods and services) under circumstances where there may be questions on the enforceability of the arrangements between the issuing entity and the holder. Similarly, clarification of circumstances on the applicability of IAS 37 is needed - when for instance the issuer determines that IFRS 15 is not applicable and it does not have a financial liability under IAS 32 and apply IFRS 9 – there is a question about the type of obligation the issuer has undertaken when it issues a utility token. In some case, the obligation could be considered a constructive obligation in which case IAS 37 might apply.

(b) Another area for clarification is the appropriate IFRS requirements for the issuance of hybrid tokens with multiple features, used for multiple purposes and whose obligations may change over time. Many of the accounting challenges arise from the lack of clarity on the precise nature obligations undertaken by the ICO issuer.

(c) There are a number of issuer related issues identified in NSS guidance - such as the accounting for pre-functional tokens issued in an ICO, airdrops or free tokens, ICO issuance costs, own ICO tokens exchanged for third party services, and own tokens exchange for employee services – that need further examination of accounting implications.

Questions for EFRAG TEG members- accounting for <u>issuers of crypto-assets</u>

38 Do EFRAG TEG members have any questions on the key findings regarding issuer accounting in paragraph 36?

39 Do EFRAG TEG members have any views on where clarification or enhancement of the accounting for crypto-assets is needed other than the areas already identified in paragraph 37?

40 What should be the questions that are posed to constituents related to the accounting for issuers of crypto-assets?

Valuation considerations

41 The existence of mechanisms for price discovery and credible valuation of crypto-assets issuance and acquisition transactions (i.e. active markets and robust valuation approaches) is necessary for their faithful representation within financial statements. During the EFRAG crypto-project outreach, there was an indication of the difficulties that some stakeholders faced in identifying active markets and a noted lack of standardised valuation approaches for ICO issued crypto-assets.

(a) The EFRAG research has established that there is an emergence of valuation methodologies tailored for crypto-assets. The new valuation methodologies are comparable to and have some overlapping attributes with the traditional valuation approaches recognised within accounting literature including IFRS standards (i.e. cost, income and market based approaches) but also have differentiated feature particularly in respect of assessing the intrinsic value of utility tokens, which is typically derived from the issuing network's growth potential.

(b) These emergent valuation methodologies also provide further insight on the nature and sources of economic value of crypto-assets in a manner that is helpful for thinking about the nature of these assets (e.g. their intellectual property and other intangible asset features) and the corresponding appropriate accounting requirements.

(c) There is also indicative guidance from accounting firm publications on the determination of active markets for crypto-assets. One view is that an active market for a crypto-asset exists only when crypto to fiat exchanges published by reliable sources exist. Crypto to crypto exchanges should not be considered when determining if there is an active market.

(d) The importance of identifying active markets is reinforced by a CBV Institute research paper that reviewed the reporting practices of 32 holder entities in a particular jurisdiction (Canada) and found that a majority of the studied companies applied either Level 1 or Level 2 fair values. Similarly, the review of the financial statements of a Switzerland based financial institution (Vontobel) shows that its crypto-assets are only recognised based on Level 1 fair value. However, anecdotal evidence provided by other stakeholders in Europe indicates that Level 3 fair values are quite common.

42 Determining an active market for a crypto-asset asset is area that is likely to need further examination. In practice, there are exchanges that do not offer the possibility for crypto to fiat currency trades at all. In such cases, an entity might exchange a crypto-asset for another crypto-asset (for example for crypto-asset X to Bitcoin) and then exchange Bitcoin into fiat in another exchange that offers Bitcoin to fiat trading. The question is whether or not non-fiat trading exchanges could be considered as an active market as described under IFRS 13 for the purpose of valuing crypto-assets.

43 A second question relates to valuation of a crypto-asset in the absent of an active market. The EFRAG research shows that in some cases, multiple valuation approaches should be used. The method selected would need to consider how a market participant would determine the fair value of the respective crypto-asset. In determining the appropriate valuation technique, IFRS 13 informs that the selected technique should be appropriate in the circumstances, and it should maximise the use of relevant observable inputs and minimise the use of unobservable inputs. For crypto-assets, observable inputs can be obtained from different sources, including broker quotes, website data, and other information. However, given that many markets are still unregulated there is a question about the reliability of the available data. On the other hand, applying a cost approach seems like an unlikely solution given the volatile nature of most crypto-assets and a question around amortisation under a cost measure.

Questions for EFRAG TEG members- valuation considerations

44 Do EFRAG TEG members have any questions on the key findings regarding issuer accounting in paragraph 41?

45 Do EFRAG TEG members have any views on where clarification or enhancement relating to determining an active market under IFRS 13 for crypto-assets?

46 Do EFRAG TEG members have any views on where clarification or enhancement on the valuation of crypto-assets in the absence of an active market?

47 What should be the questions that are posed to constituents related to valuation and measurement of crypto-assets?

Possible approaches to IFRS standard setting

48 The above are an assortment of the issues related to holders and issuers that have been identified by the EFRAG research project team and there is a question of how to proceed with standard setting of which there seem to be the following three plausible options:

(a) Amend applicable IFRS standards (IAS 2, IAS 38, IFRS 9- for holders; and IAS 37, IFRS 9 and IFRS 15- for issuers) and allow the application of IAS 8. This may allow preparers to apply what they consider to be the most relevant measurement basis for crypto-assets but it is also likely to entrench and possibly increase the current diversity in practice.

(b) Develop a unified, standalone crypto-assets standard that addresses the various areas of clarification. This may allow a holistic review, clarification or enhancement of the accounting for crypto-assets but it is likely to be an appropriate approach, only if these assets become mainstream and pervasive. But it is not the purpose nor is it within the capacity of the EFRAG research project team to predict the future outlook for crypto-assets activities.

(c) Develop a standard that addresses any identified gaps in the current generation and next generation of crypto-assets but also addresses the gaps in accounting for analogous transactions (e.g. investments in commodities and emission rights). This approach will likely have the highest marginal benefit and impact for the development of IFRS Standards as it is not limited to a particular type of transactions but it may necessitate lengthy standard setting and fail to provide timely answers to stakeholders that need clarification in several areas as identified above and in the DP.

Question for EFRAG TEG members- approaches to standard setting

49 Which of the following options do EFRAG TEG members consider to be most appropriate approach to standard setting and why?

(a) amend existing applicable IFRS requirements and allow IAS 8 accounting option;

(b) develop a unified IFRS standard that fully addresses the unique economic features, rights and obligations of crypto-assets;

(c) develop an IFRS standard to address gaps in a subset: crypto-assets and analogous transactions?

DP structure and content elements

50 The DP is structured as follows

(a) **Executive summary**– Includes: High level motivation; and key conclusions that will be developed after the TEG input

(b) **Questions for stakeholders**– to be completed after TEG deliberations and input

(c) Chapter 1– **Introduction**– gives an overview of crypto-assets, objectives and scope, methodology and structure of discussion paper

(d) Chapter 2 – *Gives an overview of crypto-asset activities and economic characteristics*

(e) Chapter 3 – **Holders accounting**– *outlines existing guidance and areas for clarification or enhancement for accounting by holders on own behalf and on behalf of others*

(f) Chapter 4 – **Issuers accounting**– *outlines existing guidance and areas for clarification or enhancement for accounting by issuers*

(g) Chapter 5 – **Valuation** – *outlines emergent valuation theories and how to identify active markets*

(h) Chapter 6 – **Implications of potential market developments:** *outlines potential market developments that may contribute to mainstreaming and increased institutional uptake of crypto-assets*

(i) Appendices include:

(i) Appendix 1: Background: Crypto-asset activities; outlines details of ICO and custodial services activities

(ii) Appendix 2: Background: Details and examples of economic characteristics, rights and obligations

(iii) Appendix 3: Regulatory requirements; outlines regulatory requirements across the globe

(iv) Appendix 4: Bibliography; and

(v) Appendix 5: Glossary of terms

Question for EFRAG TEG members- DP structure and content

51 Do EFRAG TEG members agree with and approve the structure and completed sections of the DP?