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Detailed analysis of feedback to the EFRAG DP on Accounting for Crypto-Assets (Liabilities)

Objective

1 In July 2020, EFRAG published its Discussion Paper on Accounting for Crypto-Assets (Liabilities) (DP), which was open for consultation until 31 July 2021.

2 This paper analyses constituents' feedback to the DP obtained through comment letters, survey responses and outreach activities such as webinars, meetings, and stakeholder interviews.

3 The rest of this paper consists of:

(a) Overview of feedback;

(b) Appendix 1 - detailed analysis of feedback to EFRAG's discussion paper; and

(c) Appendix 2 –details of comment letter and survey respondents.

Overview of feedback

Comment letters received

4 **Twelve (12) comment letters were received**. Further information about the comment letter respondents can be found in Appendix 2. The detailed comment letter feedback to the DP questions is summarised in Appendix 1 showing the level of support for different positions and with the contextualising comments indicating the type of respondent.

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

Responses to the survey

6 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.

7 **Twenty-nine (29) survey responses were received**. Further information about the survey respondents can be found in Appendix 2. The survey responses to each question are analysed in Appendix 1 showing the level of support for different positions and with the contextualising comments indicating the type of respondent.

Feedback from outreach activities

8 The following outreach activities were conducted after the issuance of the DP until the end of the consultation period in July 2021:

(a) EFRAG Secretariat conducted nine interviews with different stakeholders (a financial institution risk manager with a previous crypto exchange background, two accountancy firm representatives, a management consultant, a law professor, a digital financial services firm preparer/digital self-regulatory association representative, a national standard setter, a monetary authority, and a crypto-data aggregator);

(b) Insights by external speakers reflected during a three-series podcast on holders' accounting, issuers' accounting, and valuation, which was produced by EFRAG Secretariat and two external speakers, was issued in Q2 of 2021;

(c) Presentations of the DP's highlights were done during ten stakeholder meetings and workshops as outlined in the table below: In this paper, the following terms are used to describe the extent of responses.

Term	Extent of response
Most	80% - 100%
Many	50% - 80%
Majority	>50%
Some	25% - 50%
A few	more than one to 25% of respondents

Appendix 1 - Detailed analysis of feedback received

Index

Crypto-assets (liabilities) market outlook

Current or potential use cases of crypto-assets (liabilities)

Comment letter analysis on current or potential use cases of crypto-assets (liabilities)

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

For what purposes are crypto-assets usually held or issued by your company or institutional clients?

9 Respondents provided the following type of use for crypto-assets (liabilities) in practice:

(a) Unit of account;

(b) To store value. Investment asset – 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;

(c) Underlying asset for derivative instruments – financial instruments such as ETFs or futures contracts, as well as swaps;

(d) 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);

(e) To raise funding;

(f) Acceptance of digital assets as collateral in financing arrangements;

(g) Market risk mitigation for trading purposes, predominantly utilising stablecoins;

(h) As a means of exchange. Method of payment for goods, services, investments, real property, both digital assets and stablecoins;

(i) Tokenisation of physical commodities and real property, examples include physical gold, other precious metals, oil, art, real estate, etc.;

(j) Issuance of ownership rights in an enterprise (Initial coins offerings (ICOs)) or specific content (Non-fungible tokens (NFTs));

(k) To provide access to blockchain-based goods or services. Holding contractual rights to receive digital assets/coins prior to network launch;

(l) Equity transactions made in digital assets, comprehensive income;

(m) Payment of dividends in digital assets;

(n) Digital assets used as rewards/points/miles in retail transactions;

(o) Smart contracts that are used to create an automated/permission-less financial contract between two parties with rights and obligations under certain conditions.

10 Two of the 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 of 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.

11 An accountancy firm observed that the number of transactions involving the use of crypto-assets has increased. As an example, the auditor had to consider accounting treatments for platforms providing services relating to crypto-assets, entities seeking funding and launching an ICO or entities starting a "mining" activity.

12 One preparer highlighted that despite the currently limited exposure to crypto-assets of IFRS entities, the trend towards crypto-asset markets becoming mainstream is rather obvious.

13 One national standard-setter (NSS) indicated that limited information is available regarding the usage of crypto-assets in their jurisdiction besides the fact that the share of internet users holding any kind of crypto-assets is two to nine per cent.

14 Another NSS stated that companies in their jurisdiction do not widely use crypto-assets (liabilities).

Survey responses analysis on current or potential use cases of crypto-assets (liabilities)

Survey question: 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?

Table 1: Summary of survey responses

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**

15 Three respondents expecting a significant development provided the following additional comments:

(a) An accounting adviser stated that the number of companies accepting and using crypto-assets to settle payments for goods and services is increasing.

(b) A management consultant observed that given the current level of low/negative interest rates, crypto-assets will be considered an alternative investment opportunity.

(c) An academic researcher noted that for SMEs the usage will probably be for payment and utility purposes and large entities will hold crypto-assets for investment purposes.

16 Two respondents that expected a moderate development provided the following additional comments:

(a) A securities regulator expected an increase globally, especially in developed countries.

(b) An NSS respondent noted that according to Gartner's global survey results (from 77 financial executives), 5% of those surveyed said that they have a plan to hold BTC(Bitcoin) in 2021, however, the majority (84%) answered that they have no plan to hold BTC due to volatility. Most financial executives seeking financial stability are concerned about high volatility and regulatory uncertainty related to crypto-assets. Also, based on the stance of the National Authorities in the jurisdiction, there seem to be significant obstacles for domestic institutions to possess crypto-assets. However, they are likely to respond quickly to international trends. On the other hand, if 5% of the institutions get to hold BTC by 2021, there is a possibility that the holding of BTC will reach a moderate level within the next 3-5 years. In particular, Tesla's high level of crypto-asset holdings is likely to have a significant impact on the capital market.

17 A custodial services firm/broker-dealer who expected an insignificant development explained that crypto-assets will remain an asset mostly held by specialised funds instead of becoming mainstream.

18 Another respondent noted that formulating an expectation is difficult at this stage as most of the accounting networks are reluctant, if not resistant, to accept clients engaged in crypto-related activities. A financial institution respondent commented that the development of the crypto-market will depend on the development of the legal and regulatory framework in the different countries.

Main factors influencing the usage of *crypto-assets (liabilities)*

Comment letter analysis on main factors influencing the usage of crypto-assets (liabilities)

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

19 Overall respondents 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.

20 Respondents presented the following factors that contribute to institutionalisation and mass adoption/use of crypto-assets (liabilities):

(a) Growth of e-commerce combined with global digitisation;

(b) Crypto-assets provide significantly lower transaction costs when transferring funds as opposed to traditional money transfer services.

(c) Crypto-assets offer faster processing (based on proof-of-stake) and are available 24/7.

(d) Transparency of costs and charges.

(e) The Distributed Ledger Technology (DLT) has the potential to reshape real-time payment systems globally.

(f) Crypto-assets offer opportunities for financial inclusion and access to finance for traditionally unbanked/underbanked populations.

(g) Decentralised approach, where crypto-assets offer a high level of ownership and control over funds to users.

(h) Current economic environment with extensive quantitative easing by central banks attracts alternative investments.

(i) The introduction of CDBCs will further encourage the use of crypto-assets (liabilities).

21 An NSS respondent provided the following overview of the crypto-asset landscape in their jurisdiction noting that several publicly traded entities have signalled an intent to become involved in crypto-asset activities:

Table 2: Overview of crypto-asset landscape

	Number of entities		
	May 2021	July 2019	July 2018
Entities other than funds	38	42	18
Publicly traded funds	16	0	0
Total	54	42	18
Of which: engaged in mining activities	15	24	4

22 This NSS respondent noted that involved entities in their jurisdiction are mostly directly engaged in blockchain and crypto-assets activities as their primary line of business. 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. As most of the investments in crypto-assets seem to be for longer-term holding, some of the entities have also done so for short-term speculative purposes. The respondent explained that 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. Technological developments could further improve the blockchain infrastructure and decentralised finance opportunities

23 The NSS respondent listed the following regulatory developments in their jurisdiction:

(a) A notice was released indicating that custodial platforms that offer services to users in their jurisdiction, which do not immediately transfer ownership, possession and control of all crypto-assets purchased by customers, are likely dealing in derivatives or securities and may be subject to regulation as dealers or marketplaces under the applicable securities laws.

(b) The first publicly traded bitcoin ETF (Exchange-traded funds) in North America was approved, and subsequently, other Bitcoin and Ethereum ETFs were approved in the country.

(c) Several industry veterans and U.S. congress representatives have publicly emphasised the importance of accounting standards for crypto-assets (liabilities).

24 One 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.

Outreach feedback analysis on use cases of crypto-assets (liabilities) and main influencing factors

25 During the EAA-workshop on 23 April 2021, in response to a polling question, a majority of the audience participants expected a moderate growth of the crypto-market.

26 During the webinar on 6 July 2021, a presenter noted that the crypto-market experienced significant growth during 2020 pointing out to increasing trends such as stablecoins, Central Bank Digital Currencies (CBDCs), Decentralised Finance (DeFi) and NFTs. The presenter also mentioned several challenges such as

technological development around the processing speed, volatility, sustainability, increased assurance needs due to decentralised character and the need for regulation.

27 The financial institutions' preparer panellist at the July webinar stated that the relatively low levels of crypto-assets (liabilities) at financial institutions is due to the lack of regulation. Finally, the polling question result during the webinar showed that the majority (51%) of the participants expect that the level of exposure to crypto-assets (liabilities) by large institutions will be moderate, followed by significant (31%) and insignificant (13%).

28 An NSS respondent referred to a publication by PwC *3rd Annual Global Crypto Hedge Fund Report 2021* which presents the developments in the crypto hedge fund markets, with the following highlights:

(a) In 2020 the size, performance and fees in the market increased significantly.

(b) The vast majority of investors in crypto hedge funds are either high-net-worth investors or family offices.

(c) The most common crypto hedge fund strategy is quantitative, followed by discretionary long/short.

(d) The percentage of crypto hedge funds using an independent custodian decreased from 81% to 76%.

(e) Funds tend to be domiciled in the same jurisdictions as traditional hedge funds, with the top three being the Cayman Islands, the United States and Gibraltar.

(f) 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%. More than 85% of those hedge funds intend to deploy more capital into the asset class by the end of 2021.

29 The same respondent also referred to an ING publication (*Lessons from Decentralised Finance*) relating to the developments around Decentralised Finance, which concludes that the most benefit will be created when centralised and decentralised finance work closely together.

30 A law professor shared an academic publication on *Smart Contracts and the Limits of Computerized Commerce*, which notes the possibilities and limitations of the smart contracts that underpin decentralised finance applications. The publication asserts that smart contracts could replace traditional contracts for a wide range of topics, and tokens could similarly replace many elements of property law. For this revolution to occur, however, cryptocurrency platforms need to interact with rights and obligations that originate outside the remote computer (or outside the blockchain) and judges, regulators, and legislators will continue to have an important role to play in recognising this interaction.

Way forward for IFRS requirements

Scope of needed changes in IFRS requirements

Comment letter analysis on the scope of needed changes in IFRS requirements

As detailed in Chapters 3 and 4 of the DP, the DP proposes that there is need to address accounting topics, not in scope of the IFRS IC agenda decision on cryptocurrencies and to include unaddressed holders' and issuers' accounting topics.

DP 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.

Table 3: Summary of comment letter responses

Need to address accounting topics beyond 2019 IFRS IC agenda decision	Percent	Number of responses
Yes	67%	8
No	0%	0
No response	33%	4
Total	**100%**	**12**

31 Many respondents (eight out of twelve- 67%) 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:

(a) As the classification of the 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 of the Council on Markets in Crypto-Assets (MiCA)* and/or criteria proposed by the Bank for International Settlements (BIS).

(b) 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).

Possible options for the development of IFRS requirements

Comment letter feedback on possible options for the development of IFRS requirements

Chapter 6 and Paragraphs ES35 to ES46 of the executive summary section of the DP analyses three possible approaches on the way forward for addressing IFRS requirements. Chapter 6: Paragraph 6.26, Table 6.1 of the DP outlines the pros and cons of each option. The three options are as follows:

- *Option 1: No amendment to existing IFRS requirements;*
- *Option 2: Amend and/or clarify existing IFRS requirements; and*
- *Option 3: A new Standard on crypto-assets (liabilities) or digital assets (liabilities).*

DP Question 2.2 – Which of the three options do you consider to be the most appropriate solution to address IFRS requirements? Alternatively, please elaborate if you consider *there to be other possible approaches towards clarifying and developing IFRS requirements for crypto-assets.*

If a new standard is to be developed, what should be in its scope?

Table 4: Summary of comment letter responses

Options on the way forward for IFRS requirements	Percent **in favour**	Number of responses in favour
Option 1: No amendment to existing IFRS requirements	0%	0
Option 2: Only amend and/or clarify existing IFRS requirements and this included developing clarifying application guidance	25%	3
Option 2 and new Standard for a subset of crypto-transactions	25%	3
Option 2 and a new Standard for investments in non-financial assets	8.3%	1
Option 3: A new Standard on crypto-assets (liabilities) or digital assets (liabilities)	16.7%	2
Option 3 in long term and a new Standard for investments in non-financial assets	8.3%	1
A phased approach (interim in short term and Option 3 in long term)	8.3%	1
A phased approach (interim in short term and further research before determining long term)	8.3%	1
Total	**100%**	**12**
Aggregate support for Option 2 exclusively or in combination with other options	*58.3%*	*7*
Aggregate support for Option 3 exclusively or in combination with other options	*33.3%*	*4*
Aggregate support for Standard for investment in non-financial assets in combination with other standard-setting options[1]	*16.7%*	*2*
Aggregate support for interim Standard as part of a phased approach	*16.7%*	*2*

The percentages of aggregate support are greater than 100% reflecting that respondents favoured combinations of different options.

Option 2- only amend or clarify existing IFRS

[1] When considering the responses made to other questions- there were three respondents (25%) that supported a Standard for investment in non-financial assets in combination with other standard-setting options.

32 Some respondents (three out of twelve-25%) explicitly or implicitly supported Option 2. An investment firm respondent favoured only amending and/or clarifying existing guidance.

33 An accountancy firm did not explicitly state which of the three DP options they favoured but proposed the development of application guidance based on the most common situations met by preparers that refers to each relevant existing IFRS Standard for each situation. Such an approach would provide useful guidance, especially in the absence of further standard-setting. It would also help to identify the areas that need the most attention and determine the best response for future standard-setting. On the holder's question, this respondent also supported that crypto-assets be scoped into IFRS 9.

34 A data-aggregator respondent did not explicitly respond to Question 2.2 but implicitly favoured Option 2 as they indicated the need for the cash and cash equivalent classification for some stablecoins and suggested that the principal market definition for crypto-assets should be amended or clarified.

Option 2 and new Standard for a subset of crypto-transactions

35 Some respondents (three out of twelve-25%) proposed a combination of Option 2 and a new Standard for a subset of crypto-transactions.

36 A financial institution respondent noted that the accounting treatment should be aligned with the prudential regulations resulting in different approaches to different classes of crypto-assets. The respondent supporting the alignment with prudential regulation clarified the following classification by the Basel Committee's recent consultation paper on *Prudential Treatment of Crypto-Asset Exposures* and the relating way forward:

(a) Group 1a Crypto-assets (tokenised traditional assets) and Group 1b crypto-assets (stablecoins) will be subject to the requirements that are at least equivalent to those already set out in the existing prudential framework. Consequently, for Group 1a existing IFRS can be applied as these have the same characteristics as existing assets, therefore choosing Option 1 of the DP. For group 1b, where differences exist in the level of legal rights (e.g., rights to cash flows, claims in solvency, etc.) or in the likelihood of paying the owner amounts due on time, clarification or amendment to existing IFRS may be needed to allow capturing the value creation, meaning Option 2 of the DP is the most appropriate.

(b) Group 2 crypto-assets such as bitcoin will be subject to a "newly prescribed conservative prudential treatment". Accordingly, a new IFRS needs to be developed, since these are a unique class of crypto-assets that have no physical asset representation in the real world and therefore might not fall into the scope of existing and/or amended IFRS Standards.

37 An NSS respondent noted that depending on the substance of the transaction, which may change, the applicable accounting standard may change. Therefore, the applicable accounting standards dealing with these transactions should be amended to reflect their substance. For example, holdings of crypto-assets without a claim on the issuer is widely considered as trading/investing in an active market. Consequently, requiring IAS 38 to allow FVPL for intangible assets held for trading. Another example is Security Token Offerings (STOs), which have the same characteristics as securities and CBDCs which have the same characteristics as cash.

38 Amend existing Standards to allow for better guidance on the scope for accounting considerations that should be evaluated for the application toward digital assets as a separate asset class. However, the development of a new standard or an IFRS

Interpretation for mining activities is supported since there is no comparable standard for this activity.

Option 3- only develop unique crypto-assets (liabilities) Standard

39 A few respondents (two out of twelve-16.7%) considered only Option 3 as the most appropriate option.

40 The following comments in support of Option 3 were provided by those who supported this Option exclusively or in combination with other approaches:

(a) The accounting for crypto-assets (liabilities) will be even more relevant and questions will increase due to increased use and application of these assets and liabilities together with possible increased regulation. However, there is no urgency to develop this new standard.

(b) Although Option 3 may be slower to implement, it will enable the standard-setting process to consider all changes and developments in the ecosystem. Furthermore, Option 2 would result in a large number of amendments in several standards and detailed definitions of scope in the standards. Such modification could result in unintended consequences.

(c) Due to the wide variety of crypto instruments, requiring the amendment of many standards (Option 2) can lead to more complexity and less robust standards. This approach is also not future proof due to the rapid development of new crypto instruments.

(d) If some aspects of the crypto-assets (liabilities) merit a similar treatment to existing IFRS Standards, then the new standard should refer to those specific requirements in the other IFRS Standards.

(e) Developing the new standard is currently not justified based on the low number of IFRS entities involved in a low volume of crypto-assets (liabilities) transactions, but the standard-setting process should start so that the new standard is ready when implementation is needed.

Option 2 and new Standard for investments in non-financial assets

41 One NSS respondent (8.3%) stated that there should be a differentiation between (i) financial instruments based on DLT (i.e., tokenised assets), (ii) CBDCs and (iii) intangible DLT-based crypto-assets. The respondent considered Option 1 appropriate for the first two categories since contractual basis and legal tender is clearly identifiable. However, for the third category, the respondents opted for a new principle-based standard for investments in non-financial assets – insofar as these are not covered in another standard such as IAS 40.

42 The respondent suggested the need to amend and clarify IAS 32 (update definition to include non-contractual arrangements and clarify contractual and cash) and clarify IFRS 9 hedge accounting as elaborated in the analysis of responses for holders (DP Question 3.2).

43 A digital asset self-regulatory association respondent that supported Option 2 and a new standard for a subset of crypto-transactions, also noted that a distinct standard for intangible assets held for investment purposes would be appropriate for digital assets.

Option 3 and new Standard for investments in non-financial assets

44 One NSS respondent (8.3%) was in favour of Option 3. However, they noted there was no urgency to develop a new Standard but there could be a need in the longer term, for instance, when cryptocurrencies will be (more) regulated. The respondent also suggested that other alternative investments such as gold, fine arts (e.g., paintings) and other collections (e.g., classic cars) should be considered in a

potential new standard. The respondent referred to the former IAS 25 *Accounting for Investments* which could be feasible for a potential revival.

45 Another NSS respondent selected Option 3 but in response to the holders' accounting questions, also noted that differentiating intangibles held for investment similar to the IAS 40 treatment of investment property would enhance the reported information.

A phased approach (interim Standard in short term and Option 3 in the long term)

46 A few respondents (two out of twelve- 17%) proposed a phased approach with an interim solution for the short term and a new standard in the long term.

47 An NSS respondent proposed the following phased approach:

(a) First phase – Develop an interim standard that addresses the most critical areas that need clarification such as the accounting for pre-functional tokens, crypto-asset mining activities, barter transactions and clarifying the eligibility to apply IFRS 9. For example, there is a lack of clarity whether the newly mined crypto-assets and the transaction fees earned may be recognised as revenue under IFRS 15 *Revenue from Contracts with Customers* if no contract with a third party exists. Consequently, the IFRIC agenda decision could be reconsidered as part of this first phase.

(b) Second phase – Address disclosure shortcomings, which can run simultaneously with the first phase depending on the available capacity. Suggestions for additional disclosures are available in the following publications: *An Introduction to Accounting for Cryptocurrencies* publication and the CSA *Staff Notice 51-363*. Some of these disclosures were mentioned in the EFRAG DP.

(c) Third phase – Develop a comprehensive new standard that addresses all crypto-asset activities.

A phased approach (interim Standard in short term and further research before determining the long term approach)

48 An accountancy professional organisation respondent supported an interim Standard in the short term similar to the approach applied by the IASB in 2012 to rate-regulated activities. The respondent supported further research before determining the long-term standard-setting approach because the crypto-ecosystem is still under development.

Survey responses on possible options for the development of IFRS requirements

Survey question: Which of the three proposed options do you consider to be the most appropriate approach to developing IFRS requirements?

49 The table below highlights survey respondents' preference on the possible options towards the development of IFRS requirements:

Table 5: Summary of survey responses

Options on the way forward for IFRS requirements	Percent **in favour**	Number of responses
Option 1: No amendment to existing IFRS requirements	0%	0
Option 2: Amend and/or clarify existing IFRS requirements	51.7%	15

Option 3: A new Standard on crypto-assets (liabilities) or digital assets (liabilities)	34.4%	10
A phased approach (Option 2- scope out of IAS 38, allow IAS 8 in short term, Option 3 in the long term)[2]	3.5%	1
Other[3]**- Option 2- and new Standard on a subset of crypto-transactions**	3.5%	1
Other- Option 2 IFRIC interpretation of IFRS 9 or new Standard based on IAS 25 (phased approach)	3.5%	1
Other- new Standard on investment in non-financial assets	3.5%	1
Total	**100%**	**29**
Aggregate support for Option 2 exclusively or in combination with other options	*62.1%*	*18*
Aggregate support for Option 3 exclusively or in combination with other options	*41.7%*	*11*
Aggregate support for investment in non-financial assets Standard in combination with other options	*6.9%*	*2*
Aggregate support for a phased approach	*6.9%*	*2*

The percentages of aggregate support are greater than 100% reflecting that respondents favoured combinations of different options.

50 The survey respondents preferring Option 2 had the following comments:

(a) The application of IFRS 9 needs to be allowed to reflect the substance of these assets.

(b) Amending existing IFRS Standards is more efficient and less complex compared to developing a new standard especially since it will be a large project and the IASB has limited resources.

(c) Option 3 is not suitable at this moment due to the rapid evolution and innovation of these assets.

51 The survey respondents preferring Option 3 had the following comments:

(a) Crypto-assets are a unique class of assets that need specific guidance.

(b) Option 3 would be appropriate under a phased approach where phase 1 involves providing clarity that crypto-assets are not in the scope of IAS 38 and enabling the development of own accounting policies by reporting entities, and phase 2 would entail the development of a new standard.

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[2] NSS respondent selected Option 3 but clarifying comments were a phased approach with Option 2 in the short term and Option 3 in the long term

[3] An academic respondent selected option 2 but the clarifying comment showed that the preference was for Option 2 and a new Standard for hybrid tokens

52 The survey respondents preferring option 'Other' had the following comments:

(a) A new and broad standard should be developed for non-financial investments.

(b) A new and specific standard might only be appropriate for different subsets in this case hybrid tokens.

(c) One of the respondents explained that this could be in the form of an IFRIC Interpretation related to IFRS 9.

Outreach feedback on possible options for the development of IFRS requirements

53 During the outreach, the interviewed respondents were in favour of standard-setting activity on accounting for crypto-assets (liabilities) but they had a diversity of views on the way forward. A few respondents (two out of the nine-22.2%) favoured a unique crypto-assets (liabilities) Standard, many (five out of nine- 55.6%) favoured amending or clarifying existing IFRS, and one respondent expressed no view. One of the interviewed respondents supported either a new broader asset Standard or amendments or clarifying existing IFRS Standards such as IAS 38. The respondent noted several challenges in accounting for mining activities, addressing non-financial obligations, and impairment.

54 An interviewed monetary authority respondent noted that an appropriate taxonomy for crypto-assets, such as the one applied[4] in the BIS consultation document, ought to be applied for accounting purposes. The monetary authority respondent was not in favour of a new Standard due to the fast-moving developments related to crypto-assets (liabilities) transactions and there is a need for the maturation of the crypto-market before developing a unique Standard. The authority favoured a limited amendment of IAS 38 and IAS 2 and was against cash or cash equivalent classification for stablecoins due to the limited transparency around their related underlying risk.

55 At the presentation to the EFRAG IAWG in November 2020, a member noted it was useful to start the research at an early stage and not wait for the problem to happen. Reference was made to Interbank offered rates (IBOR), where accounting issues started to surface earlier on, but action was taken quite late. It will take a while to develop something and cannot start only when the problem arises. Also need to understand investor needs and what they consider the accounting should be. If investors consider crypto-assets to be a new form of a currency or a new currency, one would need to consider the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Another member supported Option 2 of the DP rather than have a new standard, due to uncertainty on how long the crypto space will last.

56 During the IFASS-meeting on 30 September 2020, respondents did not express a strong view on exclusively focusing on either Option 2 or Option 3. As an alternative to considering the DP's proposed options as mutually exclusive, one participant expressed a preference for a phased approach. The first phase would remove cryptocurrencies from the scope of IAS 38 Intangible Assets and allow entities to apply IAS 8 and develop their own accounting policies. The second phase would develop a new standard solely dedicated to crypto-assets (liabilities).

57 During the ASAF meeting held on 10 December 2020 mixed views on the way forward were expressed. Some members noted the market for crypto- assets (liabilities) is still developing but not as rapidly as had been anticipated.

[4] Such a taxonomy could distinguish a) tokenised version of traditional assets; b) stablecoins; c) CBDCs; and d) other crypto-assets, which should be considered as intangible assets.

58 Some ASAF members did not have a strong view on the need for immediate standard-setting but rather preferred to continue applying the existing applicable IFRS Standards. Two ASAF members noted that laws and regulations on the use of crypto-assets (liabilities) are still under development and there is no immediate need to undertake standard-setting. Any action the IASB might take in the near term could be perceived as legitimising the use of crypto-assets (liabilities). One ASAF member added that US GAAP includes requirements that apply to crypto-assets (liabilities) based on the nature of the rights and obligations arising for an entity and in their view, there is no need to undertake standard-setting activity for US GAAP.

59 However, some other ASAF members supported either the amendment of existing IFRS requirements or the development of a unique new crypto-assets (liabilities) Standard. An ASAF member argued that standard-setting would help to ensure transparency about the types of crypto-assets (liabilities).

60 During the IMA workshop on 13 April 2021, one of the presenters noted the need for a technology-neutral approach towards the development of regulatory requirements and he also supported the need for regulatory clarity.

61 During the EAA-workshop on 23 April 2021 participants agreed that there is a lack of adequate accounting guidance to ensure consistent information being reported in the financial statements, supporting further standard-setting activity. An audience polling questions showed their preference for a new Standard (60% of the participants) over an amendment or clarification to existing Standards (40% of the participants).

62 During the 6 July 2021 webinar, the three panellists (two preparers and a user) agreed that Option 2 is the most suitable option, by allowing the fair value through profit or loss measurement for crypto-assets (liabilities). One of the preparers added that a separate standard is preferred for mining activities. Another preparer preferred Option 2, as Option 3 might not be suitable due to the premature state of the crypto-market. The user opined that the fair value measurement for crypto-assets (liabilities) should be allowed. The polling question result of the same webinar showed that 49% of the participants preferred Option 2 and 49% preferred Option 3. Only 3% chose Option 1.

63 An NSS respondent expressed that for situations where there is no consensus on the substance of the crypto-assets (liabilities) transactions (e.g., ICOs, utility tokens), monitoring activities and conducting a research project would be appropriate. If transactions merely represent a digitalisation of traditional transactions rather than a change in their substance (e.g., STOs, CBDCs), then no amendment or clarification of IFRS requirements is needed. In contrast, if transactions represent a change in substance (e.g., crypto-assets held for trading or intangibles held for trading), then the amendment of existing Standards or a new IFRS Standard is needed.

Accounting for holders

64 The analysis of accounting by holders is done in the following sections:

(a) Standard setting related to IAS 2 and IAS 38

(b) Financial instrument and financial asset classification

(c) Possible update to cash and cash equivalent definitions

(d) Areas for clarification in accounting by holders

Holders' Accounting- Standard setting related to IAS 2 and IAS 38

Comment letter feedback on the application of IAS 2 and IAS 38

The DP (Chapter 3: Paragraphs 3.37 to 3.41) has identified that the applicable IFRS Standards for crypto-assets holders (IAS 2 and IAS 38) do not explicitly address situations where crypto-assets are considered to be held as nonfinancial asset investments. Furthermore, as outlined in Chapter 3: Paragraphs 3.42 to 3.48 of the DP, there are situations where the measurement requirements under IAS 2 or IAS 38 may not allow FVPL or FVOCI to reflect the economic characteristics of crypto-assets with trading or investment asset attributes. For example, under IAS 38, FVOCI is only allowed if there is an active market.

DP Question 3.1: 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.

Table 6: Summary of comment letter responses

Need to address IAS 2 and IAS 38 limitations	Percent	Number of responses
Yes	75%	9
No	0%	0
Mixed views on the need for standard setting in response to IAS 2 and IAS 38 limitations	8%	1
No response	17%	2
Total	**100%**	**12**

65 Many respondents (nine out of twelve - 75%) considered that further standard-setting is needed due to the inadequacies of both IAS 2 and IAS 38 and provided the following supporting arguments:

(a) An accountancy firm respondent and an NSS respondent opined that neither the cost model nor revaluation model under IAS 38 can properly address some business models that by nature are closer to trading activities (and these include medium to long term speculative positions) and would therefore deserve FVPL measurement approach. The NSS respondent noted that the unique risk profile, price volatility and opaque characteristics of several cryptocurrencies may not be captured in the accounting requirements in IAS 38.

(b) The accountancy firm respondent noted that the IAS 2 broker-dealer condition for FVPL measurement may not fit with some cryptocurrencies business models (e.g., for holdings due to mining activities, where FVPL measurement would be appropriate). The respondent suggested that IASB guidance on how to account for the full range of crypto-assets business models could extend the possibility for applying FVPL to crypto-assets (liabilities) within IAS 2 and IAS 38, Alternatively, FVPL measurement could be attained by modifying the scope of IFRS 9.

(c) An NSS respondent noted that IAS 38 did not contemplate the existence of intangibles held for trading and therefore does not permit FVPL measurement. The respondent recommended that IAS 38 should prescribe FVPL for all intangibles held for trading (e.g., crypto-assets, emission rights). The respondent considered “held for trading” refers to assets held for capital appreciation without any business constraints on trading. The respondent also considered the tangible versus intangible distinction to be problematic as transactions of similar economic substance can have different outcomes depending on whether the transactions give rise to a tangible item or an intangible item. The EFRAG Secretariat notes that this view of the distinction between tangible and intangible assets being meaningless aligns with the suggestion for a general asset Standard shared during the outreach (see paragraph 73 below).

(d) Another NSS respondent also noted that IAS 2 and IAS 38 were not written with the holding of inventories and intangibles as investments in mind. Furthermore, IAS 38 assumes that the purpose for which an entity holds intangible assets is irrelevant for inclusion in its scope. The respondent suggested that, as was done for IAS 40, considering the business purpose and separately accounting for intangibles held as investments would enhance the reported information.

(e) Similarly, a digital asset self-regulatory association respondent noted that digital assets should be a distinct class of assets under IAS 38 and considered separately for presentation and disclosure. Alternatively, one could argue that a distinct standard specific to intangible non-financial assets held for investment purposes would be most appropriate for digital assets. The respondent recommended fair value measurement for digital assets and the application of cost less impairment as a fallback method when fair value measurement is not possible. The respondent noted the shortfalls of a cost less impairment measurement approach including the failure to reflect price appreciation of digital assets that are held for capital gains.

(f) An NSS respondent that was in favour of a new Standard for investments in non-financial assets noted that such a Standard would pre-empt the need for adjustments to IAS 2 and IAS 38 (except for a scope exception). The new Standard could, in a manner similar to IFRS 9, apply the business model criterion to determine the appropriate recognition and measurement for crypto-assets. Those held for trading purposes and to collect contractual cash flows could be measured at FVOCI, those held for only trading purposes could be measured at FVPL, and amortised cost would not be appropriate due to the high volatility of crypto-assets.

(g) A financial institution representative body acknowledged the lack of explicit IFRS guidance when non-financial assets are held as investments and that IAS 2 and IAS 38 needed to be updated to better outline the relevant measurement of intangibles, crypto-assets and commodities held as investments.

(h) An investment firm respondent was concerned that applying IAS 2- broker-trader exemption would not provide a full picture of the hedging strategies applied in market making for crypto-assets (liabilities) (only showing long position cryptocurrencies).

(i) An independent investor argued against forcing crypto-assets transactions to existing standards and proposed that holders of crypto-assets should either have an accounting policy choice to measure these at FVPL or treat them as cash and cash equivalents.

66 One respondent, an accountancy professional organisation noted its stakeholders had mixed views on the need for standard-setting activity in response to the limitations of IAS 2 and IAS 38. Some of its stakeholders agreed that the IFRS IC agenda decision covered only a subset of crypto-assets (liabilities), and IAS 2 and IAS 38 did not contemplate the unique features of crypto-assets transactions (e.g., use of a public digital platform, production through mining activities and limited supply), and these two Standards fail to capture the economic characteristics of crypto-assets, and FVPL measurement is needed to reflect the economic substance of these transactions. However, due to the rapid pace of evolution of the crypto-ecosystem, other of its stakeholders advocated for further research before any standard-setting activity is undertaken. These mixed views informed the respondent's support for an interim Standard in the short-term and further research before determining the long-term solution.

Survey response feedback on the application of IAS 2 and IAS 38

Survey question: From your perspective, is further standard-setting needed to address the limitations of IAS 2 and IAS 38 requirements to address crypto-assets that fall within the scope of these Standards?

Table 7: Summary of survey responses

Need to address IAS 2 and IAS 38 limitations	Percent	Number of responses
Yes	69%	20
No[5]	17%	5
No opinion	14%	4
Total	**100%**	**29**

67 The respondents agreeing with further standard-setting to address the limitations of IAS 2 and IAS 38 provided the following comments:

(a) Fair value measurement for crypto-assets is appropriate due to:

(i) Their price volatility.

(ii) The substance of these assets are financial instruments, and they are used as such. For example, they are considered non-convertible currency.

(iii) They are held for trading even in case of inactive markets.

[5] Two of the five respondents that responded no- effectively agreed with the need to address IAS and IAS 38 limitations as they pointed to the need to scope crypto-assets out of IAS 2 and IAS 38. Their no response was a no to the amending the requirements of IAS 2 and IAS 38.

(b) An NSS respondent noted that crypto-assets accounting classification needs to be based on their functional roles (i.e., whether used for operations, finance (such as lending) and investment).

(c) An academic respondent suggested the following classification: inventory (when the crypto asset is the object of the business); intangible asset (as long as it is not considered legal tender, for payment tokens); and investment (IAS 32) for hybrid and security tokens.

(d) An investment management respondent noted that IAS 38 is the least appropriate IFRS Standard for crypto-assets and IAS 2 might only be relevant for holders due to mining activities.

68 A banking financial institution respondent noted that FVPL measurement needs to be accompanied by sufficient disclosure explaining the nature of the assets, the business model for the investment, details about the valuation technique and the volatility of the assets.

69 Two respondents disagreed with standard-setting related to IAS 2 and IAS 38 except for scoping crypto-assets out of these Standards and either allowing the application of IFRS 9 or developing a new standard for digital assets.

Outreach feedback analysis on the application of IAS 2 and IAS 38

70 At the presentation to the EFRAG IAWG in November 2020, in respect of the IFRS IC agenda decision, an EFRAG IAWG member noted that classifying crypto-assets as intangible assets would be tricky because insurers tend to value intangible assets at nil. The member considered that accounting for crypto-assets as intangible assets or as inventory under IAS 2 was perhaps too narrow. The member would not rule out the need for other accounting considerations beyond the IFRS IC agenda decision as contracts can take more forms. One way forward could be to monitor the disclosures that preparers include in the financial statements and conduct a global survey to collect this information.

71 Several interviewed respondents added that measuring crypto-assets at fair value through profit or loss is the most appropriate accounting method as it captures the economic reality. IAS 38 does not allow for FVPL measurement, while the fair value option under IAS 2 needs to be "stretched" to include any financial instruments-related-specific adjustments (e.g., prudent valuation adjustment, etc).

72 Another respondent emphasised that there is no single accounting treatment applicable to all crypto-assets but instead should be based on the specific characteristics of the instrument. Payment tokens (cryptocurrencies with no claim on the issuer) for example could be suitable for IAS 38 or IAS 2 accounting. However, a distinction should be made between high versus lower quality payment tokens. The higher quality payment tokens (top 20 based on liquidity in the market) should be eligible for FVPL treatment with accompanying Level 1, 2 and 3 disclosures and the lower quality payment tokens (shitcoins) could be in the scope of IAS 38 or IAS 2. The respondent noted that market leaders have started to publish high-quality cryptos based on security features, technological protocols, and the volatility of tokens. Other crypto-assets like stablecoins, security tokens are considered financial assets and should be valued at fair value through profit or loss.

73 One of the interviewed respondents supported either a new broader asset Standard or amendments or clarifying existing IFRS Standards such as IAS 38. The respondent noted several challenges in accounting for mining activities, addressing non-financial obligations, and impairment. The respondent proposed the adoption of recognition and measurement principles that do not distinguish tangible and intangible assets as discussed in a working paper (*Accounting for Intangible Assets: Suggested Solutions*). Such an approach would encompass crypto-assets and other

assets (carbon offsets, commodities) and consider the useful life of the asset, economic characteristics and business model whilst determining the appropriate accounting approach.

74 The audience polling question during the EAA-workshop on 23 April 2021 showed that participants expected further standard-setting in relation to the accounting for crypto-assets (liabilities) and didn't find IAS 2 and IAS 38 adequate.

75 During the webinar on 6 July 2021, the user panellist outlined user considerations whilst assessing the enterprise value of entities and stated a preference for fair value measurement of crypto-assets (liabilities).

Holders-Appropriateness of Financial Assets/Instruments Classification

Comment letter feedback on the appropriateness of financial assets/instruments classification

The DP (Chapter 3: Paragraphs 3.49 to 3.56) has identified the need to clarify the eligibility of some crypto-assets for classification as financial assets. There may be a need to update IAS 32 such that crypto-assets that have similar characteristics or functional equivalence to equity or debt securities (e.g. rights to profit, stakes in partnership arrangements, voting rights, right to cash flows from entities) but do not meet the current definition of financial assets under IAS 32. Alternatively, there may be a need to classify crypto-assets as a unique asset and to allow accounting treatment that is similar to that of financial assets where appropriate.

DP Question 3.2: Do you agree that there is need to clarify crypto-asset holders' eligibility to apply IFRS 9? 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.

Is clarification of IFRS 9 eligibility needed?

Table 8: Summary of comment letter responses

Clarification needed for IFRS 9 eligibility	Percent	Number of responses
Agreed there is need to clarify crypto-assets holders' eligibility to apply IFRS 9	66.7%	8
Did not provide an explicit response but implicitly agreed	16.7%	2
Did not agree there is need to clarify crypto-assets holders' eligibility to apply IFRS 9	8.3%	1
No response	8.3%	1
Total	**100%**	**12**

76 Many respondents (eight out of twelve-66.7%) 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. These respondents had the following comments:

(a) An NSS respondent considered that a financial instrument classification for crypto-assets with equity-like and cash-like features could result in more useful information and better reflect the economic substance than would their classification as intangible assets. However, this respondent considered financial instruments treatment for crypto-assets is only suitable in the short term due to the complex accounting requirements for hybrid tokens with features of an equity instrument, a utility token and/or a payment token (e.g. Binance coin-BNB). The respondent was concerned that the bifurcation of hybrid token components could be challenging and costly and favoured a unique Standard in the long term that explores alternate and suitable accounting for hybrid tokens.

(b) Another NSS respondent noted that, to the extent that STOs, which are considered as securities in this respondent's jurisdiction, are not treated in the same way as equity or debt because they do not meet the definition of financial assets in IAS 32, then IFRS 9 could be amended to clarify that it is applicable to STOs.

(c) A third NSS respondent noted that due to the diversity of situations that can occur in the holding of crypto-assets and from the diversity of their characteristics, it may be necessary to clarify the criteria that holders must meet in order to apply IFRS 9.

(d) An accountancy professional organisation noted that financial instruments and crypto-assets share the following common characteristics: they can be used as a store of value; they can exist virtually; they have no intrinsic value; and they are tradable and facilitate transactions. Thus, they should have the same accounting treatment. This respondent also noted that hybrid tokens can have functional equivalence to debt and equity instruments and there is reasonable justification for the IFRS 9 application.

(e) An accountancy firm went further than proposing clarification for IFRS 9 eligibility and instead suggested the scope of IFRS 9 should be enlarged to make FVPL applicable to crypto-assets. The EFRAG Secretariat notes that a similar idea was proposed in the *February 2021 Footnote Analyst article-Bitcoin the financial reporting challenge for investors*. This respondent noted that an expanded IFRS 9 scope should be accompanied by relevant presentation and disclosure requirements to enable users to distinguish between traditional financial instruments and crypto-assets.

(f) A digital asset self-regulatory association opined that crypto-assets that meet all the other characteristics of financial instruments but do not have an identifiable contractual partner should fall into the scope of IFRS 9. The respondent noted this could be the case for security tokens, commodity tokens, hybrid tokens, utility tokens and asset-backed tokens (coins redeemable for previous metals; tokens backed by real estate; and equity-based tokens with equity-like features).

77 A few respondents (two out of twelve-16.7%) did not explicitly agree or disagree on the need for clarification for IFRS 9 eligibility but their comments were interpreted as implicitly supporting the need for such clarification. One of these, an NSS respondent, noted that hedge accounting under IFRS 9 has to be assessed. Furthermore, they pointed to cases where crypto-assets with functional equivalence to equity and debt instruments would not be considered financial instruments due to difficulties in identifying the contractual partner, and to those where there is clarity on the contractual partner and IFRS 9 eligibility (e.g., security tokens). The respondent acknowledged there may be cases where such clarity will be lacking due to the fast-evolving market. They also opined that assessing eligibility for IFRS 9 would not be a problem if the IAS 32 definition is expanded to include non-contractual arrangements or if the term "contractual" is clarified. The data-aggregator respondent opined that security tokens must be eligible for IFRS 9 but did not state whether in practice there are difficulties in attaining such eligibility.

78 One respondent (8.3%) disagreed with clarifying the applicability of IFRS 9 to cryptocurrencies as these do not contain a contractual right to receive cash or exchange a financial instrument. However, the DP's question was on the classification of crypto-assets with functional equivalence to equity and debt securities and not on the financial asset classification of cryptocurrencies where there is no claim on the issuer, which were addressed by the 2019 IFRS IC agenda

decision. Nonetheless, this feedback is against a view that crypto-assets including cryptocurrencies could be in the scope of IFRS 9.

Is an IAS 32 update needed?

Table 9: Summary of comment letter responses

Update needed for IAS 32	Percent	Number of responses
Agreed that IAS 32 needs to be updated	33.3%	4
Did not agree that IAS 32 needs to be updated	33.3%	4
No response	33.3%	4
Total	**100%**	**12**

79 Some respondents (four out of twelve-33.3%) agreed with the possible update of the definition of a financial instrument, financial assets (liability) under IAS 32. The following comments in favour of an amendment of IAS 32 were provided.

(a) An accountancy firm respondent gave conditional support for an update of IAS 32 depending on if functional equivalence means the right to either receive cash flows or cryptocurrencies. If it is a right to receive cash, there is no need to amend IAS 32 as such a right would naturally fit within its scope. On the other hand, if the right is "cryptocurrency" flows rather than cashflows and the business model of the holder is consistent with financial instruments holders, then an amendment to IAS 32 could be relevant.

(b) An NSS respondent considered it appropriate to change the IAS 32 definition to the extent that crypto-transactions meet the existing definitions except to being tied to the existence of a contract (i.e., if the expanded definition includes non-contractual arrangements or, alternatively, if the term "contractual" is clarified). The respondent noted that IAS 32 refers to fiat currencies only and there is a need to clarify the term currency (cash) in order that fiat currencies and cryptocurrencies are not mixed up.

(c) An investment firm agreed that IAS 32 should be updated and this should include the cash definition. The respondent noted the gaps in accounting and risk of diversity in practice for stablecoins, derivatives related to crypto-assets.

80 Besides updating the IAS 32 definition, an accountancy firm respondent raised a concern relating to crypto-assets with embedded features such as a right to cash flows (or cryptocurrency flows) as well as a right to benefit from a service. The respondent noted that a question arises on whether each component should be accounted for separately and how it relates to the unit of account.

81 Some respondents (four out of twelve- 33.3%) disagreed with changing the definition of a financial instrument in IAS 32. Their reasons were: a) preference for a unique Standard due to the very specific characteristics of some crypto-assets and the possibility of such a Standard referring to IAS 32 as needed; and b) concerns about unintended consequences, such as unexpected items that meet an updated definition of financial instruments.

Survey responses on the appropriateness of financial assets/instruments classification

Survey question: Should IAS 32 be updated to include crypto/assets (token) with functional equivalence to equity or debt securities?

Table 10: Summary of survey responses

Update needed for IAS 32?	Percent	Number of responses
Yes	76%	22
No	7%	2
No opinion	17%	5
Total	**100%**	**29**

82 The respondents (76%) agreeing with updating IAS 32 to include crypto-assets with functional equivalence to equity or debt securities, provided the following comments:

(a) Although it should not be done by extending the current definition of financial assets.

(b) There are many examples of crypto-assets being used the same way as financial instruments.

(c) The change is required as crypto-assets without a 'contractual right' to exchange will be out-scoped based on the current definition.

(d) Current definitions do not consider the newly developed digital assets.

83 The respondents (7%) disagreeing with updating IAS 32 to include crypto-assets with functional equivalence to equity or debt securities was to avoid amending well-established principles of financial instruments accounting.

Outreach feedback on the appropriateness of financial assets/instruments classification

84 Several interviewed respondents considered crypto-assets (liabilities) to be equivalent to financial instruments in economic substance. Several respondents proposed aligning the accounting classification of crypto-assets as financial assets/liability with the regulatory definition of securities. One respondent highlighted that the German banking regulation considers crypto-assets as financial instruments by decree without changing the definition of financial instruments. Another respondent highlighted the challenges associated with the enforceability of smart-contracts-based crypto-assets rights and obligations and this has a bearing on their eligibility to be classified as financial instruments.

85 One respondent noted that the main question revolves around whether there is a contract in the legal sense. The respondent noted that IAS 32.13 indicates that contracts can take on different forms as long as they are enforceable. Hence, the question is whether they are effectively enforceable by law. If they are, then they should be accounted as financial instruments. The respondent did not consider that IFRS 9 or IAS 32 should be amended to cater for the characteristics of crypto-assets.

86 Following the ASAF presentation, an IASB Board member noted the DP's proposed focus on the "what is in and not on the container" questioned whether focusing on the definition of a security might result in a focus on the 'container' rather than the contents of the container. The drivers of when regulators focus on whether

something should be treated as a security may in part be based on the form, whether it is offered to particular types of investors etc and be less focussed on what is in the container. As such, one might end up with securities with a real range of rights and obligations (the hybrids etc) including some that are very different to what IFRS Standards would typically have within the scope of financial instruments requirements that focus on “what is ‘in the container”.

Holders-Appropriateness of cash and cash equivalent classification

Comment letter feedback on the appropriateness of cash and cash equivalent classification

The DP (Chapter 3: Paragraphs 3.57 to 3.63) has identified that the definition of cash or cash equivalents may need to be updated to include some of the stablecoins that are pegged to fiat currency on a 1:1 basis, cryptocurrencies that qualify as e-money and CBDCs. And that crypto-assets received in exchange for goods and services could also be treated as being equivalent to foreign currency.

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

Table 11: Summary of comment letter responses

Need to update the definition of cash or cash equivalent	Percent	Number of responses
Agreed with an updated definition of cash and cash equivalent	50.0%	6
Suggested clarification or possible definition	8.3%	1
Disagreed but suggested further research	8.3%	1
Disagreed with an updated definition of cash and cash equivalent	33.3%	4
Total	**100%**	**12**

Agreed with an updated definition of cash and cash equivalent

87 Many respondents (six out of twelve-50%) supported updating the definition of cash and cash equivalents to include certain crypto-assets.

88 An NSS respondent considered that cash is very loosely defined under IFRS requirements leading to several uncertainties related to crypto-assets and noting that IAS 32.AG3 and IAS 32.11 lead to a circular definition of cash in reference to a financial asset and places emphasis on the medium of exchange aspect. IAS 32.AG3 defines cash as "*a financial asset because it represents a medium of exchange…*" On the other hand, IAS 32.11 states that *"a financial asset is any asset that is cash..."*

89 The NSS respondent further highlighted the following aspects that are currently not clear within IFRS requirements but need to be considered in respect of the appropriateness of a cash or cash equivalent classification for crypto-assets:

(a) *Is designation as legal tender required for a financial asset to qualify as cash?* The acceptance of bitcoin as legal tender as was the case in El Salvador could give rise to entities with operations in El Salvador classifying their bitcoin balances as cash and cash equivalents.

(b) *Should payment tokens that are used as a medium of exchange on the blockchain qualify as cash?* Cryptocurrencies such as bitcoin and ethereum are currently used as a medium of exchange in the blockchain ecosystem and accepted by an increasing number of non-native blockchain companies.

(c) *Should the high volatility inherent to some crypto-assets precludes its eligibility to qualify as cash?* Similar to cryptocurrencies, several foreign currencies subject to high volatility and hyperinflation are not precluded from classification as cash.

(d) *Should there be a minimum transaction volume or cross-chain acceptance of the token as a medium of exchange?* Questions arise whether smaller payment tokens with a much lower transaction volume than, for example, bitcoin, could be accepted as a medium of exchange outside of its native blockchain and classified as cash.

(e) *Should stablecoins pegged to fiat currency, which are used as a medium of exchange be assessed against the definition of cash or should they be assessed from the perspective of cash equivalents*?

90 The NSS respondent observed that stablecoins pegged to fiat currency differ in their characteristics and some may have a cash redemption feature and could be managed by a centralised organisation which may create a contractual obligation for the issuer and a legally enforceable right for the holder. The existence of a legally enforceable right to the residual interest in a collateralised stablecoin for the holder could result in equity-like features. The respondent observed that the lack of IFRS guidance on the treatment of such stablecoins could lead to their classification as either cash or cash equivalent or equity instruments or intangible assets or inventory, and this could lead to diversity in practice.

91 The respondent considered that accounting guidance should consider whether stablecoins that are pegged to fiat currency on a 1:1 basis should be eligible for classification as cash and cash equivalents. And due to the differing risk profiles, collateralisation and redemption features, there should be a disclosure/reconciliation of the different types of stablecoins (fiat-collateralised, crypto-collateralised, non-collateralised algorithmic and fractional algorithmic) to the cash or cash equivalent classified amount.

92 Other comments made by those supporting the update of the cash and cash equivalent definition

(a) An NSS respondent noted the IFRS IC agenda decision that crypto-assets did not have characteristics of cash and suggested that, due to the emergence of CBDCs that are likely to have the characteristics of cash, there is room to at least update the description regarding the relationship with cash.

(b) Definition of cash equivalents needs to be updated given the adoption and growth of stablecoins.

(c) CBDCs represent a claim against the issuing central bank;

(d) The respondents provided the following additional comments relating to the stablecoins that are pegged to fiat currency on a 1:1 basis:

(i) Privately issued stablecoins include default risk and liquidity risk of the issuers, even though they are pegged to fiat currency. Despite these risks, issuers put a lot of emphasis on transparency and enhanced customer protection by engaging independent certified auditors to perform an audit of reserves;

(ii) Recently, Visa announced that it will allow users to settle transactions in USDC, and Mastercard announced that it plans to use USDC as the bridge asset for cardholders that want to pay in cryptocurrencies;

(iii) Stablecoins experience growth which indicates the importance of the market and the urgent need to address concerns with the accounting.

(e) Crypto-assets that are defined as e-money according to jurisdictional definitions. Certain jurisdictions move toward qualifying certain digital assets as e-money under regulatory definitions.

(f) Cryptocurrencies other than stablecoins that function as a fungible payment token, store value, unit of account and a medium of exchange could also be eligible for recognition as cash. An example of mainstream adoption is the report by Visa that more than USD 1 billion was spent on crypto-linked Visa cards in the first half of 2021 after partnering with over 50 crypto platforms to enable crypto payments.

93 An independent investor referred to the success of M-Pesa in Kenya as an alternative currency without official state support. However, for such alternative currencies to play a role as a medium of exchange in the long-term is heavily dependent on a friendly regulatory regime.

Suggested clarification or possible definition of cash

94 An NSS respondent observed that neither IAS 32.AG3 ("*currency (cash) is a financial asset because it represents the medium of exchange*…" nor IAS 21.9 (where functional currency is described as *the currency of the primary economic environment*) adequately define currency. As per IAS 21, cryptocurrencies (e.g., bitcoin) can be currency (e.g., for companies that are active in the darknet).

95 The respondent considered that due to the lack of mandatory acceptance and corresponding inability to serve as a unit of account and the comparatively low transaction volume, stablecoins would not meet the definition of currency (cash) under IFRS requirements albeit that they could under other regulations[6]. Furthermore, they noted that stablecoins pegged to a fiat currency have a different risk (counterparty risk) than the fiat currency itself. The respondent was of the view that currency, as per IAS 32.AG3, only refers to fiat currency and considered CBDCs to be equivalent to fiat currency. Thus, they were opposed to an expanded definition of the terms "currency" or "cash" under IAS 21 and IAS 32 and only recommended clarification of these terms.

96 On the other hand, the respondent noted that stablecoins could fulfil the IAS 7.6 requirements for the cash equivalents classification, namely, convertible to <u>known amounts</u> of cash and subject to an insignificant risk of changes in value. They suggested the need for consistency between clarification of the meaning of currency in the sense of IAS 32 (i.e., as fiat currency) and IAS 7.6 requirements for cash equivalents. The respondent considered that stablecoins meet the requirements of an insignificant fluctuation in value but, in their view, the possibility of being converted into fixed amounts of cash at any time needed closer examination (i.e., stablecoins cannot be considered cash equivalents simply because of their convertibility into cash at any time at a prevailing market price).

97 The respondent suggested the clarification of currency in the sense of IAS 32 in a manner that is comparable to the IAS 7.6 requirements and, in so doing, a definition of the term "cash" may be needed.

[6] Stablecoins could meet the definition of cash based on Article 2 of EC Regulation (controls of cash entering or leaving the Community) defines cash as transferable bearer securities as well as banknotes and coins that are in circulation as a means of payment. As per ESMA Securities and Markets Stakeholders Group (ESMA SMSG), a currency has the following properties for supervisory purposes: a) It does not give the owner an entitlement against the issuer; b) it is transferable; c) it does not have a use value as a commodity, raw material; and d) it does not have unchangeable scarcity (i.e., supply can be controlled).

Disagreed but suggested further research

98 An accountancy professional organisation respondent acknowledged that in some jurisdictions, stablecoins are treated as equivalent to cash and that there are similar characteristics between cryptocurrencies that qualify as e-money and cash and cash equivalents. However, this respondent did not receive any feedback from its constituents indicating the need to update the definition of cash and cash equivalent and therefore was against any updated definition. The respondent argued that cryptocurrencies are not widely accepted across the global economy. Moreover, few regulators/central banks control or issue cryptocurrencies and these are also not influenced by macroeconomic variables such as interest, rates, gross domestic product, and fiscal policy. However, the respondent also suggested the IASB should conduct further research on the economic ramifications of recognising some types of cryptocurrencies as cash and cash equivalents as defined in IAS 7.

Disagreed with an updated definition of cash and cash equivalent

99 Some respondents (four out of twelve-33.3%) did not support a change in the definition of cash and cash equivalent under IFRS and had comments on the inappropriateness and consequences of expanding these definitions.

100 An NSS respondent noted that updating the definition of cash or cash equivalents could have unintended consequences as crypto-assets have some peculiarities. The respondent was of the view that issued CDBCs could be included in cash without needing to modify the accounting definition.

101 An accountancy firm respondent disagreed with an updated definition of cash equivalent and opined that it would be rare in practice for cryptocurrencies to meet the cash equivalent definition under IAS 7. The respondent stated that most users of financial statements use the cash and cash equivalent for purposes of determining the net debt ratio. Thus, expanding the definition would require comfort on the ability of the entity to use such assets to settle its financial liabilities.

102 A financial institution respondent stated that the treatment as cash or cash equivalent should be subject to high standards, especially in terms of liquidity and stability of value. The respondent was concerned that the classification of e-money or stablecoins pegged for fiat currencies as cash or cash equivalents could lead to an increased demand for these crypto-assets by banks and, in turn, could potentially raise financial stability concerns and increased risks to their holders. A recent price freefall of a cryptocurrency called “Titan” shows that holding of certain digital assets may lead to a crypto-bank-run. The speculative focus of certain digital assets and extreme price volatility can harm the reputation of the financial sector.

Survey responses on the appropriateness of cash and cash equivalent classification

Survey question: Should the IFRS definition of cash or cash equivalents be updated?

Table 12: Summary of survey responses

Need to update the definition of cash or cash equivalent	Percent	Number of responses
Yes	69%	20
No	24%	7
No opinion	7%	2
Total	**100%**	**29**

103 The respondents agreeing (69%) with updating the definition of cash provided the following comments and arguments:

(a) In some countries, stablecoins are used instead of cash.

(b) The market considers liquid digital assets as non-convertible cash.

(c) Crypto-assets should be considered cash equivalents rather than cash. The volatility remains an attention point.

(d) Only crypto-assets that are highlighted in the January 2019 EBA report as being accepted as e-money in certain jurisdictions (UK, Malta) due to there being a claim on an issuer. Some stablecoins may meet the definition as set out by the ECB. Therefore, e-money developed by central banks should be defined as cash and cash equivalents.

(e) A respondent noted that the amendment to the definition of cash equivalents can be discussed only after the relevant regulations are in place. However, they observed that, in practice, there are more cases where cash equivalents are held for short-term investment purposes rather than for holding money and this might not be much different from the purpose of holding crypto-assets. In addition, as with foreign currencies being held as cash equivalents, there may be grounds on which crypto-assets can be classified as cash equivalents.

(f) CBDCs could be included in the new definition and potentially some stablecoins issued by private issuers.

(g) The definition of cash and cash equivalents needs to be updated to clarify whether crypto-assets are included.

104 The respondents disagreeing (24%) with updating the definition of cash provided the following comments and arguments:

(a) Classification as cash and cash equivalents is not appropriate as long as it is not yet a substitute for the day-to-day use of cash usage.

(b) Update of the definition is more appropriate when the crypto-market is regulated by monetary authorities. Fiat currencies are managed by central banks, therefore crypto-assets are more likely a new class of assets.

Outreach feedback on the appropriateness of cash and cash equivalent classification

105 Two interviewed respondents confirmed that considering crypto-assets as cash equivalents should only be the case when these are accepted as legal tender and backed by governments, which is not the case currently. Another respondent noted the challenges of categorising stablecoins as cash regardless of whether they are pegged to fiat currencies due to their unique risk features. A respondent considered stablecoins to be financial assets and not cash as they are not usually pegged to fiat currency on a 1: 1 basis. The respondent considered digital euros as cash equivalent.

106 At the presentation to the EFRAG IAWG, one member commented that if investors consider crypto-assets to be a new form of a currency or a new currency, one would need to consider the guidance in IAS 21.

107 A monetary authority respondent noted the lack of transparency around the underlying stablecoins reserve assets and pointed to their susceptibility to convertibility, liquidity and counterparty risk as well as “unknown unknowns” risks. The respondent considered it necessary for stablecoins to be accepted as legal tender prior to a cash equivalent classification.

108 The polling question results during the EAA-workshop on 23 April 2021 showed a mixed view (50%) on whether the definition of cash and cash equivalents needs to be updated to consider crypto-assets as cash equivalents.

109 One preparer panellist during the 6 July 2021 webinar noted that the definition of cash and cash equivalents needs an update to include CBDCs and stablecoins.

110 To justify a cash equivalent classification for stablecoins, an academic respondent referred to a publication in the Australian Accounting Review, *Can Fiat-backed Stablecoins Be Considered Cash or Cash Equivalents Under International Financial Reporting Standards Rules?* The publication describes its findings based on the analysis of 11 fiat-backed stablecoins representing 99.97% of the overall related market capitalisation as follows:

(a) A three-step approach was used to analyse the legal and general terms and conditions of the selected 11 stablecoins and of cryptocurrency exchanges, as well as their risk characteristics in comparison with fiat currency pairs, money market indexes and instruments, and traditional cryptocurrencies.

(b) Specifically, step 1 assessed the ready convertibility at the issuer, step 2 assessed the ready convertibility on secondary markets, and step 3 carried out a quantitative assessment of the risk of change in value. The quantitative assessment entailed a calculation of the standard deviation, Value at Risk and a two-tailed analysis of distribution. These three steps are consistent with the objective requirements for the cash equivalent classification under IAS 7.

(c) The study found that nine of the eleven stablecoins met the objective IAS 7 requirements for cash equivalents classification according to their material substance.

Other areas of clarification on holders' accounting

Comment letter feedback on other areas of clarification on holders' accounting

The DP (Chapter 3: Paragraphs 3.79 to 3.93) proposes that the clarification of IFRS requirements is needed for holders on behalf of others (e.g., custodial services) including on interpretation of the indicators of economic control.

Clarification is also needed for accounting by holders of utility tokens and hybrid tokens, and for holdings arising from barter transactions and proof-of-work mining activities (Chapter 3: Paragraphs 3.64 to 3.76 of the DP). For hybrid tokens, there is a question of whether the predominant component should be considered or if/how bifurcation principles should be applied to determine their classification and measurement. For utility tokens, there is also a question of the appropriate recognition and measurement of atypical tradeable rights (e.g., rights to update network functionality; and rights to contribute resources and effort to the system) and the lack of IFRS guidance for prepayment assets.

DP Question 3.4: Do you agree that the aforementioned areas need clarification in IFRS requirements as has been identified in this DP? Please explain

Table 13: Summary of comment letter responses

Need for clarification	Percent	Number of responses
Yes	75%	9
No	0%	0
No response	25%	3
Total	**100%**	**12**

111 Many respondents (nine out of twelve-75%) agreed with the need for further clarification on different aspects of accounting by holders of crypto-assets identified in the DP (i.e., accounting holders on behalf of others, utility tokens, hybrid tokens and mining activities). An investment firm supported a tailored application that builds up, giving the example of the more traditional assets where the guidance was also built up over years of interpretation and real-life examples of preparers, regulators, and auditing firms.

Clarification or further research on holders on behalf of others

112 An accountancy firm respondent underscored the importance of criteria to determine which party controls and therefore needs to account for the crypto-assets in its statement of financial position. The respondent provided the below as examples of criteria that could be considered:

(a) existence of segregation procedures between crypto-assets owned for its own account or on behalf of others;

(b) obligation to obtain the consent of the client before initiating any transaction with crypto-assets held on behalf of the client; and

(c) implementation of a means to return the crypto-assets to the client.

The respondent noted that in developing such guidance, the IASB should also assess and make clear whether who holds the private keys is determinative in the analysis of who has control.

113 An NSS respondent noted that contractual arrangements usually exist between depositors and intermediary holders across different jurisdictions. As a result, there is consensus among stakeholders regarding the rights and obligations related to the intermediary holding of crypto-assets. However, there was uncertainty on asset recognition and the respondent noted the following two views

(a) *Asset recognition is appropriate*: Proponents of this view argue that if crypto-assets are fungible and the intermediary holder keeps the private keys necessary for the disposal of the deposited crypto-assets, <u>the intermediary holder is in a position where it can dispose of the crypto-assets deposited by the client depositor in the same manner as the intermediary holder's own crypto-assets</u>. Furthermore, if the <u>intermediary holder enters into bankruptcy and the deposited crypto-assets that fall within the bankruptcy estate will not be subject to the depositor's right of segregation based on the depositor's ownership rights</u>, the deposited crypto-assets are considered homogenous with the intermediary holder's own. Based on this view, it is appropriate for intermediary holders to recognise deposited crypto-assets. This was the view that the accounting Standard in the respondent's jurisdiction was based on.

(b) *Asset recognition is not appropriate*: when faced with the situation in a) above, proponents of this view argue that, if the depositor can legally instruct the intermediary holder to dispose of the deposited assets and the depositor has economic control of the crypto-assets, the intermediary holder should not recognise the crypto-assets as assets.

Taking note of the expected growth in the number of intermediary holders of crypto-assets, the respondent supported clarifying guidance that would, for example, provide the indicators that should be emphasised when determining whether intermediary holders should recognise the deposited crypto-assets.

114 Another NSS respondent supported clarification of holders on behalf of others as the topic is broad and there could be diversity in practice in the absence of requirements (e.g., the same crypto-asset could be recorded as an asset by the depositor client and intermediary agent at the same time).

115 A third NSS respondent noted that clarification rather than new requirements is needed for accounting by holders on behalf of others (accounting for trusts). New and separate requirements for accounting for trusts in relation to crypto-assets could lead to further problems and questions concerning all other trusts.

116 An accountancy professional organisation respondent recommended clarification through an IFRIC agenda decision and further research to determine the significance of the custodian service in a global context.

Clarification or further research on utility, hybrid, and pre-functional tokens

117 A digital asset self-regulatory association supported the need for clarification of the accounting treatment of some utility and hybrid tokens. The respondent stated that the predominant component, as well as the primary purpose of holding, should determine the accounting for hybrid tokens.

118 An NSS respondent stated that accounting for utility and hybrid tokens is challenging but covered under existing IFRS. The respondent suggested educational guidance for users might be helpful. The respondent opined that substance over form with a focus on the characteristics of utility and hybrid tokens should determine their accounting classification and thereafter recognition and measurement. The accounting should not be based not their labels as currency tokens, utility tokens and security tokens as this taxonomy is from specialist literature and is not internationally recognised.

119 A financial institution representative organisation agreed that clarifications are needed for holders of utility tokens as there is limited IFRS guidance on accounting for prepayments. However, for hybrid tokens, there was a need to carefully assess whether the primary purpose or bifurcation is chosen.

120 An NSS respondent considered it premature to undertake standard-setting activities for the holding of utility tokens as there is no consensus among stakeholders on the substance of these transactions. Furthermore, there has been a dwindling in the volume of issuance of ICOs involving utility tokens. In the respondent's jurisdiction, there was only a very small number of transactions involving utility tokens from listed companies, and there was no recent issuance or expected significant increase in issuance. The respondent suggested further research and monitoring of developments in practice on ICO tokens (including utility tokens) to determine the substance of the transaction before any standard-setting activity is considered.

121 Another NSS respondent concurred with all areas of clarification identified in the DP including utility tokens and hybrid tokens. The respondent suggested that the growth of hybrid and community tokens needs to be closely monitored, to observe how entities applying IFRS Standards engage with these crypto-assets. The respondent indicated that its stakeholders had indicated clarification is needed in the accounting for airdrops, prepayment tokens and Simple Agreements for Future Tokens (SAFTs).

Mining activities

122 A digital asset self-regulatory association indicated they would support a new Standard or an IFRS interpretation for mining activities as there isn't a comparable standard for this activity.

123 An NSS respondent noted the growth of companies partaking in mining activities including some companies with traditional lines of business. As a result, the respondent considered that there was an urgent need to address the accounting for proof-of-work mining.

124 However, one respondent, an accountancy firm respondent, implied that there are no accounting challenges noting that in practice they refer to IFRS 15 by analogy.

Survey response analysis on other areas of clarification on holders' accounting

Survey question: Do you agree that the aforementioned areas need clarification in IFRS requirements as has been identified in this DP?

Table 14: Summary of survey responses

Need for clarification	Percent	Number of responses
Yes	76%	22
No	3%	1
No opinion	21%	6
Total	**100%**	**29**

125 The respondents agreeing (76%) with further standard setting for these activities provided the following comments and arguments:

(a) It needs to be clarified which IFRS Standards apply to the various activities. For example, barter/trade could still be accounted for as an asset-to-asset swap provided the accounting for crypto-assets is determined. Similarly, clarification is needed regarding at what stage mining is resulting in revenue recognition.

(b) Clarification and further guidance are needed in relation to the (interpretation of) indicators in determining control over the assets.

126 However, a financial institution that provides custodial services disagreed with further guidance and noted that the main challenge is to determine which party controls the asset. The difficulty is not related to the accounting standard but relates to assessing the characteristics, risks, rights and obligations, of the custodial and trading services. Lack of clear regulation in some countries might increase the complexity.

Outreach feedback analysis on other areas of clarification on holders' accounting

127 One of the interviewed respondents agreed with the areas for clarification and opined that the accounting for utility tokens and pre-functional tokens should focus on their underlying economic characteristics rather than on the business model and with measurement being either FVPL or FVOCI. The respondent favoured a focus on the predominant component and disagreed with the bifurcation of components in the accounting for hybrid tokens arguing that a bifurcation approach was not practical/meaningful in the context of crypto-assets.

128 Another interviewed respondent noted the lack of clarity around the accounting for mining activities and the diverse interpretation on whether these transactions fall within the scope of IFRS 15.

129 During the 6 July 2021 webinar, one banking preparer panellist explained that the main issue relating to accounting for the custodial activities related to the challenges in identifying the rights and obligations rather than interpretation and application of the accounting standards. From an accounting point of view, the question of which party controls the crypto-assets is the most relevant.

130 An auditor respondent indicated that some additional guidance for security tokens, utility tokens with investment risks should be produced until a clear need arises to issue an independent standard on crypto-assets (liabilities).

Accounting for issuers

Suitability of IFRS Standards for issuer accounting

Comment letter analysis on the overall suitability of IFRS Standards for issuer accounting

The DP (Chapter 4: Paragraphs 4.23 to 4.29) concludes that in the absence of clarification by the IASB, the preliminary conclusion of this research is that ICO issuers (and issuers in similar offerings) can apply one or a combination of the following IFRS Standards: IFRS 9 Financial Instruments, IAS 32 Financial Instruments: Presentation, IFRS 15 Revenue from Contracts with Customers, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 13 Fair Value Measurement.

DP 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.

Table 15: Summary of comment letter responses

Existing IFRS Standards a suitable basis	Percent	Number of responses
Yes	17%	2
No	75%	9
No response	8%	1
Total	**100%**	**12**

131 A few respondents (two out of twelve-17%) considered the current guidance appropriate or helpful to apply to crypto-liabilities considering the nature and terms of issued instruments.

(a) The NSS respondent noted that there is no consensus among the stakeholders in their jurisdiction regarding the substance of ICOs. Furthermore, this respondent notes that in their jurisdiction only a very small number of ICO transactions involving utility tokens by listed companies have been confirmed so far, and there have been no recent cases of issuance. As a result, this respondent believes that the time being developments in ICOs should only be monitored. When more information on the substance of ICOs, and if diversity in practice is observed, the need for standard-setting should be considered.

(b) The accountancy professional organisation explained that they consider current guidance to be appropriate because addressing accounting requirements for different types of ICOs is not possible as this specific market is still developing and not stable yet. At this stage, this respondent considered that token issuers can apply one or a combination of existing IFRS Standards. In the interim, for less clear areas, issuers could seek guidance from the IFRS IC.

132 Many respondents (nine out of twelve-75%) considered that further guidance is needed to account for crypto-assets (liabilities) from an issuer perspective.

133 However, some of the respondents noted that further guidance (or even a new standard) might be needed as the market develops, ICOs and similar offerings become more prevalent for IFRS reporting entities and consensus on ICOs and similar offerings amongst stakeholders is reached. 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

involved a contractual obligation or a contract with a counterparty (which was necessary for a financial liability under IAS 32 and an obligation under IFRS 15).

(a) An accountancy firm noted that 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). This respondent proposed that as a possible way forward to develop application guidance for issuers (like for holders), the guidance should refer to each relevant existing IFRS Standards. This approach will also help identify situations that current Standards are unable to address. This respondent proposed a similar approach for holders, as a starting point.

(b) An NSS respondent noted that ICOs and similar offerings are currently not prevalent among Canadian companies applying IFRS Standards, and therefore considered the guidance to be provided in the third phase of the proposed phased approach as explained in paragraph 47. This respondent 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.

(c) Another NSS noted that this need for further guidance is only applicable for STOs where there is consensus regarding the substance. While for the majority of the ICOs there is no consensus and therefore further research is recommended to monitor the developments in practice before any standard-setting activity. Similar to the respondent above, standard-setting should be considered if ICOs become more prevalent and diversity in practice is observed.

(d) A third NSS respondent explained that the crypto products developed will become more complex and tailored to the needs of the issuer, therefore introducing more complexity and judgment in determining which existing standard would apply. Examples are ICO containing particular conditions, hybrid tokens, pre-functional tokens (SAFTs) that are refundable until the issuance is firm or in the case of own tokens delivered or received in exchange for services to third parties.

(e) An investment firm noted that they strongly believed that 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) to avoid different interpretations and practices and an increased risk of inadequate or misleading information being provided to users of financial statements.

Survey response analysis on the overall suitability of IFRS Standards for issuer accounting

Survey question: Do you consider that existing IFRS Standards provide a suitable basis to account for the crypto-liabilities of issuers of Initial Coin Offerings (ICOs), Initial Exchange Offerings (IEOs) and Security Token Offerings (STOs)?

Table 16: Summary of survey responses

Existing IFRS Standards a suitable basis	Percent	Number of responses
Yes	35%	10
No	45%	13
No opinion	20%	6
Total	**100%**	**29**

134 Ten respondents (35%) agreed that current IFRS Standards provide a suitable basis to address issuer accounting. However, some of these respondents added that further guidance was needed for hybrid tokens and also expressed different views on whether the issuer had a financial liability or an equity instrument under IAS 32 The following comments were provided:

(a) The issuer should consider the issuance as equity (equity instrument), rather than a financial liability, and also whether it is appropriate to recognise revenue (profit) in cases an obligation cannot be clearly identified.

(b) An amendment of the IFRIC update could still be suitable for these transactions.

(c) The guidance in France and Lithuania show that the existing Standards provide a suitable basis.

(d) Nevertheless, it would still be suitable to provide clarification on how to classify and account for hybrid features and their potential changes over time.

135 The respondents disagreeing (45%) with the current IFRS Standards being a suitable basis provided the following additional comments:

(a) In the German jurisdiction, it is unclear when a transfer of ownership occurs or how such liabilities need to be valued. Therefore, before applying IFRS 9 or IAS 37 there should be guidance on issues as (transfer of) ownership or valuation of crypto liabilities.

(b) 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 fulfilling non or more than one IFRS standard?

Outreach feedback on the overall suitability of IFRS Standards for issuer accounting

136 One respondent noted that it is important to consider the substance of a crypto-liability in order to determine the accounting. In general, IFRS 15 is not expected to be applicable as no enforceable contracts with customers are likely to be in place. However, the mining activity where revenue is earned by creating a cryptocurrency is considered to be based on an implicit contract and accordingly in the scope of IFRS 15.

137 Giving feedback after the presentation of the DP to the December 2020 ASAF session, an IASB Board member noted that IFRS Standards are typically scoped based on the nature of rights and obligations. As a result, the board member considered that it is typically the case that crypto 'items' will fall into the scope of particular Standards and that it won't be so common that companies need to apply

IAS 8 (and even less common that they would end up having to use the Conceptual Framework), particularly for ICOs.

138 The polling question results during the EAA-workshop on 23 April 2021 showed **that participants consider further guidance for ICOs necessary**.

IFRS 15 applicability for issuers

Comment letter analysis on IFRS 15 applicability for issuers

The DP (Chapter 4: Paragraph 4.28) highlights a number of areas that could pose concerns with the application of IFRS 15 for an entity issuing crypto-assets through ICOs (or other offerings such as IEOs and STOs).

DP 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

Table 17: Summary of comment letter responses

Clarification needed on IFRS 15	Percent	Number of responses
Yes	58%	7
No	8%	1
No response	33%	4
Total	**100%**	12

139 An NSS respondent considered no further guidance/clarification is needed given the clarity that application of IFRS 15 is possible, i.e. in particular the cumulative fulfilment of the application requirements of IFRS 15.9 (a) to (e).

140 Many respondents (seven out of twelve-58%) confirmed that further guidance is needed to determine the applicability of IFRS 15. However, one of the respondents consider the guidance to be provided in the third phase of the proposed phased approach as explained in paragraph 47.

141 The following comments and arguments are provided to support the further guidance:

(a) 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. An NSS respondent specifically noted the lack of an identifiable contractual counterparty in relation to the issuance of crypto-assets through ICOs or other ways. Clarification is needed to determine whether a liability within the scope of IFRS 15 exists, as the contract needs to be identified. A similar question arose in relation to whether a financial liability under IAS 32 exists since IAS 32.11 always requires a contractual obligation. The respondent added that next to ICOs, STOs or IEOs, these considerations are also applicable to for example so-called ‘staking’ or ‘masternodes’. Staking can be compared to mining, but with the essential difference that there is hardly any use of resources, and the appearance is much more passive. Due to the decentralised design, it is questionable, especially in the light of the element of chance, whether the requirement of the probable receipt of the consideration can be fulfilled.

(b) In practice three key records accompany the issuance of a token that can be used to analyse case by case basis to determine the accounting under IFRS 15:

(i) The software code;

(ii) The white paper; and

(iii) The independent audit report with regards to the functionality of the token.

(c) 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.

(d) Figure 4.2 on page 81 of the DP identified circumstances where an issuer may have to recognise other income for the issue of crypto-assets that falls outside the scope of IFRS 15. Further guidance for this other income might be needed. As an example, the Australian Accounting Standards Board (AASB) has developed AASB 1058 *Income of Not-for-profit Entities* that specifically deals with "non-exchange" income that does not fall within the scope of IFRS 15. The International Public Sector Accounting Standards Board (IPSASB) is also undertaking a project to develop accounting requirements for such non-exchange income transactions that commonly arise in the public sector.

(e) In practice, in the context of ICO tokens, there are cases where the issuer owes certain obligations to provide goods or services but the economic value of such goods or services is extremely insignificant compared to the amount of funds raised (consideration received). On the other hand, if the amount received as consideration is significantly higher than the value of the goods or services, the entire amount would be recorded as a liability without, and revenue recognised. **If these cases are not exceptional further clarification is needed.**

(f) Further guidance is needed especially for:

(i) Issue of crypto-assets with an associated service, where the acquirer obtains it as a store of value.

(ii) 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.

(iii) 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.

Survey response analysis on IFRS 15 applicability for issuers

Survey question: In cases when the issuance of crypto-assets falls within the scope of IFRS 15, do you consider there is a need for further guidance/clarification on how to apply the IFRS 15 principles?

Table 18: Summary of survey responses

Clarification needed on IFRS 15	Percent	Number of responses
Yes	38%	11
No	24%	7
No opinion	38%	11
Total	**100%**	**29**

142 The respondents agreeing (38%) with further guidance to apply the principles of IFRS 15 provided the following additional comments:

(a) The issuer should not recognise revenue from the issuance but rather **recognise it as equity**.

(b) Clarification is needed whether IFRS 15 can be applied to crypto-assets at all. Can ICOs be considered as a (pre)payment for future goods or services?

(c) Clarification is needed for the term ‘enforceable rights or obligations’.

IAS 32/IFRS 9 and IAS 37 applicability for issuers

Comment letter analysis on IAS 32/IFRS9 and IAS 37 applicability for issuers

The DP (Chapter 4: Paragraphs 4.25 and 4.29) highlights a number of areas that could pose concerns with the application of IAS 37 for an entity issuing crypto-assets through ICO (or other offerings such as IEOs and STOs).

DP 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.

Table 19: Summary of comment letter responses

Further guidance needed	Percent	Number of responses
Yes	42%	5
No	8%	1
No opinion	8%	1
No response	42%	5
Total	**100%**	**12**

143 Some respondents (five out of twelve-42%) requested more guidance in relation to the following:

(a) To determine which costs should be included in the provision relating to the issuance of tokens.

(b) To determine whether IFRS 15 or IAS 37 should be applied in case of the absence of details to determine the rights and obligations.

(c) To clarify that existing IFRS also apply to issuers.

144 An NSS respondent considered the current guidance sufficient, however, notes that the accounting for hybrid tokens with utility features require further guidance or clarification.

145 An Accountancy professional organisation did not provide a view on this topic but notes that a provision under IAS 37 for crypto-liabilities is expected to be part of a broader economic transaction including recognition of revenue under IFRS 15.

Survey response analysis on IAS 32/IFRS9 and IAS 37 applicability for issuers

Survey question: In cases when crypto-liabilities qualify as a financial liability under IAS 32/IFRS 9 or as a provision under IAS 37, do you consider there is a need for further guidance/clarification for entities on how to apply these Standards?

Table 20: Summary of survey responses

Further guidance needed	Percent	Number of responses
Yes	41%	12
No	31%	9
No opinion	28%	8

Total	**100%**	**29**

146 **The respondents agreeing (41%) with further guidance** to apply IAS 31 *Interests in Joint Ventures*/IFRS 9 and IAS 37 provided the following additional comments:

(a) As these assets/liabilities are newly developed clarification is needed to prevent misinterpretations.

(b) The issuer should not recognise revenue from the issuance but rather recognise it as equity.

(c) Clarification is needed to assess whether the contract includes an enforceable obligation that leads to the application of IAS 37.

Valuation

Adequacy of IFRS 13 requirements

Comment letter analysis on the adequacy of IFRS 13 requirements

The DP (Chapter 5: Paragraphs 5.44 and 5.45) observes that when considering fair value measurement under IFRS 13, determining an active market for crypto-assets is not always straightforward.

DP 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?

Table 21: Summary of comment letter responses

Adequate guidance in IFRS 13 to determine an active market	Percent	Number of responses
Yes	42%	5
No	42%	5
No response	17%	2
Total	**100%**	**12**

147 Some respondents (five out of twelve-42%) 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.

(a) An NSS respondent noted that determining an active market for any assets and liabilities is inherently a complex and judgmental process. The respondent furthermore noted that determining an active market can be more difficult for certain types of crypto-assets (tokens) compared to others (Bitcoin, Ripple, Ethereum).

(b) Another NSS thought that valuation challenges may occur with emerging issues such as decentralised finance and non-fungible tokens (although this respondent noted that these types of tokens were still in the early stages of development and did not pose an immediate concern).

148 Some respondents (five out of twelve-42%) supported clarifications/ changes to IFRS 13 in determining an active market.

(a) An NSS respondent confirmed that it may be difficult to practically determine an active market as crypto-assets may be traded on a significant number of exchanges.

(b) A financial institution explained that the valuation methods for crypto-assets have to take into account the fact that there is no concept of end-of-day and no closing-day in a crypto market. They also suggested that valuation methods for crypto-assets should be flexible enough to adapt to the evolution of crypto-assets.

(c) A Digital Asset Self-Regulatory Association used the following arguments:

(i) Currently, the fiat market represents only a minority of the liquidity across all digital assets, however, all digital assets are available in stablecoin pairs. Examples of coins that are traded against stablecoins but would not have an active market according to the current requirements under IFRS 13 are Polkadot (DOT) trading over USD 800 million a day in notional amount with a market capitalisation of over USD 14 billion and Tron (TRX) trading over USD 800 million a day in notional with a market capitalisation of approximately USD 5 billion. The respondent supported considering these as level 1 instruments.

(d) In addition, digital assets denominated in fiat currency do not often represent the predominant true market value compared to the primary portion of the market (traded against stablecoins) where the significant majority of the liquidity for such digital assets exist. This is even applicable to digital assets such as Bitcoin (BTC), Ethereum (ETH) or Cardano (ADA).

149 Another respondent (data-aggregator) that commended only on the application of IFRS 13 had the following additional observations and suggestions:

(a) IFRS 13 should clarify that crypto-to-fiat transactions are considered level 1 inputs (under the presumption that stablecoins are also considered fiat currency) and crypto-to-crypto transactions could be considered as level 2 input. The latter involves time lag, additional transaction costs and volatility as the fiat crypto needs to be translated into fiat currency first.

(b) The definition of a “principal market” and “most advantageous” under IFRS 13 needs to be clarified as crypto-assets are traded on various platforms with a significant variation in their liquidity and level of centralisation. This respondent considered 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.

(c) The respondent proposed two possible alternative definitions of a principal market: (1) The “exchange platform” focal and (2) The “crypto-to-fiat trading pair” focal. The first is more of a geographical concept and could be translated into an “exchange platform”. The second concept is based on the offer and demand of crypto-assets against a legal tender. The price could then be determined based on a median, which would be based on the set of quoted prices observed on a pool of the most significant exchange platforms providing transaction data for that trading pair during one day at the measurement date. **The following pros and cons are presented for this method:**

  (i) Pros: takes the nature of crypto-assets into consideration, reaches a more exhaustive measurement of the asset’s fair value among a pool of selected exchanges that would fit the BMR “representatives” requirement, and limits the possibility of manipulation of prices.

  (ii) Cons: trading platforms with high volumes but without quoted prices will not be considered, **complexity arises with tokens listed only on decentralised exchanges** or illiquid assets on centralised exchanges and the median fair value might not be the fair price for OTC transactions.

(d) According to IFRS 13 paragraphs 17, 19 and 78, the principal market is determined from the entity point of view. However, since crypto-assets are traded on several exchanges with different prices this may lead to different valuations and increase the possibility to manipulate the valuation. **Therefore, the principal market definition for crypto-assets should be based on a pool of exchange platforms with readily available**, observable and verifiable inputs conforming to Article 11 of the EU 2016/1011 “Benchmark” regulation. This respondent suggested allowing the use of a daily median price instead of using a fixed price (quoted price) at a closing time. The respondent notes that a median price can exclude extreme values from the price calculation and provide a resilient price against volume or level of activity increasing or decreasing. The respondent, therefore, recommends amending the definition of Level 1 inputs to allow for adjusted weighted-median prices. The respondent explains this concept in more detail in its comment letter.

(e) Another advantage of determining the fair value based on the median price conform the pool of exchanges is that it increases the cost of market manipulation as it diminishes the impact of one-off significant movements in the market. Since a median can be considered an average which is not supported by IFRS 13, the respondent suggested that IFRS 13 clarifies and allows the application of a median approach.

Survey response analysis on the adequacy of IFRS 13 requirements

Survey question: 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?

Table 22: Summary of survey responses

Adequate guidance in IFRS 13 to determine an active market	Percent	Number of responses
Yes	48%	14
No	45%	13
No opinion	7%	2
Total	**100%**	**29**

150 **The respondents agreeing (48%)** that IFRS 13 provides an adequate basis to determine an active market provided the following comments and arguments:

(a) The fundamentals of fair value determination are independent of the asset type.

(b) Assuming that it is possible to identify the variables to determine the fair value in case no active market exists.

(c) However, it will be a challenge to determine the fair value in case of no active market.

151 **The respondents disagreeing (45%)** that IFRS 13 provides an adequate basis to determine an active market provided the following comments and arguments:

(a) Applying the definition for physical exchanges to purely internet-based transactions for crypto-assets does not work.

(b) Determining an active market in a closed and decentralised system does not fit the current definition. Other questions that arise are: How to define an active market given that a lot of crypto trades just exchange one type of crypto against another type of crypto? Can one use the amount of fees for blockchain processing (which goes to the miners) as an indicator for an active market, i.e. if the fee for a 0.1 BTC transfer is the equivalent to 0.5 BTCs can one still consider this to be an active market?

(c) **Only crypto-to-fiat trading pairs should be considered as Level 1 input**. This can help to determine the existence of an active market because crypto-to-crypto involves more conversion fees and the time used to value an asset will be longer (as you must first assess the "quote" in crypto before converting it into fiat currency).

Outreach feedback analysis on the adequacy of IFRS 13 requirement

152 Respondents agreed in general that IFRS 13 provides sufficient guidance to determine an active market for crypto-assets and liabilities.

153 A preparer explained that the **current market for crypto-assets that trade against fiat currency is very small**, while the market is significant when considering crypto-assets against stablecoins. Especially, when volatility increases the fiat currency is not a fair representation of the fair value of the crypto-assets. The respondent added that the absence of an end-of-day concept also results in challenges.

IFRS 13

Comment letter analysis on IFRS 13

The DP (Chapter 5: Paragraph 5.42) observes that there is an emergence of valuation methodologies, that might differ from the fair value measurement guidance in IFRS 13, tailored for crypto-assets.

DP 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?

Table 23: Summary of comment letter responses

Adequate guidance in IFRS 13	Percent	Number of responses
Yes	42%	5
No	33%	4
No response	25%	3
Total	**100%**	**12**

154 Some respondents (Five out of twelve-42%) agreed with the adequacy of IFRS 13 to determine a valuation technique in the absence of an active market. These respondents generally supported measuring crypto-assets at fair value but were reluctant to have a different set of valuation guidance for crypto-assets.

(a) An NSS respondent noted that fair valuation is often considered complex, especially for level 3 instruments and does not agree with separate guidance for crypto-assets. This could trigger further requests for exceptions by stakeholders.

(b) Another NSS noted that developments should be monitored whether IFRS 13 needs to be amended. The respondent also proposed an alternative approach requiring measurement at cost based on facts and circumstances.

155 Some respondents (four out of twelve-33%) considered the guidance in IFRS 13 inadequate or challenging and suggested the following alternative approaches:

(a) To consider the denomination in stablecoins as part of an active market. Currently, the absence of denomination in fiat currency leads to alternative valuation using level 3 inputs, cost or intrinsic value of the network (NVT ratio) subject to judgment and decreasing comparability.

(a) To determine the active market based on a pool of exchanges and using a median as explained in detail in paragraph 149.

(b) In the absence of an active market, it is likely that historical transactions that would be used as a basis for estimating the value in exchange (since crypto-assets are not backed by cash flows) would be rare or difficult to obtain.

(c) Under accounting standards in Japan, the following approach is applicable:

(i) In the absence of an active market, the acquisition cost is used.

(ii) If the net selling value, which represents the recoverable amount in cash at the time of valuation, is less than the carrying amount, it is considered that profitability has declined and the carrying amount is written down to the estimated disposal value.

(iii) The relevant estimated disposal value includes a measurement of zero, considering the practical difficulties in estimating the expected disposal value.

(d) As markets that are not considered active under current guidance could still lead to more adequate valuation compared to level 2 or 3 hierarchy, the fair value hierarchy could be adapted to align the level 2 and level 3 variables based on a general model of crypto-assets without limiting to crypto-assets existing today. **However, it would be more appropriate to address this in a separate standard for crypto-assets instead of changing IFRS 13**.

156 A few respondents (three out of twelve-25%) did not respond to this specific question. However, a financial institution commented that valuation methods need to be flexible enough to adapt to the evolution of the crypto-ecosystem and it should be considered that the concept of "end-of-day" and "closing day" does not exist in the crypto-ecosystem.

Survey response analysis on IFRS 13

Survey question: 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?

Table 24: Summary of survey responses

Adequate guidance in IFRS 13	Percent	Number of responses
Yes	48%	14
No	38%	11
No opinion	14%	4
Total	**100%**	**29**

157 **The respondents disagreeing (38%)** that IFRS 13 provides an adequate basis to determine the fair value in case of the absence of an active market provided the following comments and arguments:

(a) The volatility is too high.

(b) There is not yet a market consensus on how to value crypto-assets, irrespective of the accounting guidance.

Outreach feedback analysis on IFRS 13

158 There were mixed views in determining an adequate method for valuation.

(a) One respondent noted that the valuation methods as indicated in the DP could be sufficient depending on the type of crypto-assets. On the other hand, the respondent challenged the current valuation techniques in IFRS 13 by questioning the feasibility of determining relevant cash flows and discount rates (that capture for example the risks related to obsolescence of cryptography technology due to quantum computing, cybercrime, etc.).

(b) Another respondent also questioned the appropriateness of IFRS 13 as it is based on the presumption to convert the instrument into cash, while this is not necessarily the case for crypto-assets (i.e., crypto exchanges allow both crypto-to-crypto and crypto-fiat currency exchanges).

159 One participant noted several challenges with applying IFRS 13 to crypto assets. This respondent also responded to EFRAG's DP and the concerns noted by this respondent are summarised in paragraph 149.

160 During the EAA-workshop on 23 April 2021 the participants noted that the valuation of crypto-assets can be complex as cryptocurrencies/tokens are strongly connected to the specific crypto platform. The valuation techniques need to consider all the aspects and interrelation of the whole platform instead of a standalone valuation of a cryptocurrency. Current valuation techniques can only be applied by analogy to existing investment types. And are not suitable to derive the specific fair value of crypto-assets and crypto-liabilities. **The polling question result showed that a majority (51%) of the participants consider IFRS 13 to be inadequate to determine a fair value for crypto-assets in absence of an active market.**

Other comments

Comment letter analysis on other comments

DP Question 6.1. – Do you have other comments on the accounting for crypto-assets (liabilities), or on any other matter in the DP not addressed by the above questions?

161 A financial institution respondent supported the harmonisation of accounting requirements for crypto-assets at an international level. There is a need for crypto-assets (liabilities) taxonomy and standardisation. This respondent also supported the convergence of crypto-specific accounting standards developed at the national/regional level with the globally accepted solutions for crypto-assets accounting.

162 An accountancy firm noted that further guidance is needed for revenue recognition from mining activities.

163 One NSS considered further guidance necessary on the following:

(a) DeFi results in the following challenges:

(i) There is no knowledge of any DeFi applications that provide financial reporting under IFRS Standards. The accounting considerations, therefore, arise from the perspective of lenders and borrows that use DeFi applications and that report under IFRS Standards.

(ii) Opaque rights and obligations, complexity, and unique terms applicable to DeFi lending may present accounting challenges. Other accounting challenges may arise due to the enforceability, valuation, and evaluation of whether the borrowing arrangements contain embedded derivatives. For example, there is no clear guidance on how to account for staking awards. Should it be accounted for as interest income or other income?

(iii) For example, when lenders commit capital to DeFi credit services, they receive platform-native tokens representing an interest-earning representation of their deposit in the form of a token (interest-earning token). Borrowers accessing capital from the protocol are usually required to deposit collateral in excess of the value of borrowed before being able to access the capital required. Lenders and borrowers continue to maintain full custody over their crypto-assets and can liquidate their assets at any time. Credit terms under these arrangements can be complex. Furthermore, there are valuation challenges with the interest-earning token which is also capable of being securitised and traded.

(b) NFTs have the potential for exponential growth since it provides a mechanism for tokenisation of all real-world assets. The expectation is that NFTs will serve as collateral in decentralised loans (and other interactions) since both use the Ethereum blockchain infrastructure. The NFTs market should be closely monitored for any accounting challenge that may arise.

164 An investment firm emphasised the possibility of diversity in practice and an increased risk of inadequate or misleading information being provided for the user of financial statements because of the current gaps in the accounting requirements for stablecoins, crypto liabilities and derivatives in relation to crypto-assets.

165 One financial institution supported the harmonisation of the accounting requirements on an international level and expressed the need for specific taxonomy and standardisation. Furthermore, convergence between international accounting standards and national/regional level is also supported and double accounting or

complicated reconciliation between IFRS and prudential standards must be avoided.

Outreach feedback analysis on other comments

166 Two respondents expressed the need for setting requirements for mining activities as there is no applicable IFRS Standard for this activity. Concern was expressed about the impact of the crypto market on sustainability. The proof-of-work mining (i.e., solving cryptographic puzzles to validate new transactions) of some cryptocurrencies consumes a significant amount of energy resources, which is not congruent with the sustainability objectives.

167 During the EAA-workshop on 23 April 2021 participants agreed that there is not much academic research on this field due to the embryonic state of market development and limited data.

168 During the 6 July 2021 webinar a presenter explained the following challenges from an audit perspective:

(a) Lack of knowledge and a general understanding of crypto-assets (liabilities) by executive management;

(b) Absence of centralised and regulated parties confirming the ownership of such assets;

(c) Lack of robust governance and internal control environment around crypto-activities;

(d) Volatility and assumptions used around valuation;

(e) Lack and variety of documents available to determine the rights and obligations; and

(f) Completeness of disclosures.

169 During the same webinar, the polling question results showed that 45% of the participants consider that guidance is the most needed for accounting for holders, followed by 32% for valuation and 24% for accounting for issuers.

Appendix 2 – List of respondents

Respondents of comment letters received

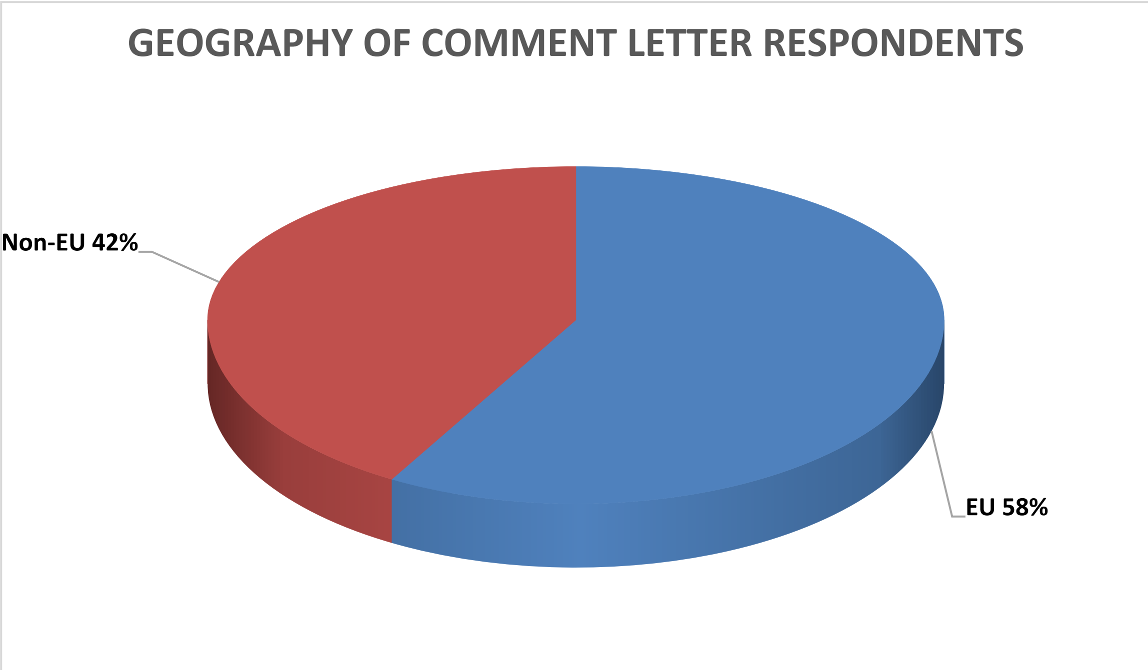
1 The table below summarises the background and geographical location of the respondents:

Table 25: List of comment letter respondents

Number	Name	Background	Geographical location
CL001	Austrian Financial Reporting and Auditing Committee (AFRAC)	National Standard-Setter	Austria
CL002	Dutch Accounting Standards Board (DASB)	National Standard-Setter	The Netherlands
CL003	Global Digital Asset & Cryptocurrency Association (GDCA)	Digital Asset Self-Regulatory Association	United States of America
CL004	Koinju	Market data provider	France
CL005	Mazars	Auditor	France
CL006	Canadian Accounting Standards Board (AcSB) (staff response)	National Standard-Setter	Canada
CL007	CPA Australia & Chartered Accountants Australia and New Zealand (CPA Australia & CA ANZ)	Accountancy professional organisation	Australia and New Zealand
CL008	Accounting Standards Board of Japan (ASBJ)	National Standard-Setter	Japan
CL009	European Association of Co-operative Banks (EACB)	Preparer organisation	Europe
CL010	Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	National Standard-Setter	Spain
CL011	Kazim Razvi	Independent investor	UK
CL012	Flow Traders	Investment firm	The Netherlands

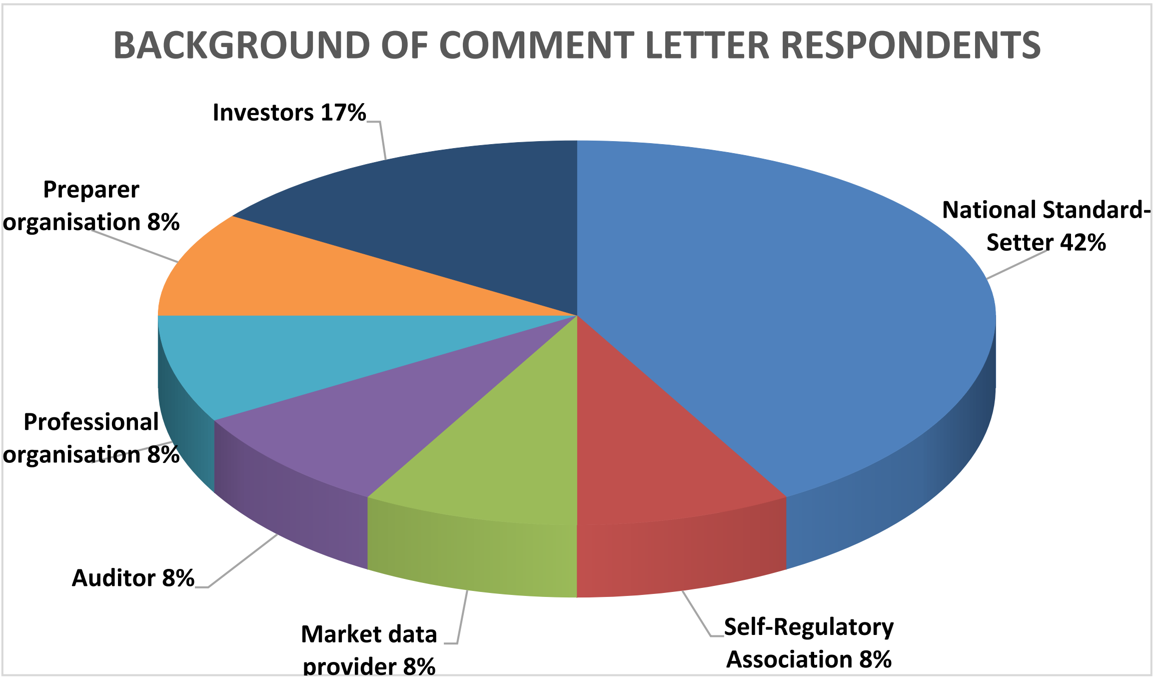
2 The following graph summarises the geographical location of the 12 respondents who send a comment letter.

Table 26: Geography of comment letter respondents



3 The following graph summarises the background of the 12 respondents who send a comment letter.

Table 27: Background of comment letter respondents



Respondents of survey responses

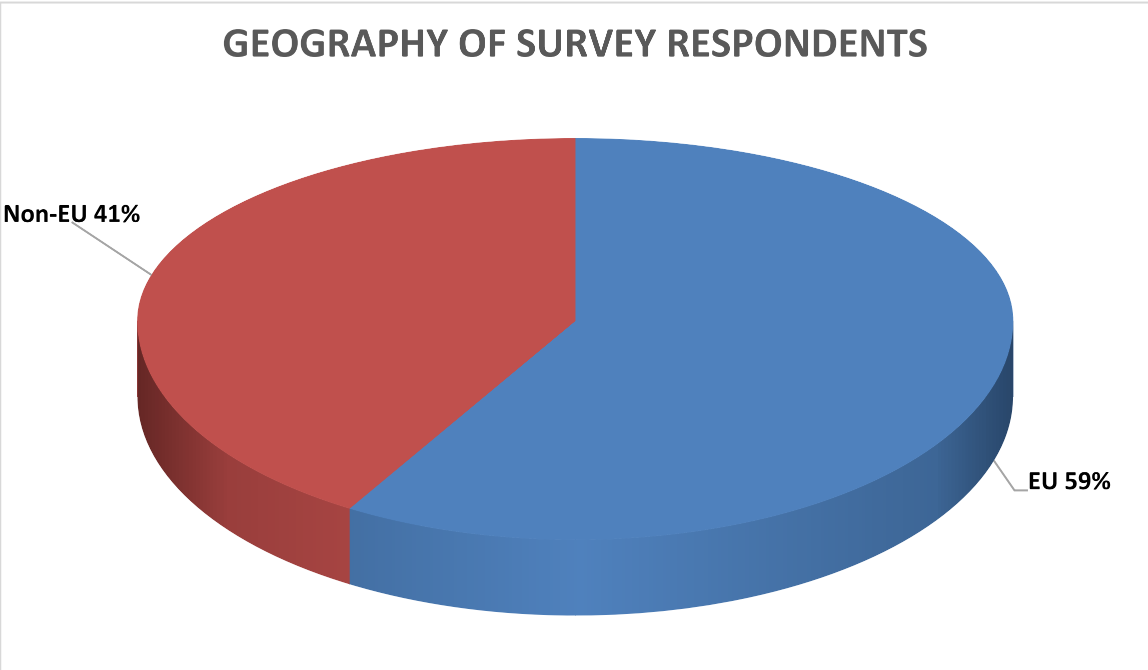
4 The table below summarises the background and geographical location of the survey respondents:

Table 28: List of survey respondents who agreed to publication

Number	Name	Background	Geographical location
SR001	Korean Accounting Standards Board – staff response	National Standard-Setter	Korea
SR002	Rodrigo Morais - Accounting Pronouncements Committee (CPC)	National Standard-Setter	Brazil
SR003	Martin Petrov - Sofia International Securities JSC	Investment firm	Bulgaria
SR004	Luz Parrondo - UPF Barcelona School of Management	Academic	Spain
SR005	Boris Palaščak	Financial reporting preparer	Czech Republic
SR006	Marina Muchakova - Vesta Accounting LTD	Accounting and Tax consultancy	Bulgaria

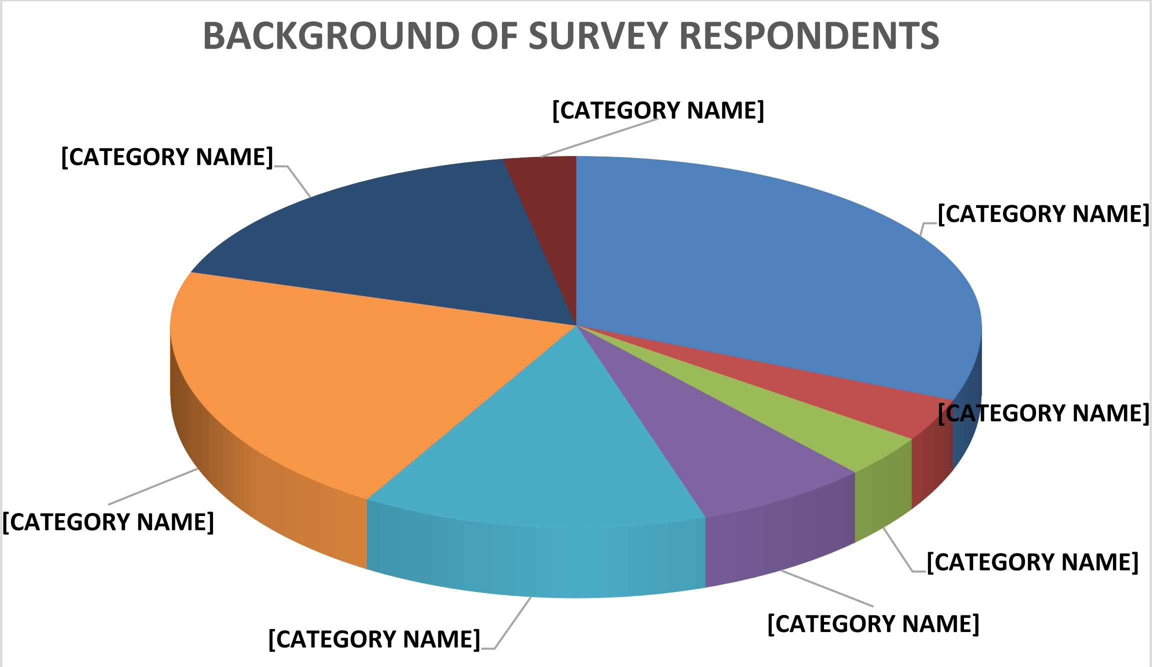
5 The following graph summarises the geographical location of the 29 respondents who completed the survey.

Table 29: Geography of survey respondents



6 The following graph summarises the background of the 29 respondents who completed the survey.

Table 30: Background of survey respondents



Outreach meetings

Date	Title	Organised by
30 September 2020	Virtual meeting with IFASS	IFASS (International Forum of Accounting Standard Setters)
26 November 2020	Presentation at IAWG	IAWG
2 December 2020	Presentation at EFRAG TEG-CFSS meeting	EFRAG TEG-CFSS
10 December 2020	Virtual meeting with ASAF (Accounting Standards Advisory Forum)	IASB
17 March 2021	Presentation at EACB reporting committee virtual meeting	EACB
13 April 2021	Virtual webinar: PwC Focus - Actualite des crypto-actifs	IMA (Institute of Management Accountants)
23 April 2021	Virtual EAA workshop on Accounting for Crypto-Assets (Liabilities)	EAA (European Accounting Association)
29 June 2021	Presentation during June 2021 CRUF virtual meeting	CRUF

6 July 2021	EFRAG Webinar on Accounting for Crypto-Assets (Liabilities)	EFRAG
19 July 2021	Virtual meeting with ASBJ and Japanese stakeholders (JICPA, SAAJ)	ASBJ (Accounting Standards Board of Japan)