

Crypto-market: Key trends & challenges in 2021

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July 2021



Key trends

1 Cryptoassets are here. What's your next move?

2 A « respectable » class of assets?

3 Stablecoins

4 Central Bank Digital Currencies (CBDCs)

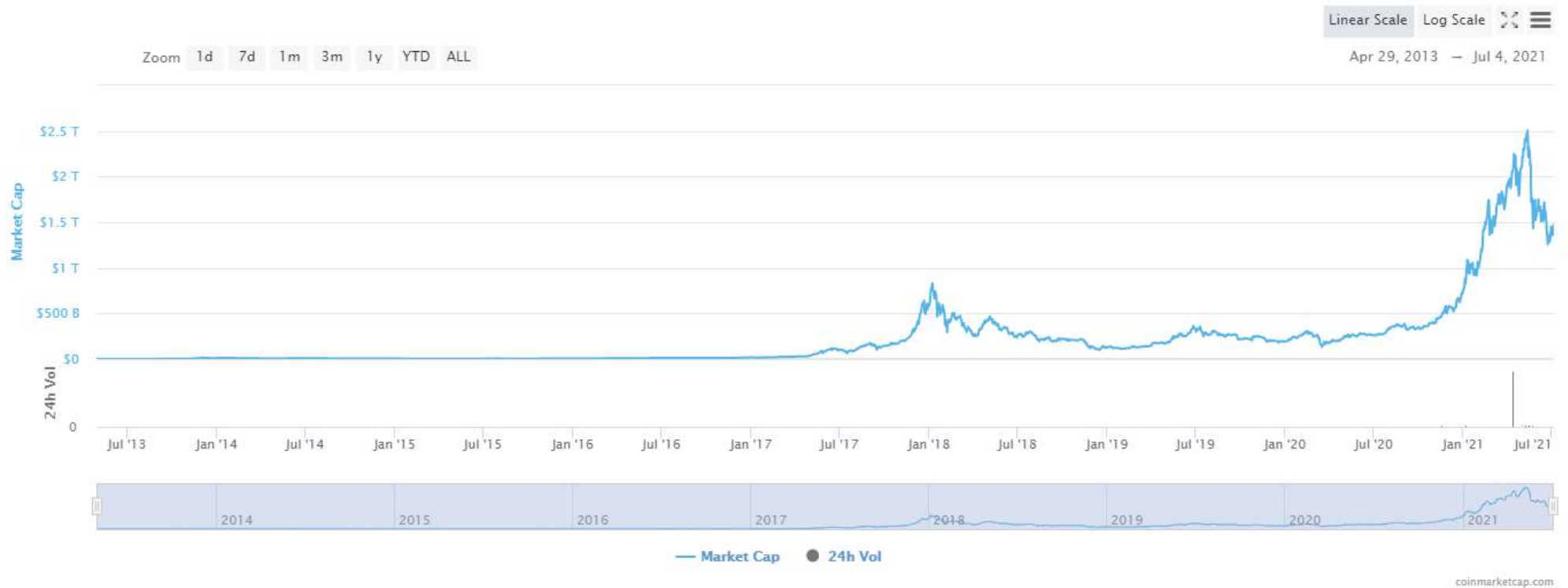
5 Decentralized Finance (DeFi)

6 Non-Fungible Tokens (NFTs)

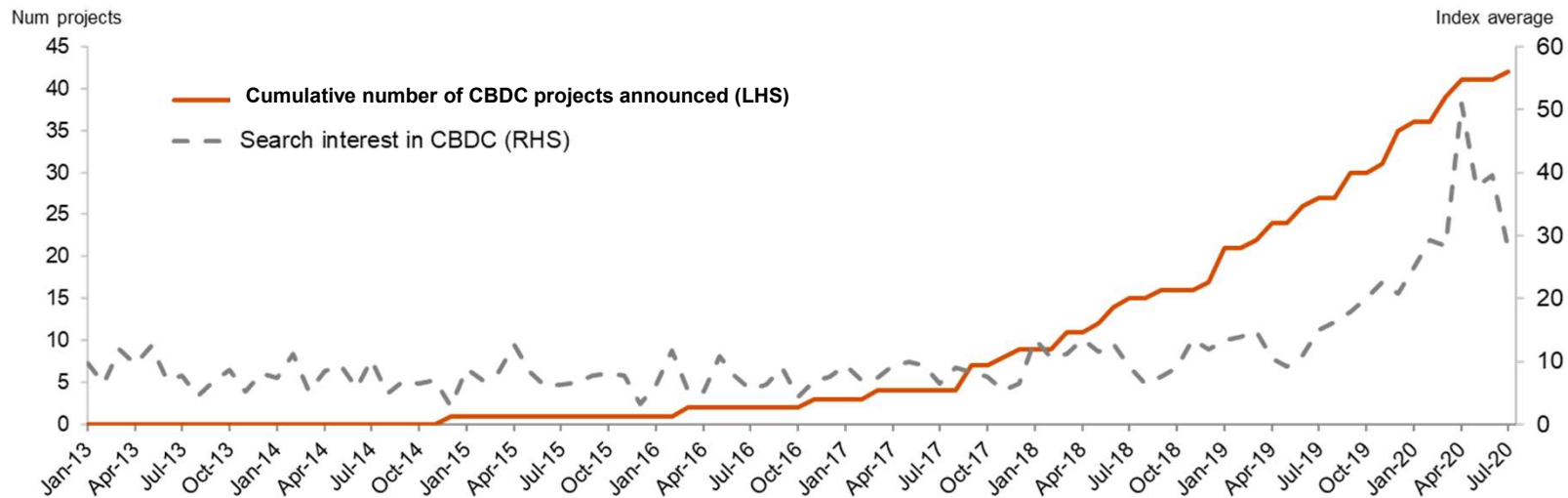


A growing interest for cryptoassets

Total Cryptocurrency Market Cap



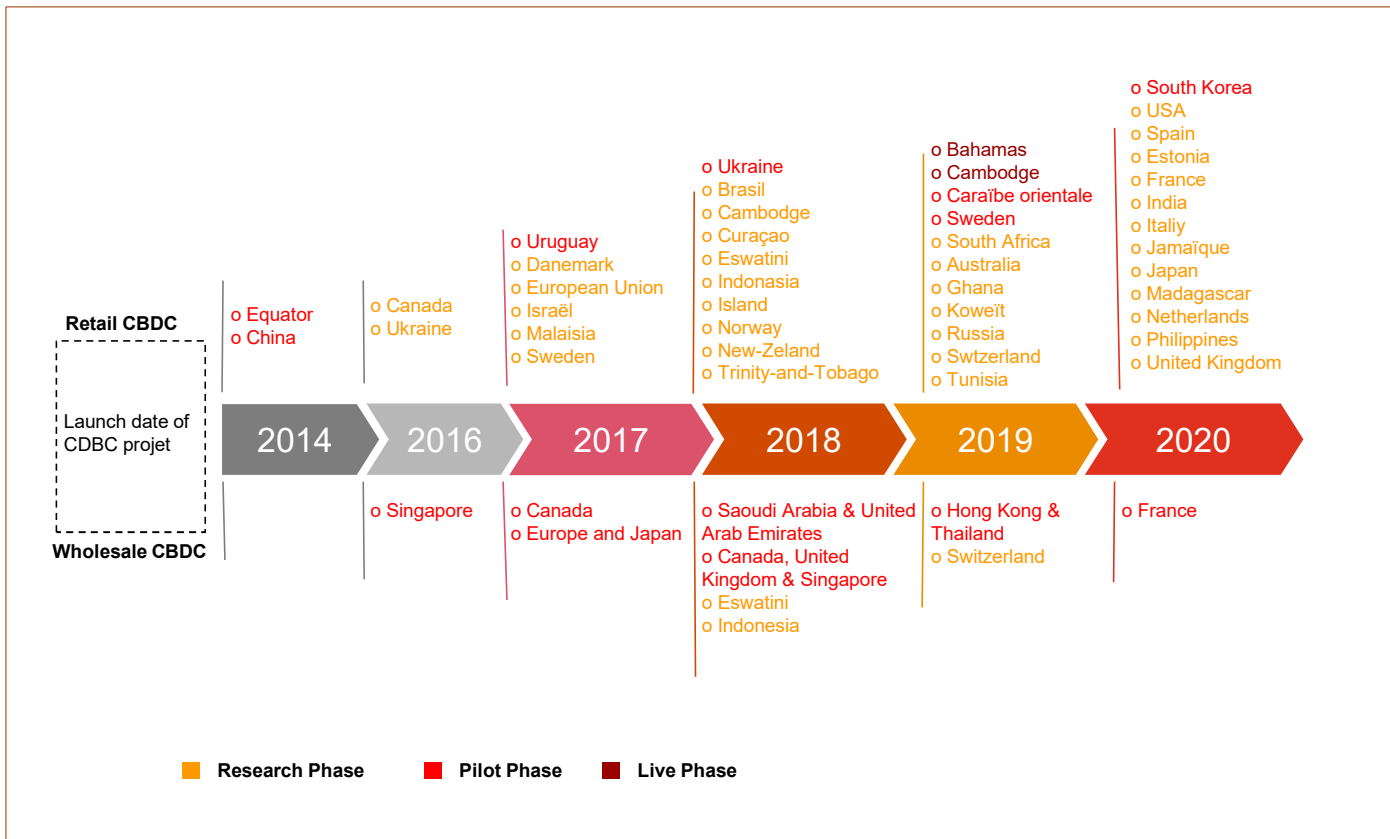
A growing interest for CBDC



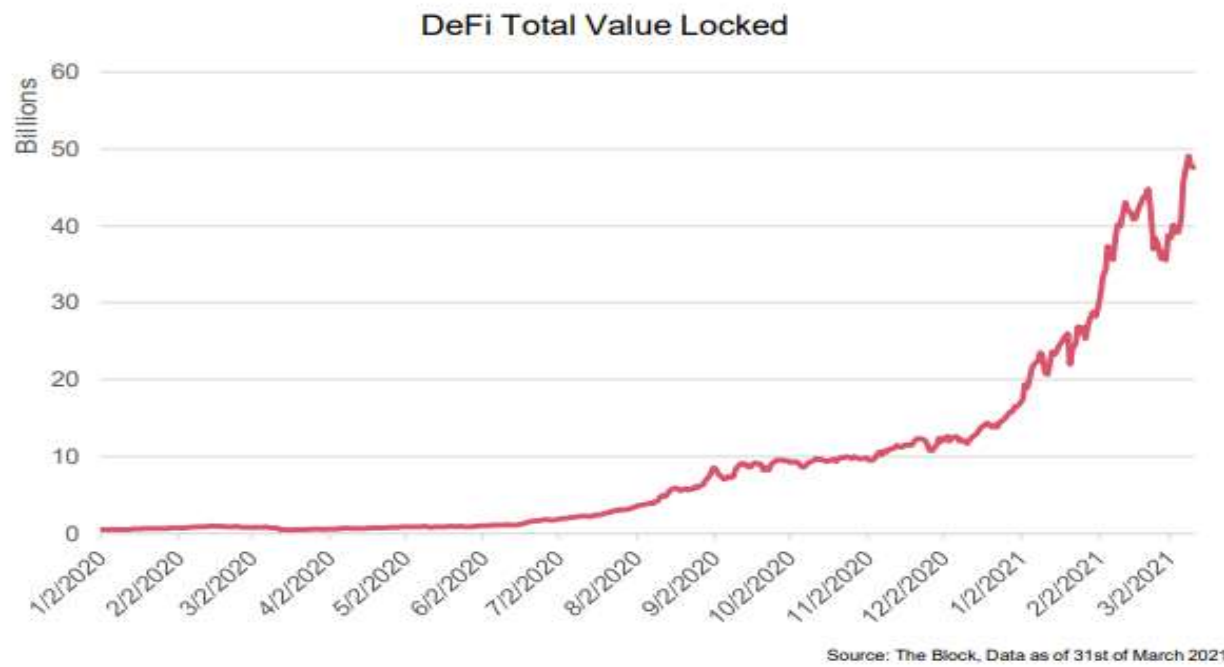
Central Bank project announcements accelerated in early 2019, shortly followed by global public interest.

¹Source: BIS. Please note that project dates are based on the first publication date of the related report, as provided by BIS. When there is an ongoing or completed pilot, a is marked on the right side of the country flag by a star. Flags without stars indicate that Central Banks are on the stage of research studies. More information concerning the determination of pilot could be found in 'Rise of the central bank digital currencies: drivers, approaches and technologies', BIS working paper, No 880, August by Auer, R, G Cornelli and J Frost (2020).

CBDC projects gaining traction globally



A growing interest for DeFi



Key challenges for scalability

- 1 Technological infrastructure
- 2 Price volatility
- 3 Sustainability
- 4 Trust
- 5 Regulation



Highlights of EFRAG Discussion Paper-

Accounting for Crypto-assets (liabilities)

6 July 2021- Presentation

Vincent Papa (Associate Director), Isabel Batista (Senior Technical Manager)



Motivation for EFRAG research

- **Inform forthcoming IASB agenda consultation, can influence other local GAAP**
- **Limited scope of the 2019 IFRS IC agenda decision that focused on holders of cryptocurrencies**
- **Stakeholders seek regulatory clarity including on accounting requirements**
- **Contribute to opportunity to future proof IFRS requirements for emerging transactions**
- **Opportunity to consider accounting requirements for non-financial assets held as investments**

Discussion Paper Overview

- Summary
- Questions for constituents
- Chapter 1: Introduction (background and motivation)
- Chapter 2: Overview of crypto-assets activities, economic characteristics and regulation
- **Chapter 3: Holders accounting**
- **Chapter 4: Issuers accounting**
- **Chapter 5: Crypto-assets valuation**
- **Chapter 6: Potential development of IFRS requirements**
- Chapter 7: Implications of potential market developments
- Appendices (activities; economic characteristics, rights and obligations; regulation)

Accounting issues contained in chapters 3,4, 5 and 6

Holder accounting: Developing IFRS requirements

Areas for possible updates of IFRS requirements

- Address lack of explicit IFRS guidance for when crypto-assets are non-financial assets held as investments
- Address limitations of IAS 38 and IAS 2 measurement requirements in accounting for crypto-assets (e.g., exempt crypto-assets from scope of IAS 38 even though they meet definition of intangible assets)
- Possible update of Financial assets definition for some security tokens that have functional equivalence to equity securities but do not meet IAS 32 definition
- Possible update of cash and cash equivalent definition in light of proliferation of CBDCs and some fiat-currency pegged stable coins

Areas for possible clarification of IFRS requirements

- Intermediary holders (custodians, brokers, exchanges)
- Utility tokens when considered as prepayments; hybrid tokens whose primary use changes over time

Issuer accounting: Which IFRS Standards could apply?

- Issuer accounting is not specifically addressed under IFRS Standards
- **In the absence of specific IFRS guidance, ICO issuing entities can apply one or a combination of the following IFRS Standards:**
 - IFRS 9 *Financial Instruments*– financial liability for issuance of (some) security and asset-based tokens;
 - IAS 32 *Financial Instruments: Presentation* – equity instrument for issuance of (some) security and asset-based tokens;
 - IFRS 15 *Revenue from Contracts with Customers*– prepayment for future goods or services (for example access to a platform) for issuance of utility tokens to holders that can be considered potential customers; and
 - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* –obligation leading to a provision (such as a constructive obligation)
- If no obligation exists, an ICO issuing entity recognises a gain/ income in profit or loss
- **Other areas for clarification:** own ICO tokens exchanged for employee services or third-party services; ICO issue costs; Airdrops...

Valuation methods

- **The unique and/or multiple element characteristics of different crypto-assets (liabilities) can make valuation complex**
 - Crypto-assets (liabilities) in early stages of development making it hard to derive a robust methodology for their valuation
 - Many crypto-assets show a high intra-day volatility of prices;
 - Establishing whether an active market under IFRS 13 *Fair Value Measurement* exists might be challenging
- **CBV Institute (professional association of Chartered Business Valuators in Canada) research paper published in 2019 examines three valuation approaches**
 - Cost of Production;
 - Equation of Exchange; and
 - Network Value to Transactions Ratio.
- The CBV research paper highlights parallels between emergent crypto-asset valuation approaches and the traditional valuation approaches

Possible approaches to the clarification or development of IFRS requirements

- **Option 1: Do Nothing (No change in existing IFRS requirements)**
- **Option 2 (Enhancing implicit requirements): Clarify and/or amend existing IFRS requirements**
 - IAS 38/IAS 2 (Exclude crypto-assets from scope or possible amendment of requirements)
 - IAS 7 (Possible update of cash and cash equivalent definition)
 - IAS 32 (Possible update of definition of Financial instruments, financial assets, financial liabilities)
 - Clarification of requirements across various standards (IAS 37, IFRS 15, IFRS13)
- **Option 3 (Developing explicit requirements): Develop a new standard on crypto-assets (liabilities) or broader category of digital assets (liabilities)**



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IFRS® Foundation

Accounting for Crypto under IFRS

Bruce Mackenzie
IASB Board Member

July 2021

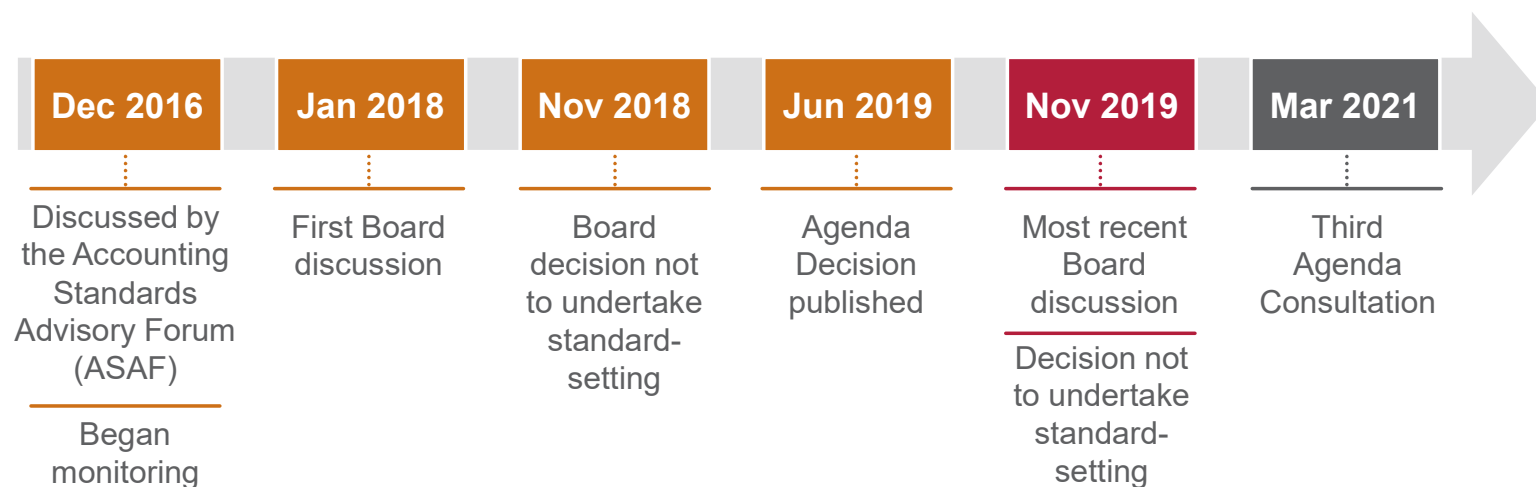
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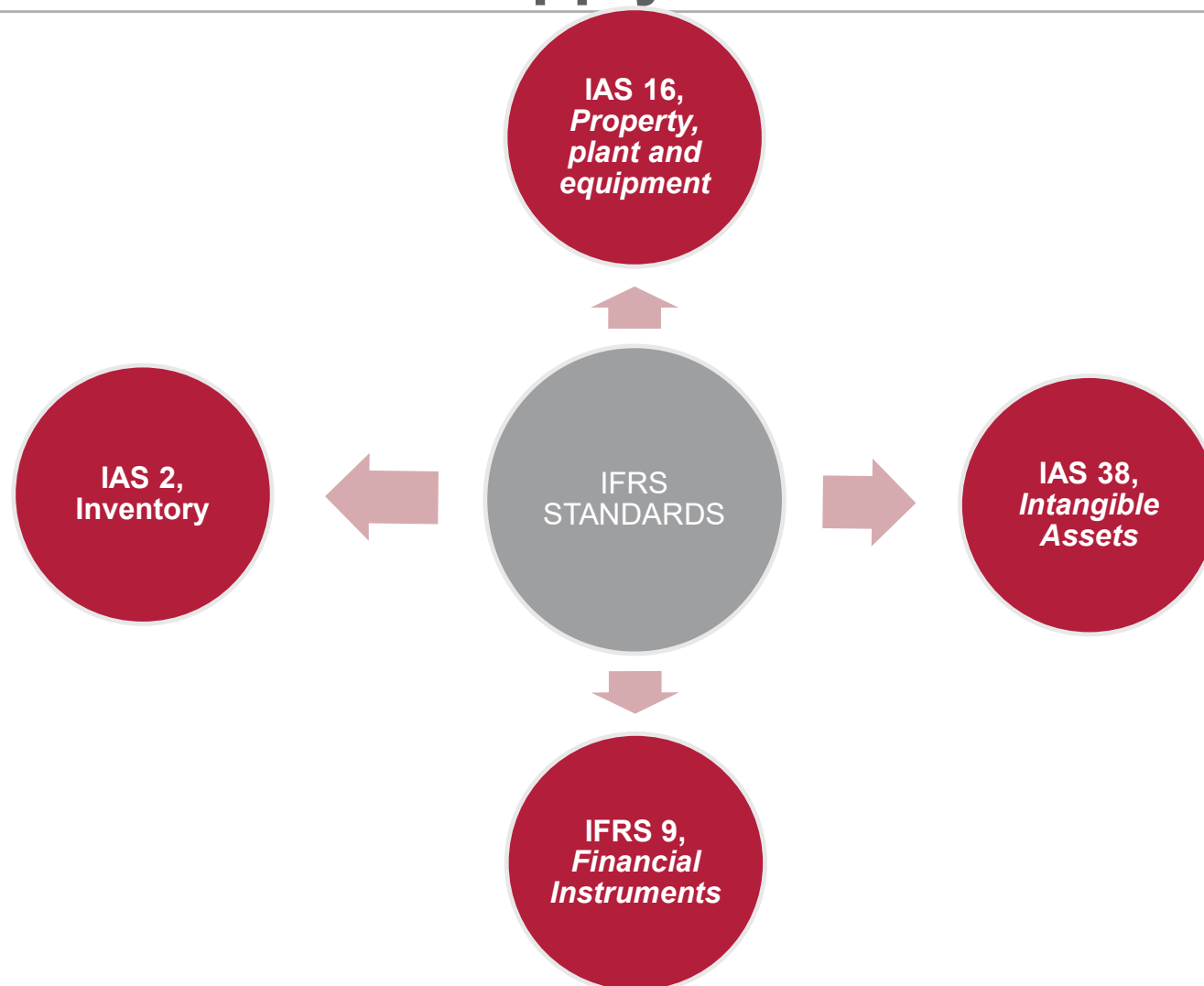
A grayscale world map is centered on the Atlantic Ocean, showing the continents of North America, South America, Europe, Africa, and Australia. The map is overlaid with a grid of dotted lines representing latitude and longitude. Three thick, curved, light-gray bands sweep across the map from the bottom left towards the top right. The text "Where are we now" is written in a white, sans-serif font on the right side of the map.

Where are we now

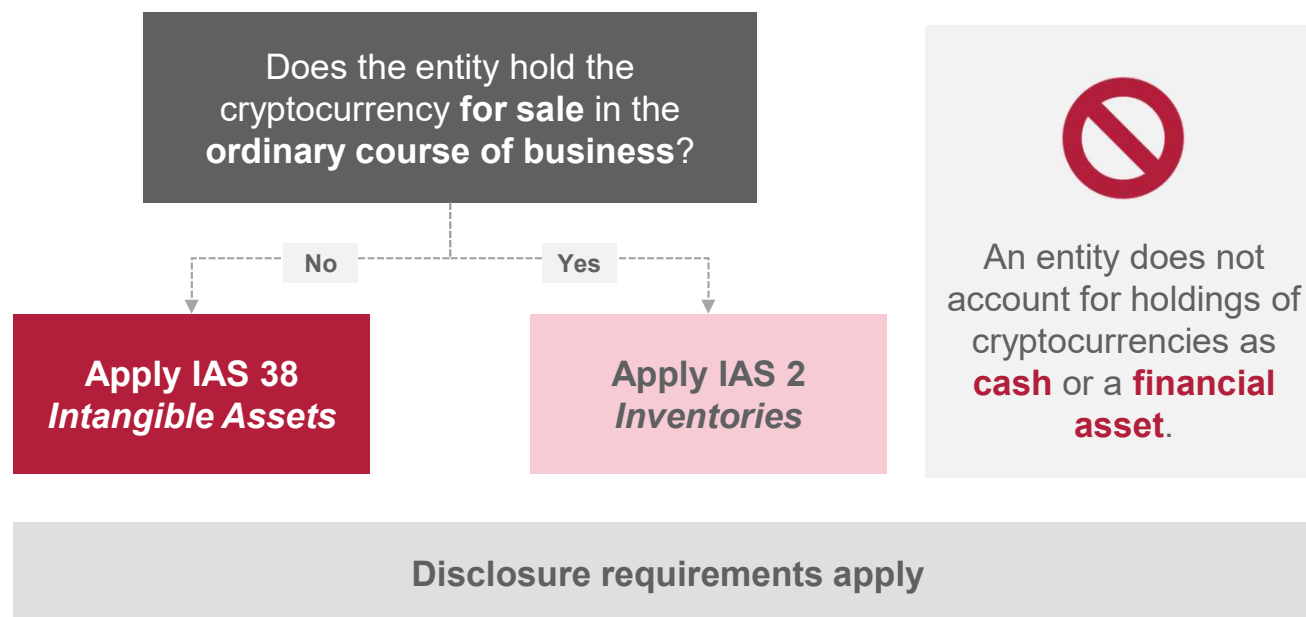
History of the Board's discussions



Which standards could apply?



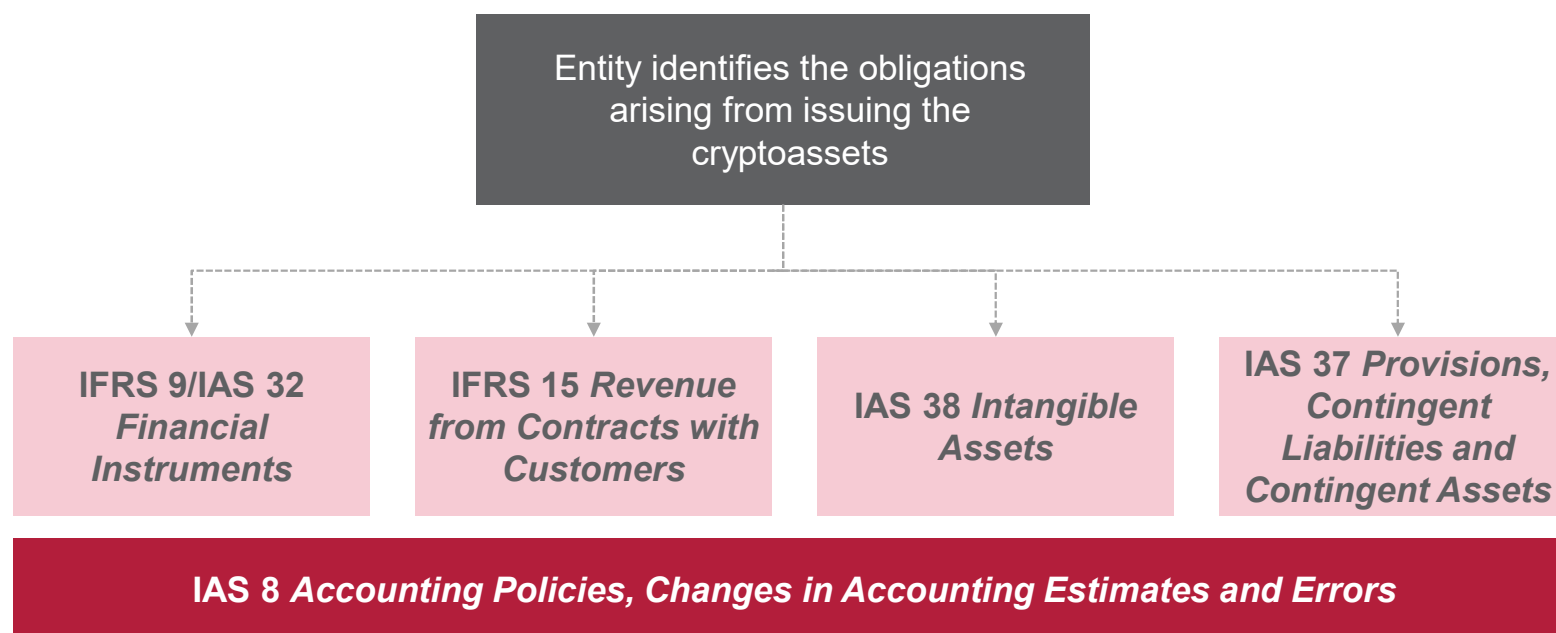
Agenda Decision Holdings of Cryptocurrencies



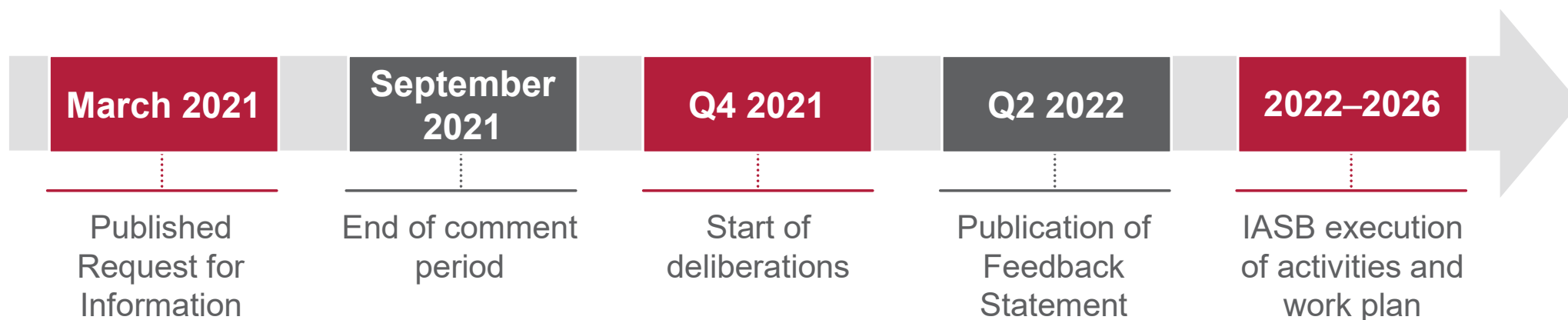
A grayscale world map with a grid of dotted lines representing latitude and longitude. Overlaid on the map are several thick, curved, light-gray bands that sweep across the continents from the bottom left towards the top right. The background is a solid dark gray.

The future of crypto accounting under IFRS

Accounting issues that could be addressed



Defining the IASB work plan for 2022–2026



Objective of the agenda consultation

To seek views on

- the strategic direction and balance of the IASB's activities
- the criteria for assessing the priority of financial reporting issues that could be added to the work plan
- new financial reporting issues that could be given priority in the IASB's work plan

Overview of the Request for Information

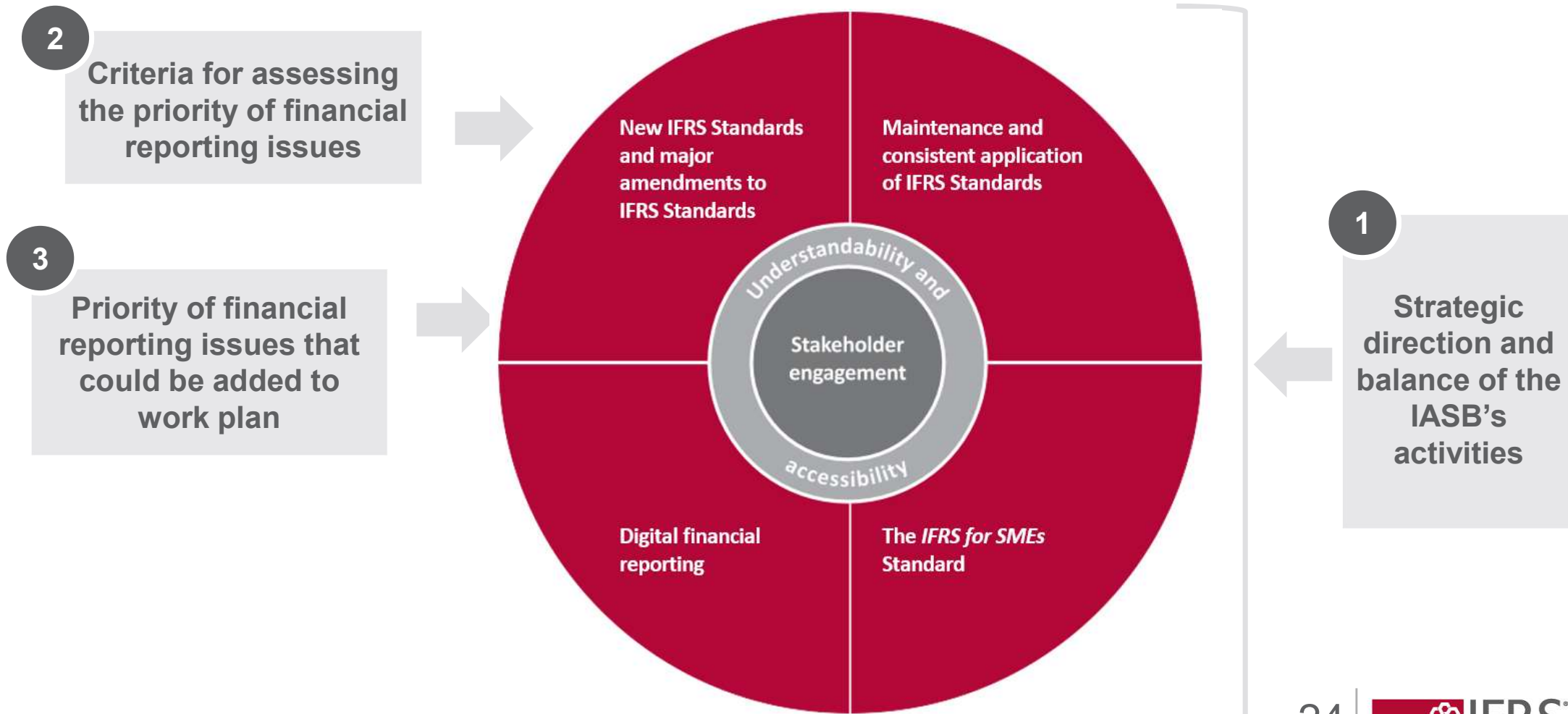


Chart is not drawn to scale

Potential Solutions

RFI asks respondents whether we should address this topic, and in how. We could:

Educational
Materials

Develop educational materials, as part of its maintenance and consistent application activities.

IAS 38
Amendments

Targeted amendments, for example:

- develop additional disclosure requirements about the fair value of cryptocurrencies (small project)
- permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (a medium-sized project).

IFRS 9
Amendments

Consider amending the scope to include cryptocurrencies (medium-sized project).

New Standard

Develop a Standard to cover a range of non-financial tangible or intangible assets held solely for investment purposes (large project).

An abstract graphic on the left side of the slide. It features a central red circle surrounded by several concentric rings. The rings are composed of different line styles: a solid blue ring, a dashed orange ring, a dotted white ring, a dashed white ring, and a solid white ring. Several thin, light gray lines radiate from the center, intersecting the rings.

Q&A

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Auditability considerations



Audit considerations

- 1 Awareness and general education of executive management, including CFOs
- 2 Ownership and completeness of cryptoassets
- 3 Governance and internal control
- 4 Valuation
- 5 Underlying rights and obligations
- 6 Disclosures to the financial statements

