

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FR Board or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FR Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Revision of Recommendations and Feedback Statement on EFRAG DP-Accounting for Crypto-Assets (Liabilities)

Objective

- 1 Following the feedback from the EFRAG FR Board, this paper presents matters for further discussion by the EFRAG FR TEG that will inform the revision to the Recommendations and Feedback Statement on the EFRAG [Discussion Paper on Accounting for Crypto-Assets \(Liabilities\)](#) (DP).

Overview of proposed changes to the Recommendations and Feedback Statement

Issuer accounting

- 2 While agreeing that addressing holders accounting would deal with the immediate practical challenges faced by IFRS entities, the EFRAG FR Board pointed to the challenges arising from the ambiguity on the nature of rights and obligations associated with crypto transactions and considered that issuer accounting (addressing initial coin offerings 'ICOs' and similar transactions) provides an important starting point for understanding these rights and obligations and thereafter informing the appropriate accounting requirements for both holders and issuers.
- 3 Furthermore, addressing the accounting for issuers- including through requirements for disclosures can contribute to the transparency of these transactions and enhance the understanding of the rights and obligations associated with these transactions and could be an important prerequisite for the subsequent development of accounting requirements. There is jurisdictional guidance on disclosures for issuers including from the NSS (France-ANC) as noted in the Appendix, including disclosure for tokens that are not recognised in the financial statements.
- 4 The EFRAG FR Board has proposed that the Recommendations and Feedback Statement should include a recommendation for the IASB to also focus on issuers accounting - even if that needs to be done through a two-step approach if the IASB decides to only focus on the accounting by holders of crypto-assets in the near term as a first step. The focus on issuers should include addressing the range of complexities that arise for different transactions (e.g., for airdrops, pre-functional tokens, unsubscribed tokens) as pointed out by the work done by National Standard Setters (NSS) on issuers (France, Lithuania) in the EFRAG DP. The Recommendations and Feedback statement should give more prominence to the NSS guidance for issuers and other related guidance including that which is in the DP. The Recommendations and Feedback Statement has been tentatively updated to reflect these proposals by the EFRAG FR Board.

- 5 Furthermore, Appendix 2 of the Recommendations and Feedback Statement has a Table (i.e., below paragraph 20) outlining EFRAG's recommendations for issuer accounting by different types of crypto-assets and a summary of NSS applicable local GAAP guidance that was also included in the EFRAG DP.

Holders accounting

- 6 The EFRAG FR Board has asked for the EFRAG TEG to further elaborate on its conceptual reasoning justifying the FVPL measurement in all circumstances for crypto-assets in the scope of IAS 38 *Intangible Assets* (i.e. cryptocurrencies that are exchangeable for fiat currency or financial instruments) that (based on the recommendations approved by EFRAG TEG in January 2022) EFRAG is recommending be scoped out of IAS 38 and manually scoped into IFRS 9 *Financial Instruments* or IAS 40 *Investment Property*. The EFRAG FR Board has asked for EFRAG TEG to consider whether the holder's business model needs to be considered in determining the appropriate measurement. The holder's business model or business purpose is a criterion in some of the NSS guidance (see Table of NSS holder accounting guidance in the Appendix) and was also suggested by some stakeholders during the outreach on the EFRAG DP. Accordingly, the drafting in the Recommendations and Feedback statement proposing a different accounting treatment for crypto-assets (i.e., cryptocurrencies) that are manually scoped into IFRS 9 with the FVPL measurement in all circumstances may need to be amended to reflect that a mixed measurement approach is appropriate.
- 7 A suggestion was made that as an alternative to scoping crypto-assets out of IAS 38 and manually scoping them into IFRS 9; IAS 38 could be amended to allow FVPL for crypto-assets and intangible assets within the scope of the Standard. It was noted that the challenges of scoping out of IAS 38 and scoping into IFRS 9 include the need to a) define a cryptocurrency; b) come up with a rationale for why cryptocurrencies are different from commodities that are readily convertible to cash, c) have to design disclosures in IFRS 7 *Financial Instruments Disclosures* that would apply to cryptocurrencies, d) consider whether cryptocurrencies are more like debt or equity or 'other category' for purposes of a classification model. The Recommendations and Feedback statement has been tentatively updated to reflect the amendment of IAS 38 to allow FVPL as an additional recommended option.
- 8 It was agreed that the Recommendations and Feedback Statement should be revised to make it clear that the appropriate accounting treatment depends on the type of crypto-assets and that EFRAG is not recommending a one-size-fits-all for holders of all types of crypto-assets. This should be done by classifying recommendations based on the taxonomy applied in the DP in Appendix 2.
- 9 Furthermore, there is also a need to clearly state EFRAG's position on the accounting that is appropriate for **cryptocurrencies that are only exchangeable for other cryptocurrencies** (e.g., some of the altcoins) (i.e., to not only state EFRAG's position on cryptocurrencies that are exchangeable for fiat currency). As it stands, the Recommendations and Feedback Statement states the following:
- Nonetheless, EFRAG considers there is a need to define instances where some crypto-assets could remain under the scope of IAS 38, making it important to have a clear definition of intangibles and to assess when current recognition and measurement under IAS 38 and IAS 2 is appropriate to crypto-assets for crypto-assets. For instance, cryptocurrencies that are only exchangeable for other cryptocurrencies (e.g., some of the altcoins) should remain within the scope of IAS¹ 38.*

¹ IAS 38 has requirements for non-monetary exchanges.

- 10 Appendix 2 of the Recommendations and Feedback Statement has a Table outlining EFRAG recommendations for holder accounting by different types of crypto-assets (based on taxonomy applied in the DP) and a summary of applicable NSS local GAAP guidance that was also included in the EFRAG DP.

Valuation

- 11 The EFRAG Board has proposed a recommendation for educational material related to the valuation of crypto-assets (liabilities). The Recommendations and Feedback Statement has been tentatively updated to reflect this proposal by the EFRAG FR Board.

Questions to EFRAG TEG

Issuers

- 12 Does EFRAG FR TEG generally agree with the update to the Recommendations and Feedback Statement - to also recommend a focus on issuer accounting - as part of understanding the rights and obligations associated with the novel and fast-evolving crypto-transactions and addressing the range of complexities that arise for different issuer transactions (see paragraph 4)?
- 13 Does EFRAG FR TEG agree with incorporating the proposed two-step recommendation to the IASB the Recommendations and Feedback Statement- (i.e., address holder accounting to ensure FVPL alongside having requirements for disclosures by issuers as a first step. Thereafter, as a second step, to address issuer accounting requirements after further research on the associated rights and obligations)?
- 14 Does EFRAG FR TEG agree with the recommendations for disclosures and further research and clarification of different aspects of issuer accounting as detailed in the Appendix- Table below paragraph 20?

Holders

- 15 What does EFRAG FR TEG consider to be the conceptual underpinning for the FVPL measurement in all circumstances for crypto-assets (cryptocurrencies in the scope of IAS 38) that are **exchangeable for fiat currency or financial instrument** and manually scoped into IFRS 9? Should the business model of the holder be considered- in determining the measurement of crypto-assets as also proposed by some of the NSS guidance?
- 16 Does EFRAG FR TEG agree that cryptocurrencies that are **only exchangeable for other cryptocurrencies** (e.g., some of the altcoins) should remain within the scope of IAS 38? (See paragraph 9). If you disagree, what alternative do you propose and why? What other instances does EFRAG FR TEG consider that some crypto-assets could remain under the scope of IAS 38?
- 17 For cryptocurrencies that are **only exchangeable for other cryptocurrencies** (e.g., some of the altcoins) what does EFRAG TEG FR consider to be the appropriate measurement basis and on what conceptual reasoning?
- 18 Does EFRAG FR TEG agree with the inclusion in the Recommendations and Feedback statement of the alternative of amending IAS 38 to allow FVPL for crypto-assets and intangible assets within the scope of the Standard?

Structure and content of Recommendations and Feedback statement

- 19 Does EFRAG FR TEG agree with the revisions to the Recommendations and Feedback statement in tracked changes on the overall way forward, issuers, holders, and valuation?
- 20 Does EFRAG FR TEG agree with the additions to the Recommendations and Feedback statement to reflect the EFRAG recommendations by type of crypto-assets (for both holders and issuers) and the NSS guidance (i.e., Appendix 2 of the Recommendations and Feedback statement)?

