

# EFRAG Discussion Paper on Crypto-assets (liabilities) Outreach Questionnaire

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## BACKGROUND INFORMATION

### 1. Please provide some information about your activities:

**Your name**

Martin Petrov

**Your organisation**

Sofia International Securities JSC

**Please provide your e-mail if you agree to be contacted for any follow-up questions**

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### 2. Functional role (Please select one of the following)

Adviser (e.g. legal, consultant)

**Comments:**

### 3. Where appropriate, please identify the nature of your organisation's crypto-asset related business activities (buying, holding and issuing) (Please select the most representative category)

Custodial services firm or broker-dealer

**Comments:**

### 4. Please indicate the region or country in which you are based

EU, UK, Norway, Liechtenstein and Switzerland

## TRENDS AND MARKET DEVELOPMENTS

### 5. 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? As needed, please explain your response.

Insignificant

**Comments:** Compared to mainstream financial instruments, I do not believe crypto instruments will represent simultaneously (a) substantial investment in terms of amounts, and (b) substantial portion of significant portfolios for investors outside of a small specialized group of cryptofunds. In this context I believe issuers would still have large preference for classic debt and equity instruments over crypto instruments to attract investors.

## OVERALL APPROACH TO DEVELOP IFRS REQUIREMENTS

6. The EFRAG Discussion Paper proposes three options to develop IFRS requirements, namely: no amendment to existing IFRS requirements; amend and/or clarify existing IFRS requirements; and a new Standard on crypto-assets (liabilities) or digital assets (liabilities).

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

(To the extent you can, please elaborate on your choice)

Amend and/or clarify existing IFRS requirements

**Comments:** My preference is for finetuning digital assets and liabilities within the context of the existing IFRS standards, since fundamentally those instruments have intrinsic value that is linked to their perception by buyers and sellers as either a subclass of financial instruments or a form of utility contract,

## ACCOUNTING FOR HOLDERS

7. In 2019, the IFRS Interpretation Committee (IFRS IC) issued an agenda decision that clarified the accounting requirements for a subset of crypto-assets (i.e., cryptocurrencies where there is no claim on the issuer such as bitcoin) ought to be classified as either intangible assets or inventories if held in the course of normal business and fall within the scope of IAS 38 *Intangible Assets* or IAS 2 *Inventories*.

The EFRAG Discussion Paper (Chapter 3) notes that 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 revaluation approach, FVOCI is only allowed if there is an active market. Other commentary has also pointed to additional limitations including that: under the IAS 38 revaluation approach, revaluation gains remain in OCI even when the asset is sold and gain is realised (no recycling); and there is inconsistency and subjectivity in impairment testing.

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? (To the extent you can, please elaborate on your choice)

Yes

**Comments:** The market does not view bitcoin and ether as stock, but rather as a non-convertible currency. Classifying them as inventories goes against the underlying logic of their valuation by the market, therefore I believe they should either be viewed as a subclass of financial assets (digital financial assets) or substantial work is required under IAS 2 and IAS 38 to properly fit these assets.

8. The EFRAG Discussion Paper (Chapter 3) suggest that there may be a need to update IAS 32 *Financial Instruments Presentation* 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, can be classified as financial assets.

Should IAS 32 be updated to include crypto-assets (tokens) with functional equivalence to equity or debt securities? Please explain.

Yes

**Comments:** Essentially such tokens serve as digital contracts on debt and/or equity.

9. The EFRAG Discussion Paper (Chapter 3) suggests that the IFRS definition of cash or cash equivalents may need to be updated to include some of the stable coins that are pegged to fiat currency on a 1:1 basis, cryptocurrencies that qualify as e-money and CBDC.

Should the IFRS definition of cash or cash equivalents be updated? (To the extent you can, please elaborate on your choice)

Yes

**Comments:** I believe liquid digital assets are viewed as non-convertible currency by the market.

10. The EFRAG Discussion Paper (Chapter 3) suggests 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 (transaction in which goods/services are exchanged for crypto-assets) and proof-of-work mining activities.

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

Yes

**Comments:**

## ACCOUNTING FOR ISSUERS

11. The EFRAG Discussion Paper (Chapter 4) notes that issuers can apply one or a combination of the following IFRS Standards: IFRS 9 *Financial Instruments*; IAS 32; IFRS 15 *Revenue from Contracts with Customers*; and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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)? (To the extent you can, please elaborate on your choice)

Yes

**Comments:** Ultimately crypto-liabilities meet the definition of contractual liability.

12. The EFRAG Discussion Paper (Chapter 4) 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).

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?

No

13. The EFRAG Discussion Paper (Chapter 4) 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).

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?

No

## VALUATION

14. The EFRAG Discussion Paper (Chapter 5) observes that when considering fair value measurement under IFRS 13 *Fair Value Measurement*, determining an active market for crypto-assets is not always straightforward.

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? (To the extent you can, please elaborate on your choice)

Yes

**Comments:** The fundamentals of fair value remain the same independently of the asset type, I do not believe crypto assets to require a separate valuation logic.

15. The EFRAG Discussion Paper (Chapter 5) 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.

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?

Yes

## 2. Thank You!

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Thank you for taking our survey. Your response is very important to us.