

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

1.

BACKGROUND INFORMATION

1. Please provide some information about your activities:

Your name

MARIA ERVITI

Your organisation

BBVA

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

maria.erviti@bbva.com

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

Other (Please specify)

Comments: Accountant

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.

Do not know

Comments: It will depend on the development of the legal and regulatory framework in the different countries.

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: We think that Option 1, that is, "No amendment to existing IFRS requirements" is not an option, because IFRS is not working well for holdings of cryptoassets, for example. Regarding option 3, that is, "A new Standard on crypto-assets (liabilities) or digital assets (liabilities)", we have doubts about whether it is possible to include at this stage all the casuistry around crypto assets, both from a holder and issuer perspective, due to the rapid evolution and innovation of these assets. Therefore, we think that option 2 "Amend and/or clarify existing IFRS requirements" is the most sensible option at this moment. We think that the most adequate would be to choose the topics around cryptoassets and liabilities that could most need a clarification or amendment and to focus on them

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 current intangible asset accounting under IAS 38 for investments in cryptoassets does not fit well with their nature and economics. On the one hand, applying the amortised cost model does not provide relevant information. The historical cost seems completely irrelevant due to the high volatility in the price of these assets and we foresee significant challenges to determine when to make an impairment and recognise a loss in the Income Statement. On the other hand, we fail to see the logic for applying the revaluation model under IAS 38 for cryptoassets with an active market where revaluations are recognised in OCI but devaluations in P&L. We think that the most convenient accounting measurement for Holdings of crypto assets should be to recognise it at Fair Value Through Profit and Loss and complement this with appropriate and relevant disclosure. The disclosures should explain the nature of the assets, the business model for the investment and details about the valuation technique used and of course, the volatility in the price of the 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.

No opinion

Comments:

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: We think that the definition of "cash" under IFRS would need probably to be amended. At this stage we are thinking about adapting the definition to include the issuance of Central Bank Digital Currencies that it's probable we will see in the following years and maybe, some stablecoins issued by private companies

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.

No

Comments: From our experience we consider that current IFRS provides sufficient criteria to be able to apply the requirements to custody services. We think that the analysis to determine the accounting for custody services, will be, in most cases, focused to conclude if the bank controls or does not control the cryptoassets under custody. If the bank controls the cryptoassets, the entity should recognise an asset in the balance sheet and then in most cases the current IFRIC guidelines will be applicable. Otherwise, if the bank does not control the cryptoassets, the bank would just be providing a service for their clients and then IFRS 15 would apply to account for the fees received. Consequently, the main challenge that the accountants can face is to understand the characteristics, risks, the rights and obligations, of the custodial and trading services that they are providing. This challenge could be very high in some countries where there is not clear Regulation. In summary, IFRS requirements work but the difficulty could be in the analysis that must be done to conclude if the holder controls or does not control the cryptoassets. The lack of a clear Regulation and uncertainty about the risks is behind this difficulty.

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)

No opinion

Comments:

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 opinion

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 opinion

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 definition of an active market is well defined under IFRS 13. At this moment, we don't see the need to adapt it for cryptoassets. However, we see significant challenges when you conclude that there is not an active market for the particular cryptoassets but you must measure the assets at fair value. How do you determine the fair value in this case?

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?

No opinion

2. Thank You!

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