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Crypto-Assets – Holders and Issuers Draft Discussion Paper - Cover Note

Objective

- 1 This paper is to facilitate a discussion by EFRAG TEG members on the updated draft Discussion Paper (DP) (**paper 10-02**).
- 2 The objective of this session is to obtain EFRAG TEG members' input on the following sections of the DP:
 - (a) Executive summary including the possible options for developing IFRS requirements;
 - (b) Questions for constituents; and
 - (c) Additional chapter (Chapter 6) on possible approaches to developing IFRS requirements.
- 3 Finally, the session aims to get EFRAG TEG members' approval of overall content the DP.

Summary of options for the development of IFRS requirements

- 4 In order to clarify and possibly enhance different aspects of accounting by holders and issuers of crypto-assets, there seems to be the following plausible options to developing IFRS requirements, should the IASB decide that there is a sufficient case for doing so.

Short-term solution

- (a) Option 1: Extending the scope of the IFRS IC clarification to go beyond the scope of the 2019 IFRS IC clarification that only focused on cryptocurrencies with no claim on the issuer.
- (b) Option 2 : Amendment of existing applicable standards (e.g. IAS 2 *Inventories* and IAS 38 *Intangibles*) to exclude or limit the inclusion of crypto-assets from their scope and allow preparers to develop their own accounting policy for crypto-assets (IAS 8 *Accounting Policies and Accounting Estimates*) in cases where preparers may deem that applicable IFRS Standards are not reflecting the economic attributes of their crypto-assets transactions or where there is need for clarification of applicable standard principles (e.g. hybrid tokens, holdings from barter transactions, mining activities and other areas where there is uncertainty on how existing IFRS Standards apply). Through IAS 8, preparers would be able to make reference to similar issues covered in existing IFRS Standards, other NSS guidance and the Conceptual framework to determine the appropriate recognition and measurement of crypto-assets.

Medium to long-term solution

- (c) Option 3: Amend applicable IFRS standards (IAS 2 and IAS 38 for holders; IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for issuers; and IFRS 9 *Financial Instruments* and IFRS 13 *Fair Value Measurement* for both holders and issuers) to make them applicable for crypto-assets transactions and to address possible areas of accounting gaps and clarification in IFRS requirements identified in Chapters 3, 4 and 5 of the DP.
 - (d) Option 4: Development of a standalone crypto-assets standard
 - (e) Option 5: Development of a broader new standard/s addressing crypto-assets and analogous transactions (e.g. a new standard on non-financial assets investments **or** a new standard on digital and digitised assets)
- 5 The DP will seek constituents' views on which of the above options they consider that the IASB could adopt as a short-term solution and/or medium to long term solution, should it decide that there is a convincing case for further developing IFRS requirements. To help obtain feedback, the DP will also put forward a preliminary view on which of the above options is optimal that constituents can react to.

EFRAG crypto-project team preliminary view

- 6 The preliminary conclusion of the EFRAG crypto-project team, that is subject to amendment after EFRAG TEG members input, is as follows
- 7 Possible short-term solution: The following could possibly be considered by the IASB as a short-term solution (i.e. a combination of option 1 and 2):
- (a) An extended IFRS IC clarification on selected issues including those that could have broad implications (e.g. whether stable coins that are 1:1 pegged to fiat currency and other crypto-assets that qualify as electronic money under jurisdictional definitions can be classified as either cash or cash equivalents) and on where transactions are likely to be or become more widespread among entities (e.g. holders on behalf of others by financial institutions; and ICOs and similar offerings issuance by SMEs); and
 - (b) A narrow scope amendment of existing applicable IFRS Standards to exclude crypto-assets from their scope and to allow preparers to develop their own accounting policy (IAS 8)
- 8 Medium- to long-term solution: If there is sufficient evidence of crypto-assets becoming mainstream, the development of either a unified, standalone crypto-asset standard or a broader standard on digital and digitised assets ought to be considered by the IASB in the medium to long term. The development of either a standard on only crypto-assets or a broader standard on digital and digitised assets could include when they are held as short or long-term investments and could potentially address some of gaps in IFRS requirements for non-financial asset investments. The development of a standalone standard is likely to be more efficient than either amending multiple individual applicable IFRS Standards or only developing a new standard for non-financial asset investments that only addresses one of the perceived gaps in existing IFRSs in respect of crypto-assets.
- 9 This preliminary conclusion by the EFRAG crypto-project team aligns with the description of stakeholder expectations in the 2019 December ASAF meeting staff paper¹ on the 2020 IASB agenda which shows that some stakeholders still expect a review and revision of crypto-assets related IFRS requirements including revision

¹December 2019 ASAF Staff Paper, <https://cdn.ifrs.org/-/media/feature/meetings/2019/december/asaf/ap1-agenda-consultation.pdf>

of IAS 38 definition of intangibles and allowing accounting policy choice (IAS 8) in the near term; or development of a new crypto-assets standard in the long term.

Questions for EFRAG TEG members

- 10 Do EFRAG TEG members have any feedback on the overall content of the Executive Summary?
- 11 Do EFRAG TEG members have any feedback on areas for clarification and amendment of IFRS for accounting for holders, issuers and valuation requirements as summarised in the executive summary **paragraphs ES19, ES 20 and ES21?**
- 12 Do EFRAG TEG members have any feedback on the proposed questions for constituents?
- 13 Do EFRAG TEG members have any feedback on the additional chapter (**Chapter 6**) that has been developed subsequent to the previous draft DP that was discussed at the January 30 TEG meeting?
- 14 The DP outlines options for developing IFRS requirements and will propose a preliminary position to help constituents' responses on the options. Which of the above options to possible development of IFRS requirements in the short term and medium to long term do EFRAG TEG members recommend be the preliminary position of the DP?