

Chiara Del Prete

**European Financial Reporting  
Advisory Group (EFRAG)**

*35 Square de Meeûs*  
1000 Brussels (fifth floor)  
Belgium

La Défense, 26 July 2021

**Discussion Paper – Accounting for crypto-assets (liabilities): holder and issuer perspective**  
(July 2020)

Dear Chiara,

MAZARS is pleased to comment on the above-mentioned Discussion Paper (DP).

Mazars welcome EFRAG research on the accounting for crypto-assets and liabilities.

We have noticed in recent year a clear increase in the number of transactions involving the use of crypto-assets. By way of example, we have had to consider accounting treatments in the following areas: platforms providing services on crypto-assets, entities seeking funding and launching an ICO or entities starting a “mining” activity.

When dealing with all these different situations, the use of current IFRSs is very helpful but is not always sufficient to deal with all the problematics encountered. This is the reason why we are deeply convinced that there is a need to improve the IFRS guidance on the accounting for crypto-assets and liabilities.

In our view, a possible way forward would be to develop an application guidance based on the most common situations met by preparers. This guidance would refer to each relevant existing IFRS standard for each situation. Such an approach:

- Will provide a very useful guidance for the accounting for crypto-assets, as long as no standard-setting project is completed
- Will help identifying situations that current standards are unable to tackle properly and determining the best way to undertake necessary standard-setting (amendment of existing IFRSs or new standard).

**mazars**

Our answers to the questions raised in the Discussion Paper are shown in the appendix to this letter. We would be pleased to discuss our comments with you.

Yours faithfully,



Michel Barbet-Massin

*Financial Reporting Advisory*



Edouard Fossat

## QUESTION 1— USE OF CRYPTO-ASSETS (LIABILITIES)

Chapter 7 discusses some of the factors that may influence the uptake of crypto-assets (liabilities) by mainstream institutions. Furthermore, as noted in Chapter 3 (Paragraph 3.98), the business purpose for holding a crypto-asset should be a key consideration in the accounting classification.

***Please describe the areas in which your company (or institutional clients) use or expect to use crypto-assets (liabilities).***

***What are the main factors influencing the usage of crypto-assets (liabilities)?***

***For what purposes are crypto-assets usually held or issued by your company or institutional clients?***

As an audit firm, Mazars does neither “use”, hold nor issue crypto-assets (liabilities).

Our experience is based on situations encountered by our clients, in the context of their activity.

## QUESTION 2— WAY FORWARD

**Question 2.1.** As detailed in Chapters 3 and 4, this DP proposes that there is need to address accounting topics, not in scope of the IFRS IC agenda decision on cryptocurrencies and to include unaddressed holders’ and issuers’ accounting topics.

***Do you agree that there is need to address accounting topics not in scope of the IFRS IC agenda decision on cryptocurrencies? Please explain.***

While we welcome the work undertaken by the IFRS IC on the accounting treatment of cryptocurrencies, we believe that their agenda decision should be a first and preliminary answer. The issues relating to the accounting for crypto-assets (liabilities) are broader than the scope considered in the agenda decision and deserve further work.

Examples of issues on which additional guidance would be helpful:

- Concerning the scope of the agenda decision
  - Crypto-assets include cryptocurrencies, and tokens, each with multifaceted characteristics. We believe that the IFRS IC should consider crypto-assets (liabilities) as a whole and not limit its advice to cryptocurrencies only.
  - Does the agenda decision fit for another kind of cryptocurrency called “stable coins”? For that purpose, it might be useful to determine the key characteristics of a stable coin as in the taxonomy applied in the DP. We understand that a stable coin could be classified either as a payment token, or a security token or an asset token of a hybrid token (§A2.7).
  - Do the Central Bank Digital Currencies (CBDC) projects fall within the scope of the agenda decision?
- Regarding the nature of a cryptocurrency
  - It could be clarified that a cryptocurrency is not a fiat currency. Indeed, we believe that “cryptocurrencies” (e.g. Bitcoin, Ether) are a means of exchange but no currency (unlike the answers to the IFRS IC agenda decision quoted in this DP paragraph 3.57).

- Regarding the accounting for crypto-assets, including cryptocurrencies
  - We believe there are accounting issues that need to be clarified, both from the holder and issuer perspective. Please, see our detailed answers provided in questions 3 and 4.

#### QUESTION 2— WAY FORWARD

**Question 2.2.** Chapter 6 and Paragraphs ES35 to ES46 of the executive summary section analyses three possible approaches on the way forward for addressing IFRS requirements. Chapter 6: Paragraph 6.26, Table 6.1 outlines the pros and cons of each option. The three options are as follows:

- Option 1: No amendment to existing IFRS requirements;
- Option 2: Amend and/or clarify existing IFRS requirements; and
- Option 3: A new Standard on crypto-assets (liabilities) or digital assets (liabilities).

***Which of the three options do you consider to be the most appropriate solution to address IFRS requirements? Alternatively, please elaborate if you consider there to be other possible approaches towards clarifying and developing IFRS requirements for crypto-assets.***

***If a new standard is to be developed, what should be in its scope?***

We believe there is an obvious need for developing IFRS guidance on the accounting of crypto-assets.

A possible way forward would be to develop an application guidance based on the most common situations met by preparers. This guidance would refer to each relevant existing IFRS standard for each situation. Such an approach:

- Will provide a very useful guidance for the accounting for crypto-assets, as long as no standard-setting project is completed;
- Will help identifying situations that current standards are unable to tackle properly and determining the best way to undertake necessary standard-setting (amendment of existing IFRSs or new standard).

#### QUESTION 3— ACCOUNTING FOR HOLDERS

**Question 3.1.** This DP (Chapter 3: Paragraphs 3.37 to 3.41) has identified that applicable IFRS Standards for crypto-assets holders (IAS 2 and IAS 38) do not explicitly address situations where crypto-assets are considered to be held as non-financial asset investments. Furthermore, as outlined in Chapter 3: Paragraphs 3.42 to 3.48, 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, FVOCI is only allowed if there is an active market.

***Do you agree that standard-setting activity is needed to address the limitations of IAS 2 and IAS 38 requirements towards addressing non-financial asset investments; namely that: IAS 38 does not allow FVPL when cryptocurrencies are held as trading or investment assets; and IAS 38 does not allow fair value measurement when markets are inactive? Please explain.***

We acknowledge that crypto-assets, in most cases, meet the definition of an intangible asset as defined in IAS 38.

However, none of the two measurement methods proposed by IAS 38 (cost model or the revaluation model (IAS 38.74 or IAS 38.75)) can address properly some business models that, by nature are closer to trading activities (including medium to long term speculative positions where the holder has no other intent than selling the asset in order to benefit from a price increase) and would therefore deserve a FVPL measurement approach.

The same concern applies to the exception in IAS 2 where the use of FVPL measurement is limited in scope as it is attached to the definition of broker-trader that may not fit with some crypto currencies business models. One example is “mining” activities that cannot fit the definition of a broker-trader as the entity does not per se “acquire” the crypto-currency to resell it. Nevertheless, we believe that the performance of such activity would be appropriately reflected by a FVPL measurement approach.

Therefore, providing guidance on the appropriate way to account for such business model could evidence the need to either enlarge possibilities of applying FVPL to crypto-assets (liabilities) within IAS 2 and IAS 38, or modify the scope of IFRS 9.

### QUESTION 3— ACCOUNTING FOR HOLDERS

**Question 3.2.** This DP (Chapter 3: Paragraphs 3.49 to 3.56) has identified the need to clarify the eligibility of some crypto-assets for classification as financial assets. There may be a need to update IAS 32 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. Alternatively, there may be a need to classify crypto-assets as a unique asset and to allow accounting treatment that is similar to that of financial assets where appropriate.

- ***Do you agree that there is need to clarify crypto-asset holders’ eligibility to apply IFRS 9? Please explain.***
- ***Do you have views on whether or not IAS 32 needs to be updated to include crypto-assets (tokens) with functional equivalence to equity or debt securities, within the IAS 32 definition of financial instruments (financial assets for holders and financial liabilities for issuers) or alternatively whether crypto-assets should be classified as a unique asset and allowing accounting treatment similar to financial instruments where appropriate? Please explain.***

We agree with the Agenda decision of IFRS IC published in June 2019 that crypto-currencies are not financial assets.

However, for the reasons explained in our answer to the previous question, we are convinced that a FVPL measurement method will be required to appropriately reflect some crypto-currencies business models. Should this not be achievable under IAS 2 or IAS 38, one could consider enlarging the scope of IFRS 9 to make FVPL measurement method available to such situations. Should such approach be considered by the Board, it would have to be accompanied by relevant presentation and disclosure requirements to make the user able to distinguish crypto currencies from financial instruments.

If by “functional equivalence” it is meant a right to receive cash flows like financial instruments, we do not see the need for an amendment to IAS 32 as such right would naturally fit with the existing scope. The issue may be different if the right is on “crypto-currency” flows rather than “cash” flows. If the business model of the holder of such asset is consistent with the one commonly met for financial instruments holder then an amendment to IAS 32 could be relevant.

We are also concerned by situations where the crypto-asset embeds several features such as a right to cash flows (or crypto currency flows) as well as a right to benefit from a service. We

wonder whether in such a case an accounting model reflecting each component of the crypto asset would be relevant despite the issue it raises in terms of unit of account.

#### QUESTION 3— ACCOUNTING FOR HOLDERS

**Question 3.3.** This DP (Chapter 3: Paragraphs 3.57 to 3.63) has identified that the 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 CBDCs. And that crypto-assets received in exchange for goods and services could also be treated as being equivalent to foreign currency.

***Do you have views on whether or not the definition of cash or cash equivalents needs to be updated? Please explain.***

We would not support any change to the cash equivalent definition in connexion with cryptocurrencies. A cryptocurrency should be classified as cash equivalent only if it meets the definition of cash equivalent, especially the following two conditions: “readily convertible to a known amount of cash” and “subject to insignificant change in value”. In our view this situation should rarely occur in practice as, in most cases, cryptocurrencies have the nature of an intangible asset.

In practice, most users of financial statement use the cash and cash equivalent information in relation to the amount of financial liabilities an entity has. For example, this information is used to determine a net debt ratio. Enlarging the definition of cash equivalent would require comfort on the ability of the entity to use such assets (i.e. cryptocurrencies) to settle its financial liabilities. The best way to secure such practice is, in our opinion, to keep the current definition of cash equivalent unchanged.

#### QUESTION 3— ACCOUNTING FOR HOLDERS

**Question 3.4.** This DP (Chapter 3: Paragraphs 3.79 to 3.93) proposes 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 and proof-of-work mining activities (Chapter 3: Paragraphs 3.64 to 3.76). For hybrid tokens, there is a question of whether the predominant component should be considered or if/how bifurcation principles should be applied to determine their classification and measurement. For utility tokens, there is also a question of the appropriate recognition and measurement of atypical tradeable rights (e.g. rights to update network functionality; and rights to contribute resources and effort to the system) and the lack of IFRS guidance for prepayment assets.

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

We agree that all the topics quoted here are relevant and require more guidance to determine a proper accounting treatment.

Regarding custodial services and the accounting treatment for holders of crypto-assets on behalf of others (generally the client), we agree that guidance is needed to determine whether the entity (i.e. the holder) or the customer should account for the crypto-assets on its statement of financial position.

To answer that question, consistently with the general principle for the recognition of any asset under IFRSs, it is key to determine who has control over the crypto-assets. We believe that the determination of a set of criteria to be met would be very helpful to conduct the analysis. Examples of criteria that could be considered: existence of segregation procedures between crypto-assets owned for its own account or on behalf of others, obligation to obtain the consent of the client before initiating any transaction with crypto-assets held on behalf of the client, implementation of a means to return the crypto-assets to the client, etc. In developing such a guidance, the Board should also assess and make clear whether who holds the private keys is determinative in the control analysis.

Regarding the accounting treatment for “mining” activities, in practice we refer by analogy to IFRS 15. Therefore, we believe it constitutes a lead that can be analysed further.

#### QUESTION 4 - ACCOUNTING FOR ISSUERS

**Question 4.1.** This DP (Chapter 4: Paragraphs 4.23 to 4.29) concludes that in the absence of clarification by the IASB, the preliminary conclusion of this research is that ICO issuers (and issuers in similar offerings) can apply one or a combination of the following IFRS Standards: IFRS 9 Financial Instruments, IAS 32 Financial Instruments: Presentation, IFRS 15 Revenue from Contracts with Customers, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 13 Fair Value Measurement.

***Do you consider that existing IFRS Standards provide a suitable basis to account for crypto-liabilities by issuers of ICOs, IEOs and STOs? Please explain.***

Even if all the standards quoted above are useful to help determining an “acceptable” accounting treatment, in our view they do not allow to address all the problems encountered. This is the reason why we consider that further clarifications are needed in relation to accounting treatments applicable to crypto-assets (liabilities) from the issuer perspective.

We propose as a possible way forward to develop an application guidance for issuers similar to that proposed in our answer to Question 2.2. for holders.

#### QUESTION 4 - ACCOUNTING FOR ISSUERS

**Question 4.2.** The DP (Chapter 4: Paragraph 4.28) 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 an issuing entity establishes that the issuance of crypto-assets falls within the scope of IFRS 15, which areas, if any, would you consider need further guidance/clarification for an entity to apply the principles in IFRS 15? Please explain.***

**Question 4.3.** The DP (Chapter 4: Paragraphs 4.25 and 4.29) 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 an issuing entity establishes that the issuance of crypto-liabilities qualify as a financial liability under IAS 32/IFRS 9 or as a provision under IAS 37, which areas, if any, would you consider need further guidance/clarification for an entity to apply these Standards? Please explain.***

In the case of an ICO, it may be difficult to determine precisely what is the obligation of the issuer towards the entity which subscribed to its tokens.

If the obligation is clearly identified (e.g. the issuer has an obligation to deliver in a future period a service or a good), then the application of IFRS 15 seems natural.

Where the obligation of the issuer is unclear, we would nevertheless recognise the cryptocurrencies and /or the fiat money received against a liability (IFRS 15) or a provision (IAS 37). In such a situation it would be very helpful to have some guidance determining which standard should apply (IFRS 15 or IAS 37) and how the liability/provision should revert in profit or loss in the future.

Only in rare circumstances where it can be clearly established that the issuer has no obligations towards the subscriber (e.g. case of a donation) a profit could be recognized.

As a matter of fact, our first concern is to deal with the low level of details written in the contracts (or documentation that stands for a contract) and therefore the difficulties in identifying the rights and obligations attached to the crypto-assets (liabilities) issued.

#### QUESTION 5 - VALUATION

**Question 5.1.** The DP (Chapter 5: Paragraphs 5.44 and 5.45) observes that when considering fair value measurement under IFRS 13, 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?***

**Question 5.2.** The DP (Chapter 5: Paragraph 5.42) 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? If not, what alternative measurement bases do you propose?***

We consider that the guidance in IFRS 13 provides an adequate basis for measuring crypto-assets at fair value. We do not identify any reason for amending IFRS 13. .

#### QUESTION 6 - OTHER

**Question 6.1.** ***Do you have other comments on the accounting for crypto-assets (liabilities), or on any other matter in the DP not addressed by the above questions?***

As already expressed in our answer to Question 3.4., we consider that the accounting for “mining” activities, and more precisely revenue recognition from such activities according to IFRS 15 deserves further guidance.