28 July 2021

EFRAG
35 Square de Meeus
1000 Brussels (fifth floor)
Belgium

By email: cryptoassets@efrag.org

Dear Sir / Madam

Submission on EFRAG Discussion Paper – Accounting for Crypto-Assets (Liabilities): Holder and Issuer Perspective

As the representatives of over 280,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to provide feedback on the above Discussion Paper ("the DP").

Crypto-assets (and liabilities) are challenging traditional financial reporting boundaries. CPA Australia and CA ANZ closely monitor standard-setting and regulatory developments associated with economic activity arising from the exchange of and transactions in crypto-assets (and liabilities).

As the development of crypto-assets (liabilities) is still at an early stage, we believe that the International Accounting Standards Board (IASB) should continue to monitor holders' and issuers' use of crypto-assets (liabilities). Whilst we consider Option Two (amend and/or clarify existing IFRS) proposed in the DP as most suitable for the short to medium term, we believe that Option Three (a new IFRS on crypto-assets (liabilities) or digital assets (liabilities)) may be the best way to address crypto-assets (liabilities) related accounting matters in the long term. Expanding on Options Two and Three, in our view the IASB should develop an interim IFRS on the accounting for crypto-assets (liabilities) that would apply until the completion of a new standard. We note that the IASB followed a similar approach of developing and publishing an interim IFRS (IFRS 14 *Regulatory Deferral Accounts*) when working on the Rate-regulated Activities project in 2012.[1]

[1] See IFRS 14, Basis for Conclusion, Regulatory Deferral Accounts, available at: https://www.aasb.gov.au/admin/file/content105/c9/IFRS14_BC_1-14.pdf [accessed on 20 July 2021].

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We do not believe Option One, which recommends no amendments to IFRS requirements, as an appropriate course of action. The IFRS Interpretations Committee (IFRS IC) agenda decision *Holdings of Cryptocurrencies* does not address crypto-assets other than cryptocurrencies, which represent only one subset of crypto-assets. Further, the varying functional uses and diverse economic characteristics of crypto-assets make it difficult to come up with a single accounting treatment that is appropriate for all crypto-assets in all circumstances. It remains unclear how other types of crypto-assets such as stablecoins, Central Bank Digital Currencies (CBDCs) and tokens should be reported. Therefore, we believe that there is an important need to address the accounting for crypto-assets (liabilities), other than cryptocurrencies discussed in the IFRS IC agenda decision.

Monitoring and researching the ongoing developments in the crypto ecosystem will allow the IASB to determine the most suitable accounting treatment of crypto-assets (liabilities) in the long term.

CPA Australia and CA ANZ's detailed perspectives on these issues are provided in the attachment to this letter. If you have any questions about this submission, please do not hesitate to contact Dr Jana Schmitz (CPA Australia) at jana.schmitz@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Yours sincerely

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Attachment

General Questions

Question 1 – Use of Crypto-Assets (Liabilities)

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

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

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

(a) We are aware that crypto-assets (liabilities) are used for a variety of purposes, including;

- as a store of value,
- as a means of exchange,
- as a unit of account,
- as a medium to provide access to blockchain-based goods or services, and
- as a way to raise funding for an entity developing activities in this area.

The use of crypto-assets (liabilities) depends on the type of crypto-assets (liabilities). Further, consideration must be given to the possibility of changes in how crypto-assets (liabilities) are used. Arguably, cryptocurrencies are currently going through an evolutionary process, whereby several of those functions noted (e.g., store of value, medium of exchange, and unit of account) develop in stages. Moreover, certain cryptocurrencies may qualify as a unit of account, a store of value *and* as a medium of exchange.

(b) Based on our research activities and conversations with stakeholders, we identified the following factors influencing the use of crypto-assets (liabilities):

- **Decline of cash and the ongoing digitisation of the economy.** Shifts in payment and consumption patterns, such as the growth of e-commerce, are fueling a steady decline in the use of cash in transactions. At the same time, the use of electronic payment instruments and systems is increasing, rooted in the current surge in global digitisation, along with the development of internet-based technologies, including blockchain technology, as the underlying technology of crypto-assets.[2] [3]

[2] BIS (2021): Digital currencies and the future of the monetary system, 27 January 2021, Basel, available at: https://www.bis.org/speeches/sp210127.pdf [accessed on 20 July 2021].

[3] BIS (2019): Denis Beau: The role of crypto-assets in the payment system, 15 October 2019, available at: https://www.bis.org/review/r191015b.pdf [accessed on 20 July 2021].

- **Decentralisation and lack of trust in government.** Crypto-assets (liabilities) have unique financial, monetary and technical features which set them apart from fiat currencies issued by central banks. The first wave of crypto-assets (e.g., Bitcoin) that entered the market are not a claim on any natural or legal entity; they do not have a guaranteed fixed exchange rate with currencies issued by central banks and they rely on blockchain for their circulation. The decentralised nature of several crypto-assets (liabilities) is what attracts many to consider crypto-assets (liabilities) as an alternative to fiat currencies, particularly at times of central banks' extensive quantitative easing measures and high(er) levels of inflation. In this regard, crypto-assets (liabilities) have also been referred to as an inflation hedge. The second wave of crypto-assets (liabilities) includes stablecoins, of which some are sponsored by large technology or financial firms. Stablecoins seek to stabilise their value by linking it to an asset or a pool of assets. The emergence of cryptocurrencies like Bitcoin and the issuance of stablecoins have prompted some to call for central banks to introduce CBDCs as a precautionary or defensive measure.
- **CBDCs.** Several central banks are researching or developing CBDC solutions. Notably, the Bank for International Settlements (BIS) announced its support for their ongoing development, noting that "CBDCs represent a unique opportunity to design a technologically advanced representation of central bank money, one that offers the unique features of finality, liquidity and integrity."[4] We believe that such developments will further encourage and enhance the adoption of crypto-assets.

(c) We are aware that crypto-assets, particularly cryptocurrencies, might be held as a store of value by an entity on behalf of customers. For example:

- An entity that operates a trading/exchange platform that enables its customers to exchange different cryptocurrencies, or to exchange fiat currency for cryptocurrencies.
- An entity that offers custodian services for its customers' cryptocurrencies. In this case, customers use such custodial service providers (hot/cold wallets) for safekeeping and/or for cryptocurrency staking purposes.

With regards to the latter, consideration needs to be given to whether cryptocurrency holdings should be recognised on the financial statements of the customer (depositor) or the custodian.

[4] Bank for International Settlements (BIS) (2021): CBDCs: an opportunity for the monetary system. Available from: https://www.bis.org/publ/arpdf/ar2021e3.pdf [Accessed on 23 June 2021].

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.

The IFRS IC agenda decision does not address crypto-assets other than cryptocurrencies, which represent only one subset of crypto-assets. Further, the varying functional uses and diverse economic characteristics of crypto-assets make it difficult to come up with a single accounting treatment that is appropriate for all crypto-assets, in all circumstances. It remains unclear how other types of crypto-assets such as stablecoins[5], CBDCs and tokens should be reported. Therefore, we believe that there is a need to address the accounting for crypto-assets (liabilities), other than cryptocurrencies discussed in the IFRS IC agenda decision.

We note that, presently, different jurisdictions adopt different terminology to describe crypto-assets (liabilities). As the classification of a crypto-asset (liability) determines which standards apply, we believe that it is crucial to define the different subsets of crypto-assets (liabilities) and determine their nature before discussing their accounting treatment. The European Commission, in Article 3 of its Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets (MiCA), distinguishes between the characteristics of different subsets or types of crypto-assets and consolidates divergent definitions and taxonomies used across European jurisdictions. In other jurisdictions we note that several regulators propose vague, catch-all definitions. However, more clarity is needed with respect to the distinction between crypto-assets (liabilities) that may be characterised as financial instruments (falling under the scope of IFRS) and those which would fall under the scope of an amended or new standard (see our comment on **Question 2.2** below).

We recommend the development and publication of a glossary of economic terms that helps the IASB to understand the nature of different crypto-assets (liabilities) and assess the potential accounting treatment of each. When developing such a glossary, crypto-assets (liabilities) should be differentiated by certain characteristics proposed in the European Commission's

[5] Stablecoins, for example, seem to represent a halfway point between fiat currencies and decentralised cryptocurrencies. Backed by or pegged to an underlying asset such as fiat or commodities, stablecoins or asset-backed-coins intend to have lower associated volatility. The components distinguishing stablecoins from other crypto-assets (liabilities) complicate the accounting and disclosure involving this subset of crypto-asset. Accounting and reporting complexities can arise from having to account for both the crypto-asset and the underlying asset. The accounting processes for stablecoins also raise additional considerations connected to the underlying asset be it a commodity or fiat currency.

MiCA and/or apply criteria proposed by the BIS, which distinguishes between various types of crypto-assets.[6] Among the criteria listed by the BIS are the functionality of the crypto-asset (e.g., payment/exchange, investment, utility), underlying stabilisation mechanism (e.g., asset-backed, algorithm-based) and systematic importance (i.e., global or non-global reach). This glossary of terms should categorise and define existing crypto-assets (liabilities) while leaving sufficient flexibility for future innovations.

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?

As the development of crypto-assets (liabilities) is still at an early stage, we believe that the IASB should continue to monitor holders' and issuers' use of crypto-assets (liabilities). Whilst we consider Option Two as most suitable for the short to medium term, we believe that Option Three may be the best way to address crypto-assets (liabilities) related accounting matters in the long term. Expanding on Options Two and Three, in our view the IASB should develop an interim standard on the accounting for crypto-assets (liabilities) that would apply until the completion of a new standard is finalised. We note that the IASB followed a similar approach when working on the Rate-regulated Activities project in 2012.[7]

Monitoring and researching the ongoing developments in the crypto ecosystem will allow the IASB to determine the most suitable accounting treatment of crypto-assets (liabilities) in the long term.

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[6] BIS (2021): Supervising crypto-assets for anti-money laundering. FSI Insights on policy implementation No 31, April 2021, available from: https://www.bis.org/fsi/publ/insights31.pdf [Accessed on 16 June 2021].

[7] See IFRS 14, Basis for Conclusion, Regulatory Deferral Accounts, available at: https://www.aasb.gov.au/admin/file/content105/c9/IFRS14_BC_1-14.pdf [accessed on 20 July 2021].

Specific Questions on Accounting Requirements

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 nonfinancial 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.

Our stakeholders' feedback suggests mixed views regarding proposing a standard-setting activity to address the limitations in IAS 2 and IAS 38.

During our outreach activities, stakeholders who show an inclination to a standard-setting activity flagged that the agenda decision issued by IFRS IC deals with only a subset of crypto-assets that has no claim on issuers. Hence, they recognised the need for developing a standard (or accounting requirements) that covers a broader range of crypto-assets (liabilities).

In addition, at the time of the development of IAS 2 and IAS 38, the IASB did not contemplate crypto-assets (liabilities) as subject matter within the scope of these standards. Hence, essentially, the economic characteristics of crypto-assets (liabilities) are not captured in these standards. To an extent, it is acceptable that a crypto-asset is a unique asset that shares some of the characteristics of inventory and intangible assets. However, IAS 2 and IAS 38 do not adequately identify all economic factors attributable to crypto-assets, so the recognition criteria and measurement requirements in these standards are not sufficiently developed to meet the objective of user needs in reporting economic activities relating to crypto-assets (liabilities). This would lead to inconsistencies in recognising, measuring, and presenting crypto-assets (liabilities) in financial statements, meaning their true economic phenomenon and substance may not be accurately reflected.

Some of the mutually exclusive characteristics of crypto-assets (liabilities), such as using a public digital platform, subject to production through mining and limited supply, have not been considered in developing IAS 2 and IAS 38. Some stakeholders believe that measuring crypto-

assets (liabilities) at fair value through profit or loss (FVTPL) reflects its economic substance. However, neither IAS 2 nor IAS 38 contemplate accounting at FVTPL.

Other stakeholders emphasised the need to undertake further research given the rapid pace of emerging diverse types of crypto-assets (liabilities), the possibility of some types of crypto-assets (liabilities) becoming redundant in the future and the limited number of listed entities who embrace crypto-assets (liabilities) globally. The considerable amount of time typically taken by the IASB in developing a new standard, in line with its due process, was flagged by our stakeholders as a concern. This, in our view, necessitates a short-term interim solution to address the gaps in financial reporting for crypto-assets (liabilities).

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.

Our stakeholders' feedback suggests an inclination towards a FVTPL model as a subsequent measurement basis for some types of crypto-assets (liabilities), owing to the characteristics they have in common with financial instruments. For example, both crypto-assets (liabilities) and financial instruments can be used as a store of value; they both can exist virtually, have no intrinsic value, are tradable and facilitate transactions, etc. Further, crypto-assets (liabilities), such as hybrid tokens demonstrate functional equivalence to equity or debt instruments. Hence, we believe there is reasonable justification for applying IFRS 9 in accounting for the holding of crypto-assets (liabilities).

However, our stakeholders did not express any view on the need to update IAS 32 to expand its definition to include crypto-assets. Hence, classifying crypto-assets as a unique asset and adopting an accounting treatment similar to that of financial instruments should be considered.

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 stablecoins 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 understand that some jurisdictions have treated stablecoins as equivalent to cash. We also understand that there are similar characteristics between cryptocurrencies that qualify as e-money and cash and cash equivalents, such as facilitating transactions as an exchange of value, having no intrinsic value and physical substance, etc. However, we received no feedback during our outreach activity that suggested the need to update the IAS 7 definition of "cash and cash equivalents". We support this view as cryptocurrencies are currently not widely accepted and spread throughout the global economy. We suggest that the IASB should undertake further research to consider economic ramifications in recognising some types of cryptocurrencies as cash and cash equivalents as defined in IAS 7. Currently, except for a few, regulators/central banks do not control crypto-assets (liabilities) or issue cryptocurrencies. Moreover, currently, cryptocurrencies are also not influenced by macroeconomic variables, such as interest rates, gross domestic product (GDP), and fiscal policy.

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 the aforementioned areas are not addressed in the agenda decision issued by the IFRS IC. The decision also does not address the holding of crypto-assets on behalf of

others, which is common in investments in utility/hybrid tokens. Hence, we consider the IASB needs to consider clarifying IFRS requirements via an agenda decision. We also suggest that further research should be undertaken to consider how significant the custodian service is in a global context.

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.

In our view, the economic activities relating to the raising of funds using ICOs are still evolving. Addressing the accounting requirements for different types of ICOs will require some degree of stability and clarity around nature and type of underlying economic and financial implications arising from different types of ICOs. We do not believe a level of stability or clarity has been reached in the international ICO market for standard-setters to address the related accounting for these transactions. Accordingly, we agree with the proposals in the DP that ICO issuers can apply one or a combination of IFRS Standards listed in the question above.

In the interim, those ICO issuers with specific interpretative questions on how to apply relevant IFRS Standards to specific types of ICOs should seek guidance from the IFRS IC.

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.

We have not identified any specific areas other than those identified in the DP. However, Figure 4.2 on page 81 of the DP identifies circumstances where an issuer may have to recognise other income for the issue of crypto-assets that falls outside of the scope of IFRS 15. The Australian Accounting Standards Board (AASB) has developed AASB 1058 *Income of Not-for-profit Entities* that specifically deals with “non-exchange” income that does not fall within the scope of IFRS 15 (AASB 15 in Australia). The International Public Sector Accounting

Standards Board is also undertaking a project to develop accounting requirements for such non-exchange income transactions that commonly arise in the public sector. In due course, it may be necessary to consider accounting requirements or guidance for income arising from the issuance of crypto-assets that does not fall within the scope of IFRS 15.

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.

We have no additional comments in respect of the issuance of crypto-liabilities that may qualify as a financial liability under IAS 32/IFRS 9. However, where issuance of crypto-liabilities may give rise to a provision under IAS 37, we expect such provisions would be part of a broader economic transaction that may, for example, include recognition of revenue under IFRS 15.

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?

No comment.

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?

No comment.

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?

No comment.

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