

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

1.

BACKGROUND INFORMATION

1. Please provide some information about your activities:

Your name

Nayoung Yoon

Your organisation

KASB(Korea Accounting Standards Board)

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

nyyoon@kasb.or.kr

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

Accounting standard setter

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)

Other (Please specify)

Comments: Establishing standards

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

Other

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.

Moderate

Comments: According to Gartner's global survey results (from 77 financial executives), 5% of those surveyed said that they have a plan to hold BTC(Bitcoin) in 2021, however, the majority (84%) answered that they have no plan to hold BTC due to 'volatility'. Most financial executives seeking financial stability are concerned about high volatility and regulatory uncertainty related to crypto-assets. Also, based on the stance of the Bank of Korea and the Financial Supervisory Service (regulatory body in Korea), there seem to be significant obstacles for domestic institutions to possess crypto-assets. However, they are likely to respond quickly to international trends. On the other hand, if 5% of the institutions actually get to hold BTC by 2021, there is a possibility that the holding of BTC will reach a moderate level within the next 3-5 years. In particular, Tesla's high level of crypto-asset holdings is likely to have a significant impact on the capital market. There is no comment regarding the issuance.

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)

A new Standard on crypto-assets (liabilities) or digital assets (liabilities)

Comments: We suggest that a phased approach be adopted: (1) In the short term, the IASB should revise the definition of intangible assets in order to exclude crypto-assets from its scope, because the IFRS IC agenda decision is not fully in line with how they are understood in practice. Once crypto-assets are ruled out of the definition of intangible assets, holders of crypto-assets should be allowed to develop their own appropriate accounting policies. (2) In the long term, a standard dedicated to crypto-assets should be established. To be more specific, the IASB could start by developing standards that focus on 'cryptocurrencies with no claim on the issuer' that is relatively easy to standardize.

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: Crypto-assets can play a role in all areas of operating, finance, and investment, and their functional roles are all different. Accordingly, it is necessary to classify the functional roles by scrutinizing the entire process of production, distribution, and extinction of crypto-assets. Separate accounting standards should be established based on these characteristics of crypto-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: Crypto-assets to which existing IAS 32 is not applicable generally do not have a 'contractual right' to exchange. To account for such crypto-assets as financial instruments, the definition of a financial instrument must be amended. Furthermore, discussions are required on how to account for crypto-assets of a complex nature including the characteristics of financial instruments and others.

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: While there is verified economic substance in stablecoins maintaining a stable value based on the legal tender held as collateral (e.g., Tether), there is a fatal problem that it is difficult to identify whether the amount of dollar deposits is sufficient to cover the amount of the outstanding stablecoin obligations and how and in which bank they are managed. The U.S. prosecution has been paying close attention to this insufficiency and it seems to be a difficult problem to solve even for future stablecoins. We think amendment to the definition of cash equivalents can be discussed only after the relevant regulations are in place. On the other hand, it is necessary to discuss cash equivalents' definition itself and the actual 'purpose of holding'. Already in practice, there are more cases where cash equivalents are held for short-term investment purposes rather than for holding money. This may not be much different from the purpose of holding crypto-assets. In addition, as with foreign currencies being held as cash equivalents, there may be grounds on which crypto-assets can be classified as cash equivalents.

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)

No

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?

Yes

If you have responded 'Yes' to Question 12, please elaborate on the areas that need further guidance/clarification

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?

Yes

If you have responded 'Yes' to Question 13, please elaborate on the areas that need further guidance/clarification

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)

No

Comments:

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.

