EFRAG

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Summary of feedback to the EFRAG DP on Accounting for Crypto-Assets (Liabilities)

Objective

1 In July 2020, EFRAG published its Discussion Paper on Accounting for Crypto-Assets (Liabilities) (DP), which was open for consultation until 31 July 2021. The DP was developed as part of the EFRAG proactive research agenda and was intended to inform the IASB's Third Agenda Consultation and to be a reference for any possible future standard-setting work by the IASB and/or any other national standard setter.

2 This paper provides a summary of constituents' feedback from comment letters, survey responses and other outreach events such as webinars, meetings and stakeholder interviews. The paper is structured as follows:

(a) Summary of feedback;

(b) IASB perspective; and

(c) Appendix- Possible way forward in IFRS development- pros and cons.

Summary of feedback

3 Constituents' feedback to the EFRAG DP that is detailed in Agenda paper 09-03 showed unanimous support for standard setting relating to crypto-assets (liabilities) and the need for the IASB to go beyond the clarification of the 2019 IFRS IC agenda decision whose scope was on cryptocurrencies with no claim on the issuer.

4 Furthermore, constituents' responses to EFRAG's DCL to the IASB agenda consultation indicates support for the IASB including cryptocurrencies and related transactions in its agenda and the response to the IASB Agenda Consultation Request for Information[1] showed that most respondents rated cryptocurrencies and related transactions as a high priority. Other major accounting standard setters[2] are facing similar calls to action.

5 Enhancing IFRS requirements for crypto-assets (liabilities) can contribute to globally comparable reporting by entities with related exposures. The appetite for a global

[1] IASB staff paper- November 2021 Agenda Paper 24D, December ASAF Agenda Paper 2D

[2] US FASB has also faced calls to develop US GAAP Standards for cryptocurrencies (Chamber of Digital Commerce, Members of Congress) and it is one of the topics of its agenda consultation. During the EFRAG outreach, ASBJ indicated they are in the process of developing requirements.

solution can also be seen in the profile of respondents to the EFRAG DP whereby >40% of comment letters and survey responses were from outside the EU.

6 Below is a summary of feedback **based on the detailed analysis of feedback included in agenda paper 09-03**.

Holders' accounting summary of feedback

7 *Intangible asset or inventory classification:* The overall feedback showed consensus from comment letters, survey and outreach respondents on the current unsuitability of IAS 2 *Inventories* and IAS 38 *Intangible Assets* requirements for both the recognition and measurement of crypto-assets and other intangibles held for trading or investment. There was a view that the business models/holding purpose of holders of crypto-assets are not always adequately catered for by these two Standards, and further clarification on scope might be required. There is also near unanimity on the need for standard-setting activity in response to the limitations of these two Standards. The range of options related to holders of crypto-assets (i.e., those considered to be intangible assets or inventory held for investment or trading purposes such as cryptocurrencies with no claim on issuers, some utility tokens, non-fungible tokens) suggested by constituents include:

(a) Applying FVPL measurement for high-quality (i.e., high liquidity) crypto-assets and cost measurement for the rest;

(b) Scoping crypto-assets out of IAS 2 and IAS 38 and either allowing IAS 8 or 'manually' scoping into IFRS 9 even when they do not meet the definition of financial instruments - similar to own use derivatives;

(c) Scoping crypto-assets out of IAS 2 and IAS 38 and developing an interim Standard with application guidance for accounting by holders;

(d) Amending the IAS 38 revaluation approach to allow FVPL for crypto-assets;

(e) Developing a new standard for non-financial assets held as investments; and

(f) Developing asset recognition and measurement principles that depend on the holder's business model/purpose, useful-life horizon and economic characteristics and with no distinction made between tangible and intangible assets.

8 *Financial asset classification:* The comment letters feedback shows majority support (83.4%) for clarifying the eligibility of some crypto-assets to be in the scope of IFRS 9 (i.e., those with functional equivalence to equity and debt securities). One respondent also proposed the inclusion of cryptocurrencies with no claims on the issuer (e.g., bitcoin) within the scope of IFRS 9 *Financial Instruments* as these have financial-instruments-like attributes. This view was also proposed in a February 2021 Footnote Analyst article-Bitcoin and the financial reporting challenge for investors. Some of the outreach participants expressed the need to align the accounting and regulatory definition of financial instruments or securities but there was also a concern raised that regulatory definitions can focus on form over substance. Furthermore, as noted in the DP, there is diversity in the definition of securities across jurisdictions (e.g., EU MiCA/MiFiD definitions may not be the same as those of the US SEC) and the risk that standard setting becomes subject to regulatory decisions.

9 At the same time, only a minority of comment letter respondents (33.3%) supported an update to the definition of financial instruments and financial assets (liabilities) in IAS 32 *Financial Instruments: Presentation*. These respondents noted: the "right to receive cash flows" could be amended or clarified to include "right to receive cryptocurrency flows" and not only fiat-currency-based cash flows; the need to clarify that currency means fiat currency; and an amendment to include crypto-arrangements without legally enforceable contracts. However, an equal minority of

comment letter respondents (33.3%) were opposed to changing IAS 32 with concerns about unintended consequences of any amended definitions. In contrast to the comment letter feedback, the majority of survey respondents (76%) supported the updated definition of financial instruments and financial assets (liabilities) in IAS 32.

10 *Update of cash and cash equivalent definition*: A majority of the comment letter respondents (58.3%) were open to either clarification or an updated definition of cash and cash equivalent in the IFRS literature to encompass stablecoins pegged to fiat currencies and CBDCs. Similarly, the majority of the survey respondents (69%) agreed with updating these definitions. Respondents indicated that IFRS has loose and circular definitions of cash and the existing IFRS definition or description of currency (cash) and cash equivalent across IAS 7 *Statement of Cash Flows*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 32 can create uncertainty on the eligibility for classification as cash or cash equivalent of stablecoins and some cryptocurrencies. These items can either meet the definition of money under economic theory (means of exchange, unit of account, store of value) and/or meet the definitions of money, cash (currency) by different supervisory and monetary authorities but may fail to qualify for cash or cash equivalent classification under IFRS. Furthermore, as the feedback shows, stablecoins can have similar economic characteristics to those considered for cash equivalent classification (i.e., convertible to a known amount of cash, subject to an insignificant risk of changes in price). For example, an empirical study in the Australian Accounting Review showed that nine out of an evaluated eleven stablecoins fulfilled the IAS 7 requirements for the cash equivalent classification.

11 At the same time, 41.7% of comment letters and 24% of survey respondents disagreed with updating the cash or cash equivalent definitions. The reasons being that stablecoins have unique risks from fiat currency (e.g., limited transparency, counterparty risk, liquidity risk) and their uptake by individuals and institutions is currently limited. There is also a concern about the consequences of updated definitions of cash and cash equivalent (e.g., heightened financial stability risks for financial institutions).

12 *Other topics for clarification in accounting by holders*: The feedback showed support for either further research or clarification on different aspects of holder accounting identified in the DP, namely: a) accounting by holders on behalf of others; b) accounting by holders of utility and hybrid tokens; c) accounting by holders due to mining activities. The following are points of note from the feedback:

(a) It was considered important to clarify the accounting by intermediary holders as this type of holding is likely to grow amongst financial institutions, trading platforms and providers of custodial services. Furthermore, there are depositor protection intermediary-depositor contractual arrangements across different jurisdictions such that it is easy to identify the underlying rights and obligations of these arrangements. At the same time, the feedback indicated that there is diversity in practice in the judgement and indicators applied to determine whether to recognise the asset on the statement of financial position. Thus, it would be helpful to provide guidance that identifies which indicators must be emphasised when determining which party has economic control.

(b) Some stakeholders indicated there was a gap in and urgency for clarifying guidance on accounting for inventory holdings due to mining activities. As pointed out in the DP, it is challenging to ascertain which costs should be capitalised versus expensed by miners. For instance, there is no normal production capacity as successful proof-of-work mining is based on a winner-take-all model of solving cryptographic puzzles before earning/creating new units of cryptocurrency.

(c) Other topics identified for clarification besides those in the DP are the accounting by holders of Decentralised Finance (DeFi) tokens, Non-fungible Tokens (NFTs), Simplified Agreements on Future Tokens (SAFTs), pre-functional tokens, airdrop-sourced tokens, and community tokens. However, some respondents noted that before determining the appropriate standard-setting activity, the IASB should conduct further research on topics where there is no consensus on the substance of transactions (e.g., utility tokens).

Issuers' accounting summary of feedback

13 The majority (75%) of comment letter respondents considered that further guidance is needed to account for crypto-assets (liabilities) from an issuer perspective. The main comments provided are summarised as follows:

(a) The need for guidance mainly relates to situations where the counterparty/ contractual obligation is difficult to identify. However, respondents did point out that Initial Coin Offerings (ICOs) and similar offerings are still in a development stage and there is no market consensus and regulatory scrutiny is still under development. These respondents advised further research before standard-setting. This was confirmed by survey responses and feedback from outreach.

(b) Further guidance is needed to determine the applicability of IFRS 15 *Revenue from Contracts with Customers*. Guidance is especially needed where there is a lack of enforceability or a low level of details in written contracts. This view was confirmed by many of the survey respondents. Furthermore, a Framework that is largely based on rights and obligations enforceability might be difficult to prove as the issuer claims that the obligations are not enforceable, and it is accepted practice that issuers do not meet these obligations. There was also a need to clarify whether to recognise revenue or income in profit or loss in cases where an obligation cannot be determined. In case the credit entry was considered to be income, it would be necessary to establish what type of income it was and whether it should be recognised in either profit or loss or other comprehensive income.

(c) Additional guidance is needed to determine which costs to include in a provision relating to the issuance of tokens, to determine whether IFRS 15, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 32 should be applied in case of lack of details, lack of counterparty and contractual obligation and whether existing IFRS Standards provide sufficient guidance to apply to issuers of ICO tokens and similar offerings.

14 A minority of comment letter respondents (17%) considered that existing IFRS Standards provide a suitable basis to account for crypto-liabilities by issuers of ICOs and similar offerings. These respondents noted that ICOs and similar offerings by listed companies were not prevalent in their jurisdiction and thus considered that for the time being developments in ICOs and similar offerings should only be monitored.

15 Of the survey respondents, 45% said that current IFRS Standards did not provide a suitable basis for accounting from an issuer perspective and 35% said that current IFRS Standards did provide a suitable basis.

(a) Respondents that considered that IFRS Standards did not provide a suitable basis, noted that clarification was needed to determine whether liabilities resulting from the issuance of ICOs and similar offerings should be classified as equity or as a liability and if there was a liability whether it was a financial liability.

(b) Respondents that considered that current IFRS Standards provide a suitable basis for issuer accounting referred to the IFRS IC decision. However, these respondents noted that further guidance was needed for the issuance of hybrid tokens and expressed different views on whether the issuer had a financial liability or an equity instrument under IAS 32.

16 Respondents from outreach activities generally considered that additional guidance on issuer accounting for crypto-assets would be helpful to provide clarification on which IFRS Standard would be applicable.

Valuation considerations summary of feedback

17 The DP asked two separate questions on the application of IFRS 13 – the first question related to an active market and the second question related to determining fair value under IFRS 13 in the absence of an active market.

18 There are mixed views from respondents (from comments and surveys) on whether IFRS 13 provides adequate guidance in relation to an **active market:**

(a) Almost half of the total respondents (46%) agreed with the adequacy of IFRS 13 to determine an active market, although some of these respondents recognised the challenges in determining an active market for crypto-assets particularly those with a lower transaction volume and also noted that valuation challenges may occur with emerging issues. The 46% of total respondents represented 42% from comment letters and 48% from surveys.

(b) The other approximate half of respondents (44%) considered that IFRS 13 to be inadequate to determine an active market and in identifying a principal market. One argument used for further guidance in determining an active market is that liquidity is currently in markets where crypto-assets are traded against stablecoins and the minority is in the fiat-currency market. The issue with identifying a principal market is that Bitcoin and most crypto-assets are traded in multiple platforms (and may therefore be difficult to identify the most active exchange) with different prices. The 44% of total respondents were represented by 42% from comment letters and 45% from surveys.

(c) The remaining respondents (10%) did not respond to this question.

19 There are mixed views from respondents about whether IFRS 13 is adequate to determine a **valuation technique for crypto-assets in the absence of an active market**:

(a) Almost half of the respondents from comment letters and surveys (46%) agreed that IFRS 13 was adequate for measuring crypto-assets arguing that the fair value determination under IFRS 13 has always been complex. Developing new valuation guidance for crypto-assets, outside of IFRS 13, might in some way undermine IFRS13 requirements and result in requests for exceptions to using IFRS 13 for financial assets. However, some of these respondents noted a need for further monitoring and research to determine any future need for the determination of active market and valuation guidance. Respondents from comment letters and surveys shared similar views.

(b) A significant minority of respondents from comment letters and surveys (37%) disagreed that IFRS 13 provided an adequate basis to determine fair value in case of the absence of an active market. In their view, the determination of fair value is very difficult due to the absence of historical data or other inputs when under current circumstances the most liquid markets are being considered as not active. Some respondents also highlighted that crypto-assets are highly volatile and there is not yet a market consensus of how to value crypto-assets, irrespective of the accounting guidance.

(c) The remaining respondents (17%) did not answer this question.

20 Respondents from outreach activities generally agreed that IFRS 13 provides sufficient guidance to determine an active market for crypto-assets. However, there were mixed views on determining an adequate method for valuation with some

respondents noting that valuing crypto-assets can be challenging and also identified challenges with applying IFRS 13 to crypto-assets.

Feedback on the proposed way forward in developing IFRS requirements

21 The feedback to the DP showed the need for clarification across a range of holder and issuer accounting and valuation topics. It also showed that the need for either amending existing IFRS Standards or developing a new Standard is mainly related to holders' accounting. There was also some support for conducting further monitoring of a subset of crypto-transactions before undertaking standard-setting activity (e.g., where there was no consensus on the substance of the transactions due to the nascent state of market development).

22 Although constituents had an aggregate preference (i.e., from both comment letters and survey responses) for Option 2 (amend or clarify existing IFRS Standards) relative to Option 3 (develop a unique crypto-assets (liabilities) Standard). The feedback showed that Option 2 can be applied in different ways, such as:

(a) The issuance of interpretations through agenda decisions in a similar manner to the 2019 IFRS IC agenda decision on cryptocurrencies with no claim on the issuer. For example, one survey respondent suggested the issuance of an IFRS IC interpretation on the applicability of IFRS 9 to crypto-assets. And a comment letter respondent suggested an IFRS IC interpretation on whether IFRS 15 is applicable for mining transactions if there is no contract with a customer.

(b) The development of clarifying application guidance within existing IFRS Standards related to a range of holders, issuers, and valuation topics.

(c) A narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 *Inventories* and IAS 38 and either allow an accounting policy choice through IAS 8 or 'manually' include them in the scope of IFRS 9 as done for own use derivatives or include them in the scope of IAS 40.

(d) Amending existing IFRS Standards (IAS 2 and IAS 38) to make them suitable for crypto-assets (e.g., targeted amendments to allow fair value disclosures under IAS 38, allow FVPL under IAS 38).

23 The feedback highlighted the disadvantages of the IASB exclusively choosing either Option 2 or Option 3. For example, Option 2 could result in a potentially disruptive modification and changing of the scope of many different Standards while Option 3 is premature and could result in an obsolete Standard due to the rapidly-evolving crypto-ecosystem.

24 Some of the comment letter and survey respondents suggested the development of a new Standard for non-financial assets that are held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights). There were also suggestions for a new Standard for only a subset of crypto-transactions (e.g. hybrid tokens and mining transactions).

25 Finally, some of the feedback was in support of a phased approach. A survey respondent and some comments provided during the outreach indicated support for scoping crypto-assets out of IAS 38 and allowing an accounting policy choice in the immediate term (i.e., a variant of Option 2) followed by a new Standard for crypto-assets (liabilities) in the long-term (Option 3). Some of the comment letter respondents suggested a phased approach that includes an interim Standard that includes both application guidance by referencing existing IFRS Standards and appropriate guidance wherever existing applicable IFRS Standards (IAS 38) do not reflect the economic substance of crypto-assets transactions. An interim Standard would allow the IASB to further monitor market developments before potentially developing a unique crypto-assets (liabilities) final Standard. The considered hybrid/

phased approaches would be consistent with the view expressed in the DP that the three presented options ought not to be considered as being mutually exclusive.

IASB Perspective

26 At the July 2021 webinar, the IASB Board member highlighted that the following options were outlined in the IASB Agenda Consultation Request for Information:

(a) *Educational materials*: develop educational materials, as part of education and maintenance activities;

(b) *IAS 38 amendments*: targeted amendments, for example

(i) develop additional disclosures about the fair value of cryptocurrencies (small project);

(ii) permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (medium-sized project);

(c) *IFRS 9 amendments*: consider amending the scope to include cryptocurrencies (medium-sized project);

(d) *New Standard*: develop a standard to cover a range of tangible and intangible assets held solely for investment purposes (large project).

27 Furthermore, at the European Accounting Association workshop held in April 2021, where the EFRAG DP findings were presented, the IASB staff representative highlighted the following plausible options for either amending existing Standards or developing a new Standard:

(a) *Changing the scope of Standards*: the IASB could place holdings of cryptocurrencies within the scope of IAS 40 *Investment Property* or IFRS 9 rather than IAS 38;

(b) *An investment Standard*: the IASB could create a new Standard that includes within its scope a range of investments such as investments in cryptocurrencies;

(c) *Change the IAS 38 revaluation model*: the IASB could change IAS 38 to require or permit changes in fair value to be recognised in the income statements rather than other comprehensive income;

(d) *Changing the definition of cash*: the IASB could make it clearer what assets qualify as cash when applying IFRS Standards.

28 The IASB staff paper on responses to the IASB Agenda Consultation Request for Information[3]showed that most respondents considered the cryptocurrencies and related transactions to be a high priority of which some respondents supported a comprehensive project on the accounting for crypto-assets (liabilities). And many respondents also made the following suggestions, which overlap with the three options in the DP and those made in the feedback to the DP:

(a) as a preliminary step, the IASB should issue application guidance or undertake smaller, targeted projects to address time-sensitive issues (including enhanced disclosures), with other issues being dealt with in a longer-term project.

[3] IASB staff paper- November 2021 Agenda Paper 24D, December ASAF Agenda Paper 2D

(b) the IASB should consider targeted amendments to IAS 38 Intangible Assets or to the scope of IFRS 9, as described in paragraphs B15(b)–(c) of the Request for Information.

(c) cryptocurrencies have unique characteristics and should be addressed in a new standard independent of ordinary financial assets and intangible assets.

(d) the IASB should either undertake a comprehensive research project or focus on some specific transactions, such as accounting for the issuance of initial coin offerings.

(e) amending the scope of IFRS 9 to include cryptocurrencies may only be a short-term fix as IFRS 9 was not written to address crypto-related issues. Instead, a Standard on a range of non-financial tangible and intangible assets held for investment purposes is needed.

(f) the treatment of cryptocurrencies and related transactions should be part of a project to undertake a comprehensive review of IAS 38. This is likely to be more effective than an asset-by-asset approach for emerging new assets that did not exist when IAS 38 was developed.

(g) commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms should be considered together instead of separate projects. Such a project could consider if these assets are within the scope of an existing IFRS Standard and, if not, developing a new IFRS Standard.

(h) since the crypto ecosystem is still evolving, the Board should take a phased approach, such as:

   (i) developing an interim standard to clarify the requirements of IFRS Standards to address diversity in practice;

   (ii) developing enhanced disclosure requirements; and

   (iii) developing a comprehensive standard on crypto-assets activities.

(i) as there is a wide range of issues to be considered, the IASB should first undertake research and outreach before determining the project scope.

29 Some respondents also suggested the project should address issues relating to IAS 7 and IAS 21.

Questions to EFRAG TEG

30 Do you have any comments on the summary of feedback received on the accounting requirements for holders?

31 Do you have any comments on the summary of feedback received on the accounting requirements for issuers?

32 Do you have any comments on the summary of feedback received on the valuation considerations?

33 Do you have any comments on the summary of feedback received on the way forward in developing IFRS requirements including the IASB perspective on the potential way forward?

Appendix: Possible Way forward in IFRS requirements- Pros and Cons

1 The outlining of the pros and cons of options for the possible way forward in IFRS requirements in Table 1 below has been developed to facilitate the EFRAG TEG members' evaluation and development of an EFRAG position on the way forward for developing IFRS requirements. These pros and cons have been modified from those outlined in Chapter 6 of the DP to reflect options put forward by constituents in their feedback to the DP.

Table 1: Summary of considerations in assessing possible approaches to clarification or development of IFRS requirements

Possible approaches to clarification or development of IFRS requirements	Reasons for possible approaches to clarification or developments of IFRS requirements	Considerations
Option 1: Do nothing		
No change to applicable IFRS Standards, preparers apply applicable IFRS or develop own accounting policy where needed	Doing nothing is predicated on crypto-assets (liabilities) not being currently pervasive amongst IFRS entities.	Pros • Can allow market maturation before decisions on appropriate accounting requirements can be made. • Appropriate for a subset of transactions that are little understood, immature or where there may be no consensus on the economic substance of transactions (e.g. newer products- DeFi, NFTs, some utility tokens). For these items, stakeholders have suggested the IASB should undertake ongoing research and monitoring activities. Cons • Retains stakeholders' lack clarity on the applicability of IFRS Standards in accounting for crypto-assets (liabilities). • Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements). • Effectively encourages own accounting policy and contributes to diversity in practice.
Option 2: Possible clarification or amendment of existing IFRS Standards		

Interpretations- agenda decisions and other non-standard setting mechanisms such as educational material clarifying applicable IFRS Standards for different holder, issuer accounting and valuation topics	Agenda decisions will be similar to the 2019 IFRS IC agenda decision and address the topics that need clarification that were not addressed (e.g., accounting by holders on behalf of others, cash equivalent classification for stable coins, hybrid tokens, barter transactions, mining activities, issuers eligibility for IFRS 15 and IAS 37, identification of crypto-assets active markets). One survey respondent suggested an IFRS IC interpretation of the applicability of IFRS 9 and a comment letter respondent suggested an IFRS IC interpretation on whether IFRS 15 is applicable for mining transactions if there is no contract.	Pros • Can address some of the questions/areas of ambiguity faced in practice and reduce diversity in practice. Cons • Will not have the authoritative stature of IFRS Standards • Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements).
Develop clarifying application guidance within existing IFRS Standards covering areas for clarification across different holder, issuer accounting and valuation topics	Areas that may need clarifying application guidance are identified in both the DP and stakeholders' feedback to the DP (e.g., accounting by holders on behalf of others, cash equivalent classification for stable coins, hybrid tokens, barter transactions, mining activities, issuers eligibility for IFRS 15 and IAS 37, identification of crypto-assets active markets).	Pros • Will allow market maturation before decisions on appropriate accounting requirements can be made. • Can address some of the questions/areas of ambiguity faced in practice and reduce diversity in practice. Cons • If the application guidance is not included as part of a Standard, it will have less authoritative stature than a Standard • Will leave unresolved aspects when IFRS Standards do not reflect the economic substance of crypto-assets (liabilities) (e.g., the noted shortcomings of IAS 38 recognition and measurement requirements).
Possible narrow-scope amendment to exclude crypto-assets from the scope of IAS 2 or IAS 38 and either allow accounting policy choice or 'manually' scope crypto-assets into IFRS 9 or IAS 40	• IAS 2 and IAS 38 requirements do not explicitly address non-financial tangible and intangible assets that are held as investments. • IAS 2 and IAS 38 allows fair value measurement (FVPL is allowed under IAS 2 for crypto-assets held in the ordinary course of business and FVOCI is allowed under the IAS 38 revaluation method), but these Standards also allow measurement approaches (net realisable value, cost) which some stakeholders claim do not result in decision-useful	Pros • Easier and quicker to implement scope exclusions than amending the requirements of IAS 2 and IAS 38. • Avoids disrupting existing requirements. Cons • There could be unintended consequences of including crypto-assets in the scope (liabilities) of IFRS 9 or IAS 40 • Requiring the development of own accounting policy choice will exacerbate the diversity in practice.

	information for crypto-assets with trading or investment asset attributes. • IAS 38 revaluation approach is not applicable when there is no active market for crypto-assets.	• A narrow-scope amendment to attain FVPL could be perceived as implicit support for broader application of FVPL including for all financial instruments.

Possible targeted amendments to IAS 2 and IAS 38 requirements to explicitly address situations where non-financial tangible and intangible assets are held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights)	• The previously applicable IAS 25 was superseded by IAS 39 and IAS 40 and this left a gap in IFRS literature for the accounting of non-financial assets that are held as investments including crypto-assets, commodities, emission trading rights and water rights
	• As noted in IASB Agenda Consultation Request for Information targeted amendments, for example
	  ○ develop additional disclosures about the fair value of cryptocurrencies (small project);
	  ○ permit more intangible assets (including cryptocurrencies) to be measured at fair value and consider whether recognising changes in fair value in the statement of profit or loss is appropriate in some circumstances (medium-sized project).
		Pros
		• Can enhance the accounting for crypto-assets and other non-financial asset investments that may fall in the scope of IAS 2 and IAS 38.
		• As noted by some respondents to the IASB Agenda Consultation Request for Information, the treatment of cryptocurrencies and related transactions should be part of a project to undertake a comprehensive review of IAS 38. This is likely to be more effective than an asset-by-asset approach for emerging new assets that did not exist when IAS 38 was developed.
		•
		• A focus on a broader set of transactions will future-proof IFRS requirements and result in enhancements that will be useful regardless of the future of the current generation of crypto-assets.
		Cons
		• Likely to have lengthy due process before addressing accounting gaps faced by current practice.

Option 3: Issuance of new crypto-assets (liabilities) Standard		
Development of standalone Standard that explicitly addresses crypto-assets (liabilities)	Takes the view that crypto-assets (liabilities) are unique and this justifies a new standalone Standard for crypto-assets.	Pros • Could comprehensively provide relevant recognition, measurement, presentation and disclosure requirements for all crypto-assets (liabilities). • Avoids disruptive amendments of multiple existing IFRS Standards. Cons • Crypto-assets (liabilities) could be considered not to be a separate type of asset as they result from arrangements that embody rights and obligations like any other contractual agreement.

		• A standalone crypto-assets (liabilities) Standard could be perceived as legitimising and enabling the development of risky products. • Lengthy due process before a new standard can be developed. • The risk that a new Standard would neither fit well nor complement the current IFRS Standards as it may localise cross-cutting issues. • Risk of obsolescence if new standard developed while the market is rapidly evolving
Additional options highlighted in stakeholders' feedback to the EFRAG DP and the IASB Agenda Consultation RFI		
A phased approach starting with an interim standard	Two of the twelve comment letter respondents suggested that the IASB could issue an interim Standard in an analogous fashion to its issuance of IFRS 14 *Regulatory Deferral Accounts* in 2012 An interim standard can, as part of application guidance, refer to existing IFRS Standards, but it can also provide additional guidance where existing IFRS Standards do not sufficiently address crypto-transactions (e.g., by providing guidance for mining activities, hybrid tokens) or address where existing IFRS fail to address the economic substance (e.g., by allowing FVPL for crypto-assets (liabilities)).	Pros • Avoids the challenges of amending multiple standards • Could serve as both application guidance on existing IFRS Standards and address areas where there are gaps in existing IFRS Standards • Allows ongoing monitoring of market developments before possibly developing a unique crypto-assets (liabilities) final Standard. Cons • It will be difficult to determine what topics should be in the scope of an interim standard versus what areas need further research. • Due to the rapidly evolving market, there is a lack of clarity on whether an interim Standard will ultimately become a dedicated crypto-assets (liabilities) Standards • It may be as challenging to develop an interim standard as it is to develop a standalone standard • It is challenging to transition from an interim to final Standard as has been the case so far for IFRS 6 *Exploration for and Evaluation of Mineral Resources* and IFRS 14 • An interim Standard may not be endorsed

Development of a new Standard for non-financial assets held as investments (e.g., crypto-assets, commodities, art/collectibles, emission trading rights/pollutant mechanisms and water rights) – this option was analysed but not presented as one of the three main options of the way forward for IFRS requirements in the EFRAG DP	Several comment letter respondents suggested the development of a non-financial asset investment Standard similar to IAS 25 The Agenda Consultation Request for Information indicated that the IASB could create a new Standard that includes within its scope a range of investments such as investments in crypto-assets, commodities. As noted by some respondents to the IASB Agenda decision RFI, it is beneficial to consider commodity transactions, cryptocurrencies and related transactions, and pollutant pricing mechanisms together instead of separate projects. Such a project could consider if these assets are within the scope of an existing IFRS Standard and, if not, developing a new IFRS Standard.	Pros • Can enhance the accounting for crypto-assets and other non-financial asset investments • Would note that many respondents to the Agenda Consultation Request for Information considered pollutant mechanisms to be a high priority and it is one of the topics that could be addressed collectively with crypto-assets. • A focus on a broader set of transactions will future-proof IFRS requirements and result in enhancements that will be useful regardless of the future of the current generation of crypto-assets Cons • Likely to have lengthy due process before addressing accounting gaps faced by current practice.
New standard related to a subset of crypto-transactions (mining activity, hybrid tokens)	Some feedback showed the need for guidance for mining transactions and hybrid tokens	Pros • Standard setting targeted at a subset of transactions could result in timely resolution in specific areas of urgent need Cons • Risk of obsolescence due to the rapidly evolving market. For example, due to concerns on sustainability, proof-of-work mining may be phased out