STAFF PAPER

July 2018

IASB Meeting

Project	Transactions involving commodities and cryptocurrencies		
Paper topic	Potential new research project		
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Introduction

1. In January 2018 the International Accounting Standards Board (Board) discussed commodity loans and related transactions (Agenda Paper 12A). That paper provided the Board with a summary of the discussions of the IFRS Interpretations Committee (Committee) and feedback received from stakeholders about commodity transactions. The paper also summarised a number of related areas identified as being of potential relevance to the Board in considering any further work to be done and the scope thereof.

2. At that meeting, Board members asked us to research:

   (a) whether the transactions that might be within the scope of any standard-setting project are widespread and could have a material effect on entities that report using IFRS Standards (IFRS reporters); and

   (b) possible narrow-scope standard-setting activities the Board might undertake.

3. This paper provides the Board with additional information about the prevalence and magnitude of the transactions identified in Agenda Paper 12A to the January 2018 Board Meeting, and asks how the Board wishes to proceed.

4. This paper is organised as follows:

   (a) summary of staff recommendations (paragraph 6);

   (b) background information (paragraphs 7–13);

(c) outreach activities and feedback (paragraphs 14–55);

(d) staff analysis and recommendations, including:

(i) commodities and other investments (paragraphs 57–67); and

(ii) cryptocurrencies (paragraphs 68–84).

5. There are two appendices to this paper:

(a) Appendix A—glossary of cryptocurrency terms; and

(b) Appendix B—extracts of Agenda Paper 10 to the November 2016 Committee meeting.

Summary of staff recommendations

6. The staff recommend that the Board:

(a) consider further the feasibility of a narrow-scope standard-setting project to address commodity loans at a future meeting.

(b) do not consider further developing an investment standard at this time, but instead ask stakeholders about the respective priority of such a project in the next Agenda Consultation.

(c) refer to the Committee the consideration of how an entity might walk through existing IFRS requirements in determining its accounting for (i) holdings of cryptocurrencies and (ii) Initial Coin Offerings (ICOs).

Background information

7. In Agenda Paper 12A to the Board's January 2018 meeting, we identified two distinct features of the transactions the Committee referred to the Board. These features are:

(a) transactions in which liquid commodities are used as an alternative to cash (see paragraphs 8–10 of this paper); and

(b) transactions involving items held for investment purposes (see paragraphs 11–13 of this paper).

Transactions in which liquid commodities are used as an alternative to cash

8. The discussions on this topic originated from a question submitted to the Committee in 2016 regarding a particular commodity loan transaction (see Appendix B for details). This transaction, and other transactions identified in the Committee's outreach activities, involve entities using liquid commodities as an alternative to cash. Entities structure those transactions so that the liquid commodity is used in the same way as cash might be in similar transactions. The parties to the transactions are, in essence, subject to similar risks as they would be if the transactions involved cash.

9. For example, Entity A borrows an amount of gold from Entity B for a fixed period of time. Entity A pays Entity B a fixed fee each quarter for the period over which the gold is borrowed. At maturity, Entity A is obliged to deliver gold of the same type, quantity and quality borrowed to Entity B. The transaction may not be within the scope of IFRS 9 *Financial Instruments* because gold is not a financial instrument. The transaction could be within the scope of IFRS 9 if the underlying item were cash or another financial instrument.

10. Examples of other transactions identified as part of the Committee's work on commodity loans include repo-like transactions and commodity leasing transactions.

Transactions involving items held for investment purposes

11. The Committee identified other transactions involving items held for investment purposes. Such transactions could be speculative investment transactions or investments in items to be held as a store of value.

12. Speculative investment transactions involve an entity investing in items even though doing so is not a core component of its business model. For example, an entity may invest in items such as commodities, cryptocurrencies or emissions allowances.

13. Investments in items to be held as a store of value might include gold, artwork or stamp collections.

Outreach activities and feedback

Structure of research and feedback

14. In the January 2018 Board paper, we segregated the accounting matters under consideration into the two categories mentioned above, ie:

    (a) transactions in which liquid commodities are used as an alternative to cash; and

    (b) transactions involving items held for investment purposes.

15. In our view, that segregation of transactions is most appropriate in deciding whether to undertake standard-setting.

16. Nonetheless, in our research and outreach activities, we generally received feedback split between:

    (a) transactions involving commodities and other investments; and

    (b) transactions involving cryptocurrencies.

17. Given the nature of the feedback, we have analysed it into those two categories in this paper, ie transactions involving commodities and other investments and transactions involving cryptocurrencies.

18. Regarding cryptocurrencies, we have identified three distinct areas:

    (a) holding cryptocurrencies;

    (b) ICOs; and

    (c) mining cryptocurrencies.

19. Appendix A to this paper includes a glossary of definitions of these and other commonly used cryptocurrency terms.

Overview

20. Since the January 2018 Board meeting, we performed the following research and outreach activities:

    (a) We held discussions with national standard setters:

(i) Agenda Paper 3 to the April 2018 Accounting Standards Advisory Forum (ASAF) meeting. The Accounting Standards Board of Japan (ASBJ) also presented a paper at that meeting providing an overview of the Japanese accounting standard on holding cryptocurrencies—that standard requires measurement at fair value through profit or loss of cryptocurrencies for which there is an active market.

(ii) Agenda Paper 2 at the May 2018 Emerging Economies Group (EEG) meeting.

(b) We held informal meetings with regulators, accounting firms, a credit rating agency and other trade bodies.

(c) We performed a search of publicly-listed entities for transactions involving cryptocurrencies. This search covered entities' most recent annual financial statements ending in 2017 or 2018.

21. The views of the outreach participants represent informal opinions and do not necessarily reflect the official views of the organisations that they represent.

Feedback on prevalence

Transactions involving commodities and other investments

22. ASAF members from the Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB), the Financial Accounting Standards Board (FASB), the Asian-Oceanian Standard-Setters Group (AOSSG), the China Accounting Standards Committee (CASC) and the Organismo Italiano di Contabilità (OIC) said commodity transactions are common in their jurisdictions. Those members said transactions involving gold were particularly prevalent, including variants of the gold loan transaction identified in paragraph 9 of this paper.

23. Some ASAF members also said there is diversity in the application of IFRS Standards to commodity transactions and suggested that the Board prioritise work on those transactions over any work on cryptocurrencies.

24. A few ASAF members said the trading of emissions allowances is common in their jurisdiction. The AASB/NZASB member also highlighted other assets traded in their jurisdiction (eg bed licences held by retirement homes and water rights).

25. The Canadian Accounting Standards Board (AcSB) ASAF member said trading of emissions allowances is becoming more prevalent in Canada. For other investments such as artwork, generally only not-for-profit organisations (not reporting using IFRS Standards) hold significant amounts of artwork.

26. A number of EEG members said commodity transactions—in particular those involving gold—are common in their jurisdictions. EEG members also said they are aware of entities that use the broker-trader exemption in IAS 2 *Inventories* when measuring holdings of gold.

27. In addition to the research activities performed after the January 2018 Board meeting, we had previously performed outreach related to the Committee's work to gather information about the prevalence of commodity transactions. Appendix B to this paper reproduces paragraphs 15–24 of Agenda Paper 10 to the November 2016 Committee meeting, which summarised the results of our outreach at that time.

Transactions involving cryptocurrencies

28. Cryptocurrency transactions are increasingly common in some jurisdictions (eg Canada) but not in others. The prevalence of cryptocurrency transactions appears to be related to the regulatory and legal environment in different jurisdictions.

29. The AcSB ASAF member and a Canadian regulator said cryptocurrency transactions are becoming increasingly common in Canada. ICOs are taking place, some investment funds now hold cryptocurrencies and there are some publicly-listed entities engaging in activities involving either blockchain technology or cryptocurrency mining (see paragraph 45 for further information).

30. Some accounting firms also noted that cryptocurrency transactions are more prevalent in Canada than in other jurisdictions.

31. Some ASAF members (eg FASB, the Accounting Standards Committee of Germany (ASCG), CASC and the European Financial Reporting Advisory Group (EFRAG)) said they are not aware of entities reporting significant holdings of cryptocurrencies in their jurisdictions. Most EEG members also said that they are not aware of entities reporting holdings of cryptocurrencies in their jurisdictions. EEG members said transactions involving cryptocurrencies are banned in some jurisdictions.

32. ASAF members from other jurisdictions said they are not aware of IFRS reporters in their jurisdictions holding cryptocurrencies but said there is increasing interest in the topic. Accordingly, those members thought it would be helpful if the Board were to undertake some work to help entities apply existing IFRS Standards to transactions involving cryptocurrencies.

33. Those members also suggested that the Board consider a longer-term project to develop requirements for cryptocurrency transactions.

34. The regulators we spoke to, aside from the Canadian regulator, have not identified a significant number of entities reporting holdings of cryptocurrencies at this time. However, the regulators said:

    (a) they expect the number of entities holding cryptocurrencies to increase; and

    (b) questions about the application of IFRS Standards to cryptocurrency transactions continue to increase and, for some jurisdictions, this is becoming an urgent matter.

35. In some jurisdictions (eg Belarus, Estonia, Japan and Switzerland), some entities hold cryptocurrencies but report applying local GAAP.

36. The ASBJ ASAF member discussed an example of an IFRS reporter with holdings of cryptocurrencies that applies different IFRS Standards to cryptocurrencies held for different purposes. They also provided two examples of IFRS reporters that had engaged in an ICO.

37. The AOSSG ASAF member said that the Korea Accounting Standards Board (KASB) has published a view that entities should measure cryptocurrencies for which there is an active market at fair value through profit or loss.

38. The accounting firms we spoke to said, aside from Canada, they are not aware of a significant number of entities reporting holdings of cryptocurrencies. However, the firms also said they are receiving questions on various aspects of transactions involving cryptocurrencies and that they are also aware of a limited number of entities engaging in ICOs.

39. Some accounting firms said that different types of ICOs can result in different rights and obligations. Those firms said the main question arising is whether the issuing

entity accounts for the tokens or coins issued in an ICO as equity, a financial liability, a non-financial liability or revenue/income.

40. Some firms said it might be helpful for the Committee to highlight areas of IFRS Standards that entities may need to consider when raising finance through an ICO.

41. In discussing ICOs, one firm said there are similarities with other recent developments in how entities raise finance. In their view, crowd funding and green bonds often have similar characteristics to ICOs—all include methods of raising finance for which the issuing entity promises access to future goods or services rather than an equity stake in the entity.

Publicly-listed IFRS reporters

42. We performed a key word search of financial statements issued by publicly-listed IFRS reporters that report holdings or mining of cryptocurrencies or engage in ICOs.

43. We used the financial search engine, AlphaSense, to search for cryptocurrency-related terms in entities' most recent interim or annual financial statements. The search was limited to financial statements written in English, and would identify the existence of cryptocurrency transactions only if presented and/or disclosed separately in the financial statements.

44. In addition to our own research, some regulators and national standard-setters provided us with information about IFRS reporters that have engaged in cryptocurrency transactions. We have included this information in our analysis.

45. The tables below show the number of IFRS reporters entering into cryptocurrency transactions by jurisdiction and type of cryptocurrency transaction:

(a) Publicly-listed IFRS reporters with cryptocurrency transactions disclosed in entities' most recent interim or annual financial statements.

Jurisdiction	Type of cryptocurrency transaction			
	Holding	Mining and Holding	ICOs	Total (all)
Australia	3	-	-	3
Bermuda	1	-	-	1
Canada	14	4	-	18
Isle of Man	1	-	-	1
Japan	1	-	1	2
Switzerland	1	-	-	1
UK	1	-	-	1
Total	**22**	**4**	**1**	**27**

(b) Publicly-listed IFRS reporters with cryptocurrency transactions disclosed as subsequent events in the most recent interim or annual financial statements (not included in (a) above).

Jurisdiction	Type of cryptocurrency transaction			
	Holding	Mining and Holding	ICOs	Total (all)
Australia	-	1	-	1
Bermuda	1	1	-	2
Canada	2	5	2	9
Germany	-	-	1	1
Jersey	1	-	-	1
Norway	-	-	1	1
Singapore	-	-	1	1
Thailand	-	-	1	1
UK	-	-	1	1
Total	**4**	**7**	**7**	**18**

Application of IFRS Standards

46. In addition to reviewing the prevalence of cryptocurrency transactions, we also considered the application of IFRS Standards to such transactions.

47. Of the 26 entities identified as reporting holdings of cryptocurrencies in table (a) above (22 holding plus 4 mining and holding):

(a) 15 (58%) account for those holdings as a financial asset at fair value through profit or loss applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*; and

(b) the remaining eight entities apply either IAS 38 *Intangible Assets* (using the cost or revaluation model) or IAS 2 (measured at cost or at fair value through profit of loss using the commodity broker-trader exemption).

48. The entity that engaged in an ICO initially accounted for the receipt of funds as a liability (reported as 'deferred income').

49. All four entities that report mining of cryptocurrencies account for transaction fees received as revenue in their 2017 or 2018 financial statements. Three of those entities apply IAS 18 *Revenue*, with one entity disclosing that it expects there to be no material impact on its financial statements resulting from the adoption of IFRS 15 *Revenue from Contracts with Customers*. The other entity applies IFRS 15 to its mining activities.

Feedback on Standard-setting

50. At the April 2018 ASAF meeting and the May 2018 EEG meeting, we outlined three initial staff views of possible standard-setting projects the Board could consider that may address some or all of the transactions discussed by the Board in January 2018. The possible projects outlined were:

(a) Approach A—an investments standard: A new IFRS Standard that incorporates some aspects of IAS 25 *Accounting for Investments* (withdrawn in 2001). The scope of the investments standard would capture speculative investment transactions (eg investments in cryptocurrencies) and investments in items held as a store of value (eg gold or artwork) that are not within the scope of IFRS 9 or IAS 40 *Investment Property*.

(b) Approach B—amendments to the scope of existing IFRS Standards: Amending the scope of a particular IFRS Standard (or Standards) to include within its scope particular transactions to which existing IFRS Standards do not specifically apply.

(c) Approach C—an IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* project: Providing a roadmap to help entities develop accounting policies for transactions to which existing IFRS Standards do not specifically apply through the application of IAS 8. The staff paper indicated that, in our view, this approach would be likely to require some change to existing Standards, eg a possible change to IAS 38 to remove some items from its scope.

51. Some ASAF members stated a preference for Approach A—an investments standard. Most EEG members also supported Approach A. In addition, the EFRAG ASAF member said he would not object to the Board pursuing Approach A.

52. Other ASAF members suggested that the Board consider both Approaches A and B. This is because these could be complementary approaches that have the potential to resolve different matters discussed in this paper. For example, Approach A for items held for investment purposes and Approach B for highly-liquid commodities used as an alternative to cash.

53. A majority of ASAF members suggested that the Board not pursue Approach C. Those members said it is unclear how this proposed project would address the matters identified related to commodities and other transactions. In addition, ASAF members were not in favour of a solution that would potentially require the Board to amend IFRS Standards to remove transactions from the scope of a Standard and not to include those transactions within the scope of another Standard.

54. The EFRAG member suggested that the Board consider the possible projects as part of the next Agenda Consultation. However, the AcSB member and Board members present noted that the Agenda Consultation process does not mean that the Board cannot add new projects between consultations. The Board members said the Board would consider the priority of any new project with other projects on the Board's work plan and research pipeline.

55. One EEG member said the Board could consider amending IAS 38 to specifically exclude cryptocurrencies from its scope. Another EEG member said the area of cryptocurrencies is developing quickly and suggested that the Board undertake standard-setting activity equally quickly.

Staff analysis and recommendations

56. In considering next steps, there are two matters that we are asking the Board to consider:

    (a) **Commodities and other investments**: Possible standard-setting the Board could undertake to address the question of accounting for commodity transactions and other investments (that may include cryptocurrencies and other types of cryptoassets).

    (b) **Cryptocurrencies:** Possible standard-setting and/or short-term work the Board could undertake to address the three areas identified relating to cryptocurrencies described in paragraph 18 of this paper.

Commodities and other investments

57. Our research indicates that commodity transactions are widespread. Some respondents think the Board should prioritise work on those transactions over any work on cryptocurrencies.

58. We identified three possible projects the Board could consider in this respect as outlined in paragraph 50 of this paper. Feedback suggests that the Board should not pursue Approach C—an IAS 8 project. That feedback suggests however that that there are merits in, and support for, both Approach A—an investments standard—and Approach B—amendments to the scope of existing IFRS Standards.

Approach A—an investments standard

59. Approach A would address particular types of investments to which IAS 25 would have previously applied but that are not within the scope of IFRS 9 or IAS 40—for example, holdings of cryptocurrencies, artwork or gold. Some of those assets may be within the scope of other IFRS Standards that were not designed with those assets in mind.

60. As described in paragraphs 51–52 of this paper, some stakeholders support the Board considering Approach A. We also see merits in undertaking such a project. Our work on commodity and related transactions has identified what we think is a gap in IFRS literature—ie there are no requirements specifying the accounting for tangible assets held for investment purposes (or as a store of value) that are not investment property.

In addition, we think IAS 38 was developed with particular intangible assets in mind, but not necessarily all assets that may now be within its scope.

61. Nonetheless, we think we have not obtained sufficient evidence to suggest that developing an investments standard would be a higher priority that other projects already on the Board's work plan and research pipeline. Although not a major project of the scale of IFRSs 9, 15, 16 and 17, we think developing a new investments standard would be more than a narrow-scope project.

62. Accordingly, we recommend that the Board does not consider Approach A further at this time. Instead, we recommend that the Board consider this project as part of the next Agenda Consultation, including a specific question in the consultation about the priority of such a project relative to other projects on its work plan or research pipeline.

63. In the meantime, we will continue to monitor developments in this area and, if this matter becomes urgent before the next Agenda Consultation, we will inform the Board.

Approach B—amendments to the scope of a particular IFRS Standard

64. The initial question submitted to the Committee was about a particular commodity loan transaction in which gold is used as an alternative to cash (see Appendix B to this paper for details about that commodity loan transaction). Feedback received by the Committee when discussing this question (see Appendix B to this paper), as well as feedback from our research, indicates that this transaction and variations of it are widespread. The Committee's work on commodity loans and our research also indicates that existing IFRS Standards may not specifically apply to at least some of these transactions—if that is the case, an entity entering into such a transaction applies the hierarchy in IAS 8 in developing an accounting policy that results in information that is relevant and reliable (paragraphs 10-12 of IAS 8). Our outreach (summarised in Appendix B) indicates that there is some diversity in reporting practices in this respect.

65. We think the feedback obtained suggests that the Board could consider further whether there is a narrow-scope standard-setting project it could undertake to address these transactions. Such a project could consider, for example, whether it is feasible to amend the scope of IFRS 9 or another Standard to specifically include within its scope

financing transactions for which the principal amount is a commodity traded in an active market.

66. We think the Board should undertake a narrow-scope standard-setting project in this respect only if it is feasible to define a meaningful scope of transactions in an efficient timeframe. We also think any narrow-scope standard-setting project should be limited to considering only financing transactions that involve liquid commodities being used as an alternative to cash or other financial assets.

67. We recommend that the Board considers further the feasibility of using Approach B to address commodity loans at a future meeting.

Question 1 for the Board—commodities and other investments
1) Does the Board agree with the staff recommendation: a. to consider further the feasibility of a narrow-scope standard-setting project to address commodity loans at a future meeting? If so, do Board members have any comments or suggestions for us to consider for that meeting? b. not to consider further developing an investment standard at this time? If so, does the Board agree with the staff recommendation to ask stakeholders about the respective priority of such a project in the next Agenda Consultation?

Cryptocurrencies

68. Blockchain technology and cryptocurrencies are in the media headlines almost daily. Our research also highlights that, for particular jurisdictions (and notably Canada), the number of cryptocurrency transactions are increasing.

69. Nonetheless, we think our research to date does not provide sufficient evidence to suggest that the IFRS reporting questions that arise are of such significance that a project on cryptocurrencies should be a higher priority than other projects already on the Board's work plan and research pipeline. For this reason, we recommend that the

Board does not add a standard-setting project to its work plan on cryptocurrencies at this time.

70. Having said that, our research indicates that IFRS reporters are entering into an increasing number of cryptocurrency transactions, and also there is some uncertainty about how to account for some cryptocurrency transactions applying existing IFRS Standards. We therefore see benefit in considering short-term work that might help entities apply existing IFRS Standards to cryptocurrency transactions. This would also have the potential to help users of financial statements better understand the nature and extent of cryptocurrency transactions entered into by IFRS reporters.

71. We think the Committee is well placed to do such short-term work. Accordingly, we recommend that the Board consider referring aspects of the accounting for cryptocurrencies to the Committee.

72. As described in paragraph 18 of this paper, there are three distinct matters to be considered related to cryptocurrencies:

(a) holding cryptocurrencies;

(b) ICOs; and

(c) mining cryptocurrencies.

Holding cryptocurrencies

73. The holding of cryptocurrencies by IFRS reporters is becoming increasingly prevalent in particular jurisdictions, and our research indicates differing reporting practices applied in accounting for such holdings.

74. If the matter were referred to the Committee, we think the Committee could consider publishing an agenda decision outlining:

(a) how an entity might walk through existing IFRS requirements in determining how to account for cryptocurrencies that it holds; and

(b) the disclosure requirements that an entity holding cryptocurrencies would be required to consider.

75. We think that such an approach would provide stakeholders with helpful information on the application of existing requirements to the holding of cryptocurrencies within a

relatively short timeframe. Accordingly, we recommend that the Board refer the matter of holding cryptocurrencies to the Committee.

76. We note that such short-term work would not prevent or conflict with the Board undertaking a wider project that may incorporate standard-setting for cryptocurrency transactions.

ICOs

77. Our research identified only a few IFRS reporters that had raised finance through an ICO before or during 2017. A number of IFRS reporters, however, reported that they intend to undertake, or already had undertaken, an ICO during 2018. Some outreach participants said they expect ICO transactions to increase, including by IFRS reporters.

78. The nature of ICOs can vary from one transaction to another, and thus the rights and obligations of the entity raising finance through an ICO can also vary from one transaction to another. If the Committee were to address the matter, then we think it could potentially help clarify that there is no ‘one size fits all’ solution for ICOs—an entity would analyse its rights and obligations resulting from such a transaction to determine how to account for the transaction.

79. If the matter were referred to the Committee, we think the Committee could consider publishing an agenda decision again outlining:

(a) how an entity might walk through existing IFRS requirements in determining how to account for an ICO transaction, having assessed its rights and obligations resulting from the transaction; and

(b) the disclosure requirements that an entity raising finance through an ICO would be required to consider.

80. Having considered the feedback received, we see benefits in such an approach. Accordingly, we recommend that the Board refer the accounting for ICOs to the Committee.

Mining cryptocurrencies

81. There is evidence of IFRS reporters beginning to undertake mining activities—particularly in Canada. However, the evidence from publicly-available financial

statements indicates no diversity in reporting practices regarding the recognition of revenue from that mining activity. Entities that engage in the mining of cryptocurrencies also often hold cryptocurrencies, so any work undertaken on the holding of cryptocurrencies would also be relevant for those entities.

82. We are not otherwise aware of any significant IFRS reporting questions related to the mining of cryptocurrencies, and thus think we have insufficient evidence at this time to recommend any further work in this respect.

83. Accordingly, we think we should continue to monitor the mining of cryptocurrencies by IFRS reporters and can update the Board on such activity if needed.

84. In our view, the Board should not refer the accounting for the mining of cryptocurrencies to the Committee at this time.

Question 2 for the Board—cryptocurrency transactions
2) Does the Board agree with the staff recommendation to refer to the Committee the consideration of how an entity might walk through existing IFRS requirements in determining its accounting for (i) holdings of cryptocurrencies and (ii) ICOs?

Appendix A—Glossary of cryptocurrency terms

A1. This appendix includes definitions of commonly used cryptocurrency terms. These definitions have been taken from Investopedia. Investopedia does not contain a definition of a cryptoasset and this has been defined by the staff.

Term	Definition	Link
Blockchain	A blockchain is a digitised, decentralised, public ledger of all cryptocurrency transactions. Constantly growing as ‘completed’ blocks (the most recent transactions) are recorded and added to it in chronological order, it allows market participants to keep track of digital currency transactions without central recordkeeping. Each node (a computer connected to the network) gets a copy of the blockchain, which is downloaded automatically.	https://www.investopedia.com/terms/b/blockchain.asp
Cryptoasset	A digital asset class that includes assets recorded on a blockchain. These could be intended to be used as a medium of exchange (ie cryptocurrencies) or may provide the holder with other rights (ie crypto tokens).	N/A
Cryptocurrency	A digital or virtual currency that uses cryptography for security. A cryptocurrency is difficult to counterfeit because of this security feature. A defining feature of a cryptocurrency, and arguably its most endearing allure, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation.	https://www.investopedia.com/terms/c/cryptocurrency.asp

Crypto token	Crypto tokens represent a particular fungible and tradable asset or a utility that is often found on a blockchain.	https://www.investopedia.com/terms/c/crypto-token.asp
Digital currency	A form of currency that is available only in digital or electronic form, and not in physical form. It is also called digital money, electronic money, electronic currency, or cyber cash.	https://www.investopedia.com/terms/d/digital-currency.asp
Initial Coin Offering (ICO)	An unregulated[1] means by which funds are raised for a new cryptocurrency venture. An Initial Coin Offering (ICO) is used by start-ups to bypass the rigorous and regulated capital-raising process required by venture capitalists or banks. In an ICO campaign, a percentage of the cryptocurrency is sold to early backers of the project in exchange for legal tender or other cryptocurrencies, but usually for Bitcoin.	https://www.investopedia.com/terms/i/initial-coin-offering-ico.asp
Mining	An integral part of a cryptocurrency network that performs two important functions. First, it is used to generate and release new cryptocurrency tokens for circulation via the cryptocurrency network, and secondly, it is used to verify, authenticate and then add the ongoing network transactions to a public ledger.	https://www.investopedia.com/terms/m/mining.asp

[1] This definition has been copied from Investopedia. We are aware that securities regulators in some jurisdictions published communications indicating some ICOs may be regulated. See http://www.iosco.org/publications/?subsection=ico-statements for some announcements by regulators on ICOs.

Appendix B—Extract of Agenda Paper 10 to the November 2016 IFRS Interpretations Committee meeting

B1. This appendix repeats paragraphs 5–6 and 15–24 of Agenda Paper 10 to the November 2016 Committee meeting.

Background information [to the commodity loan transaction submitted to the Committee]

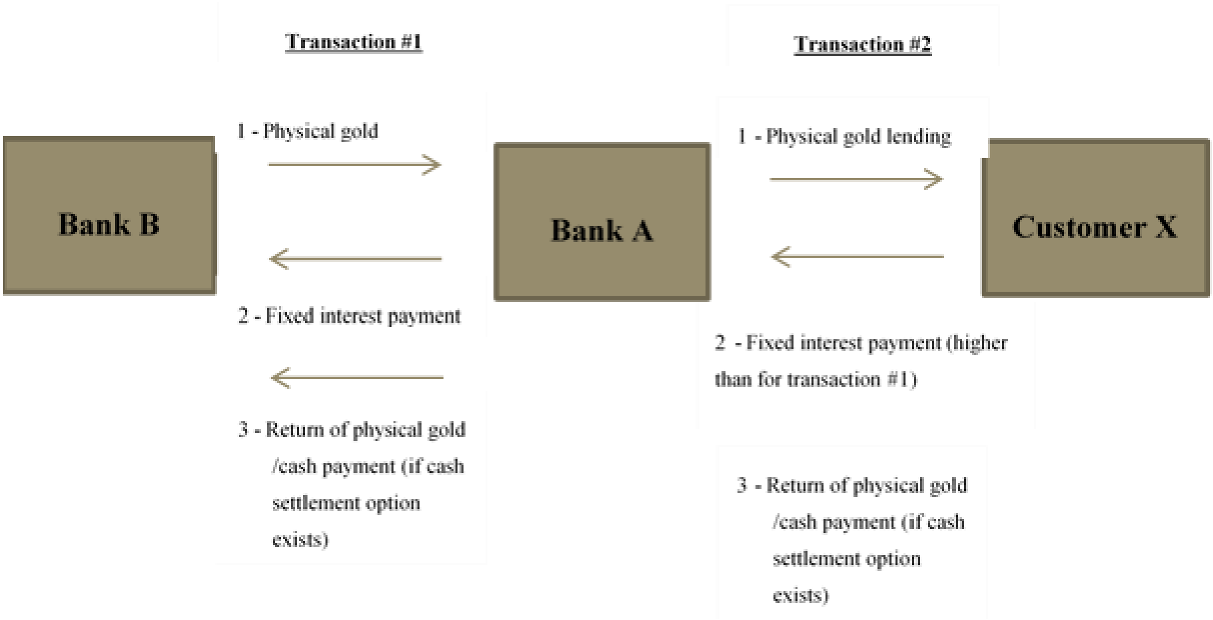
5. The submitter describes a scenario in which:

   (a) *Reporting Entity* (often a bank) borrows a commodity (gold) from *Lender* (often another bank) for 12 months (referred to as Transaction #1). On physical receipt of the commodity, legal title passes to Reporting Entity. The commodity is fungible and can easily be replaced with a similar commodity (another bar of gold).

   (b) There are no cash inflows or outflows at inception of Transaction #1. Instead, Reporting Entity pays a fixed quarterly fee to Lender for the duration of the contract based on (i) the value of the commodity at inception; and (ii) relevant interest rates at inception. At maturity, Reporting Entity is obliged to deliver a commodity of the same type, quantity and quality to Lender. Reporting Entity may, or may not, have an option to settle its obligation in cash, on the basis of the spot price of the commodity at maturity.

   (c) Reporting Entity then enters into a similar transaction with *Borrower* (referred to as Transaction #2). In Transaction #2, legal title of the commodity is transferred to Borrower under the same terms and conditions described in Transaction #1, but for a higher fixed fee from Borrower to Reporting Entity.

6. A diagram illustrating the transactions is included [below]. It is assumed that all three parties to the transactions are unrelated to each other. It is also assumed that Reporting Entity negotiates each transaction independently of the other (ie Borrower and Lender are unaware of the other's transaction with Reporting Entity), although Reporting Entity is likely to have entered into both transactions in contemplation of the other.



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Responses received—overview

15. The responses [to our outreach request] received can be summarised as follows:

	Issue is common	Issue is not common	**Total**
National standard-setters†	3	8	**11**
Accounting firms (international networks)	2	2	**4**
Accounting firms (local)	-	1	**1**
Regulators	-	2	**2**
Preparer (bank)‡	2	-	**2**
Total	**7**	**13**	**20**

†All of the national standard-setters that identified the issue as common in their jurisdiction had based their responses on information provided from large banks and accounting firms.
‡Two large banks contacted the staff directly to provide feedback.

16. All of the responses reported consistent information about the jurisdictions in which the issue is common or prevalent. Based on this information, we understand that the issue is common in Asia, Canada and South Africa. Respondents noted that all major banks in these jurisdictions enter into the type of transactions described in the submission (and other similar commodity transactions).

17. Based on the responses received, it would appear that these transactions are not common or prevalent in other jurisdictions.

18. Consequently, we think that the most useful way to summarise the information received from outreach is to segregate the information received from those respondents identifying the issue as common from information received from others.

Responses that identified the issue as common
(relevant jurisdictions: Asia; Canada; South Africa)

19. All of the respondents that identified the issue as common reported diversity in practice. The varying approaches applied generally reflect entities developing their own accounting policies applying IAS 8, in the absence of an IFRS Standard that specifically applies to the transaction. Those approaches included the following:

    (a) Applying the *Conceptual Framework* to determine whether to recognise assets and liabilities.

    (b) Analogising to the requirements in IAS 39/IFRS 9 because precious metals are readily convertible to cash. This approach generally leads to accounting similar to that described in View 2 of the submission.

    (c) Treating commodities similar to currency because they are fungible and highly liquid. This approach generally leads to accounting similar to that described in View 1 of the submission albeit that, instead of being treated as inventory, the commodity is described as a cash equivalent.

    (d) *Not* using financial instruments requirements because commodities do not meet the definition of a financial asset. In most cases, entities applying this rationale account for the commodity transactions applying IAS 2 and IAS 18—View 1 of the submission. This approach is generally applied in the absence of other more relevant requirements, rather than because those entities think that commodity transactions are clearly captured within the scope of these IFRS Standards.

20. Some respondents also said that, in some cases, entities apply different requirements to different commodity transactions because the substance of these transactions is different. Examples of fact patterns that respondents think might appropriately lead to different accounting include the following:

(a) The existence of a cash settlement option (rather than a requirement to return a physical commodity at maturity). In response to the specific question asked about cash settlement options:

(i) most respondents that commented said that a cash settlement option would not change their response. This is generally because the settlement amount is based on the spot price of the commodity on the date of settlement (and thus both parties would be economically indifferent to the settlement method).

(ii) most also said, however, that this view was limited to the specific fact pattern described in the submission. They said that, in other fact patterns, the existence of a cash settlement option could change their opinion about the accounting.

(b) Similarly, whether any cash settlement option is based on the market value of the commodity at the settlement date, or whether it is a predetermined fixed amount of cash.

(c) Whether any cash is exchanged at inception of a commodity transaction.

(d) Whether a transaction similar to that described by the submitter is a single linked contract or two separate contracts. Similarly, whether the two legs of the transaction are with the same or different counterparties.

21. Many respondents also commented on the lack of requirements for commodities in IFRS Standards more generally. In their view, accounting for commodities, and precious metals in particular, should be considered more broadly than only within the context of the scenario described by the submitter. These respondents said that considering the scenario described by the submitter in isolation may result in a 'half-informed debate' and may have unintended consequences. Examples of other questions that respondents suggested should be considered include the following:

(a) Recognition and derecognition criteria for precious metals.

(b) How to measure commodities recognised as an asset and, if relevant, how to determine their fair value.

(c) Whether the transfer (or not) of legal title should affect the accounting for commodities.

(d) Whether the accounting would differ depending on the liquidity or fungibility of the commodity. For example, some questioned whether an entity should account for gold differently from agricultural commodities.

(e) Whether the accounting would differ for a certificate of deposit of a commodity compared to the commodity itself (eg for an entity that buys and sells such a certificate without ever receiving the physical commodity).

22. Few respondents commented on whether any difference in accounting would have a material effect on entities that enter into commodity transactions. One respondent said that, although the main issue is gross (or net) reporting on the balance sheet, it can have a material effect for banks entering into these transactions. This is because the amount of assets recognised might affect a bank's capital requirements.

Responses from other jurisdictions

23. Responses relating to jurisdictions other than those listed above generally reported that there are few, if any, entities undertaking such transactions. Some of these respondents said that any relevant transactions would rarely have a material effect on financial statements in their respective jurisdictions. Some commented that commodity loans do not exist within the relevant banking system.

24. The majority of these respondents described other commodity transactions that are more prevalent in their jurisdictions than the one described in the submission.