

# STAFF PAPER

September 2019

## IASB<sup>®</sup> Meeting

<b>Project</b>	<b>Comprehensive review of the <i>IFRS for SMEs</i><sup>®</sup> Standard</b>		
<b>Paper topic</b>	<b>Cryptocurrency</b>		
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## Purpose

1. At this meeting we are asking Board members if the Request for Information, that will be issued as part of the 2019 Comprehensive Review of the *IFRS for SMEs* Standard (2019 Review), should seek views on whether the *IFRS for SMEs* Standard should address the accounting for holdings of cryptocurrency, issuing of cryptoassets, and cryptocurrency mining and staking.
2. The objective of the Request for Information is to obtain evidence that will assist the Board in deciding whether and how to develop an exposure draft of amendments to the *IFRS for SMEs* Standard.

## Summary of staff recommendations

3. Staff recommends the Board seek views in the Request for Information on:
  - (a) whether the holdings of cryptocurrencies and issuing of cryptoassets are widespread and material among entities applying the *IFRS for SMEs* Standard and/or SMEs entities;
  - (b) the following three alternatives for the holdings of cryptocurrencies:

- (i) Alternative 1—doing nothing (paragraph 29);
  - (ii) Alternative 2—introducing a revaluation model for intangible assets in Section 18 *Intangible Assets other than Goodwill* of the *IFRS for SMEs* Standard (paragraphs 30–33); and
  - (iii) Alternative 3—introducing a separate section on cryptocurrency in the *IFRS for SMEs* Standard (paragraphs 34–35);
- (c) whether the *IFRS for SMEs* Standard should address cryptocurrency mining and staking.

## Structure of the paper

4. This paper is structured as follows:
- (a) Background (paragraphs 5–7);
  - (b) Holdings of cryptocurrencies (paragraphs 8–36);
  - (c) Issuing of cryptoassets (paragraphs 37–43);
  - (d) Cryptocurrency mining and staking (paragraphs 44–46); and
  - (e) Questions for the Board.

## Background

5. Cryptoassets take various forms, the most commonly discussed being cryptocurrency. Cryptocurrency is not issued by a central authority and provides the holder with no contractual rights. Cryptocurrency is intended for use as a medium of exchange, in a similar way to cash. One of the most commonly cited examples of cryptocurrency is Bitcoin.
6. Other cryptoassets are typically issued by a specified party and confer some type of right on the holder. For example, the holder may have a right to obtain a good or service in the future, a discount on future goods or services provided by the

issuer or a stream of payments resulting from the purchase of an underlying asset. In some cases, a cryptoasset provides the holder with no rights against the issuer.

7. To date, the Board and the IFRS Interpretations Committee (Committee) have primarily discussed the accounting for the holding of cryptocurrencies and issuing of cryptoassets.

## **Holdings of cryptocurrencies**

### ***Prevalence***

8. The staff have been unable to ascertain the prevalence of holdings of cryptocurrency among entities applying the *IFRS for SMEs* Standard. This is because, typically, such entities do not prepare publicly available financial statements.
9. The staff have not identified, either through research or outreach, a significant number of entities preparing financial statements applying full IFRS Standards that hold cryptocurrency. Staff research indicates that a number of entities in Canada and some smaller entities in Japan, Korea and Switzerland report holdings of cryptocurrencies. In addition, some jurisdictions have developed local GAAP requirements for holdings of cryptocurrencies, for example, France, Japan and Estonia.<sup>1</sup>
10. Aside from the Canadian regulator, the regulators to whom the staff spoke have not identified a significant number of entities reporting holdings of cryptocurrencies at that time. However, the regulators consulted said:
  - (a) they expect the number of entities holding cryptocurrency to increase; and
  - (b) questions about applying full IFRS Standards to cryptocurrency transactions continue to increase and, for some jurisdictions, this is becoming an urgent matter.

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<sup>1</sup>See [July 2018 Agenda Paper 12D](#).

11. In January 2019, the staff asked the SME Implementation Group (SMEIG) if a new section is needed in the *IFRS for SMEs* Standard for holdings of cryptocurrencies. One SMEIG member mentioned that cryptocurrency is the subject of many questions from stakeholders. Another member said cryptocurrency is not prevalent in their jurisdiction among entities applying the *IFRS for SMEs* Standard but agreed that this is likely to become an issue. This member took the view that the use of cryptocurrency is not widespread enough to merit the *IFRS for SMEs* Standard addressing the accounting for cryptocurrency.
12. That said, the staff has received informal feedback that holdings of cryptocurrencies could be more prevalent in SMEs than in other types of entity.
13. The staff recommends that the Board consult in the Request of Information on whether the holdings of cryptocurrencies is widespread and material among entities applying the *IFRS for SMEs* Standard and/or SMEs entities.
14. Feedback from the Request for Information will help the Board determine whether the *IFRS for SMEs* Standard should address the accounting for holdings of cryptocurrencies.

### ***Applying full IFRS Standards***

15. In June 2019 the Committee published an agenda decision<sup>2</sup> that outlined how an entity applies IFRS Standards to holdings of cryptocurrencies. In that agenda decision the Committee concluded that:
  - (a) an entity may hold cryptocurrency for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, IAS 2 *Inventories* applies to that holding.
  - (b) a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 *Intangible Assets*. Accordingly, if an entity does not apply IAS 2 to account for its holdings of cryptocurrencies, it applies IAS 38.

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<sup>2</sup> See [IFRIC Update June 2019](#), Agenda Decision—Holdings of Cryptocurrencies.

16. The Committee also noted that cryptocurrency does not meet the definition of cash (paragraph AG3 of IAS 32 *Financial Instruments: Presentation*) or another financial asset (paragraph 11 of IAS 32).

### ***Applying the IFRS for SMEs Standard***

17. The staff have reviewed the requirements in the *IFRS for SMEs* Standard and takes the view that an entity would determine which section of the *IFRS for SMEs* Standard to apply to its holdings of cryptocurrencies in a similar way to an entity applying full IFRS Standards. This is because the *IFRS for SMEs* Standard includes equivalent requirements on those IFRS Standards the Committee looked at when determining which IFRS Standards applies to holdings of cryptocurrencies. However, those requirements are not fully aligned, for example measurement after initial recognition for intangible assets.
18. Paragraph 13.1 of the *IFRS for SMEs* Standard states:
- Inventories are **assets**:
- (a) held for sale in the ordinary course of business;
  - (b) in the process of production for such sale; or
  - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
19. Paragraph 18.2 of the *IFRS for SMEs* Standard defines an intangible asset as:
- ... an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
  - (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
20. Appendix B *Glossary of Terms* of the *IFRS for SMEs* Standard defines a financial asset in the same way as full IFRS Standards.

21. However, the requirement for measuring intangible assets after initial recognition (subsequent measurement) in the *IFRS for SMEs* Standard is different from full IFRS Standards because the *IFRS for SMEs* Standard does not permit the revaluation model. This makes alignment complicated and is discussed in alternative 2 (see paragraphs 30-33).
22. Paragraph 72 of IAS 38 requires an entity to choose either the cost model or the revaluation model for subsequent measurement of its intangible assets. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.
23. The staff ascertains no foreseeable limit to the period over which an entity can expect a holding of cryptocurrency to generate net cash inflows. This is because a holding of cryptocurrency typically generates cash flows for an entity only when sold and there is no foreseeable limit on when an entity can sell that holding of cryptocurrency. Accordingly, the staff believes holdings of cryptocurrencies could be considered to have an indefinite life, applying paragraph 88 of IAS 38.
24. Paragraph 107 of IAS 38 states that an intangible asset with an indefinite useful life shall not be amortised. Instead an entity is required by paragraph 108 to test an intangible asset with an indefinite useful life for impairment applying IAS 36 *Impairment of Assets*.
25. In contrast, Section 18 of the *IFRS for SMEs* Standard does not contain a revaluation model for intangible assets.<sup>3</sup> In addition, paragraphs 18.19 and 18.20 of the *IFRS for SMEs* Standard state:

For the purpose of [the *IFRS for SMEs* Standard], all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are

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<sup>3</sup> *IFRS for SMEs* Standard paragraph BC84(d).

conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

26. Therefore, an entity applying the *IFRS for SMEs* Standard is required to amortise any holdings of cryptocurrencies over a maximum of 10 years. However, paragraph 18.23 permits an entity applying the *IFRS for SMEs* Standard to determine the residual value of an intangible asset with an active market with reference to that market. It states:

An entity shall assume that the residual value of an intangible asset is zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market for the asset and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.

27. Therefore, an entity with a holding of cryptocurrency for which there is an active market may be able to estimate a residual value that would not require the entity to amortise the value of the cryptocurrency if the residual value equals the cost.

### ***Addressing holdings of cryptocurrency in the IFRS for SMEs Standard***

28. The staff has identified three alternatives on which the Board could seek views in the Request for Information.

#### ***Alternative 1—doing nothing***

29. The Board could seek views in the Request for Information on not addressing the accounting for holdings of cryptocurrencies in the *IFRS for SMEs* Standard if

feedback suggests that the holdings of cryptocurrencies is not widespread and material among entities applying the *IFRS for SMEs* Standard.

*Alternative 2—introducing a revaluation model for intangible assets in Section 18 of the IFRS for SMEs Standard*

30. A second alternative would be to introduce a revaluation model similar to IAS 38 in Section 18 of the *IFRS for SMEs* Standard.
31. Introducing the revaluation model would add complexity to the *IFRS for SMEs* Standard and is not consistent with the Board’s objective of a simplified standard for smaller entities. Furthermore, it would hinder comparability of resulting financial information among SMEs using the *IFRS for SMEs* Standard.<sup>4</sup>
32. This alternative will fundamentally change the accounting requirements of Section 18 because it would permit all intangible assets to be revalued. This could lead to entities applying the *IFRS for SMEs* Standard revaluing intangible assets, such as licences. Consequently, the effect of introducing the revaluation model would not be limited to the accounting for cryptocurrency.
33. The staff recommends the Board seek views on introducing the revaluation model for all intangible assets as this would align with full IFRS Standards.

*Alternative 3—introducing a separate section on cryptocurrency in the IFRS for SMEs Standard*

34. Alternative 3 would involve drafting a new section in the *IFRS for SMEs* Standard which addresses the accounting for holdings of cryptocurrencies. This alternative would need to address the following issues:
  - (a) would the new section cover only holdings of cryptocurrencies or all types of cryptoassets;
  - (b) will the new section also cover cryptocurrency mining and staking; and
  - (c) what requirements would the new section include?

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<sup>4</sup> *IFRS for SMEs* Standard paragraph BC89.



35. Alternative 3 would not bring about alignment with full IFRS Standards because cryptocurrency is not addressed in full IFRS Standards. However, this alternative will result in adding new requirements rather than amending the existing requirements of the *IFRS for SMEs* Standard.

### **Staff recommendation**

36. The staff acknowledges that each of the three alternatives are not without hindrance and recommends the Board set out the three alternatives in the Request for Information to seek views. Feedback from the Request for Information will help the Board determine which alternative it may wish to pursue.

## **Issuing of cryptoassets**

### **Applying full IFRS Standards**

37. The Committee discussed the application of full IFRS Standards to cryptoassets issued by entities at its meeting in September 2018. Although the Committee has not formally published an agenda decision on this topic, Committee members expressed agreement with the staff analysis, set out in Agenda Paper 4C of that meeting.<sup>5</sup>
38. In summary, how an entity accounts for a cryptoasset it has issued depends on the obligations arising for the entity issuing the cryptoasset. Many different types of cryptoasset have been issued by entities. Cryptoassets may meet the definition of a financial liability or equity applying IAS 32, a non-financial liability applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or proceeds from the issue of a cryptoasset may be revenue for the issuing entity.
39. An entity issuing a cryptoasset should assess its obligations as a result of issuing that cryptoasset and determine its accounting appropriately.

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<sup>5</sup> [Agenda Paper 4C](#), IFRS Interpretations Committee meeting of September 2018.

**Applying the IFRS for SMEs Standard**

40. The staff thinks an entity would perform a similar analysis if it applies the *IFRS for SMEs* Standard.

**Staff recommendation**

41. The staff recommends that the Board seek views in the Request for Information on the whether the issuing of cryptoassets is widespread and material among entities applying the *IFRS for SMEs* Standard and/or SME entities.
42. Feedback obtained will help the Board determine whether standard-setting should be undertaken or entities should continue to apply existing requirements to determine the appropriate accounting based on the rights and obligations the entity has incurred.
43. The staff notes that some national standard-setters have issued guidance on this topic.

**Cryptocurrency mining and staking**

44. Cryptocurrency mining and staking are activities some market participants undertake to maintain the ledger in which cryptocurrency transactions are recorded. Entities that engage in mining and staking activities earn income for providing the ledger maintenance service. Income can be in the form of cash, cryptocurrency or a mixture of both.
45. Questions could arise about how an entity accounts for the income it receives when providing these services.

**Staff recommendation**

46. The staff recommends that the Board seek views in the Request for Information on the whether the *IFRS for SMEs* Standard should address cryptocurrency mining and staking.

## Questions for the Board

### Questions for the Board

Does the Board agree with the staff recommendations to seek views in the Request for Information on:

1. whether the holdings of cryptocurrencies and issuing of cryptoassets are widespread and material among entities applying the *IFRS for SMEs* Standard and/or SMEs entities;
2. Alternatives 1, 2 and 3 to the accounting for holdings of cryptocurrencies in the *IFRS for SMEs* Standard; and
3. whether the *IFRS for SMEs* Standard should address cryptocurrency mining and staking.