

## STAFF PAPER

November 2019

IASB<sup>®</sup> meeting

|                    |                              |  |                     |
|--------------------|------------------------------|--|---------------------|
| <b>Project</b>     | <b>Cryptoassets</b>          |  |                     |
| <b>Paper topic</b> | <b>Monitoring activities</b> |  |                     |
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## Introduction

1. In November 2018, the International Accounting Standards Board (Board) decided not to add to its work plan a project on holdings of cryptocurrencies or initial coin offerings. Instead, the Board decided to monitor developments regarding cryptoassets.
2. The purpose of this paper is to provide the Board with an update on our monitoring activities since the November 2018 Board meeting. The paper contains:
  - (a) background information (paragraphs 3–4);
  - (b) section 1—holdings of cryptocurrencies, including:
    - (i) prevalence (paragraphs 6–13);
    - (ii) accounting developments (paragraphs 14–19)
    - (iii) regulatory developments (paragraphs 20–25); and
    - (iv) stablecoins (paragraphs 26–34); and
  - (c) section 2—issuance of cryptoassets, including:
    - (i) prevalence (paragraphs 36–41);
    - (ii) accounting developments (paragraph 43);
    - (iii) regulatory developments (paragraphs 45–46); and
    - (iv) academic articles (paragraphs 47–50).

## **Background information**

3. Since November 2018 we have been monitoring developments by:
  - (a) reviewing news articles, academic research and other literature (eg accounting firm publications);
  - (b) monitoring the activities of national standard-setters and regulators; and
  - (c) undertaking our own research of entities' financial statements.
4. This paper provides the Board with a summary of information we have obtained that could affect the Board's decision-making regarding a project on some or all aspects of holding or issuing cryptoassets. In other words, the information in this paper is provided to help the Board assess the likely future growth, if any, in entities that apply IFRS Standards holding or issuing cryptoassets. It therefore assists Board members in determining whether a project on some or all of these topics is necessary.

## **Section 1—Holdings of cryptocurrencies**

5. For the purpose of this discussion, a 'cryptocurrency' is a subset of cryptoassets with all the following characteristics:
  - (a) a digital or virtual currency recorded on a distributed ledger that uses cryptography for security.
  - (b) not issued by a jurisdictional authority or other party.
  - (c) does not give rise to a contract between the holder and another party.

## ***Prevalence***

### *Research of publicly-listed entities*

6. For the November 2018 meeting we performed a keyword search of financial statements issued by publicly-listed IFRS reporters that report holdings of cryptocurrencies. We performed the same search in 2019 for this meeting.

7. The table below shows the number of IFRS reporters with holdings of cryptocurrencies by jurisdiction. We obtained the information as follows:
- (a) We used the financial search engine, AlphaSense, to search for cryptocurrency holdings in entities' most recent interim or annual financial statements. The search was limited to financial statements in English.
  - (b) We performed the same search using CalcBench, a financial data platform that focuses on entities listed in the US. We specifically looked at entities with a dual listing that prepare financial statements using IFRS Standards.
  - (c) In addition to our own research, some regulators and national standard-setters informed us of IFRS reporters that have holdings of cryptocurrencies. We have included this information in our summary.
8. We have identified separately any entities holding cryptocurrencies that are also involved in 'mining' or 'staking' of cryptocurrencies. 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 ledger maintenance services. Income can be in the form of cash, cryptocurrency or a mixture of both.

| Jurisdiction | Search performed in July 2019<br>on financial statements ending<br>31 Dec 2018 or later |                          | Search performed in July 2018<br>on financial statements ending<br>31 Dec 2017 or later |                          |
|--------------|---|--------------------------|---|--------------------------|
|              | Total number<br>of entities   | Of which are<br>'miners' | Total number<br>of entities   | Of which are<br>'miners' |
| Australia    | 6   | -                        | 3   | -                        |
| Bermuda      | -   | -                        | 1   | -                        |
| Canada       | 42  | 24                       | 18  | 4                        |
| Hong Kong    | 6   | 2                        | -   | -                        |
| Isle of Man  | 1   | -                        | 1   | -                        |
| Japan        | 1   | -                        | 1   | -                        |
| Jersey       | 1   | -                        | -   | -                        |
| South Africa | 1   | -                        | -   | -                        |
| Switzerland  | 3   | -                        | 1   | -                        |
| Thailand     | 1   | -                        | -   | -                        |
| UK           | 4   | 2                        | 1   | -                        |
| <b>Total</b> | <b>66</b>   | <b>28</b>                | <b>26</b>   | <b>4</b>                 |

9. The figures for our search in 2019 include entities that ceased to hold cryptocurrencies during the period for which financial statements were presented. There are 4 miners who said they stopped mining during the year and 2 holders that said they sold all holdings during the year. Therefore, our 2019 search has identified 60 entities that report holdings of cryptocurrencies as at their reporting date.
  
10. We compared the carrying amount of cryptocurrencies held to the carrying amount of total assets for each of the entities identified above. The mean proportion of total assets that are cryptocurrencies was 11% (2018 search: 15%). The median proportion was 2% (2018 search: 3%). In other words, most of the entities identified in our search hold only a small amount of cryptocurrencies. However, there are a small number of entities for which the holdings represent a large proportion of their assets.
  
11. In both years, a large proportion of the entities that hold cryptocurrencies are based in Canada (63% in 2019 and 69% in 2018). Canada has several thousand listed entities, many of which are small. For context, we used Capital IQ to obtain information about the market capitalisation of the entities reporting holdings of cryptocurrencies as a proportion of the Canadian market as a whole. We did this on 30 September 2019. This information indicates that entities reporting holdings of cryptocurrencies represent 0.03% of the Canadian market at that date.
  
12. In addition to reviewing the prevalence of cryptocurrency holdings, we also noted the accounting applied by those entities. Of the entities identified as reporting holdings of cryptocurrencies:
  - (a) 9% (2017: 12.5%) account for those holdings at cost, typically applying IAS 38 *Intangible Assets*.
  - (b) 17% (2017: 12.5%) apply the revaluation model in IAS 38.
  - (c) 58% (2017: 75%) account for those holdings at fair value through profit or loss. In some cases, entities say they apply the commodity broker-trader requirements in IAS 2 *Inventories*; a few say they consider holdings of cryptocurrencies to be a financial instrument, while most do not explain their accounting policy.
  - (d) the remaining entities do not explicitly disclose the measurement basis for holdings of cryptocurrencies.

13. Although not directly holding cryptocurrencies on their own account, we note that some entities act as a custodian for others in holding cryptocurrencies. For example, Fidelity, a financial services group based in the US, is developing its cryptocurrency custody business<sup>1</sup>. One accounting firm we spoke to said it is receiving more questions about the accounting for cryptocurrencies held as a custodian. We are also aware that the Autorité des Normes Comptables (ANC) expects to issue a new accounting standard about cryptoasset dealers and custodians in 2019.

### ***Accounting developments***

14. In November 2018 the Board asked the IFRS Interpretations Committee (Committee) to consider publishing an agenda decision that would explain how entities apply existing IFRS Standards to holdings of cryptocurrencies.
15. The Committee has now done so—it published an [agenda decision](#) on holdings of cryptocurrencies in June 2019. The agenda decision explains that an entity accounts for its holdings of cryptocurrencies as inventory if it holds the cryptocurrencies for sale in the ordinary course of business. If the entity holds cryptocurrencies for another reason, it would account for its holdings as an intangible asset applying IAS 38.
16. The ANC amended French GAAP in December 2018. It published a new standard that includes requirements for holdings and the issuance of cryptoassets (a wider population of items than cryptocurrencies). The ANC presented its new standard at the Accounting Standards Advisory Forum (ASAF) in April 2019 (see [Agenda Paper 1](#) for that meeting).
17. Applying the new French GAAP requirements, if an entity holds the cryptoasset for its own use, it is required to recognise the cryptoasset as an intangible asset and amortise it over its useful life (or if the cryptoasset represents a right to obtain a good in the future the entity accounts for the cryptoasset as a prepayment). If an entity holds the cryptoasset as an investment, it would measure the cryptoasset at fair value, with fair value gains or losses deferred until realised (although an entity is required to recognise any decrease in fair value below cost in profit or loss).

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<sup>1</sup> <https://www.ft.com/content/ca95d640-f0b6-11e9-ad1e-4367d8281195>

18. The European Financial Reporting Advisory Group (EFRAG) has a [research project](#) on cryptoassets. The research project is currently in the initial phase. EFRAG is currently examining the use, underlying economics, applicable regulation, prevalence and trends regarding cryptoassets and related activities. EFRAG’s intention in this phase is to examine whether there are accounting challenges that IFRS Standards do not address.
19. The IFRS Discussion Group of the Canadian Accounting Standards Board discussed the following in [January 2019](#):
  - (a) an entity that receives cryptocurrencies from the sale of goods or services and then sells them.
  - (b) a broker-trader that trades cryptocurrencies, measures them at fair value less costs to sell and enters into an agreement to sell a specified amount of cryptocurrencies to a third-party for a fixed amount at a future date.

***Regulatory developments***

20. Some international organisations have published statements on cryptoassets. For example, the Basel Committee on Banking Supervision published a statement on cryptoassets in March 2019<sup>2</sup> and the European Central Bank published an Occasional Paper Series on cryptoassets in May 2019<sup>3</sup>. Neither report sets out new regulations.
21. The Basel Committee on Banking Supervision outlines its expectations from a prudential regulatory perspective related to banks' exposures to cryptoassets and related services. In particular it highlights risk management and other measures it would expect a bank to adopt if it decides to acquire cryptoassets or provide related services. At its meeting in October 2019 the Basel Committee on Banking Supervision agreed to publish a discussion paper on the prudential treatment of cryptoassets.

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<sup>2</sup> [https://www.bis.org/publ/bcbs\\_n121.htm](https://www.bis.org/publ/bcbs_n121.htm)

<sup>3</sup>

<https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op223~3ce14e986c.en.pdf?f2e9a2596a8f9c38c95f4735c05a0d47>

22. The European Central Bank report provides (a) an assessment of selected risks associated with cryptoassets, and (b) the extent to which the current regulatory and oversight frameworks allow the propagation of these risks to the financial system and the economy to be contained.
23. There have been proposals for new regulations in some jurisdictions. For example, in July 2019 the UK Financial Conduct Authority (FCA) proposed a ban on the sale of cryptoasset-based derivatives to retail customers. The FCA note that certain types of cryptoassets ‘have no reliable basis for valuation’, highlighting ‘the prevalence of market abuse and financial crime in the secondary market for cryptoassets’<sup>4</sup>. Other evidence of concerns in this area include reports from some journalists (eg the Wall Street Journal<sup>5</sup>) that ‘most Bitcoin trading [is] faked by unregulated exchanges’ (see also paragraph 28).
24. The Indian Finance Ministry is discussing a complete ban on holding or issuing ‘private’ cryptocurrency<sup>6</sup>. The discussions are not complete and therefore any potential ban is not yet effective.
25. Some tax authorities have clarified how cryptoassets are treated for tax purposes in particular circumstances. For example:
  - (a) the tax authority in New Zealand clarified how local income tax laws apply to salaries received in cryptoassets, instead of money<sup>7</sup>;
  - (b) the Inland Revenue Services in the US clarified how ‘hardforks’ and ‘airdrops’ are treated for tax purposes. Hardforks and airdrops are events in which holders of an existing cryptocurrency obtain a new cryptocurrency for no consideration; and
  - (c) the tax authority in the UK clarified how income tax and corporation tax apply to common cryptoasset transactions for individuals and entities<sup>8</sup>.

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<sup>4</sup> <https://www.fca.org.uk/news/press-releases/fca-proposes-ban-sale-crypto-derivatives-retail-consumers>

<sup>5</sup> <https://www.wsj.com/articles/most-bitcoin-trading-faked-by-unregulated-exchanges-study-finds-11553259600>

<sup>6</sup> <https://www.coindesk.com/indian-panel-proposes-ban-and-jail-time-for-cryptocurrency-use>

<sup>7</sup> <https://www.classic.ird.govt.nz/resources/1/c/1c6029d0-611c-4a15-9cbf-b712129ab76c/tib-vol31-no7.pdf>

<sup>8</sup> <https://www.gov.uk/government/publications/tax-on-cryptoassets/cryptoassets-tax-for-businesses>

## **Stablecoins**

26. Stablecoins are cryptocurrency-like cryptoassets. The main difference between a stablecoin (such as Tether) and a cryptocurrency (such as Bitcoin) is that a stablecoin is designed to ensure that its value remains constant when compared to a particular currency. This could be because the stablecoin is backed by an amount of currency held on deposit at a particular bank or through mathematical formulae that aim to balance demand and supply.

### *Tether*

27. The most common stablecoin is [Tether](#). When Tether was initially launched, its website said that each Tether was ‘backed 1-1 by traditional currency held in our reserves’. Tether’s website now says each Tether is ‘100% backed by our reserves, which include traditional currency and cash equivalents and, from time to time, may include other assets and receivables from loans made by Tether to third parties, which may include affiliated entities’.

28. There have been several news articles related to Tether during 2019, which include the following:

- (a) the New York Attorney General is currently investigating Tether, alleging Tether and a related entity—iFinex Inc—may have acted fraudulently to the detriment of New York investors<sup>9</sup>. During this investigation Tether’s lawyer is reported to have said Tether was only 74% backed by cash and cash equivalents as at 30 April 2019<sup>10</sup>.
- (b) a study indicating a correlation between the issuance of Tethers by its parent company and increases in the price of Bitcoin.<sup>11</sup> An academic study published in 2019 suggests that the price of Bitcoin in 2017 was manipulated by one large entity.<sup>12</sup> That study theorises that new Tethers are

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<sup>9</sup> <https://ag.ny.gov/press-release/2019/attorney-general-james-announces-court-order-against-crypto-currency-company>

<sup>10</sup> <https://www.coindesk.com/tether-lawyer-confirms-stablecoin-74-percent-backed-by-cash-and-equivalents>

<sup>11</sup> <https://www.bloomberg.com/amp/news/articles/2019-10-03/bitcoin-gains-correlate-with-tether-issuance-researcher-says>

<sup>12</sup> <https://www.bloomberg.com/news/articles/2019-11-04/lone-bitcoin-whale-likely-fueled-2017-price-surge-study-says>

created without the dollars to back them and then used to buy Bitcoin, leading to increasing prices.

(c) a class-action lawsuit being taken against Tether and related entities<sup>13</sup>.

*Libra*

29. Another form of ‘stablecoin’ is Libra, which Facebook proposed in June 2019. Libra is a form of digital asset that Facebook says will be backed by cash deposits in a basket of major world currencies and will be recorded on a permissioned database maintained (at least initially) by members of the [Libra Association](#).
30. Libra is not a true ‘stablecoin’—its value will vary when denominated in one currency as a result of fluctuations in the value of that currency compared to other currencies in the basket of currencies backing Libra. In addition, information provided by Facebook to date indicates the database is not a blockchain in the truest form of the technology (ie it is centralised and does not record data in the form of a chain of blocks). Nonetheless, we have included information about Libra in this paper because we consider it to be relevant for Board members.
31. Libra has attracted criticism from government ministers and central banks around the world. Concerns raised surround how the Libra Association will ensure compliance with anti-money laundering regulation, provide consumer protection and protect users’ privacy<sup>14</sup>. Other risks raised by some government ministers include systemic financial risks, risks for sovereignty, and the potential for abuse of market dominance<sup>15</sup>. The G7 Working Group on Stablecoins published a [report](#) in October 2019 investigating the impact of stablecoins. It highlights risks associated with stablecoins that are similar to those noted by others. Building on that report the Financial Stability Board expects to submit a [consultative report](#) on stablecoins to G20 Finance Ministers and Central Bank Governors in April 2020, and a final report in July 2020.

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<sup>13</sup> <https://ftalphaville.ft.com/2019/10/07/1570455386000/Tether-slammed-as--part-fraud--part-pump-and-dump--and-part-money-laundering--/>

<sup>14</sup> <https://www.ft.com/content/ef650f9a-f052-11e9-ad1e-4367d8281195>

<sup>15</sup> <https://ftalphaville.ft.com/2019/09/12/1568281687000/France-says-it-won-t-allow-Libra-in-Europe/>

32. IOSCO also discussed stablecoins at its meeting in October 2019. A [statement](#) IOSCO published after that meeting notes that the IOSCO FinTech Network assessed how IOSCO Principles and Standards could apply to global stablecoin initiatives (including for example whether a particular stablecoin is a security). It concludes that a case-by-case approach is needed to establish which IOSCO Principles and Standards, and national regulatory regimes, would apply.
33. The Libra Association says it will not launch Libra in the US and Europe until it has received approval from regulators. A number of entities that initially expressed interest in being members of the Libra Association have decided not to become members—they include Visa, Mastercard, eBay, Paypal and Stripe<sup>16</sup>.
34. Some speculate that Libra increases the likelihood of central bank digital currencies being issued. These are digital forms of local currency issued by a jurisdiction’s central bank. Some jurisdictions have trialled, or are planning to trial, a local form of central bank digital currency—for example Uruguay and Sweden respectively. In addition, a member of the central bank in China is reported to have said that it is ‘almost ready’ to issue a central bank digital currency<sup>17</sup>.

## **Section 2—Issuance of cryptoassets**

35. In November 2018 we discussed Initial Coin Offerings (ICO). In this paper we instead refer to the issuance of cryptoassets. ICOs are part of this description. We have changed terminology to reflect developments in the way stakeholders refer to these transactions. Many entities no longer refer to an ICO; instead, entities may refer to Security Token Offerings (STO) or Initial Exchange Offerings (IEO). STOs and IEOs are different names for an ICO, however no differences exist in the way the cryptoassets are registered.

### ***Prevalence***

36. Our research identified only a few entities that report the issuance of cryptoassets.

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<sup>16</sup> <https://www.ft.com/content/a3e952dc-ec5c-11e9-85f4-d00e5018f061>

<sup>17</sup> <https://www.ft.com/content/746808a0-d9f6-11e9-8f9b-77216ebe1f17>

37. In our review of publicly-listed IFRS reporters (as described in paragraphs 6–8), we identified the following entities that issued cryptoassets by the end of the reporting period.

| Jurisdiction | Search performed in July 2019 on financial statements ending 31 Dec 2018 or later | Search performed in July 2018 on financial statements ending 31 Dec 2017 or later |
|--------------|---|---|
| Australia    | 1   | -   |
| Canada       | 1   | -   |
| Japan        | 1   | 1   |
| Thailand     | 1   | -   |
| <b>Total</b> | <b>4</b>  | <b>1</b>  |

38. The Canadian company decided to cancel the issuance after its year-end—it is currently returning funds to investors. Of the remaining three entities, all recognised the proceeds from issuance of cryptoassets as a liability. Two described the liability as ‘deferred income’ and one did not explain its obligation.

39. In November 2018 we noted that, in our search of financial statements, seven entities indicated plans to issue cryptoassets post year-end. Only two of those entities had done so at the time of our most recent search. One of those is the Canadian entity that subsequently cancelled the offer and returned investor funds.

40. Our most recent search also identified one Australian company that says it intends to issue a cryptoasset after receiving regulatory approval.

41. We did not identify any entities applying IFRS for SMEs that report the issuance of cryptoassets. OECD (2019), Initial Coin Offerings (ICOs) for SME Financing<sup>18</sup>, notes that the issuance of cryptoassets could be a good way for small and medium sized entities to generate funding when an entity is developing products that are founded on the basis of a network. The OECD notes that it seems inappropriate to consider ICOs as a potential ‘mainstream’ financing mechanism for SMEs whose projects are not enabled by distributed ledger technology and which would not benefit from network effects.

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<sup>18</sup> <http://www.oecd.org/finance/initial-coin-offerings-for-sme-financing.htm>

42. In addition, the OECD notes that ICOs mostly address seed and early stage financing needs of the SME's life cycle; ICOs are not equally suitable to address the most pressing SME financing gap found in some regions of the world (eg in Europe).

### ***Accounting developments***

43. The amendments the ANC has made to French GAAP (see paragraphs 16–17) and EFRAG's research project on cryptoassets (see paragraph 18) both address the issuance of cryptoassets. We are unaware of other accounting developments in relation to the issuance of cryptoassets.
44. The amendments the ANC made to French GAAP require an entity to determine the accounting for an issuance of cryptoassets based on the commitments it made in the relevant offering documents. The ANC identify two types of cryptoassets, which require different accounting treatments:
- (a) cryptoassets with characteristics similar to known security or equity instruments—accounted for similarly to similar financial instruments; and
  - (b) other cryptoassets—depending on the entity's commitments it could be required to account for the cryptoassets issued as a liability, 'deferred turnover', or if the entity has no commitment as income in profit or loss.

### ***Regulatory developments***

45. We are unaware of any jurisdictions publishing new regulations regarding the issuance of cryptoassets since we last discussed the topic with the Board in November 2018. However, in our monitoring we have identified instances of securities regulators referring to existing regulations in their regulation of such issuances. In particular, some regulators have taken legal action against entities that have issued cryptoassets but failed to register those cryptoassets as securities. Mostly notably, the US SEC issued complaints against:
- (a) Kik Interactive in June 2019—  
<https://www.sec.gov/litigation/complaints/2019/comp-pr2019-87.pdf>; and

- (b) Telegram Group and its wholly-owned subsidiary TON Issuer in October 2019— <https://www.sec.gov/litigation/complaints/2019/comp-pr2019-212.pdf>.
46. Both Kik and Telegram are messaging apps. In both cases, the developer of those apps issued cryptoassets that could be transferred within the app between users of the app. The US SEC considers those cryptoassets to be securities and, accordingly, those entities would be required to comply with securities laws (and the related disclosure requirements) in relation to the offerings of those cryptoassets to investors. The cases are ongoing at this time.

### **Academic evidence**

47. Haffke and Fromberger (2019)<sup>19</sup> studied 450 issuances of cryptoassets that took place in 2017. They found that:
- (a) 30 days after the issuance, 58% of cryptoassets in the study had made positive returns through an increase in the value on the secondary market. By 180 days after the issuance, 56% had made positive returns; however
- (b) by December 2018 86% of cryptoassets issued had lost value in the secondary market, with 55% of cryptoassets having lost substantially all their value.
48. Haffke and Fromberger (2019) also found that most cryptoassets issued in 2017 were issued on the Ethereum blockchain. We note that in August 2019 a co-founder of the Ethereum blockchain said it is running out of capacity—this may increase the costs of using the blockchain and thus reduce its attractiveness for the issuance of cryptoassets<sup>20</sup>.

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<sup>19</sup> Available at SSRN: <https://ssrn.com/abstract=3309271> or <http://dx.doi.org/10.2139/ssrn.3309271>

<sup>20</sup> <https://www.bloomberg.com/news/articles/2019-08-26/ethereum-almost-full-as-controversial-coin-gobbles-up-capacity>

49. Fahlenbrach and Frattaroli (2019)<sup>21</sup> studied the type of investor in successful ICOs. They studied ICOs that happened between March 2016 and March 2018. They found that:
- (a) the average ICO has 4,700 contributors. The median participant contributes small amounts. Many investors sell their cryptoassets before the underlying product is developed.
  - (b) in some cases, large investors obtain cryptoassets at a discount before sale to the general public. Those investors often sell part of their allocation shortly after the ICO.
  - (c) nine months after the ICO changes in the value of the cryptoassets are positive on average, mainly as a result of increases in the value of the Ethereum cryptocurrency over those nine months.
50. We think these findings may indicate that investors in ICOs aim to generate returns on their investment through capital appreciation in the short-term, rather than over a longer-term from the product being developed by the issuer.

**Question for the Board**

Do Board members have any questions or comments on the information included in this agenda paper?

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<sup>21</sup> Available at SSRN: <https://ssrn.com/abstract=3419944> or <http://dx.doi.org/10.2139/ssrn.3419944>