

STAFF PAPER

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IASB® meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> ® Standard	
Paper topic	Towards an Exposure Draft—Cryptocurrency	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards or the *IFRS for SMEs*® Standard. The IASB's technical decisions are made in public and reported in IASB® *Update*.

Introduction

1. This paper discusses whether to propose amending the *IFRS for SMEs* Standard to provide requirements for cryptocurrency for SMEs.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

Purpose of the paper

3. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:
 - (a) consider feedback on the Request for Information *Comprehensive Review of the IFRS for SMEs Standard* (Request for Information), published in January 2020, and the recommendations of the SME Implementation Group (SMEIG) on cryptocurrency; and
 - (b) decide whether to propose amendments to the *IFRS for SMEs* Standard to provide requirements for cryptocurrency.

Summary of staff recommendations

4. The staff recommend the IASB retain unchanged the *IFRS for SMEs* Standard for cryptocurrency as part of this comprehensive review and revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard.

Structure of the paper

5. The paper is structured as follows:
 - (a) background (paragraphs 6–9 of this paper);
 - (b) question in the Request for Information (paragraph 10 of this paper);
 - (c) feedback and SMEIG recommendation (paragraphs 11–20 of this paper);
 - (d) staff analysis (paragraphs 21–42 of this paper); and
 - (e) staff recommendation and question for the IASB (paragraph 43 of this paper).

Background

6. The staff note that a range of cryptoassets exist. In this paper, the staff consider cryptocurrency, a subset of cryptoassets.
7. The *IFRS for SMEs* Standard does not specifically include requirements for cryptocurrency and related transactions. The Request for Information sought information on the prevalence of holdings of cryptocurrency and issues of cryptoassets among SMEs to help the IASB decide whether the *IFRS for SMEs* Standard should include requirements for holdings of cryptocurrency and issues of cryptoassets.

8. At its June 2019 meeting, the IFRS Interpretations Committee (Interpretations Committee) discussed how IFRS Accounting Standards apply to holdings of cryptocurrency and published an Agenda Decision on this topic.¹ In that Agenda Decision the Interpretations 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.
9. In March 2021, the IASB published a Request for Information on its Third Agenda Consultation that sought views on potential projects to be added to its work plan for 2022 to 2026. Most respondents to the Request for Information on the IASB Third Agenda Consultation rated a potential project on cryptocurrencies and related transactions as high priority, some respondents rated it as medium priority and a small number of respondents rated it as low priority.² The IASB will discuss potential projects to be added to its work plan in Q2 2022.

Question in the Request for Information

10. Question N2 of the Request for Information sought views on whether holdings of cryptocurrency and issues of cryptoassets are prevalent amongst SMEs (that is, whether there are material holdings among entities eligible to apply the *IFRS for SMEs* Standard).

¹ See Agenda Decision on *Holding of Cryptocurrencies* [IFRS - IFRIC Update June 2019](#).

² See Agenda Paper 24D *Feedback summary—Potential projects (part 1)* of the November 2021 IASB meeting [Feedback summary—Potential projects \(part 1\)](#).

Feedback and SMEIG recommendation

Methods for obtaining feedback

11. Feedback on Question N2 of the Request for Information was gathered from comment letters and an online survey.
12. The SMEIG met on 21 January 2022 to discuss the feedback on the Request for Information and develop recommendations to enable the IASB to decide on whether to propose amending the *IFRS for SMEs* Standard to provide requirements for cryptocurrency.

Feedback on the Request for Information

Comment letters

13. Many respondents who commented on this question said that holdings of cryptocurrency and issues of cryptoassets are not prevalent in their jurisdiction. Respondents' comments included:
 - (a) holdings of cryptocurrency are not relevant to SMEs in their jurisdiction;
 - (b) cryptocurrencies held by SMEs in their jurisdiction are not material; and
 - (c) holding cryptocurrency is prohibited in their jurisdiction.
14. A small number of respondents stated that, at the time of responding (October 2020), there were low levels of cryptocurrency held and cryptoassets issued by SMEs in their jurisdictions, although this was expected to increase in the future.

15. A small number of respondents suggested:
- (a) the IASB should first undertake research and standard-setting on cryptocurrency in IFRS Accounting Standards before considering introducing requirements in the *IFRS for SMEs* Standard; and
 - (b) the *IFRS for SMEs* Standard should not ‘jump ahead’ of the development of IFRS Accounting Standards, which should be used as the starting point for developing the *IFRS for SMEs* Standard.

Online survey

16. Some respondents to the online survey commented on this question. Many of those respondents said holdings of cryptocurrency and issues of cryptoassets are not prevalent in their jurisdiction. One of the respondents said that some entities do not disclose holdings of cryptocurrency because they are not required to do so.
17. Some respondents said cryptocurrencies may become prevalent in the future.

SMEIG recommendation

18. At its January 2022 meeting, the SMEIG discussed whether the *IFRS for SMEs* Standard should provide requirements for cryptocurrency. SMEIG members generally agreed with staff’s preliminary thoughts that the IASB should not amend the *IFRS for SMEs* Standard to provide requirements for cryptocurrency as part of this comprehensive review, and revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard.
19. SMEIG members also said:
- (a) the holding cryptocurrency is uncommon amongst SMEs in their jurisdictions. However, one SMEIG member said holding cryptocurrency is common amongst investment entities eligible to apply the *IFRS for SMEs* Standard in its jurisdiction.
 - (b) cryptocurrency is an evolving area and holding cryptocurrency may become prevalent amongst SMEs.

20. Some SMEIG members suggested:
- (a) the IASB include guidance on cryptocurrency in the *IFRS for SMEs* Standard. These members suggested that the Agenda Decision published by the Interpretations Committee on this topic could be the starting point for this guidance.
 - (b) if the IASB propose amendments to the *IFRS for SMEs* Standard to provide requirements for cryptocurrency, these requirements should be consistent with those in IFRS Accounting Standards.
 - (c) if the IASB issues requirements on cryptocurrencies before the next comprehensive review of the *IFRS for SMEs* Standard and holdings of cryptocurrency and issues of cryptoassets become prevalent amongst SMEs, consideration should be given to developing educational materials on this topic, for example publishing a SMEIG ‘Question and Answer’ (Q&A).

Staff analysis

Relevance to SMEs

21. The IASB’s alignment approach is to continue to develop the *IFRS for SMEs* Standard based on principles of IFRS Accounting Standards. The alignment approach applies the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, in determining whether and how that alignment should take place. The first principle is relevance to SMEs. If a topic is not relevant to SMEs, the IASB would not propose alignment of the *IFRS for SMEs* Standard with that topic in IFRS Accounting Standards. The analysis of the other two alignment principles ‘simplicity’ and ‘faithful representation’ would be undertaken only if the relevance to SMEs principle is met.

22. Although the feedback on the Request for Information on the IASB Third Agenda Consultation indicates that cryptocurrencies and related transactions is an emerging issue that is of increasing relevance, respondents to the Request for Information said holdings of cryptocurrency and issues of cryptoassets are not currently prevalent amongst SMEs in their jurisdiction (see respondents' feedback in paragraphs 13 and 16 of this paper). Stating a topic is not prevalent is equivalent to the topic not being relevant to SMEs. For this reason, the staff think that, as part of this comprehensive review, there is no evidence the topic is currently relevant to SMEs. Therefore, the staff recommend the IASB retain unchanged the *IFRS for SMEs* Standard for cryptocurrency in this comprehensive review.

Applying the IFRS for SMEs Standard to transactions involving cryptocurrencies

23. A small number of respondents to the Request for Information and some SMEIG members said that holdings of cryptocurrency and issues of cryptoassets are an emerging area (see respondents' feedback in paragraphs 14 and 17 of this paper).
24. If an SME enters into a transaction involving cryptocurrencies, which the *IFRS for SMEs* Standard does not include specific requirements, the SMEs should apply paragraphs 10.4–10.6 of the Standard. Applying those paragraphs, an entity determines an accounting policy in accordance with the hierarchy in paragraphs 10.5–10.6 of the *IFRS for SMEs* Standard. The hierarchy includes the option to look to the requirements and guidance in IFRS Accounting Standards.

Agenda Decision on holding of cryptocurrencies

25. For holding of cryptocurrencies, an SME could refer to the Agenda Decision on cryptocurrency. The staff previously analysed how the requirements in the *IFRS for SMEs* Standard would apply to holdings of cryptocurrency and whether this would result in a similar outcome to an entity applying IFRS Accounting Standards.³

³ See Agenda Paper 30E *Cryptocurrency* of the September 2019 IASB meeting, [AP30E: Cryptocurrency](#).

26. The staff analysis indicated that the requirement for measuring intangible assets after initial recognition (subsequent measurement) in the *IFRS for SMEs* Standard is different from IFRS Accounting Standards because the *IFRS for SMEs* Standard does not permit an SME to apply the revaluation model for intangible assets, which is available to entities applying IAS 38. Therefore, SMEs would be expected to get to different outcome applying the requirements in the *IFRS for SMEs* Standard compared to entities applying IFRS Accounting Standards.
27. In addition, an entity applying the *IFRS for SMEs* Standard would be required to amortise any holdings of cryptocurrencies over a maximum of 10 years.⁴ However, paragraph 18.23 of the *IFRS for SMEs* Standard permits an SME 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.
28. 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.
29. At its September 2019 meeting, in developing the Request for Information, the IASB discussed the alternatives for aligning the *IFRS for SMEs* Standard with the requirements in IFRS Accounting Standards that apply to holdings of cryptocurrency. These included:
- (a) introducing a revaluation model for intangible assets in Section 18 of the *IFRS for SMEs* Standard; and

⁴ See paragraphs 18.19 and 18.20 of the *IFRS for SMEs* Standard.

- (b) introducing a separate section on cryptocurrency in the *IFRS for SMEs* Standard (for example, in Section 34 *Specialised Activities*).
30. Some IASB members expressed reservations about the alternative described in paragraph 29(a) of this paper, because this alternative would add complexity to the *IFRS for SMEs* Standard, which is not consistent with the IASB’s objective of a simplified standard for SMEs. Some IASB members also did not want to fundamentally change the accounting for intangible assets to develop requirements for holdings of cryptocurrency.
31. Some IASB members expressed reservations about the alternative described in paragraph 29(b) of this paper, because this alternative would introduce requirements in the *IFRS for SMEs* Standard on a topic for which IFRS Accounting Standards do not provide requirements. This is consistent with feedback from respondents who suggested that the IASB should undertake research and standard-setting on cryptocurrency in IFRS Accounting Standards before considering introducing requirements in the *IFRS for SMEs* Standard (see respondents’ feedback in paragraph 15 of this paper).
32. As mentioned in paragraph 20(a) of this paper, some SMEIG members suggested the IASB include guidance on cryptocurrency in the *IFRS for SMEs* Standard, using the Agenda Decision published by the Interpretations Committee on this topic as the starting point for this guidance.
33. Agenda decisions (including any explanatory material contained within them) published by the Interpretations Committee cannot add or change requirements in IFRS Accounting Standards. Instead, the explanatory material explains how the applicable principles and requirements in IFRS Accounting Standards apply to the transaction or fact pattern described in the agenda decision. For this reason, agenda decisions are not considered for incorporation into the *IFRS for SMEs* Standard.

Issuing of cryptoassets

34. Applying IFRS Accounting Standards, an entity issuing a cryptoasset should assess its obligations as a result of issuing that cryptoasset and determine its accounting appropriately. Cryptoassets may meet the definition of a financial liability or equity

applying IAS 32 *Financial Instruments: Presentation*, 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.⁵

35. The staff think an SME applying the *IFRS for SMEs* Standard would perform a similar analysis.

Possible educational materials on cryptocurrency

36. As mentioned in paragraph 20(c) of this paper, some SMEIG members suggested developing educational material on holdings of cryptocurrency and issues of cryptoassets before the next comprehensive review of the *IFRS for SMEs* Standard. These SMEIG members suggested publishing education materials if:

- (a) the holdings of cryptocurrency and issues of cryptoassets become prevalent amongst SMEs; and
- (b) the IASB issues requirements for cryptocurrencies before the next comprehensive review of the *IFRS for SMEs* Standard.

37. Educational material includes stand-alone modules on each section of the Standard (the *IFRS for SMEs* modules) and Q&As developed by the SMEIG that respond to application questions on the *IFRS for SMEs* Standard. During each of the IASB's reviews of the *IFRS for SMEs* Standard, all existing Q&As are incorporated into the *IFRS for SMEs* Standard, into the *IFRS for SMEs* modules or withdrawn, as appropriate.⁶

38. Educational materials explain how the principles and requirements in the *IFRS for SMEs* Standard apply. They do not change or conflict with the Standard. The staff believe educational material on this topic would be similar to the explanations provided in paragraphs 27–28 and 34–35 of this paper.

⁵ See Agenda Paper 4C *Initial Coin Offerings* of the September 2018 IFRS Interpretations Committee meeting, [AP4C: Initial coin offerings](#).

⁶ Paragraph 41 of the *Terms of Reference and Operating Procedures for the SME Implementation Group (Terms of Reference)*

39. The *IFRS for SMEs* modules include explanations aimed at supporting understanding and use of the *IFRS for SMEs* Standard. To do so, the material covers transactions relevant to SMEs. Similarly, in deciding whether to publish a Q&A, the SMEIG considers whether the issue is pervasive.⁷
40. As educational materials would not introduce new requirements in the *IFRS for SMEs* Standard for this topic, they would not result in the Standard including requirements on cryptocurrency before they are included in IFRS Accounting Standards. For this reason, the staff do not believe the publication of educational materials on holdings of cryptocurrency and issues of cryptoassets should be dependent on the IASB undertaking a project on this topic as suggested in paragraph 36(b) of this paper.

Conclusions

41. Notwithstanding the emerging relevance of the topic, the staff:
- (a) agree with the views of the IASB members described in paragraphs 30–31 of this paper; and
 - (b) think that if the IASB were to introduce any requirements on cryptocurrency in the *IFRS for SMEs* Standard as part of this comprehensive review, the IASB might need to amend these requirements for the outcome of any future project undertaken by the IASB following the outcome of its Third Agenda Consultation.
42. Therefore, the staff are of the view that the IASB should revisit this topic in the next comprehensive review of the *IFRS for SMEs* Standard in the light of any research and standard-setting in IFRS Accounting Standards. In the interim, the IASB and the SMEIG may consider developing educational materials on holdings of cryptocurrency and issues of cryptoassets if these topics are identified as prevalent amongst SMEs.

⁷ Paragraph 20(a) of the *Terms of Reference*.

Staff recommendation and question for the IASB

43. In the light of the staff analysis in this paper, the staff recommend the IASB:
- (a) retain unchanged the *IFRS for SMEs* Standard for cryptocurrency as part of this comprehensive review.
 - (b) revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard.

Question for the IASB

Does the IASB agree with staff's recommendation to retain unchanged the *IFRS for SMEs* Standard for cryptocurrency as part of this comprehensive review and revisit the topic in the next comprehensive review of the *IFRS for SMEs* Standard?