

## STAFF PAPER

January 2022

## SME Implementation Group meeting

Project	Second Comprehensive Review of the <i>IFRS for SMEs</i> <sup>®</sup> Standard	
Paper topic	Cryptocurrency	
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This paper has been prepared for discussion at a public meeting of the SME Implementation Group. The views expressed in this paper do not represent the views of the International Accounting Standards Board (IASB) or any individual member of the IASB. Comments on the application of IFRS<sup>®</sup> Standards or the *IFRS for SMEs*<sup>®</sup> Standard do not purport to set out acceptable or unacceptable application of IFRS Standards or the *IFRS for SMEs*<sup>®</sup> Standard. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

**Purpose of this paper**

1. This paper:
  - (a) summarises the feedback on cryptocurrencies from comment letters and the online survey on the Request for Information *Comprehensive review of the IFRS for SMEs Standard* (Request for Information), published by the International Accounting Standards Board (IASB) in January 2020;
  - (b) includes staff preliminary thoughts about the direction for this topic; and
  - (c) seeks views from the members of the SME Implementation Group (SMEIG) on these staff preliminary thoughts.
2. In this paper, the term SMEs refers to small and medium-sized entities that are eligible to apply the *IFRS for SMEs* Standard.

**Objective of this paper**

3. The paper is structured as follows:
  - (a) question in the Request for Information (paragraph 4 of this paper);
  - (b) feedback:

- (i) feedback on the second comprehensive review (paragraphs 5–9 of this paper); and
- (ii) feedback on the Third Agenda Consultation (paragraph 10 of this paper);
- (c) staff preliminary thoughts (paragraphs 11–21 of this paper); and
- (d) question for SMEIG members.

### **Question in the Request for Information**

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

### **Feedback**

#### ***Feedback on the second comprehensive review***

##### *Comment letters on the Request for Information*

- 5. 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) holding of cryptocurrency is not relevant to SMEs in their jurisdiction;
  - (b) cryptocurrencies held by SMEs in their jurisdiction are not material; and
  - (c) holding of cryptocurrency is prohibited in their jurisdiction.
- 6. A small number of respondents stated that, at the time of writing the comment letters (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.

7. A small number of respondents suggested:
- (a) the IASB should first undertake research and standard-setting on cryptocurrency in IFRS 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 Standards, which should be used as the starting point for developing the *IFRS for SMEs* Standard.

#### *Online survey*

8. 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.
9. Some respondents said cryptocurrencies may become prevalent in the future.

#### ***Feedback on the Third Agenda Consultation<sup>1</sup>***

10. In its Third Agenda Consultation project, the IASB sought views on potential projects to be added to its work plan for 2022 to 2026. Most respondents to the 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. Detailed comments on cryptocurrencies from the Third Agenda Consultation can be found in Agenda Paper 24D *Feedback summary—Potential projects (part 1)* of the November 2021 IASB meeting.

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<sup>1</sup> See Agenda paper 24D *Feedback summary—Potential projects (part 1)* of the November 2021 IASB meeting.

## Staff preliminary thoughts

### **Relevance to SMEs**

11. In the Request for Information, the IASB sought information on the prevalence of holdings of cryptocurrency and issues of cryptoassets among entities eligible to apply the *IFRS for SMEs* Standard to help the IASB decide whether the *IFRS for SMEs* Standard should include requirements on this topic.
12. In considering whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards, the IASB tentatively decided to apply three ‘alignment principles’. 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 full IFRS 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.
13. Although the feedback on the 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 (see respondents’ feedback in paragraphs 5 and 8 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 think the SMEIG should recommend the IASB retain unchanged the *IFRS for SMEs* Standard for this topic.

### **Applying the IFRS for SMEs Standard to transactions involving cryptocurrencies**

14. A small number of respondents to the Request for Information said that holdings of cryptocurrency and issues of cryptoassets were becoming more prevalent in their jurisdiction (see respondents’ feedback in paragraphs 6 and 9 of this paper). If an SME enters into a transaction involving cryptocurrencies for 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 Standards. For holdings of cryptocurrency, an SME could refer to the Agenda Decision published by IFRS Interpretations Committee (Committee) on this topic.<sup>2</sup> 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.

15. 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 Standards.<sup>3</sup> This analysis identified that SMEs would be expected to get to different outcome applying the requirements in the *IFRS for SMEs* Standard. This is because the *IFRS for SMEs* Standard does not provide an option to apply a revaluation model for intangible assets in Section 18 *Intangible Asset other than Goodwill* of the Standard.
16. 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 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
  - (b) introducing a separate section on cryptocurrency in the *IFRS for SMEs* Standard (for example, in Section 34 *Specialised Activities*).

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<sup>2</sup> See IFRIC Agenda Decision on *Holding of Cryptocurrencies* [IFRS - IFRIC Update June 2019](#).

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

17. Some IASB members expressed reservations about the alternative described in paragraph 16(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 the holdings of cryptocurrency.
18. Some IASB members expressed reservations about the alternative described in paragraph 16(b) of this paper, because this alternative would introduce requirements in the *IFRS for SMEs* Standard on a topic for which IFRS Standards do not have specific requirements. This is consistent with feedback from respondents who suggested that the *IFRS for SMEs* Standard should not 'jump ahead' of the development of IFRS Standards by including requirements for this topic (see respondents' feedback in paragraph 7 of this paper).

## **Conclusions**

19. Notwithstanding the emerging relevance of the topic, the staff agree with the views of the IASB members described in paragraphs 17–18 of this paper. Furthermore, the staff think that if the IASB were to introduce any specific 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.
20. 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 light of the research and standard-setting in IFRS Standards.
21. In summary, the staff think the SMEIG should 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 SMEIG members****Question for SMEIG members**

Do SMEIG members agree with the staff's preliminary thoughts that the IASB should 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?