IFRS

STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Cryptocurrencies**		
Paper topic	Possible standard-setting—holdings of cryptocurrencies		
CONTACT	Craig Smith	csmith@ifrs.org	+44 (0)20 7246 6462

Introduction

1. In July 2018, the International Accounting Standards Board (Board) discussed cryptocurrencies. The Board asked the staff to seek the advice of the IFRS Interpretations Committee (Committee) about how an entity might apply existing IFRS Standards in accounting for holdings of cryptocurrencies. Additionally, the Board sought the Committee's views on whether the application of existing IFRS Standards would provide useful information to investors for decision-making.

2. The objective of this paper is to obtain the Committee's advice on:

   (a) whether standard-setting is necessary for holdings of cryptocurrencies; and

   (b) if so, whether this should be a priority for the Board and what form of standard-setting activity the Board should undertake.

3. In doing so we think it is helpful for the Committee to consider:

   (a) how existing IFRS Standards apply to holdings of cryptocurrencies (see Agenda Paper 4A to this meeting);

   (b) whether applying existing IFRS Standards provides useful information to users of financial statements;

   (c) whether cryptocurrency transactions are prevalent; and

(d) whether there are feasible standard-setting projects the Board could undertake.

4. Accordingly, this paper is structured as follows:

   (a) application of existing IFRS Standards (paragraphs 5–10);

   (b) financial information that is useful (paragraphs 11–20);

   (c) prevalence (paragraphs 21–37); and

   (d) possible standard-setting activity (paragraphs 38–55).

Application of existing IFRS Standards

5. We provide a staff analysis of how an entity might apply existing IFRS Standards in determining its accounting for holdings of cryptocurrencies in Agenda Paper 4A to this meeting.

6. Based on our analysis, we think an entity does not account for holdings of cryptocurrencies as cash or another financial asset because cryptocurrencies do not currently have the characteristics of cash nor do they meet the definition of a financial asset in IAS 32 *Financial Instruments: Presentation*.

7. If the use of a cryptocurrency evolved to such an extent that it was widely used as a medium of exchange and unit of account, then we think an entity would reassess these requirements at that time.

8. If an entity holds cryptocurrencies for sale in the ordinary course of business, we think it would meet the definition of inventories and, thus, apply IAS 2 *Inventories*. We also think it may be appropriate to apply the requirements in paragraph 3(b) of IAS 2 if the entity is a broker-trader.

9. We think that cryptocurrencies meet the definition of an intangible asset and if an entity does not apply IAS 2 to account for those cryptocurrencies it applies IAS 38.

10. An entity applies the presentation and disclosure requirements of the IFRS Standard it applies to account for its holdings of cryptocurrencies. IAS 1 *Presentation of Financial Statements* and IAS 10 *Events after the Reporting Period* also contain relevant disclosure requirements.

Financial information that is useful

11. Paragraph 1.2 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) says that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

12. Chapter 2 of the *Conceptual Framework* describes the qualitative characteristics of what makes information useful. In particular, paragraph 2.4 states:

> If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

13. Relevance and faithful representation are the fundamental qualitative characteristics of useful financial information.

14. Paragraph 2.6 of the *Conceptual Framework* states:

> Relevant financial information is capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value, or both. The predictive value and confirmatory value of financial information are interrelated.

15. Paragraph 2.13 of the *Conceptual Framework* states:

> To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible.

16. Paragraph 6.49 of the *Conceptual Framework* says that relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:

    (a) the characteristics of the asset or liability; and

    (b) how that asset or liability contributes to future cash flows.

17. Some stakeholders say that applying the cost model in IAS 38 to holdings of cryptocurrencies does not provide useful information to the users of financial statements. Those stakeholders say that measuring holdings of cryptocurrencies at fair value through profit or loss (FVTPL) would provide users of financial statements with more useful information than cost because:

    (a) entities holding cryptocurrencies often do so as a speculative investment. The nature of the investment indicates management of those entities measure and assess performance based on the fair value of the assets.

    (b) cryptocurrencies contribute to future cash flows directly—ie an entity holding cryptocurrencies can obtain cash from those cryptocurrencies only through sale (at its market price at the date of sale) not by combining with other assets and resources.

    (c) the fair value of cryptocurrencies is highly volatile. Accordingly, its historical cost might differ significantly from its market price.

18. That said, other stakeholders have suggested that historical cost may be a more faithfully representative measurement basis for cryptocurrencies. Those stakeholders are concerned that the exposure to significant volatility could mean that the fair value of a cryptocurrency at an entity's reporting date is significantly different from the value at the date the entity publishes its financial statements. As such, the year-end financial information may no longer be useful to a user of the financial statements.

19. Other stakeholders note that not all cryptocurrencies have an active market. IFRS 13 *Fair Value Measurement* defines an active market as 'a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.'

20. An entity may encounter difficulties in determining the fair value of a cryptocurrency if there is no active market. Paragraph 6.60 of the *Conceptual Framework* notes that when a measure cannot be determined directly by observing prices in an active market and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an entity's financial position and financial performance. While a

high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation.

Prevalence

21. We discussed cryptocurrencies with the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG), and also with regulators, accounting firms, a credit rating agency and other trade bodies. We also performed a search for cryptocurrencies in financial statements of publicly listed entities applying IFRS Standards.

22. Our research indicates that holdings of cryptocurrencies by entities applying IFRS Standards (IFRS reporters) are increasingly common in some jurisdictions, in particular Canada. The prevalence of cryptocurrency holdings appears, in part, to be related to the regulatory and legal environment in different jurisdictions.

23. The AcSB (Canadian Accounting Standards Board) ASAF member, a Canadian regulator and some accounting firms said cryptocurrency transactions are becoming increasingly common in Canada with some investment funds now holding cryptocurrencies and some publicly-listed entities engaging in activities involving blockchain technology.

24. Some ASAF members (eg the Financial Accounting Standards Board (FASB), the Accounting Standards Committee of Germany (ASCG), the China Accounting Standards Committee (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 they are not aware of entities reporting holdings of cryptocurrencies in their jurisdictions; some said transactions involving cryptocurrencies are banned in some jurisdictions.

25. ASAF members from other jurisdictions said they are not aware of IFRS reporters in their jurisdictions holding cryptocurrencies at this time 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.

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

27. 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, those 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.

28. In some jurisdictions (eg Belarus, Estonia, Japan, Korea and Switzerland), some entities report holdings of cryptocurrencies but report applying local GAAP.

29. The accounting firms we spoke to said, aside from Canada, they are not aware of a significant number of entities reporting holdings of cryptocurrencies at this time. However, the firms also said they are receiving questions on various aspects of transactions involving cryptocurrencies.

Research of publicly-listed entities

30. We performed a key word search of financial statements issued by publicly-listed IFRS reporters that report holdings of cryptocurrencies.

31. We used the financial search engine, AlphaSense, to search for cryptocurrency holdings in entities' most recent interim (2018) or annual (2017) financial statements. The search was limited to financial statements written in English and would identify the existence of cryptocurrency holdings only if presented and/or disclosed separately in the financial statements.

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

33. The table below shows the number of IFRS reporters with holdings of cryptocurrencies by jurisdiction. Holdings are segregated between those held as at the balance sheet date and those acquired after the balance sheet date.

Jurisdiction	Holding at the balance sheet date	Holdings acquired after the balance sheet date	Total
Australia	3	1	4
Bermuda	1	2	3
Canada	18	7	25
Isle of Man	1	-	1
Japan	1	-	1
Jersey	-	1	1
Switzerland	1	-	1
UK	1	-	1
Total	**26**	**11**	**37**

34. The principal activity of half of the 26 entities identified as holding cryptocurrencies at the balance sheet date is related to cryptocurrencies. Six entities are investment funds or other financial entities, four are technology entities and the principal activity of the remaining entities is media.

35. We compared the balance of cryptocurrencies held to the total assets for each of the 26 entities identified above. The mean proportion of total assets that are cryptocurrencies was 15%. The median proportion was 3%. The largest proportion of total assets was 86%, while the smallest was 0.4%.

36. In addition to reviewing the prevalence of cryptocurrency transactions, we also noted the accounting applied by those entities.

37. Of the 26 entities identified as reporting holdings of cryptocurrencies at the balance sheet date above:

    (a) 18 (69%) account for those holdings at FVTPL. In some cases, the entities say they are applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*. Other entities say they apply paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting*

Estimates and Errors, and consider IAS 39 or IFRS 9 to address similar and related issues.

(b) the remaining eight entities apply either IAS 38 (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).

Possible standard-setting projects

38. The Board discussed one possible standard-setting activity for holdings of cryptocurrencies at its meeting in July 2018—an investments standard. Some Board members suggested other possible standard-setting activities at that Board meeting.

39. We have provided analysis of three possible standard-setting projects the Board could consider:

(a) Approach A—developing 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—amending the scope of IAS 38: A narrow-scope amendment to IAS 38 to explicitly exclude cryptocurrencies from its scope. The Board could then specifically include cryptocurrencies within the scope of another Standard, for example, IFRS 9 or IAS 40.

(c) Approach C—deferring standard-setting: The Board could ask the Committee to publish an agenda decision highlighting either only disclosure requirements for cryptocurrencies or recognition, measurement and disclosure requirements. The Board could then reconsider evidence of prevalence at a later date as part of its consideration of whether to start work on projects in the Board's research pipeline.

Approach A

40. Approach A would address particular 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 developed with those assets in mind.

41. At the April 2018 ASAF meeting and the May 2018 EEG meeting, we asked for feedback on this, and two other, possible standard-setting projects.

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

43. Other ASAF members suggested that the Board consider Approach A alongside a complementary approach that has the potential to address the commodity loan transaction discussed by the Committee in March 2017.

44. 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. The project would require the Board to consider:

    (a) Scope—to cover all items noted in paragraph 40 of this paper only.

    (b) Measurement—if the Board were to conclude that FVTPL would provide the most useful information to investors about such investments, then it would need to consider the views some stakeholders have about the lack of an active market for some investments.

    (c) Recognition/recognition—our preliminary thinking is that the recognition and derecognition requirements would be based on the concept of control.

    (d) Disclosure—we think many of the disclosures that users would find useful would already be required by IFRS 13. However, there may be other specific disclosure requirements that users may also find useful.

45. We see merits in undertaking such a project. Our work on commodities and cryptocurrencies has identified what we think is a gap in IFRS literature—ie there are no requirements specifying the accounting for 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.

46. In addition, addressing a wider range of transactions, instead of only cryptocurrencies, mitigates the risk of the Board undertaking standard-setting for a topic that may cease to be applicable before the Standard becomes effective.

47. However, it is debatable whether we have 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.

Approach B

48. A second approach the Board could consider is to amend IAS 38 to specifically exclude cryptocurrencies from its scope. The Board could then include cryptocurrencies within the scope of another IFRS Standard, for example IFRS 9 or IAS 40.

49. There is precedent for the Board to specifically include transactions within the scope of a Standard, even though those transactions would not otherwise be within the Standard's scope. For example, paragraphs 2.3–2.4 of IFRS 9 specifically include particular transactions that are not financial instruments within its scope.

50. Amending the scope of IFRS 9 or IAS 40 to specifically include cryptocurrencies would allow entities holding such assets to measure them at FVTPL.

51. Using IFRS 9 may result in similar concerns in relation to the use of fair value when there is not an active market for a particular cryptocurrency (see paragraphs 18–20 of this paper). However, if the Board were to consider including a cryptocurrency within the scope of IAS 40 it could specify entities use the cost model in paragraph 56 of IAS 40 if there is no active market for the cryptocurrency.

Approach C

52. In Agenda Paper 12D to the July 2018 Board meeting we recommended the Board consider an investments standard as part of the next Agenda Consultation. The Board

has not decided when the next Agenda Consultation will be. The Board completed its previous Agenda Consultation by publishing a *Feedback Statement* in November 2016. Paragraphs 4.3–4.5 of the *Due Process Handbook* requires the Board to undertake an Agenda Consultation every five years.

53. Some Board members expressed concerns about the possibility of cryptocurrencies becoming more widespread before the next Agenda Consultation. Those Board members said waiting until the next Agenda Consultation to consider possible standard-setting may be too late—they said it would be easier for the Board to specify accounting requirements before practice becomes entrenched.

54. One Board member suggested asking the Committee to publish a tentative agenda decision that, as a minimum, highlighted disclosure requirements to entities. The Committee may also decide to include more information to walk through how an entity applies IFRS Standards to holdings of cryptocurrencies.

55. We would perform a search of IFRS reporters' financial statements for holdings of cryptocurrencies before the next Agenda Consultation to identify whether cryptocurrencies have become more prevalent. The Board could consider that evidence, alongside its research pipeline projects, to determine whether standard-setting is necessary at that time.

Question for the Committee
Considering the usefulness of information and the prevalence of holdings of cryptocurrencies, do Committee members have any advice for the Board in relation to standard-setting alternatives for holdings of cryptocurrencies?