



STAFF PAPER

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Project	Cryptocurrencies		
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Introduction

1. At its meeting in July 2018 the International Accounting Standards Board (Board) discussed cryptocurrencies. The Board decided to refer the accounting for holding cryptocurrencies and Initial Coin Offerings (ICOs) to the IFRS Interpretations Committee (Committee).
2. The objective of this paper is to provide the Committee with a staff analysis of how an entity might apply existing IFRS Standards in determining its accounting for ICOs.
3. This paper includes:
 - (a) background information:
 - (i) definitions (paragraphs 4–10); and
 - (ii) accounting considerations (paragraphs 11–16); and
 - (b) staff analysis of the application of existing IFRS Standards to ICOs (paragraphs 17–39).

Background Information

Definitions

4. An ICO is a means by which an entity raises funds through the issue of cryptoassets (in the form of digital ‘tokens’ or ‘coins’) in exchange for either (a) fiat currency

- (money without intrinsic value but backed by a government authority, eg euros) or (b) an established cryptocurrency (eg bitcoin or ether).
5. To raise capital through an ICO (and subject to the required regulatory approvals) an entity issues a white paper. The white paper typically includes, among other things, details of the proposed financing requirements (eg the amount the entity is trying to raise and the number of cryptoassets to be issued), rights and restrictions applicable to holders of the cryptoassets and the intended use for the financing secured. The white paper serves a similar purpose to a prospectus in a conventional equity initial public offering.
 6. Many cryptoassets issued by an entity in an ICO include a promise by the entity to the investor. This promise varies depending on the terms of the ICO. Examples of promises an entity may make to an investor participating in ICO include the following:
 - (a) The holder is entitled to free or discounted access to the entity's goods or services for a specified or indefinite period of time.
 - (b) The holder is entitled to a share of the profits of the entity.
 - (c) The holder has access to an exchange through which it can transact with other users of the exchange in buying goods or services.
 7. Other cryptoassets issued in ICOs are new cryptocurrencies where the issuing entity has no further obligation to the investor. Instead the holder of the newly issued cryptocurrency is speculating that its value will increase.
 8. In some cases, an investor may be able to trade cryptoassets issued in an ICO in a secondary market. Where such a transaction occurs, the issuing entity has the same obligation to the new holder as it did to the original holder.
 9. We are aware that there is a similar transaction type to ICOs known as Token Generating Events (TGE). The underlying method of issuing cryptoassets in ICOs and TGEs is similar, however, the timing of an entity issuing the cryptoassets differs. ICOs are issued by start-up entities, before the entity has developed its promised goods or services. TGEs are used by entities that have already developed a product.

10. In this paper we refer only to ICOs. However, we think that the analysis an entity performs to determine how to account for an TGE would be similar.

Accounting considerations

11. Entities raising funds through an ICO receive cash or a cryptocurrency from investors in return for issuing a cryptoasset. The receipt of cash or a cryptocurrency creates an asset for the issuing entity—this is the debit side of the entry to record the ICO.
12. Our review of financial statements issued by publicly-listed entities applying IFRS Standards (see paragraph 42–49 of [Agenda Paper 12D](#) to the Board’s July 2018 meeting) did not identify a large number of entities raising funds through ICO transactions at this time.
13. However, we are aware of questions about how such an entity accounts for the issue of cryptoassets in an ICO—ie the credit side of the entry.
14. Ultimately, the appropriate accounting will depend on the obligations arising for the entity issuing the cryptoassets.
15. The nature of ICOs varies from one transaction to another, and thus the rights and obligations of the entity raising funds through an ICO will also vary. It follows therefore that there is no ‘one size fits all’ an accounting treatment for ICOs applying IFRS Standards.
16. We think that the first step in determining the appropriate accounting is an analysis of the transaction including a review of the obligations arising for the entity as a result of the ICO. This would include a review of all relevant documents, including the terms of the white paper, and consideration of the legal environment in which the entity operates.

Staff analysis

IFRS Standards

17. We think there are a number of IFRS Standards that an entity might consider in determining the appropriate recognition and measurement requirements to apply to an

ICO. These include IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IAS 32 *Financial Instruments: Presentation* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

18. The result of such an assessment could result in issuing entity recognising equity, a liability or revenue when it issues cryptoassets in an ICO.

Equity

19. In some cases, the cryptoasset issued by an entity in an ICO may be an equity instrument. For example, the holder of a cryptoasset issued in an ICO may be entitled to distributions paid by the entity from its distributable reserves.
20. Paragraph 11 of IAS 32 defines an equity instrument as ‘any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities’.
21. A cryptoasset is an equity instrument only if it meets the conditions in paragraph 16 of IAS 32, including that the instrument includes no contractual obligation; (a) to deliver cash or another financial asset to another entity or (b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer. Paragraph 16 of IAS 32 also includes requirements if the instrument will or may be settled in the issuer’s own equity instruments.

Financial liability

22. In some cases, the cryptoasset issued by an entity in an ICO may be a financial liability. For example, if the entity is obligated to deliver cash to the holder of a cryptoasset in specific circumstances.
23. Paragraph 11 of IAS 32 defines a financial liability as:
 - any liability that is:
 - (a) a contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments;
or

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A and 16B, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

24. If an entity determines that a cryptoasset issued in an ICO meets the definition of a financial liability, then it applies IFRS 9 in accounting for that financial liability.

Non-financial liability

25. In some cases, an entity may be required to apply IAS 37 to account for an obligation arising from issuing cryptoassets in an ICO. For example, the entity may have an obligation to construct an exchange through which holders of the cryptoasset can transact with other users of the exchange in buying goods or services.
26. IAS 37 applies to all provisions and contingent liabilities, except those resulting from executory contracts and those covered by another IFRS Standard. Paragraph 10 of IAS 37 defines a provision as 'a liability of uncertain timing or amount' and a contingent liability as:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Revenue

- 27. In some cases, the proceeds from the cryptoasset issued by an entity in an ICO may be revenue applying IFRS 15. For example, an entity may have an obligation to transfer goods or services that the entity produces at a future date either free-of-charge or at a discounted price.
- 28. IFRS 15 applies to all contracts with customers except contracts within the scope of other IFRS Standards and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.
- 29. A contract is defined in paragraph 10 of IFRS 15 as an agreement between two or more parties that creates enforceable rights and obligations. Paragraph 6 of IFRS 15 defines a customer as a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.
- 30. An entity accounts for a contract with a customer that is within the scope of IFRS 15 only if it meets all the criteria in paragraph 9 of IFRS 15.
- 31. Cryptoassets issued in an ICO may be partly within the scope of IFRS 15 and partly within the scope of another Standard. In that case, an entity applies paragraph 7 of IFRS 15 to determine how to separate and/or initially measure one or more parts of the contract.

No specific IFRS Standard applies

32. In some cases, the cryptoasset issued by an entity in an ICO may not be in the scope of an IFRS Standard. For example, if an entity has no further obligation to the holder of a cryptoasset it issued in an ICO following the issue and the ordinary activity of the entity is not the issue of new cryptoassets (ie the investor in the ICO does not meet the definition of a customer in IFRS 15).
33. If an entity concludes that there is not an IFRS Standard that specifically applies to an ICO transaction the entity applies paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop and apply an accounting policy that provides users of financial statements with useful information. Paragraph 11 of IAS 8 requires management to refer to, and consider the applicability of, the following sources in descending order:
 - (a) the requirements in IFRSs dealing with similar and related issues; and
 - (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting*.

Presentation and disclosure

34. If an entity determines that a cryptoasset it has issued in an ICO is within the scope of an IFRS Standard it applies the disclosure requirements of that Standard. The disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* will apply when the cryptoassets are within the scope of IFRS 9.
35. The following requirements in IAS 1 are also relevant for an entity raising funds in an ICO:
 - (a) The requirement in paragraph 55 to present additional line items in the statement of financial position when such presentation is relevant to an understanding of the entity’s financial position. For example, if the cryptoassets issued in an ICO are classified as a liability the entity may be required to present them separately as a specific line item or, if the

cryptoassets issued in an ICO are classified as equity they may need to be presented as a separate class of equity.

- (b) Paragraph 112(c) states that the notes shall provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.
 - (c) Paragraphs 121–123 require entities to disclose significant accounting policies and judgements that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
36. Regardless of the IFRS Standard applied by an entity to account for the issue of cryptoassets in an ICO, in our view, disclosures required by IAS 1 may include, but not be limited to:
- (a) a description of the transaction;
 - (b) a description of the terms attached to any cryptoassets issued in the ICO including any rights and/or obligations provided to the holders; and
 - (c) a description of how the entity has accounted for the cryptocurrencies issued in the ICO applying IFRS Standards.

Conclusion

37. We think that how an entity accounts for an ICO depends on the rights and obligations attached to the ICO, which vary from one transaction to another. Accordingly, we think the appropriate accounting will also vary between transactions. We think that the first step in determining the appropriate accounting is an analysis of the transaction including a review of the obligations arising for the entity as a result of the ICO.
38. After identifying the obligations, the entity determines whether the transaction is within the scope of an IFRS Standard. We think there are a number of IFRS Standards that an entity might consider in determining the appropriate recognition and measurement requirements to apply to an ICO; for example IFRS 9, IFRS 15, IAS 32 and IAS 37.

39. If the entity determines an ICO is within the scope of an IFRS Standard, then it applies the disclosure requirements of that Standard. IAS 1 and IFRS 7 also contain relevant disclosure requirements.

Question for the Committee

Does the Committee agree with our analysis of the requirements in IFRS Standards as applied to ICOs, summarised in paragraphs 37–39 of our paper?