

IFRS Developments

Holdings of cryptocurrencies

What you need to know

- ▶ The IFRS IC discussed how an IFRS reporter should account for holdings of cryptocurrencies, a subset of crypto-assets, using existing IFRS standards.
- ▶ The IFRS IC issued an agenda decision in June 2019 concluding that cryptocurrencies:
 - ▶ Are not financial assets
 - ▶ Meet the definition of an intangible asset and are therefore in the scope of IAS 38, or IAS 2 if held for sale in the ordinary course of business
- ▶ This means holders of cryptocurrencies can no longer apply IFRS 9 *Financial Instruments* or IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when accounting for cryptocurrencies.

Highlights

In June 2019, in response to a request from the International Accounting Standards Board (IASB or the Board), the IFRS Interpretations Committee (IFRS IC or the Committee) published an agenda decision on how an IFRS reporter should apply existing IFRS standards to its holdings of cryptocurrencies, a subset of crypto assets. The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset under IAS 38 *Intangible Assets* as it is capable of being separated from the holder and sold or transferred individually, and is not a monetary asset, i.e., does not give the holder a right to receive a fixed or determinable number of units of currency. The IFRS IC concluded that holdings of cryptocurrencies should be accounted for under IAS 38 unless they are held for sale in the ordinary course of business, in which case IAS 2 *Inventories* would apply. A commodity broker trader of cryptocurrencies would be able to measure its cryptocurrency inventories at fair value less costs to sell.

The agenda decision also provides guidance on the disclosure requirements within current IFRS standards that would be relevant to holdings of cryptocurrencies.

Background

The Accounting Standards Advisory Forum (ASAF) of the IASB first discussed the topic of 'digital currencies' in December 2016 based on a paper prepared by the Australian Accounting Standards Board.

At the January 2018, IASB meeting, the Board discussed some transactions involving specific types of commodities, digital currencies and emissions allowances that might form part of its research agenda.

In April 2018, the ASAF, among others, discussed the prevalence of digital currencies in ASAF members' jurisdictions and provided advice to the IASB on the potential standard-setting projects to consider.

In July 2018, the IASB decided to ask the IFRS IC to consider how an entity might apply existing IFRS Standards in determining its accounting for holdings of cryptocurrencies and Initial Coin Offerings (ICOs) (an unregulated means by which funds are raised for a new cryptocurrency venture).

In September 2018, the Committee discussed the application of current IFRS standards to the holdings of cryptocurrencies and ICOs as well as the possibility of standard setting activity by the IASB.

In November 2018, the IASB decided not to add a project on holdings of cryptocurrencies or initial coin offerings to its work plan, but instead that it would monitor the development of crypto-assets. The IASB asked the Committee to consider publishing an agenda decision on how entities apply existing IFRS standards to holdings of cryptocurrencies.

After further discussions the Committee issued their tentative agenda decision in March 2019, and in June 2019, after considering the comment letters received, they published an agenda decision on this matter.

Scope of the agenda decision

The IFRS IC discussed how existing IFRS standards apply to holdings of cryptocurrencies.

The Committee noted that a range of crypto-assets exist. For the purposes of its discussion, the IFRS IC considered a subset of crypto-assets with all of the following characteristics that the agenda decision refers to as a 'cryptocurrency':

- ▶ A digital or virtual currency recorded on a distributed ledger that uses cryptography for security,
- ▶ Not issued by a jurisdictional authority or other party, and
- ▶ Does not give rise to a contract between the holder and another party.

Which IFRS standard applies to holdings of cryptocurrencies?

The IFRS IC concluded that IAS 2 applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies. The IFRS IC considered the following in reaching its conclusion:

Inventory

Inventories within the scope of IAS 2 include intangible assets since that standard defines inventories as assets:

- ▶ Held for sale in the ordinary course of business,
- ▶ In the process of production for such sale,
- ▶ In the form of materials or supplies to be consumed in the production process or in the rendering of services.

The IFRS IC observed that an entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, within the scope of IAS 2.

The IFRS IC also observed that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements in IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin.

Intangible Asset

Definition

IAS 38 defines an intangible asset as 'an identifiable nonmonetary asset without physical substance'. An asset is identifiable if it is separable or arises from contractual or other legal rights. An asset is separable if it 'is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability'.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that 'the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency'.

The IFRS IC observed that a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that: (a) it is capable of being separated from the holder and sold or transferred individually; and (b) it does not give the holder a right to receive a fixed or determinable number of units of currency.

Scope

IAS 38 applies in accounting for all intangible assets except for:

- ▶ Those that are within the scope of another IFRS standard;
- ▶ Financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- ▶ The recognition and measurement of exploration and evaluation assets (under IFRS 6 *Exploration for and Evaluation of Mineral Resources*); and
- ▶ Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources

Accordingly, the IFRS IC considered whether a holding of cryptocurrency meets the definition of a financial asset in IAS 32 or is within the scope of another standard.

Financial asset

The IFRS IC considered the definition of a financial asset in accordance with IAS 32 and concluded that a holding of cryptocurrency is not a financial asset. This is because a cryptocurrency is not cash (see below). Nor is it an equity instrument of another entity. It does not give rise to a contractual right for the holder and it is not a contract that will or may be settled in the holder's own equity instruments.

Cash

The IFRS IC noted that, while some cryptocurrencies can be used in exchange for particular goods or services, it is not aware of any cryptocurrency that is used as a medium of exchange and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, the IFRS IC concluded that a holding of cryptocurrency is not cash because cryptocurrencies do not currently have the characteristics of cash.

Conclusion

Since, a holding of cryptocurrency meets the definition of an intangible asset and the relevant scope exceptions do not apply, holdings of cryptocurrency should be accounted for under IAS 38 unless they are held for sale in the ordinary course of business, in which case, IAS 2 would apply.

Disclosure

In addition to disclosures otherwise required by IFRS standards, an entity is required by IAS 1 *Presentation of Financial Statements* to disclose any additional information that is relevant to an understanding of its financial statements. In particular, the IFRS IC noted the following disclosure requirements in the context of holdings of cryptocurrencies:

- ▶ An entity provides the disclosures required by: (i) IAS 2 for cryptocurrencies held for sale in the ordinary course of business; and (ii) IAS 38 for holdings of cryptocurrencies to which it applies IAS 38.
- ▶ If an entity measures holdings of cryptocurrencies at fair value less costs to sell, IFRS 13 *Fair Value Measurement* specify applicable disclosure requirements.
- ▶ Applying paragraph 122 of IAS 1, an entity discloses judgements that its management has made regarding its accounting for holdings of cryptocurrencies, if they are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.
- ▶ IAS 10 *Events after the Reporting Period* requires an entity to disclose details of any material non-adjusting events, including information about the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made). For example, an entity holding cryptocurrencies would consider whether changes in the fair value of those holdings after the reporting period are of such significance that non-disclosure could influence the economic decisions that users of financial statements make on the basis of the financial statements.

Next steps

- ▶ Holders of cryptocurrencies need to consider the agenda decision and evaluate whether their current accounting policies need to be revised. Any changes in accounting policies need to be accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- ▶ Holders of cryptocurrencies need to use their judgement in providing sufficiently detailed quantitative and qualitative disclosures to enable users of financial statements to understand the impact of holding cryptocurrencies on their financial position, financial performance and cash flows.
- ▶ Cryptocurrencies represent only a subset of crypto-assets and the agenda decision does not address crypto-assets other than cryptocurrencies. As the development of crypto-assets is still at an early stage, holders should continue to monitor the standard setter activities, as well as the guidance issued by regulators in order to ensure they appropriately account for the crypto-assets held under IFRS.
- ▶ Refer to our publication, *Applying IFRS - Accounting by holders of crypto-assets* for a further discussion on accounting by holders of other types of crypto-assets.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

About EY's International Financial Reporting Standards Group

A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting, to key business decisions you make. We have developed extensive global resources – people and knowledge – to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

© 2019 EYGM Limited.
All Rights Reserved.

EYG No. 003644-19Gbl

ED None

In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com