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**Australian Accounting  
Standards Board**

# AASB RESEARCH REPORT 20

## Crypto assets – Australian stakeholders' perspectives

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**UNSW**  
SYDNEY

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## Preface

### CPA Australia

CPA Australia continues to hold the view that the accounting requirements for crypto assets should remain on the agenda of standard-setters. Presuming the exponential growth in economic activity in crypto assets over the last few years remains on the same trajectory, a proactive approach to establishing accounting principles and requirements for crypto assets will pre-empt any gaps in accounting standards before they become a critical issue.

Although the evidence gathered by the International Accounting Standards Board (IASB) points to insufficient cryptoasset-based economic activity amongst listed entities that use IFRS in preparing their financial statements, this may not be the case for others, including non-IFRS financial statement preparers and non-listed entities. An example is the United States Financial Accounting Standards Board's project to develop accounting requirements under US GAAP for certain crypto assets.

In Australia, as IFRS-based Australian Accounting Standards form the basis for financial reporting, consideration needs to be given to not only listed entities but also others, such as large proprietary companies and certain not-for-profits that prepare financial statements based on Australian Accounting Standards. The accounting considerations in Australia in respect of crypto assets would, therefore, not just be limited to listed entities but other entities who may be transacting in or holding crypto assets. Accounting considerations are not limited to holders of crypto assets either, and such considerations should extend to issuers of crypto assets and crypto exchanges who hold and transact in crypto assets on behalf of others.

In developing our submission<sup>1</sup> to the IASB in response to its third agenda consultation, we conducted a member survey seeking feedback on the projects the IASB could focus on as part of its standard-setting activities for the 2022 to 2026 period. Of the six potential projects identified, at 21 per cent, 'cryptocurrencies and related transactions' was the third most popular choice amongst respondents. Although the IASB has not initiated a separate project on the topic, it is good to note that it is giving consideration to this topic as part of its 'intangible assets' project. As crypto asset transactions become more commonplace and mainstream, including as a means of exchange, we expect more standard-setting effort may be required to address the financial reporting of such transactions.

### Associate Professor Andrew Jackson (UNSW)

Recent years have seen developments in distributed ledger technologies, such as blockchain, that have led to significant growth in the number and type of digital assets available. The fact that not many listed firms worldwide hold these types of assets has led the IASB to determine that this is not a significant issue that warrants immediate consideration. However, this may not be true for other types of entities or exchanges that require guidance to ensure they operate within the public interest. Survey evidence from CPA Australia indicates that practitioners are looking for official guidance in this area.

While the IASB has determined that the issue of crypto assets, as a stand-alone issue, is not of high importance at the present time, this may change in the future with further developments. Academics have the luxury of time to consider issues without the time pressures faced in an industry where immediate answers are required. Academics are also meant to be free of bias and not influenced by the incentives of clients. It is

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1 [CPA Australia submission to the IASB Request for Information – Third Agenda Consultation](#)

important, therefore, that academics are able to identify potential standard-setting issues in advance so that informed research is able to be conducted in order for it to be ready when the need arises. The case of crypto assets is a prime example of such an issue, and I encourage researchers to do more work in this area. While there may currently be a lack of data in company reports on the use of digital assets, other research perspectives are important. More normative work on the appropriate accounting treatment of crypto assets is required based on principles in the conceptual framework and consistency with other standards, along with survey and interview evidence. It is also important to consider that the remit of the Australian Accounting Standards Board (AASB) is sector-neutral and not limited to large publicly listed companies. Further, more clarity in definitions and the legal nature of crypto assets is essential to ensure any accounting treatment is consistent with not only the economic nature of transactions but also their legal form.

### AASB Research Director

The research report, developed through collaboration between professional bodies and academia, highlights the significance of such partnerships in strengthening the alignment between academic research, standard-setting, and practical application.

In 2016, the AASB began receiving concerns from stakeholders regarding the increasing prevalence of digital currencies. The lack of specific guidance within the IFRS Accounting Standards resulted in diverse accounting practices. Consequently, the AASB addressed the topic of digital currency during the Accounting Standards Advisory Forum (ASAF) meeting in December 2016 and provided recommendations for future actions.<sup>2</sup>

While the AASB appreciated the guidance the IFRS Interpretations Committee (Interpretations Committee) provided on cryptocurrencies, the emergence of various types of digital assets raised further concerns. During the AASB 2022-2026 agenda consultation, stakeholders expressed concerns that standard-setters might not address the development of digital assets and its impact on accounting on a timely basis, potentially leading to unintended consequences in corporate reporting. In response to this feedback, the AASB added digital assets to its work plan as part of a broader intangibles project.<sup>3</sup>

Based on the insights gathered through targeted outreach efforts, stakeholders have expressed concerns about the challenges arising from the rapid growth of the crypto market and its implications for financial reporting. Although some stakeholders noted that it might be premature to develop accounting standards addressing crypto assets, they urge standard-setters to develop guidance or educational material to assist preparers and auditors in navigating the accounting treatments. Additionally, stakeholders emphasise the significance of enhancing disclosure requirements to meet users' information needs. The AASB Research Centre will continue to monitor the crypto market and conduct further research to stay informed of the developments.

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2 [https://www.aasb.gov.au/admin/file/content102/c3/AASB\\_ASAF\\_DigitalCurrency.pdf](https://www.aasb.gov.au/admin/file/content102/c3/AASB_ASAF_DigitalCurrency.pdf)

3 [https://aasb.gov.au/media/n04pqnkz/agendaconsultationfeedbackstatement\\_08-22.pdf](https://aasb.gov.au/media/n04pqnkz/agendaconsultationfeedbackstatement_08-22.pdf)

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## 1. Introduction

In September 2021, the Australian Accounting Standards Board issued [ITC 46 AASB Agenda Consultation 2022–2026](#) (ITC 46) to gather views from Australian constituents regarding potential projects to be included in the AASB's domestic work program. The feedback highlighted stakeholder concerns regarding accounting and reporting considerations for recent developments in digital assets, specifically the subset of digital assets referred to as 'crypto assets'.<sup>4</sup> Stakeholders expressed the need for standard-setters to develop accounting requirements or guidance on recognising, measuring, and disclosing crypto assets in financial statements for holders and issuers.<sup>5</sup>

At its June 2022 meeting, in response to stakeholder concerns, the AASB added a project on intangibles to its research work program and decided to include crypto assets within the scope of the intangibles project.

As a result, from December 2022 to March 2023, the AASB Research Centre, in collaboration with CPA Australia and Associate Professor Andrew Jackson, conducted outreach activities to gather insights from Australian stakeholders. The purpose was to better understand the crypto asset landscape in the Australian market and to gain insights into any concerns raised by stakeholders.

This report provides an overview and summary of perspectives shared by Australian stakeholders about crypto asset accounting considerations. It is important to note that the interviews took place between December 2022 and March 2023. Therefore, the rapidly evolving nature of crypto assets may render some views outdated by the time of publication. This report does not disclose the identities of the individuals or entities that expressed their perspectives to ensure confidentiality.

The AASB Research Centre extended an invitation to the general public to engage in discussions. The invitations were publicised through various channels, such as the AASB weekly update, social media platforms and other communication channels. Additionally, the research team reached out to specific stakeholders known to have been involved in crypto asset transactions in recent years. Four focus group meetings were held, and 23 individuals from 15 entities (listed, unlisted, professional entities and regulators) were interviewed.

Discussions with stakeholders mainly focused on the following three questions:

- whether crypto assets are widespread in Australia (i.e., prevalence), and if so, which types of crypto assets are commonly utilised by entities;
- what are the accounting and reporting challenges associated with transactions involving crypto assets; and
- how should standard-setters address the accounting and reporting of crypto assets?

This report is structured in four parts. [Section 2](#) offers an overview of the crypto asset ecosystem, including the current regulatory landscape. [Section 3](#) explores the progress made in standard-setting for crypto assets. [Section 4 and 5](#) summarises the outreach activities conducted to gather feedback from stakeholders. [Section](#)

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4 Also see Chou, Agrawal and Birt (2022).

5 For example, a letter submitted by [CPA Australia](#). See [https://www.aasb.gov.au/media/orbnzkjf/03-2\\_ac\\_feedbacksummary\\_m187\\_pp.pdf](https://www.aasb.gov.au/media/orbnzkjf/03-2_ac_feedbacksummary_m187_pp.pdf)

[6](#) provides an overview of the feedback received from stakeholders. Lastly, [Section 7](#) presents the recommendations.

## 2. Background

This section presents background information about crypto assets. It is important to note that this discussion does not aim to provide a comprehensive understanding of the entire crypto asset ecosystem, as the topic is complex. Extensive literature is available for in-depth exploration. Instead, this section aims to provide some contextual information on crypto assets, giving an overview of the purpose of the conducted outreach activities. Due to the rapidly evolving nature of definitions and concepts in this field, referring to additional literature is essential for a comprehensive understanding.

### 2.1 What are crypto assets

There is a lack of consensus on the precise definitions and concepts of ‘crypto asset’. Understanding crypto assets can vary significantly and even have conflicting interpretations among stakeholders. This report uses the following definition from the consultation paper titled *Crypto assets secondary service providers: Licensing and custody requirements*, published by the Treasury of the Australian Government (Treasury) in March 2022:

"A crypto asset is a digital representation of value that can be transferred, stored, or traded electronically. Crypto assets use cryptography and distributed ledger technology."<sup>6</sup>

In today's context, crypto assets serve three primary purposes. Firstly, they are used as investment instruments, allowing individuals to invest in digital assets with the expectation of financial returns. Secondly, crypto assets can be utilised as a medium of exchange, enabling transactions and facilitating the transfer of value between parties. Lastly, they provide access to goods and services, allowing users to utilise these assets for various purposes.

Crypto assets are not a homogeneous asset class. They encompass various token types, each serving distinct purposes. This includes popular cryptocurrencies such as Bitcoin (BTC), Ripple, and Litecoin, as well as utility tokens like Filecoin and Basic Attention Token. Additionally, crypto assets may represent ownership of specific digital or real-world assets, such as security tokens and non-fungible tokens<sup>7</sup> (NFTs). These crypto assets can operate on dedicated blockchain<sup>8</sup> networks or utilise existing platforms like Ethereum.

### What is a crypto token?

This report may sometimes refer to a crypto asset as a "token" or "crypto token".

According to the consultation paper titled *Token mapping consultation paper* published by the Treasury of the Australian Government (Treasury) in February 2023:

<sup>6</sup> <https://treasury.gov.au/sites/default/files/2022-03/c2022-259046.pdf>

<sup>7</sup> NFT are generally blockchain-based tokens that each represent a unique asset like a piece of art, digital content, or media.

<sup>8</sup> Blockchain is “a type of crypto network where data is recorded in packages called blocks is ‘chained’ to the next in chronological order using a cryptographic hash” (Treasury, 2023).

"A crypto token is a unit of digital information that can be 'exclusively used or controlled' by a person – despite that person not controlling the network where that token is recorded. The concept of exclusive use and control is a distinguishing factor as is authentication using cryptographic methods."<sup>9</sup>

## 2.2 Blockchain

Crypto assets are closely related to distributed ledger technology, commonly implemented through blockchain.

A distributed ledger is a database of information shared and duplicated across a network of computers in different locations. In contrast to a centralised database, a distributed ledger does not require a central administrator and, consequently, is designed not to have a single (central) point of failure. Distributed ledgers are created for many different purposes, but most commonly, they are created as a platform for others to scale and use. For example, Wikipedia is a distributed ledger.<sup>10</sup>

A blockchain is a distributed ledger capable of hosting crypto tokens. Blockchains are the platforms or networks on which crypto tokens and smart contracts are recorded. Their primary function is to store information and process user instructions. It provides the underlying infrastructure that enables crypto asset creation, transfer and verification.

The two largest crypto networks (the Bitcoin and Ethereum blockchains) host nearly 80 per cent of the entire market capitalisation of crypto assets. They are 'public blockchains' – each comprised of several thousand individual computers (nodes) maintained by a globally distributed network of users (Treasury 2023).

Blockchain was first implemented when the Bitcoin network went live in January 2009. Since then, new blockchains have been developed with additional functionality.

Blockchain brings certain unique features, but ultimately, the technology is the wrapper or the delivery system for certain digital assets, liabilities and transactions. Blockchain does not inherently create a new type of transaction, although it might facilitate their development.

Blockchains such as Bitcoin are public blockchains, meaning anyone is free to join the network and participate in core activities such as validating transactions. Bitcoin is decentralised because it has no centralised ownership and control. It is also permissionless because only a private key (like a password) is required for access, which anyone can generate. In this way, the data on public permissionless blockchains can be both public and anonymous.

There are also privately established and controlled (centralised network) blockchains. Privately owned blockchains are often permissioned blockchains that require users to provide personal identification.

9 This is the definition provided in the 2023 Treasury [Token mapping consultation paper](https://treasury.gov.au/sites/default/files/2023-02/c2023-341659-cp.pdf).

10 <https://theconversation.com/what-wikipedia-can-teach-us-about-blockchain-technology-92934>, accessed on 11 September 2023.

## 2.3 The growth of crypto assets

In the 12 years to November 2021, the global market for crypto assets grew from zero to USD3 trillion, or almost 5 per cent of U.S. stock market capitalisation,<sup>11</sup> including a twentyfold increase during the COVID pandemic as trade in crypto assets accelerated (Iyer 2022). However, in 2022, the value of crypto assets fell to USD1 trillion (CoinMarketCap 2023).<sup>12</sup> At the same time, there has been rapid growth in demand for crypto derivatives. For example, in July 2022, the volume of crypto derivatives traded on centralised exchanges was USD3 trillion, almost 70 per cent of total crypto volumes for that month (Howcroft 2022).

According to the Chainalysis 2022 [Global Crypto Adoption Index](#), Australia is the fortieth largest crypto adopter globally. However, even fortieth place translates to over one million Australians that the Australian Taxation Office (ATO) expected would include crypto assets on their tax returns for the 2022 financial year (Treasury 2023). In most cases, these individuals will have acquired their tokens from an Australian crypto exchange.

More broadly, based on research conducted by Accenture, in 2021, the contribution of the digital assets sector to the Australian economy was AUD2 billion. If the sector grows at the same rate as the tech sector, Accenture estimates that it could contribute AUD8 billion p.a. to the Australian economy by 2030 or more if Australia takes a leadership position (Accenture 2022).

Although crypto assets have emerged as an increasingly popular asset class among retail and institutional investors, they were initially considered a fringe asset class and are still a small portion of overall global financial system assets (FSB 2022).

## 2.4 Types of crypto assets

There are numerous types of crypto assets, each possessing distinct characteristics and serving various purposes (Jackson and Luu 2023). This section outlines some common types of crypto assets or tokens, illustrating the intricacies inherent in the crypto markets. These crypto assets are also generally referred to as 'network tokens' as they are required for the network to work. It is important to note that the types of listed crypto assets in the following examples are arbitrary, and any crypto asset or token can be programmed to represent none, one, or many of the types listed and may change types throughout its life cycle:

**Payment tokens:** are designed to be used as currency, money or payment method. However, they are most often used for investment or speculative trading. Payment tokens are divisible and fungible as one dollar is divisible (into cents) and fungible (as one dollar is the same as any other).

**Cryptocurrencies:** Cryptocurrencies operate on decentralised, permissionless public blockchains.

**Stablecoins:** are intended to be less volatile than cryptocurrencies. Stablecoins are pegged and sometimes backed by fiat currencies or other assets. Stablecoins are more likely to have centralised control. They can be permissioned (e.g., usable only by authorised customers of a business) or permissionless (e.g., a stablecoin that is freely transferable but that can be frozen by its issuer). Tether, the largest stablecoin, operates on the

11 The concept of blockchain was introduced in the white paper for Bitcoin October 2008 and the first Bitcoin was issued in 2009. The crypto market did not exist before this date.

12 In the same period, the S&P 500 fell by 15-30 per cent. This showed cryptocurrencies are correlated with the stock market. The IMF have explored spill-over effects (see Iyer (2022)).

Ethereum network but can issue coins on multiple networks. Stablecoins have many use cases, including as collateral for decentralised finance (DeFi) entities<sup>13</sup>.

**Central Bank Digital Currencies (CBDCs):** are different from cryptocurrencies and stablecoins as they are not privately issued. CBDCs are an emerging category expected to operate like fiat currency (e.g., the Chinese e-Yuan). The Reserve Bank of Australia (RBA) is actively researching CBDCs to complement existing forms of money.<sup>14</sup>

**Asset-backed tokens:** are digital claims on a physical asset backed by an asset, such as gold, building, or other physical assets.

**Non-fungible tokens:** Tokens that represent ownership of a digital asset (e.g., digital art or other media) that is generally unique and indivisible.

**Security tokens:** Tokens that represent a debt or equity investment in a business (e.g., digitised debt or equity) or an interest in something new. When the investment is unregulated, the token is often called an investment token. If the investment is regulated, it is usually called a security token.

**Utility tokens:** Generally refer to tokens with an actual use case, which can come in many forms, such as granting users access to a good or service on a particular network. They can also represent a right of some kind.

**Hybrid tokens:** Tokens that fit more than one of the classifications. For example, tokens that combine the features of both a security token and a utility token.

**Crypto derivatives:** All tokens can be used as the underlying 'asset' for derivatives. Bitcoin and Ether<sup>15</sup> (ETH) are the most common underlying 'asset' for crypto derivatives and generate the most trading volume.

## 2.5 Regulatory environment

The increased adoption and utilisation of various crypto assets in multiple countries — particularly in emerging markets — and bouts of extreme price volatility have raised concerns about their potential financial stability implications. For example, as systemically important banks have begun to undertake activities to gain exposure to crypto assets, the Financial Stability Board (FSB) and the Bank for International Settlements (BIS) are working to develop the appropriate prudential regulations (FSB 2022; BCBS 2022).

The role of intermediaries (also referred to as Crypto-asset Service Providers or crypto-exchanges) is generally to facilitate on behalf of others for buying, selling and custodianship of crypto assets. Intermediaries have also been a focal point for global regulatory authorities as they play an important role within the crypto asset ecosystem. Recognising the importance of ensuring market integrity and investor protection arising from crypto asset activities, the International Organisation of Securities Commissions (IOSCO) recently issued a consultation<sup>16</sup> setting out policy recommendations to support greater consistency in regulatory frameworks and oversight.

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13 DeFi entities generally organise and enable cryptocurrency-based transactions, exchanges and financial services. There is no centralised authority to control the operations.

14 <https://www.rba.gov.au/payments-and-infrastructure/central-bank-digital-currency/>, accessed on 11 September 2023.

15 ETH is the native token of the Ethereum network.

16 <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD734.pdf>, accessed on 11 September 2023.

In 2022, the Australian Government updated its [Digital Economy Strategy](#) to position Australia as a top 10 digital economy and society by 2030. Recent initiatives by Australian regulators in the corporate space include:

- In March 2022, the Treasury issued a consultation paper that outlines the Government's proposed approach to licensing crypto asset secondary service providers (CASSPrs) and crypto custody requirements. 110 submissions were received by the closing date of 27 May 2022 and are now available (Treasury 2022).
- In 2022, the Australian Securities and Investment Commission (ASIC) included the development of an effective regulatory framework for crypto assets in its Corporate Plan (ASIC 2022).
- In 2022, ASIC took civil action against a financial comparison site, Finder, and a fintech company, Block Earner, for unlicensed conduct over crypto asset-based products. In 2023, ASIC cancelled the financial services license (FSL) of the private company that operates as Binance Australia.
- The Australian Prudential Regulation Authority (APRA) is working to develop a prudential framework for crypto assets and related activities in consultation with international regulators (APRA 2022).
- In February 2023, the Treasury issued a consultation paper to explore where existing regulation applies to crypto assets (i.e., token mapping) and help set the path for future reforms (Treasury 2023).

### 3. Developments in standard-setting

#### 3.1 International Accounting Standards Board (IASB)

In July 2019, the IFRS Interpretations Committee (Interpretations Committee) issued an agenda decision on accounting for cryptocurrencies,<sup>17</sup> indicating that they are not financial instruments and that entities holding these assets should apply the existing standards, IAS 2 *Inventories* or IAS 38 *Intangible Assets*.

Specifically, the Committee concluded that IAS 2 applies to cryptocurrencies held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies, which permits intangible assets to be measured at fair value where there is an active market.<sup>18</sup>

With respect to disclosure, the Interpretations Committee agenda decision clarifies the requirement for entities to comply with applicable standards (i.e., IAS 2 or IAS 38 and IFRS 13 *Fair Value Measurement*) and to provide additional information for users to understand the transaction (IAS 1 *Presentation of Financial Statements*, para. 112) and consider IAS 10 *Events after the Reporting Period* where relevant.

Since the Interpretations Committee finalised and issued its agenda decision, stakeholders have raised concerns about the increasing prevalence of cryptocurrencies and other crypto assets and requested that the

17 The Interpretations Committee defined a cryptocurrency as a crypto asset with the following characteristics: “a) digital or virtual currency recorded on distributed ledger that uses cryptography for security, b) not issued by a jurisdictional authority or another party, and c) does not give rise to a contract between the holder and another party”.

18 Interpretations Committee Update June 2019 IASB website, <https://www.ifrs.org/news-and-events/updates/ifric/2019/ifric-update-june-2019/>, accessed on 11 September 2023.

IASB adds a project to its work plan.<sup>19</sup> However, after considering feedback received from its Third Agenda Consultation in 2022, the IASB decided not to add a separate project to its work plan for the following reasons:

- it is unclear whether crypto assets or other related transactions are prevalent in many jurisdictions or have a pervasive effect on the financial statements of many entities that use IFRS in preparing financial statements;
- a project to consider the accounting for different types of crypto assets and crypto liabilities would be complex and might be premature, given such crypto assets and crypto liabilities are part of a new and rapidly evolving ecosystem;
- the IFRS Interpretations Committee had already issued an agenda decision; and
- the Intangible Assets project will review the scope of IAS 38 and consider the topic of cryptocurrencies within this project.

### 3.2 European Financial Reporting Advisory Group (EFRAG)

In July 2020, the EFRAG issued a discussion paper on the accounting by holders and issuers of crypto assets. EFRAG issued its interim recommendations in January 2022 and final recommendations in April 2022 (EFRAG 2020, 2022a, 2022b).

The conclusion reached by EFRAG is that the IASB should clarify or amend existing standards following a two-step approach. The recognition and measurement requirements of holders — but not issuers — will be addressed in the first step. EFRAG explains that although issuers also need clarification of issues, the restriction on fair value through profit or loss (FVPL) measurement by holders poses the most pressing practical problem currently faced by IFRS reporting entities involved with crypto transactions.

For the first step, EFRAG proposes amending IAS 38 to:

- clarify the scoping for crypto assets other than cryptocurrencies and allow FVPL for crypto assets scoped into IAS 38;
- provide principles for measuring crypto assets at either cost or fair value and distinguishing the presentation of fair value in either profit or loss or other comprehensive income (OCI). Whether cost or fair value is the appropriate measurement for crypto assets in the scope of IAS 38 should depend on the business model and measurement uncertainty; and
- require disclosures of the fair value and any other information that helps users to understand the risk and economic substance for crypto assets that are measured at cost.

For the second step, EFRAG suggests addressing issuer accounting to determine the appropriate accounting requirements, e.g., equity vs. liability vs. financial liability. Due to ambiguities on the nature of rights and obligations associated with novel and fast-moving crypto transactions, EFRAG suggests focusing initially on disclosure by issuers, including for unrecognised tokens.

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<sup>19</sup> For example, a CPA's submission to the AASB. See [https://www.aasb.gov.au/media/iemnrnpt/11-2\\_cpaletter\\_m192\\_pp.pdf](https://www.aasb.gov.au/media/iemnrnpt/11-2_cpaletter_m192_pp.pdf)

### 3.3 Financial Accounting Standards Board (FASB)

On 23 March 2023, FASB issued Exposure Draft, [\*Intangibles—Goodwill and Other—Crypto Assets \(Subtopic 350-60\): Accounting for and Disclosure of Crypto Assets\*](#). The proposed amendments would apply to crypto assets that meet all of the following criteria:

- Meet the definition of intangible asset as defined in the Codification Master Glossary;
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services or other assets;
- Are created or reside on a distributed ledger based on blockchain technology;
- Are secured through cryptography;
- Are fungible; and
- Are not created or issued by the reporting entity or its related parties.

The FASB proposed a number of considerations, such as entities would be required to:

- subsequently measure crypto assets that meet those criteria at fair value with changes recognised in net income each reporting period;
- recognise transaction costs to acquire a crypto asset as an expense when incurred, unless applicable industry-specific guidance requires that the entity capitalise those costs;
- present:
  - crypto assets measured at fair value separately from other intangible assets in the balance sheet;
  - changes in the fair value measurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement (or statement of changes in net assets for not-for-profit organisations); and
- classify crypto assets that are received as noncash consideration in the ordinary course of business and are converted nearly immediately into cash as cash flows from operating activities.

At the time of writing this report, FASB had received 83 comment letters<sup>20</sup> and will continue its deliberations on the amendments.

## 4. Outreach activities

The AASB Research Centre extended an invitation to the general public to provide feedback from December 2022 to March 2023. This approach was adopted to gather insights from a wide range of entities and

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[https://www.fasb.org/page/commentletterspage?metadata=fasb\\_AccountingforandDisclosureofCryptoAssets\\_0228221200&PagelD=/projects/commentletter.html](https://www.fasb.org/page/commentletterspage?metadata=fasb_AccountingforandDisclosureofCryptoAssets_0228221200&PagelD=/projects/commentletter.html), accessed on 11 September 2023.

individuals with varying levels of experience in crypto asset transactions. Additionally, since AASB accounting standards are applicable across all sectors, the research team aimed to engage stakeholders from diverse sectors to ensure comprehensive representation.

Feedback was obtained from 23 individuals representing 15 entities, including nine preparers (from banks, CASSPRs, gaming platforms, blockchain technology innovators, government bodies), and six individuals from large and mid-tier professional services firms. Further, views were also collected from:

- CPA Australia members;
- the CA ANZ Research Group; and
- the AASB User Advisory Committee.

## 5. Summary of stakeholder feedback

This section presents a summary of the feedback obtained through the outreach activities. It is important to acknowledge that the views gathered may not represent the full spectrum of perspectives, and therefore, the views expressed should not be considered conclusive. The purpose of this summary is to present the feedback received without assessing its accuracy or validity. To maintain confidentiality, this research report does not disclose the stakeholders' identities, including their affiliation with listed or unlisted entities and their respective sectors. The views expressed in this report belong to the stakeholders and do not necessarily reflect the opinions of the authors and the AASB.

Discussions with stakeholders mainly focused on the following questions:

- whether crypto assets are widespread in Australia (i.e., prevalence), and if so, which types of crypto assets are commonly utilised by entities;
- what are the accounting and reporting challenges associated with transactions involving crypto assets; and
- how should standard-setters address the accounting and reporting of crypto assets?

### 5.1 Question 1: Whether crypto assets are widespread in Australia (i.e., prevalence), and if so, which types of crypto assets are commonly utilised by entities

Two individuals from professional services firms observed that not many listed companies hold crypto assets. One of them expressed the view that regulators appear to discourage listed companies from engaging in crypto assets transactions, which resulted in limited crypto assets-related activities in the sector. However, it was highlighted that many privately held entities, including large and small proprietary entities, have been actively engaged in the crypto market. These entities encompass various activities, including CASSPRs, fund managers, miners, gaming platforms and businesses that issue tokens as part of their primary operations.

Four of the nine preparers confirmed that their holdings of crypto asset balances are material. Three mainly hold Bitcoin or ETH, and one has utility tokens. They may also hold small quantities of non-fungible or other tokens. In addition, two preparers said they have issued stablecoins, although quantities are not material. Finally, three preparers said they hold no crypto assets or hold them only on an ad hoc basis.

Among the six individuals from professional services firms, one mentioned having approximately six audit clients engaged in crypto asset-related activities, with some advisory work provided to other clients on crypto asset-related matters. Another stakeholder reported encountering about 20 advisory clients in the past 12 to 18 months, and a few audit clients categorised as small entities involved in the crypto market. Another stakeholder acknowledged limited involvement with clients on crypto transactions. Lastly, three individuals from boutique firms mentioned that they have multiple clients within the crypto sector.

## 5.2 Question 2: What are the accounting and reporting challenges associated with transactions involving crypto assets

### Issue 1: Complex structures of entities



#### **What structures can entities establish to create crypto tokens on a blockchain network (i.e., mint) and issue crypto tokens?**

The structures and entities involved in minting and issuing crypto tokens can be complex and varied.

Multiple factors, including technological capabilities, adherence to blockchain protocols, compliance with regulations, industry standards and other considerations determine an entity's ability to mint or generate crypto tokens.

If an entity has the capacity to do so, it can directly mint or generate crypto tokens as part of its business model or strategies for raising capital. These tokens can then be issued to others or held by the entity for future purposes. The distribution of these tokens by the entity is typically governed by the rules and mechanisms established within their specific projects.

An entity can also set up a Decentralised Autonomous Organisation (DAO) by creating and forming the DAO, outlining its purpose, governance, structures and rules. Typically, the entity is responsible for the initial development and deployment of the smart contracts (i.e., self-executing contracts with the terms of the agreement directly written into code) that govern the operation of the DAO. Once established, the DAO functions in a decentralised manner, enabling participants (e.g., individuals or entities that hold tokens in the DAO) to participate and contribute to its operations actively. The entity can also determine the rules of the membership and voting rights within the DAO's governance structure. For example, the entity can grant voting rights to specific individuals or entities, such as token holders or participants who meet certain criteria. It is important to acknowledge that the legal and regulatory aspects of establishing a DAO can vary between jurisdictions. Each jurisdiction may have its specific requirements or considerations for operating decentralised organisations. Furthermore, it is important to note that the DAO ecosystem is dynamic and continually evolving as new technologies and practices emerge.

An entity can also set up a foundation, typically in a jurisdiction that offers favourable regulations for blockchain and cryptocurrency projects. A foundation's specific structure can vary considerably based on the jurisdiction and legal framework in which it is formed. Generally, a foundation serves as an organisation for supporting and overseeing the development of a blockchain or cryptocurrency project. It can act as a governing body and may possess the authority to mint and issue tokens. This includes setting the project goals, managing funds, acting as a vehicle to custody and distribute assets, entering into legal agreements and making decisions related to development and governance. The foundation can be a form of legal wrapper that acts like a trust located in offshore jurisdictions that is controlled by a board or council and can be directed by the vote of the DAO. As the structure is often complex, it is crucial to consult legal and

regulatory experts familiar with the specific jurisdiction to obtain accurate information regarding the formation and operation of foundations for blockchain and cryptocurrency projects.

The process of minting and issuing crypto tokens by entities can often involve intricate and complex structures.

An individual from a professional services firm explained that Australian entities involved in minting and issuing crypto tokens typically have arrangements involving a related party, which could be a separate entity affiliated with or controlled by the Australian entity. This related party could be in an offshore or foreign financial centre and mint tokens, and subsequently, these tokens may be transferred to the Australian entity. This stakeholder thinks that when a related party is involved, it can be challenging to ascertain whether there is a control relationship and how AASB 10 *Consolidated Financial Statements* might apply.

Two other individuals from professional services firms also expressed a similar concern about the challenges posed by some of the structuring arrangements of crypto entities when applying AASB 10. A stakeholder from a professional services firm revealed that they had encountered listed entities establishing investment vehicles for their crypto assets to avoid consolidation and restrict their disclosures. On the other hand, some individuals noted that some entities intentionally create structures to achieve specific accounting outcomes, such as recognising minted tokens at fair value in consolidated financial statements.

Another stakeholder from a professional services firm is aware of the perspective that a control relationship may exist in transactions involving related parties. In their experience, they have encountered similar arrangements, but a control relationship is not always evident and may differ depending on facts and circumstances. In a related context, three stakeholders from professional services firms expressed their observations regarding a significant challenge concerning crypto entities. Specifically, they have noticed the difficulty in determining the domicile of these entities. The difficulty arises from intentional structuring by these entities or are a consequence of their businesses models naturally evolved. This highlights the complexity of accounting for crypto assets and the various strategies employed by entities to manage their financial reporting.

## Issue 2: Accounting treatment for minted tokens

There are differing views on the accounting treatment for tokens minted by an Australian entity but not yet issued.

One stakeholder from a professional services firm mentioned that they had seen gaming platforms mint tokens for use in their games, to pay their contractors, and for capital appreciation. The tokens are usually utility tokens but could be non-fungible tokens. The stakeholder also thinks tokens that entities mint but are not issued have similar characteristics as the treasury shares and, therefore, should have the same accounting treatment<sup>21</sup>. This view arises from the notion that when an entity mints its crypto tokens, it essentially creates and holds them within the entity. These minted tokens are not yet in circulation or held by external parties or investors. Instead, they are in the entity's possession, similar to treasury shares. As such, treating minted crypto tokens in the same way as treasury shares can adequately reflect their effect on an entity's overall financial position and ownership structure.

21 Para. 33 of AASB 132 / IAS 32 *Financial Instruments: Presentation* states that if an entity reacquires its own equity instruments ('treasury shares'), those instruments shall be deducted from equity. No gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity's own equity instruments.

Two stakeholders from professional services firms are of the view that native tokens (i.e., primary or main tokens of a blockchain network<sup>22</sup>) should be recognised on the balance sheet as assets at cost. However, they noted that their clients prefer recognising native tokens at fair value, based on the current market prices or estimated fair value. The clients' inclination towards fair value recognition is possibly driven by the fact that they use these native tokens as a means of payment to their contractors or service providers. The clients are of the opinion that recognising the tokens at fair value provides a better representation of the tokens' economic value.

### Issue 3: Stablecoins



#### What are stablecoins?

There are various types of stablecoins. For example, fiat-collateralised stablecoins are backed by a reserve asset or fiat currencies, such as AUD, held in a bank account or another custodian. On the other hand, crypto-collateralised stablecoins are backed by a reserve asset or cryptocurrencies (e.g., Ethereum or Bitcoin), which are held in smart contracts.

The issuer of stablecoins refers to an entity or organisation responsible for creating and issuing the stablecoins. Typically, this entity designs the stablecoin's underlying mechanism, sets its parameters, and determines the rules and conditions for its issuance and redemption. This includes establishing the stablecoin's underlying value, typically pegged to a specific reserve asset (e.g., fiat currency or cryptocurrency), and defining the redemption mechanisms.

An individual (i.e., holder) can acquire stablecoins from a cryptocurrency exchange or various platforms that offer stablecoin trading. Holders can use stablecoins for various purposes, such as cross-border transactions or hedging against cryptocurrency price volatility. Holders may also have the right to redeem or convert stablecoins into fiat currency or cryptocurrency.

The redemption process varies based on the stablecoin's conditions. Some stablecoins offer holders the flexibility to convert back into fiat currency or cryptocurrencies anytime. However, certain stablecoins may have requirements such as minimum holding periods or specific redemption windows within which holders are allowed to initiate the conversion of their stablecoins.

When a holder has the right and decides to convert their stablecoins back into fiat currency or other crypto assets, the issuer is expected to facilitate this process and redeem the stablecoins for the equivalent value of the reserve assets. The issuer is typically obligated to pay the holder when they convert their stablecoin to fiat currency or other crypto assets.

However, it is important to note that not all stablecoins operate similarly, and the terms and conditions may vary based on each stablecoin's unique characteristics and the underlying mechanism. Certain stablecoins have complex redemption processes or lack direct convertibility to fiat currencies or crypto assets.

<sup>22</sup> For example, ETH is the native token of the Ethereum network.

Two preparers observed that a stablecoin might be deemed a financial instrument under certain circumstances. This is especially true when there exists a definite contractual relationship between the issuer and the holder, and the holder possesses a credible right to receive cash in exchange for the stablecoin.

One stakeholder suggested that holders should consider stablecoins pegged to currencies as cash equivalents. This viewpoint is based on applying the "substance over form" concept, suggesting that stablecoins, in essence, share similarities with traditional currencies. These stablecoins can be employed for cross-border transactions or exchanged for goods and services while maintaining a relatively constant and less volatile value than other cryptocurrencies.

On the other hand, a stakeholder from a professional services firm noted that holding stablecoins is not common in Australia. The stakeholder also pointed out that, due to the specific nature of certain stablecoins, they might be classified as derivatives or possess embedded derivatives.

#### **Issue 4: Prepaid tokens**

In the crypto market, there are instances of prepayments for future tokens, contingent token issuances, and arrangements that may grant refund rights to holders, particularly seen during Initial Coin Offerings (ICOs) or Token Generation Events (TGEs). During such events, entities may raise funds from investors by offering tokens at a discounted rate before the actual token issuance occurs. The issuance of the tokens may depend on the successful completion of the project or the achievement of specific milestones, such as whether the entity is gaining sufficient acceptance for its offer. As such, the actual issuance of the future token may be contingent upon the occurrence of one or more future events. Further, the individual or entity that has made the prepayment for the token (the potential holder) may or may not have a right to a refund if the issuer fails to issue the token.

The matter was discussed by a stakeholder from a professional services firm, who raised a question about whether this arrangement for the holder should be considered a prepayment or potentially a financial instrument (e.g., if the holder has a refund right in case the token is not issued). As for the issuer, the arrangement could be seen as resembling a derivative (e.g., the value of the token for the holder is derived from the successful completion of the project or achievement of the specified milestones) or classified as unearned revenue. The complexity lies in trying to comprehend the terms and conditions outlined in the white paper (i.e., a document that provides information about the token issuance project to help investors and users evaluate the merits and potential risks associated with the crypto tokens or blockchain platform), which potentially affect the accounting considerations.

#### **Issue 5: Tokens held on behalf of clients (custody assets)**

Crypto exchanges and other secondary service providers commonly act in a manner similar to traditional financial institutions by holding and managing crypto assets (primarily cryptocurrencies) on behalf of their clients. Users can trade or store their cryptocurrencies using the platforms provided by crypto exchanges.

Five stakeholders who are preparers and individuals from professional services firms noted that there is an ongoing debate regarding the recognition of client assets. Specifically, the debate revolves around whether entities should include their custody assets (assets held on behalf of clients) and the corresponding liabilities in their balance sheets. If entities decide to recognise their custody assets and the corresponding liabilities on their balance sheet, it raises the question of which accounting standards to apply for reporting these assets. This ongoing debate reflects the complexities and challenges in accounting for client assets, especially when entities act as custodians.

A preparer observed that recognising a custody asset using AASB 138/IAS 38 *Intangible Assets* and a corresponding liability (under a different standard) creates a potential accounting mismatch. For example, a stakeholder from a professional services firm suggested that where an exchange has the right to return cash instead of crypto assets to their customers, the corresponding liability might be a financial liability.

A preparer suggested that the Staff Accounting Bulletin 121 (SAB 121) issued by the United States Securities and Exchange Commission (SEC) indicates that even when an exchange does not have direct control over custody assets, they still have risks associated with their obligation to keep those assets safe. Therefore, entities should recognise an asset and corresponding liability similar to indemnification assets and liabilities at fair value through profit or loss (FVPL).<sup>23</sup> [see also AASB 3 *Business Combinations* para. 27-8 and 57].

On the other hand, a stakeholder from a professional services firm shared that Australian crypto exchanges usually have control over custody assets, making them distinct from indemnification assets. They emphasised that when exchanges hold the private keys of customers (which provide access and control to crypto assets), customers must rely on the exchange to access their crypto assets. Further, some stakeholders noted that while exchanges may not always fully disclose how they use custody assets, some exchanges possess the rights to use client assets to generate income through activities such as on-chain staking<sup>24</sup> and yield farming<sup>25</sup> without clients' approval, indicating that these exchanges maintain some form of control over custody assets.

#### Issue 6: Measurement

Entities may receive crypto tokens from customers in payment of fees. Two preparers said they recognise the transaction at the fair value of the consideration received. They use the spot rate at the transaction date or an average rate when they have many low-value transactions.

Preparers with material holdings of crypto assets preferred to measure their balances at fair value. However, there were mixed views on whether gains and losses should be presented at FVPL or in other comprehensive income (FVOCI).

For example, one preparer explained that if the cost of crypto tokens is low and the market value is high, presenting them in other comprehensive income (i.e., FVOCI) significantly reduces volatility in the profit and loss account.

On the other hand, another preparer was not concerned about volatility and suggested that treating cryptocurrencies such as Bitcoin and ETH as foreign currency in accordance with AASB 121/IAS 21 *The Effects of Changes in Foreign Exchange Rates* would better reflect their liquidity and that of the business. For less liquid investments (e.g., staking<sup>26</sup>) and tokens other than Bitcoin and ETH, the preparer noted that the AASB 138/IAS 38 accounting is appropriate.

<sup>23</sup> See also AASB 3 *Business Combinations* para. 27-8 and 57

<sup>24</sup> On-chain staking helps secure a blockchain network and allows users to earn rewards by holding and staking a certain amount of the network's cryptocurrency. By staking, users contribute to validating transactions and creating new blocks on the blockchain, enhancing the security and functionality of the network.

<sup>25</sup> Yield farming is a method of earning extra cryptocurrency by lending or providing crypto assets to special platform.

<sup>26</sup> Staking is regarded as a less liquid investment due to the requirement of users to lock up a specific amount of their cryptocurrency holdings to support a blockchain network's operations. In return, they receive rewards in the form of additional cryptocurrency tokens. During the staking period, the locked-up tokens are not easily accessible for trading on cryptocurrency exchanges, contributing to the lower liquidity of staked assets.

A stakeholder from a professional services firm suggested that it is inevitable that a cryptocurrency will eventually be considered cash.

Another preparer explained that if entities hold their crypto assets at cost, it significantly reduces the economic value of crypto assets that should be reflected on their balance sheet. This reduction in recorded values could potentially impact the entities' compliance with financial agreements and commitments (e.g., covenants), as well as their capacity to raise capital. Particularly in jurisdictions like the United States, which has strict passive foreign investment laws, holding crypto assets at cost might affect the entities' ability to access capital or encounter other financial constraints.

Three stakeholders from professional services firms observed that entities generally want to hold their crypto tokens at FVPL. Another stakeholder noted that smaller entities may be driven by tax considerations when choosing FVPL or FVOCI.

### Issue 7: Valuation

Stakeholders who are from professional services firms expressed their primary concern regarding the valuation of crypto assets. As one pointed out, there are currently no widely accepted and standardised valuation models specifically applied for different types of crypto assets.

For example, three stakeholders discussed the challenge of determining fair value when dealing with low trading volumes (i.e., wide bid-ask spreads) and a significant proportion of barter transactions (i.e., direct exchange of one cryptocurrency for another without involving fiat currency). A stakeholder also questioned how to apply the active market test prescribed in AASB 138/IAS 38 under these circumstances.

Similarly, another stakeholder asked whether a market can be considered active if an entity must rely on Level 2<sup>27</sup> inputs in accordance with AASB 13/IFRS 13 *Fair Value Measurement* for valuation. A stakeholder also explained that if the market for a crypto token is not liquid, they sometimes apply a discount to reflect the lack of marketability. Another stakeholder noted that current valuations of crypto assets do not consider several pertinent risks, including regulatory risks.

According to another stakeholder, larger entities in the crypto market receive preferential treatment from exchanges, and these contractual rights could hold significant value. These agreements are typically the result of negotiations between the exchanges and larger entities, considering factors such as trading volume and market influence. For instance, larger entities with substantial trading volumes or significant cryptocurrency holdings might have access to lower trading fees, faster transaction processing, priority customer support and exclusive platform features.

The stakeholder highlighted that these contractual benefits provide a competitive advantage for larger entities in the crypto market, enabling them to conduct their crypto activities more efficiently. Nevertheless, the current valuation model might not factor in the potential value arising from these contractual rights.

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27 In accordance with AASB 13/ IFRS 13, Level 1 inputs are the “quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date”; and Level 2 inputs are those “inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly”.

### Issue 8: Borrowing and lending

A stakeholder from a professional services firm discussed crypto borrowing or lending and the challenges it poses in terms of accounting treatment. The example revolves around a scenario where an entity borrows 110 Bitcoin and is contractually obligated to repay 120 Bitcoin at a later date. The questions raised are how to account and value for such crypto borrowing (and lending) transactions and what accounting standard should be applied to ensure proper reporting of these obligations and repayments. The stakeholder noted that there is limited accounting guidance on such transactions.

### Issue 9: Earn products



#### What are 'earn products'?

Earn products, also known as crypto earning or crypto interest products, enable cryptocurrency holders to lend or stake their crypto assets in exchange for earning rewards or interest over a period.

The most common types of earn products include:

- **Staking:** In staking, users lock up a certain amount of their cryptocurrency holdings to support the operations and security of a blockchain network. In return, they receive staking rewards, such as additional crypto tokens from the blockchain protocol.
- **Lending:** Through lending platforms, users can lend their cryptocurrencies to other users or borrowers. In return, they pay interest to the lenders.
- **Liquidity Pool Participation:** Users contribute their crypto assets to a pool, providing liquidity for decentralised exchanges and earning rewards in return.

Two stakeholders from professional services firms highlighted a crucial concern regarding the prevailing issue of 'earn products' because there is a lack of understanding about their nature and implications. Due to these products' complex and intricate nature, the stakeholders are concerned that many investors and entities may engage with them without fully comprehending their complexities, which could lead to potential risks. The stakeholders' viewpoint aligns with the concerns of other stakeholders who advocate for greater transparency and disclosure from entities involved in such activities.

One of the stakeholders also expressed concern about accounting issues pertaining to how the 'rewards' or 'interest' associated with these products should be treated and recorded in accordance with accounting standards.

### Issue 10: Transaction fee



#### What is the 'GAS fee'?

**GAS** is a measurement unit representing the computational effort needed to carry out various operations on a blockchain network. It is used to quantify the cost of executing transactions, running smart contracts, and performing other activities on the network.

**GAS fees** are a type of transaction fee commonly used in blockchain networks.

In Ethereum, each activity conducted on the network, such as sending ETH from one address to another or executing a smart contract, requires computational resources and processing power. Ethereum incorporates a fee mechanism known as the "GAS fee" to prevent abuse and prioritise transactions. This means that when an individual initiates a transaction or executes a smart contract on the Ethereum network, they must pay the corresponding GAS fee.

Miners<sup>28</sup> or validators are the ones who receive the GAS fee in a blockchain network. In the Ethereum network, miners are responsible for bundling together multiple transactions into a block and adding that block to the blockchain. They compete to solve complex mathematical puzzles (Proof of Work) to validate transactions and secure the network.

The miner who successfully solves the puzzle and validates the block is rewarded for their efforts. This reward consists of two parts. Firstly, they collect all the GAS fees from the transactions included in the block. Secondly, miners also receive newly minted ETH as a block reward. Thus, miners not only gain transaction fees through GAS but also acquire newly created ETH as an incentive for their mining activities.

The user sets the GAS price when initiating a transaction or executing a smart contract on a blockchain network like Ethereum. They need to estimate and specify the GAS limit, which is the maximum computational resources they are willing to use, and the GAS price, the amount of cryptocurrency they are willing to pay per unit of GAS.

As the GAS fee is paid in the native cryptocurrency of the blockchain network, such as ETH in the case of Ethereum, a user must have sufficient cryptocurrency balance to cover the estimated GAS fee before initiating a transaction or executing a smart contract.

If the actual GAS used in execution is below the specified GAS limit, the user will receive a refund of any excess GAS to their account. However, if the execution requires more GAS than the specified limit, the transaction fails, and the user loses the GAS used for the partial execution.

ETH serves a dual purpose on the Ethereum blockchain. Firstly, it is used to pay for transaction fees and computational services when performing operations like sending funds to another address or executing smart contracts. Secondly, ETH is an asset that can be bought, sold, and traded on various cryptocurrency exchanges.

Two preparers have acquired significant ETH to cover their future transaction fees (i.e., GAS fees) on the Ethereum network. However, they have different views on accounting for this acquired ETH in their financial statements.

The first preparer believes the ETH acquired should be treated as intangible assets under AASB 138. They argue that since their intention is not to trade the ETH in the market but to use it specifically for transaction fees on the Ethereum network, it qualifies as an intangible asset.

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28 In certain blockchain networks, the terms "miners" and "individuals or entities who mint crypto" may describe the same participants, but in other networks, they might have different roles. The specific terminology and responsibilities are determined by the consensus algorithm and the overall design of the blockchain network.

On the other hand, the second preparer suggests that the acquired ETH should be treated as prepayments. Their perspective is that the ETH is a form of prepaid credit for future transaction fees, similar to making advance payments for services. They believe this classification aligns better with the nature of the acquired ETH as a means to cover upcoming expenses on the network.

The differing views stem from the complexity of accounting for cryptocurrencies like ETH, which can have various uses cases beyond mere trading.

### **Issue 11: Repurchasing agreements and derecognition**

While traditional repurchasing agreements (often referred to as "repos") in the financial market involve the sale and subsequent repurchase of assets, such as government securities, with a pre-agreed interest rate, the crypto market has introduced alternative approaches to achieve similar objectives. These alternatives leverage smart contracts and blockchain technology, offering greater flexibility and decentralisation than conventional repos. However, one of the concerns shared by stakeholders was that smart contracts are designed to be self-executing, and there may be legal challenges in enforcing them if a dispute arises (i.e., lack of contract enforceability).

Concerns were expressed about the appropriate accounting standards to be used for repurchasing agreements involving crypto assets. A professional services firm stakeholder finds it challenging to apply derecognition principles to certain crypto asset transactions resembling repurchase agreements. Significant judgment is needed to treat these transactions as sales with a right to repurchase or as secured borrowings.

### **5.3 Question 3: Do you think standard setting or additional guidance is required in the short or medium term?**

Although some stakeholders acknowledged that it might be premature for standard-setters to develop specific accounting standards that address crypto assets, 18 of the 23 individuals who took part in the outreach requested guidance or educational materials, while two individuals suggested that standard-setters should monitor the crypto market to respond appropriately if needed and three individuals did not express any particular view on the matter.

Four stakeholders from professional services firms expressed concerns that preparers face challenges and require assistance understanding and navigating the standards. Among these stakeholders, two individuals found the IASB education material on climate-related matters on financial statements<sup>29</sup> to be highly beneficial and suggested that similar material, accompanied by practical examples, would be helpful in addressing the struggles faced by preparers in dealing with crypto assets.

A professional services firm stakeholder acknowledged the IFRS Interpretation Committee's focus on the perspective of holders of cryptocurrencies.<sup>30</sup> However, the stakeholder also emphasised that the IASB should not overlook the challenges issuers face concerning crypto assets. The concerns faced by issuers are significant and require adequate attention, as they play a crucial role in the crypto market. Addressing the issues faced by both holders and issuers would lead to a more comprehensive and balanced approach to developing accounting standards or guidance for crypto assets.

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29 <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf>

30 <https://www.ifrs.org/projects/completed-projects/2019/holdings-of-cryptocurrencies/>, accessed on 11 September 2023.

Another stakeholder from a professional services firm raised concerns about the AASB's role in keeping up with developments in the crypto industry. They noted that failing to do so could result in a decoupling between accounting standards, corporations law and tax regulations related to crypto assets. This potential decoupling could lead to inconsistencies and confusion in how crypto assets are treated from a financial reporting, legal and tax perspective.

One preparer highlighted the significant challenge in accounting for crypto tokens due to the lack of clear and specific guidance in this rapidly evolving area. The absence of comprehensive guidelines has led to various interpretations and uncertainties in how to treat different types of crypto tokens in financial reporting. To address this issue, the preparer suggested that the IASB take inspiration from the U.S. Financial Accounting Standards Board (FASB), which is actively working on a technical project related to cryptocurrencies.<sup>31</sup> They proposed that the IASB could develop principled guidance that considers a hierarchy of use cases for different types of crypto tokens. This hierarchical approach would provide a structured framework for determining the appropriate accounting treatment based on the token's specific function and purpose in the crypto ecosystem.

Two other preparers shared the view that guidance would greatly facilitate their interactions with auditors. They noted that having well-defined accounting standards or guidance for crypto assets would enhance consistency and reduce ambiguity during audit processes.

Stakeholders requested specific guidance for the items discussed in Question 2. The most critical issues identified were as follows:

- Accounting for native tokens and tokens issued by related parties.
- Accounting for client custody assets.
- Valuation, including the application of the active market test in AASB 138/IAS 38.

## 6. Conclusion

The crypto market has experienced significant growth in recent years and continues to evolve rapidly. As the market expands, its complexity becomes apparent due to the diverse range of crypto assets.

Stakeholders have expressed concerns regarding the challenges posed by the development of the crypto market and its effect on financial reporting. They have urged standard-setters to proactively address these challenges by reviewing and developing accounting standards or guidance considering the characteristics of different types of crypto assets. Although some stakeholders acknowledged that it might be premature for standard-setters to develop specific accounting standards that address crypto assets at the current stage, they are of the view that standard-setters should provide some form of guidance or education guidance for preparers and auditors to navigate the accounting treatments of crypto assets. Additionally, stakeholders stressed the importance of improving disclosure requirements to meet users' information needs.

The insights gathered from interviews conducted for this report shed light on some accounting and reporting challenges related to crypto assets. Stakeholders have highlighted the need for ongoing monitoring of the crypto assets market by standard-setters. They suggest that standard-setters provide educational materials or guidance to assist preparers and auditors in navigating the complexities of crypto assets and related transactions.

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31 See Section 3.2.

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