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Dear Keith,

Regulatory proposals and developments relevant for the accounting of crypto assets

CPA Australia is one of the world's largest professional accounting organisations representing the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We write to you on recent regulatory and other developments relating to crypto assets that requires the attention of the AASB.

CPA Australia continuously monitors the crypto assets market and assesses relevant accounting implications. We note that regulators and policymakers, nationally and internationally, are currently consulting on and proposing crypto asset regulation. In particular, we highlight a recent Australian regulatory development that we would like the AASB to consider in the context of the Australian Accounting Standards (AAS).

In 2021, Australian **Treasury** consulted on a proposed licensing regime for secondary crypto asset service providers in Australia. Amongst other matters, Treasury proposed developing one single definition of a crypto asset to be applied across all Australian regulatory frameworks. While in our submission, we support the proposal to develop one definition that applies to all relevant Australian regulatory frameworks, we raised the potential conflict between the proposed definition and the definition of "asset" for financial reporting purposes under the AAS.

The Treasury consultation proposes the crypto asset definition as "[...] a digital representation of value or contractual rights that can be transferred, stored or traded electronically, and whose ownership is either determined or otherwise substantially affected by a cryptographic proof." Since this proposed definition differs from the definition of an asset as per AAS, which are also part of the Australian regulatory framework, we believe this gives rise to a conflict. This is concerning given the Treasury proposal that one single definition be applied across all Australian regulatory frameworks. We suggest the AASB considers this potential conflict and raises this matter with Treasury for further consideration.

In addition to the above matter, we highlight below a number of other related crypto asset developments that are relevant to the AASB. In our view, the AASB should initiate a research project to better understand these developments and should consider developing suitable accounting requirements or guidance as required. Similar to the AASB's submission to the International Accounting Standards Board (IASB) in response to its third agenda consultation, CPA Australia made a recommendation in its submission to the IASB that it should undertake a research project and a potential standard-setting project on crypto currencies and related transactions. However, we note that the IASB has not initiated a separate research or standard-setting project on this topic but has instead decided to consider this topic as part of its research project on intangible assets.

Given that the IASB has decided not to undertake a separate project on crypto assets, we suggest this is an opportunity for the AASB to initiate its own research project that considers not only the above-mentioned Treasury development, but other related developments that have relevance to financial reporting.

Recent developments relevant to a potential AASB research project could include:

- The Basel Committee on Banking Supervision (the Committee) has proposed the removal of the accounting classification link. The Committee's proposal is based on the identified "lack of accounting standards for crypto assets" and the potential "legal risk" arising from that. In our submission to the Committee, we observed that, in

an ideal world, the prudential treatment of banks' crypto asset exposures should not be delinked from the accounting treatment. We also emphasise that the accounting classification should be sufficiently robust to allow prudential regulators to apply the accounting classification. However, we also acknowledge the Committee's rationale to delink the prudential treatment from the accounting classification as the accounting standards are not sufficiently developed to capture crypto assets.

- Earlier this year, the **European Financial Reporting Advisory Group (EFRAG)** released its Preliminary recommended options on developing IFRS requirements for Crypto-Assets (Liabilities). EFRAG suggests amongst other things, to scope crypto assets out of IAS 2 (inventories) and IAS 38 (Intangible Assets), and into IFRS 9 (Financial Instruments) or IAS 40 (Investment Property). The IASB has not yet responded to EFRAG's recommended options, noting its intention to not undertake a separate project on this topic at this stage.

Informed by our members' feedback, we take the view that the question should not be about whether crypto assets should be scoped out of and/or into certain accounting standards. Rather, the policy conversation should focus on what accounting requirements should apply to different crypto assets based on their economic characteristics and transactions. Arguably, the accounting treatment depends on the operational and economic nature of the crypto asset and how it is being used by the holder/issuer. For example, some will use crypto assets as a medium of exchange, whereas others will use it as a commodity or speculative investment.

While we believe that the immediate development of a unique crypto assets (liabilities) accounting standard is unnecessary, as it would face the risk of obsolescence due to the rapidly evolving crypto asset ecosystem, we strongly believe that there is a need for further research into how different subsets of crypto assets should be accounted for.

As suggested above, we recommend that the AASB undertakes a comprehensive project on how to account for crypto assets (liabilities), which could also include a follow-up study on its Perspectives Paper "Digital currency – A case for standard setting activities".

If you have any questions about this submission, please do not hesitate to contact Dr Jana Schmitz, Digital Economy Policy Lead at jana.schmitz@cpaaustralia.com.au or Ram Subramanian, Senior Manager Reporting and Audit Policy at ram.subramanian@cpaaustralia.com.au.

Yours faithfully



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