



Accounting for cryptocurrencies

The IFRIC published various staff papers and, more recently, an agenda decision on matters relating to the accounting treatment of cryptocurrencies. These documents distinguish between holdings of cryptocurrencies and issuing crypto-assets in initial coin offerings (ICOs). While it appears that neither of the two is currently prevalent in entities that apply IFRS, this is an area where rapid developments may occur. This article briefly reviews some key aspects of these papers and the agenda decision.

Over the past year or so, the IFRS Interpretations Committee (IFRIC) have discussed how cryptocurrencies should be accounted for. The IFRIC considered two aspects in this regard, namely holding of cryptocurrencies and initial coin offerings (ICO). This article briefly reviews the recent agenda decision on the first aspect and some observations of the IFRIC on the second.

Definition of cryptocurrency

The IASB staff defined crypto-assets as a digital asset class, which includes assets recorded on a blockchain. Cryptocurrencies that are intended to be used as a medium of exchange is one subset of these crypto-assets. The broader concept of crypto-assets however also include other items such as crypto tokens that provide holders with specific rights.

Accounting for holdings of cryptocurrencies

The agenda decision published in June 2019 indicates that a holding of cryptocurrency meets the definition of an intangible asset, as contemplated in IAS 38 *Intangible Assets* (IAS 38), as it is a non-monetary item (does not give the holder a right to receive a fixed or determinable number of currency units) that is capable of separation and being sold. The IFRIC noted that it was not aware of any cryptocurrencies used as a medium of exchange and as a monetary unit for pricing goods and services to an extent that it could be treated as cash. As a cryptocurrency does not provide the holder with a contractual right and is not an equity instrument of another entity, it does not meet the definition of a financial asset. Whether a holding of cryptocurrency is accounted for as inventory or an intangible asset under IAS 38 depends on the purpose for which it is held.

- ▶ If held for sale in the ordinary course of business, this constitutes inventory. The IFRIC observed that the broker-trader rules in IAS 2 *Inventories* may apply to such holdings.

- ▶ Cryptocurrency holdings that do not meet the definition of inventory fall within the scope of IAS 38. This standard allows an entity to account for intangible assets at cost or at fair value in terms of a revaluation model, with adjustments accounted for in other comprehensive income (OCI). In both instances, the intangible asset should be tested for impairment.

The agenda decision indicates that the nature of these cryptocurrencies may necessitate specific disclosure, for example, disclosure relating to fair value measurement in terms of IFRS 13 and possibly information about changes in its fair value after the reporting date if these changes are so significant that users of the financial statements should be aware of it.

Accounting for ICOs

ICOs involve that an entity issues crypto-assets (not necessarily cryptocurrency). The rights and obligations attached to such crypto-assets are likely to vary from case to case. In a staff paper issued in November 2018, it was indicated that there are a number of standards that could potentially apply to these items depending on the specific rights and obligations created, including:

- ▶ IFRS 9 and IAS 32, that apply to financial liabilities and the issuing of equity instruments,
- ▶ IFRS 15 *Revenue from contracts with Customers* if the nature of amounts received is revenue or income, or
- ▶ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In conclusion

It appears from the documents published by the IASB and IFRIC that is not particularly prevalent at present for entities that apply IFRS to hold cryptocurrencies or enter into ICOs. As a rapidly emerging area it may require standard setting in future.