

May 15, 2019

By Electronic Submission at [IFRS.org](https://www.ifrs.org)

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Tentative Agenda Decision – Holdings of Cryptocurrencies

Dear IFRS Interpretations Committee Members:

The Chamber of Digital Commerce (the “Chamber”) welcomes the opportunity to submit these comments for consideration related to the IFRS Interpretations Committee (the “Committee”) tentative agenda decision on Holdings of Cryptocurrencies (the “Consultation”) published in the March 2019 IFRIC Update.¹

The Chamber is the world’s largest blockchain trade association. Our mission is to promote the acceptance and use of digital assets and blockchain technology, and we are supported by a diverse membership that represents the blockchain industry globally. Through education, advocacy, and close coordination with policymakers, regulatory agencies, and industry across various jurisdictions, our goal is to develop a pro-growth legal environment that fosters innovation, job creation, and investment. We represent the world’s leading innovators, operators, and investors in the blockchain ecosystem, including leading edge start-ups, software companies, global IT consultancies, financial institutions, insurance companies, law firms, and investment firms.

¹ IFRIC Update (March 2019), <https://www.ifrs.org/news-and-events/updates/ifric-updates/march-2019/>.

I. The Digital Asset Accounting Consortium

The Chamber and its members work closely together through a few key [working groups and initiatives](#), one of which is the Digital Assets Accounting Consortium (“DAAC”). The DAAC is comprised of accounting and technology professionals in the blockchain ecosystem that are interested in the development of accounting and reporting standards for digital assets, advocating for appropriate generally accepted accounting principles (“GAAP”) standards in the United States as well as International Accounting Standards (“IAS”) for its members, and engaging with relevant standard-setting bodies. The DAAC also provides input to government and industry on the impact blockchain-based technologies may have on the future of accounting and auditing methods.

Members of the DAAC have observed the IFRS’ and International Accounting Standards Board’s activities related to cryptocurrencies and appreciate your diligent attention to this new category of asset that is increasingly widespread throughout the global economy. Your tentative agenda decision will be of paramount importance for the blockchain industry and an indispensable resource for accounting professionals who are lacking guidance on how to properly account for holdings of cryptocurrencies.

II. Accounting Treatment for Digital Assets

We believe blockchain technology and its ability to digitize assets are one of the most important technical advancements in modern finance and will have impacts as big as transportation, telephony, and the Internet. New products and services derived from blockchain technology have the potential to revolutionize entire categories of industry – including banking; government records; title and asset ownership; medical records and health care; digital identity; trading, clearing, and settlement; secure voting systems; and many others. Blockchain technology is a newly-created medium of and operating system for anything of value.²

It is within this context that it is important to understand that digital assets may not fit neatly into simply one characterization. As a result, we do not believe that universally applying intangible asset accounting under IAS 38 to virtually all cryptocurrency holdings is appropriate. For example, in some circumstances it may be more appropriate to apply inventory accounting under IAS 2. For other use cases, IAS 32 and IAS 39 applicable to financial instruments may be more appropriate for the holding of cryptocurrency. In this way, those such as investors reviewing the financial statements of companies holding crypto assets will better understand the true nature of that asset and make better decisions as a result.

² Because of this vast potential, we suggest that the Committee consider calling these assets crypto assets rather than cryptocurrencies because they may serve another purpose other than as a currency. For purposes of this letter and for consistency, we will use the term referenced by the Consultation.

III. Recommendations for Accounting Treatment of Cryptocurrencies

In order to provide meaningful feedback for this Consultation, the DAAC conducted an industry survey (which included its members as well as others) that asked detailed questions about how companies are currently accounting for holdings of cryptocurrencies – whether as assets, liabilities, revenues earned, and/or expenses paid. The survey also asked how companies account for offsets due to fluctuations in value for balance sheet items, liabilities, revenues, and operating expenses. Finally, the survey asked if respondents agreed with the Committee’s tentative decision to apply IAS 38, Intangible Assets, to holdings of cryptocurrencies if they are not held for sale in the ordinary course of business. The DAAC also formed a small task force to develop a set of use cases that demonstrate how cryptocurrencies should be accounted for in different situations.³

Based on an analysis of our survey results and use cases, we believe universally applying intangible asset accounting under IAS 38 to virtually all cryptocurrency holdings (those not meeting IAS 2) is inappropriate. Intangible assets are commonly known to comprise goodwill and other non-liquid assets. By universally treating cryptocurrency as intangible assets, investors may not be alerted to the true nature of the asset when examining financial statements.

Use cases identified by our members indicate that the holding of cryptocurrency is deliberate, not accidental. For example, a cryptocurrency exchange may hold excess cryptocurrency in hardware wallets (also known as “cold wallets”) with the intent of holding for speculative purposes. This intent to hold for a longer term, but with the availability to liquidate at some point if needed, reflects attributes of an investment but with no intent to immediately liquidate.⁴ In another example, a cryptocurrency miner may enter into loan and service arrangements where the repayment of loan and services are denominated in cryptocurrency. The company’s treasury department determines an investment policy to hold cryptocurrency as a part of its long-term investment objective and sells the remaining cryptocurrency to be held in cash and other marketable securities.⁵ In both examples, the use and intent for holding cryptocurrencies should be the primary basis for determining the accounting method applied.

Finance executives consider where to invest cash among cash, equity/debt marketable securities, and cryptocurrency to address shareholder value and risks. Unlike under IAS 39 Financial Instruments: Recognition and Measurement, under IAS 38, revaluation of intangible assets or cumulative gain or loss from financial instruments are recognized as equity except to the extent that they reverse a revaluation decrease or are financial assets derecognized to profit and loss.

Further, even though cryptocurrency does not meet the definition of financial asset in IAS 32, Financial Instruments: Presentation, it also is vastly different from the illustrations of intangible assets provided in IAS 38. By definition, it appears the primary difference between a cryptocurrency asset and an investment under IAS 39 is the fact that

³ A summary of the survey and the text of the use cases are provided in the Appendix to this Letter.

⁴ See Use Case 1 in the Appendix.

⁵ See Use Case 3 in the Appendix.

cryptocurrency may not be an equity or debt interest. All other attributes of cryptocurrencies with speculative or investment intent appear to correlate to the characteristics of an investment under IAS 32 and IAS 39.

Furthermore, some entities hold cryptocurrency with short-term intent and motivation to sell in the near future, contrasted with entities that hold cryptocurrencies with an intent to hold for a longer term. IAS 39 provides for different accounting options for investments that have varied intentions on duration. We believe that the Committee should consider the length of intent to hold when considering the various accounting treatments. Just as it would be inappropriate to account for an investment with immediate intent to liquidate the same as an investment to hold for a long or indefinite period of time, it similarly would be inappropriate to apply IAS 38 accounting equally to all crypto assets with immediate intent to dispose as well as with long term intentions to hold. The current variation illustrated in use cases and in the survey results in the Appendix provide a clear demonstration of the need to consider various forms of accounting treatment.

For these reasons, we believe that it is more appropriate to allow for different methods of accounting depending on the intent and use of the crypto asset. We suggest applying inventory accounting under IAS 2 (that the Committee's agenda decision prescribes when the intent is to resell cryptocurrency) and IAS 32 and IAS 39 for the holding of cryptocurrency (with the understanding that the scope for both IAS may need to be expanded to address cryptocurrency).

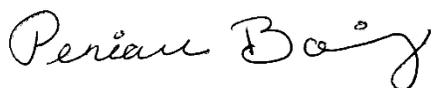
In addition to the use cases on holding of cryptocurrencies, our members also incur expenses and therefore liabilities in cryptocurrencies. An entity with both cryptocurrency assets and liabilities should also consider the revaluation of the cryptocurrencies subsequent to the initial recognition. As such, the guidance under IAS 39 should apply to such revaluations and the net effect of both assets and liabilities should be recorded under equity until it is derecognized.

* * *

We appreciate this opportunity to share our analysis and feedback on the Consultation and reiterate that we appreciate your work on this topic. Speaking for nearly 200 members working in the blockchain industry along with input from other companies in the industry, we are able to provide unique insights into the challenges of firms who are accounting for holdings of cryptocurrencies and can provide further assistance to the Committee as you continue this important work.

Please do not hesitate to contact us.

Respectfully Submitted,



Perianne Boring
Founder and President
Chamber of Digital Commerce

Appendix

Survey Results

The key findings of our survey are as follows:

- Of the respondents that had crypto assets, 50% carry them as investments and 39% as inventory, whereas only 19% carry them as intangible assets.
- 75% of respondents treat change in fair value of crypto as either gain/loss to earnings or equity.
- Of the respondents commenting on the IFRS position, 64% disagreed with accounting for crypto assets as intangible assets.

The survey was conducted from February to April 2019.

Use Cases

Case 1

Cryptocurrency exchange holds cryptocurrency in online software (also known as “hot wallets”) for liquidity to meet immediate cash flow needs. They account for this as a “trading investment” at fair value because of the need to liquidate at any time. Because of the immediate need to liquidate, the change in fair value of this asset is recorded against earnings. In contrast, excess cryptocurrency is held in cold wallets with the intent of holding for somewhat more speculative purposes. This intent to hold for a longer term, but with the availability to liquidate at some point if needed, reflects attributes of an investment but with no intent to immediately liquidate. Hence, the changes in fair value are reflected as part of other comprehensive income (“OCI”).

Case 2

A cryptocurrency dealer acquires cryptocurrency in the normal course of business with the intent to sell to customers. In some cases, these balances are acquired from customers to accommodate their sell orders. In other cases, these balances are acquired from miners and exchanges with the intent to meet customer buy orders. In each case, the cryptocurrency exists on its balance sheet solely for the purpose of reselling back to customers at a profit margin. The intent and manner of holding this cryptocurrency is indicative of inventory and, accordingly, the organization accounts for these digital assets held as inventory, not investments, and adjusts to the lower of cost or fair value consistent with inventory asset accounting.

Case 3

A cryptocurrency miner receives cryptocurrency in the normal course of business. The cryptocurrency received is liquidated in an orderly and systematic manner, within a short period of time from recording the revenue received. The revenue is recorded at the fair value when received. When sold to the exchange, the gain or loss is recorded to earnings. Any impairment on cryptocurrency held at the balance sheet date is also recorded to earnings and in another case to OCI. The miner also enters into loan and service arrangements where the repayment of loan and services are denominated in cryptocurrency. The company's treasury department determines an investment policy to hold cryptocurrency as a part of its long-term investment objective and sells the remaining cryptocurrency to be held in cash and other marketable securities.

Case 4

A digital ledger technology company operates as a services company and utilizes a utility token to provide services to customers. In the course of serving its customers, the company generates revenues while expensing the utility tokens consumed by it to deliver utility. Likewise, the company may also: a) buy utility tokens, b) earn utility tokens by performing services on said protocol, or c) by making technical or other contributions to the protocol utility. The revenue in all cases is recorded at the fair value when received and recorded at zero cost-basis on the balance sheet and offset by revenues earned. Any gains or losses measured against the fair value price, other than being consumed by the protocol (which is not an exchange event), are recorded as other income or loss to operations. All utility tokens or digital assets used in the course of earning income for services operations would not be marked to market but kept at FIFO prices on the balance sheet in the inventory account and reported as expenses when consumed in relation to the decline of inventory of the utility token. The company also recognizes gains and losses for market conditions if it sells any oversupply to other utility buyers. The utility tokens are not traded as securities or invested for periods other than as are speculated to be consumed in a year. The company's treasury department determines a treasury management policy to manage tokens as a part of its operations and only sells or buys tokens for utility purposes of which the proceeds are unrestricted given the utility nature of any transactions.