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International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

9 May 2019

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 Ms. ~~Lloyd~~ Sue,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the IFRS Interpretations Committee (IFRS IC) tentative agenda decision (TAD) on *Holdings of Cryptocurrencies*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Cryptocurrency transactions are becoming increasingly prevalent in some jurisdictions. In other jurisdictions, where it is not yet common for IFRS reporters to hold cryptocurrencies, there is a strong interest in determining the most appropriate financial reporting for cryptocurrency transactions. Members of Committee 1 therefore strongly support the efforts of the International Accounting Standards Board to consider this issue.

Committee 1 members agree with the following technical analysis as discussed in the TAD:

- the definition of *financial asset* in IAS 32 is not met.
- IAS 2 can be read to apply to cryptocurrencies that represent inventories held for sale in the ordinary course of business.

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- entities that conduct buying and selling activities of cryptocurrencies with the purpose of selling in the near term in order to generate profit from fluctuations in value would apply IAS 2 paragraph 3(b) and measure their inventories at fair value less costs to sell and included as operating activities in the statement of cash flows.
- C1 members acknowledge that cryptocurrencies possess the three definitional elements of intangible assets in IAS 38 *Intangible Assets* (IAS 38) because they are identifiable, non-monetary, and without physical substance.

However, many C1 members are concerned that the analysis in the TAD is narrow in focussing on these three definitional elements in IAS 38 and does not consider the context of IAS 38 more broadly in determining its applicability to cryptocurrencies. C1 members concur with the views expressed by various IFRS IC members and IASB Board members that IAS 38 was not developed for such intangible assets. In particular, we note the following aspects of IAS 38 that are inconsistent with the purpose and use of cryptocurrencies:

- IAS 38 paragraph 9 provides context for the types of assets that we believe IAS 38 was designed for; assets such as those that arise from expending resources on scientific or technical knowledge, new process and systems, licenses, trade marks and brand names. Cryptocurrencies are typically acquired for investment purposes, often held for the purposes of trading or as a store of value. These are characteristics that are not considered in IAS 38.
- IAS 38 paragraph 17 discusses the types of future economic benefits that flow from IAS 38 intangible assets, such as revenue from the sale of products or services, cost savings, or other benefits resulting from their use by the entity. Holdings of cryptocurrencies typically do not generate the same types of future economic benefits from their use, as the primary purpose for a reporting entity to hold cryptocurrency is not to generate revenue from the sale of its products or services, are not principally used as cost saving instruments by the entity, nor are they providing other benefits from their use (such as intellectual property in a production process). Cryptocurrencies are significantly different in nature from those examples because the future economic benefits generally arise only from subsequent sale of the asset.

Many C1 members have concerns about the financial reporting outcome that results from the application of IAS 38 to cryptocurrency holdings and are of the view that the Board should re-consider its decision not to undertake standard-setting activities. We note that several IASB Board members and IFRS IC members have also expressed concerns about certain aspects of the measurement model of IAS 38. Many C1 members are of the view that removing cryptocurrencies from the scope of IAS 38 would be a better outcome than specifying an approach that does not provide the most useful information. These members also encourage

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the Board to continue to consider the development of an appropriate accounting standard for cryptocurrency as it monitors the prevalence of cryptocurrency activity by IFRS reporters.

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We appreciate your thoughtful consideration of the views provided in this letter. If you have any questions or need additional information, please do not hesitate to contact Cameron McInnis, Chair of the Accounting Subcommittee of Committee 1 at +1 416-593-3675 or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
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