

May 13, 2019

Ms. Sue Lloyd, Chair
International Financial Reporting Standards Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,


Tentative Agenda Decision—Holdings of Cryptocurrencies

The Financial Accounting Issues Task Force of the Taiwan Financial Reporting Standards Committee (TFRSC) of Accounting Research and Development Foundation in Taiwan appreciates the opportunity to respond to the above tentative agenda decision.

The attachments (Attachment 1) are our comments to this tentative agenda decision. The comments are those of the Financial Accounting Issues Task Force and do not necessarily represent official opinions of the TFRSC.

If you have any question about our comments, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email: margaret@ardf.org.tw).

Sincerely Yours,



Chi-Chun Liu, Ph.D.
Chairman,
Taiwan Financial Reporting Standards Committee,
Accounting Research and Development Foundation, Taiwan

Attachment 1

Comments from ARDF Taiwan on Tentative Agenda Decision—Holdings of Cryptocurrencies

Tentative Agenda Decision—Holdings of Cryptocurrencies

Tentative Agenda Decision

The Committee discussed how IFRS Standards apply to holdings of cryptocurrencies.

The Committee noted that a range of cryptoassets exist. For the purposes of its discussion, the Committee considered a subset of cryptoassets—cryptocurrencies—with the following characteristics:

- a. A cryptocurrency is a digital or virtual currency that is recorded on a distributed ledger and uses cryptography for security.
- b. A cryptocurrency is not issued by a jurisdictional authority or other party.
- c. A holding of a cryptocurrency does not give rise to a contract between the holder and another party.

Nature of a cryptocurrency

Paragraph 8 of IAS 38 Intangible Assets defines an intangible asset as ‘an identifiable non-monetary asset without physical substance’.

Paragraph 12 of IAS 38 states that an asset is identifiable if it is separable or arises from contractual or other legal rights. An asset is separable if it ‘is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability’.

Paragraph 16 of IAS 21 The Effects of Changes in Foreign Exchange Rates states that ‘the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency’.

The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that (a) it is capable of being separated from the holder and sold or transferred individually; and (b) it does not give the holder a right to receive a fixed or determinable number of units of currency.

Which IFRS Standard applies to holdings of cryptocurrencies?

The Committee concluded that IAS 2 Inventories applies to cryptocurrencies when they are

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held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies. The Committee considered the following in reaching its conclusion.

Intangible Asset

IAS 38 applies in accounting for all intangible assets except:

- a. those that are within the scope of another Standard;
- b. financial assets, as defined in IAS 32 Financial Instruments: Presentation;
- c. the recognition and measurement of exploration and evaluation assets; and
- d. expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Accordingly, the Committee considered whether a holding of cryptocurrency meets the definition of a financial asset in IAS 32 or is within the scope of another Standard.

Financial asset

Paragraph 11 of IAS 32 defines a financial asset. In summary, a financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right to receive cash or another financial asset from another entity; (d) a contractual right to exchange financial assets or financial liabilities with another entity under particular conditions; or (e) a particular contract that will or may be settled in the entity's own equity instruments.

The Committee concluded that a holding of cryptocurrency is not a financial asset. This is because a cryptocurrency is not cash (see below). Nor is it an equity instrument of another entity. It does not give rise to a contractual right for the holder and it is not a contract that will or may be settled in the holder's own equity instruments.

Cash

Paragraph AG3 of IAS 32 states that 'currency (cash) is a financial asset because it represents the medium of exchange and is therefore the basis on which all transactions are measured and recognised in financial statements. A deposit of cash with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to obtain cash from the institution or to draw a cheque or similar instrument

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against the balance in favour of a creditor in payment of a financial liability.’

The Committee observed that the description of cash in paragraph AG3 of IAS 32 implies that cash is expected to be used as a medium of exchange (ie used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.

Some cryptocurrencies can be used in exchange for particular good or services. However, the Committee noted that it is not aware of any cryptocurrency that is used as a medium of exchange and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, the Committee concluded that a holding of cryptocurrency is not cash because cryptocurrencies do not currently have the characteristics of cash.

Inventory

IAS 2 applies to inventories of intangible assets. Paragraph 6 of that Standard defines inventories as assets:

- a. held for sale in the ordinary course of business;
- b. in the process of production for such sale; or
- c. in the form of materials or supplies to be consumed in the production process or in the rendering of services.

The Committee observed that an entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is inventory for the entity and, accordingly, IAS 2 applies to that holding.

The Committee also observed that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements in paragraph 3(b) of IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell. Paragraph 5 of IAS 2 states that broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders’ margin.

Disclosure

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An entity applies the disclosure requirements in the IFRS Standard applicable to its holdings of cryptocurrencies. Accordingly, an entity applies the disclosure requirements in (a) paragraphs 36–39 of IAS 2 to cryptocurrencies held for sale in the ordinary course of business, and (b) paragraphs 118–128 of IAS 38 to holdings of cryptocurrencies to which it applies IAS 38. If an entity measures holdings of cryptocurrencies at fair value, paragraphs 91–99 of IFRS 13 Fair Value Measurement specify applicable disclosure requirements.

The Committee noted that, applying paragraph 122 of IAS 1 Presentation of Financial Statements, an entity would disclose judgements that its management has made regarding its accounting for holdings of cryptocurrencies if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements.

The Committee also noted that paragraph 21 of IAS 10 Events after the Reporting Period requires an entity to disclose any material non-adjusting events, including information about the nature of the event and an estimate of its financial effect (or a statement that such an estimate cannot be made). For example, an entity holding cryptocurrencies would consider whether changes in the fair value of those holdings after the reporting period are of such significance that non-disclosure could influence the economic decisions that users of financial statements make on the basis of the financial statements.

Response to the above Tentative Agenda Decision:

We agree with IFRS Interpretations Committee’s intention to clarify how entities apply existing IFRS standards to holdings of cryptocurrencies. However, we think the characteristics and nature of cryptocurrencies are not exactly the same as either intangible assets (as defined in IAS38) or inventories (as defined in IAS2). Besides, the ways cryptocurrencies produce economic benefits differ from either intangible assets or inventories. Cryptocurrencies fundamentally act more as a medium of exchange. Entities hold cryptocurrencies to exchange goods, services or fiat currencies. The economic benefits of cryptocurrencies arise from subsequent exchange or sale in the market, while intangible assets or inventories themselves embody economic benefits that flow to entities through use or sale. Therefore, we believe applying IAS38 or IAS2 to holdings of cryptocurrencies may not provide the relevant information to the users. As of today, the purposes for which cryptocurrencies are held and the kinds of cryptocurrencies entities hold vary. In our view, the Interpretations Committee could provide some guidance according to Conceptual Framework

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for Financial Reporting, for example, how entities apply paragraphs 5.12-5.14 and 5.19-5.23 to evaluate the existence uncertainty and measurement uncertainty of the holdings of cryptocurrencies, and how entities apply paragraphs 6.43-6.76 to select measurement basis. We suggest the IASB develop a new IFRS standard or amend existing IFRS standards to address the accounting for holdings of cryptocurrencies and transactions involving cryptocurrencies, when holdings of cryptocurrencies become more prevalent and the position of cryptocurrencies become more clear.