جهاز أبوظبي للمحاسبة
ABU DHABI ACCOUNTABILITY AUTHORITY

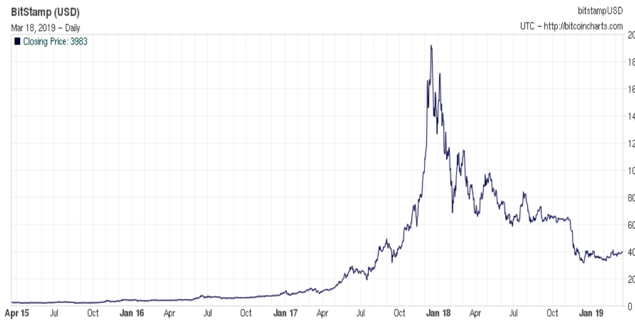
ADAA Briefing paper

Accounting for cryptocurrencies - IFRIC update

March 2019

Background

Bitcoin rose from $0.00076 in 2009 to over $19,000 in November 2017. The meteoric rise (and fall see chart below) in the value of cryptocurrencies, such as Bitcoin, has encouraged many entities to hold investments in this exotic new asset class. In February, Bloomberg reported that Singapore's Sovereign Wealth Fund GIC was believed to be among investors that helped U.S. cryptocurrency exchange Coinbase Inc. raise $300 million in 2018. There has been a lack of consensus on how to account for cryptocurrencies, and in March 2019, the IFRS Interpretations Committee (IFRIC or Committee) issued a tentative agenda decision (link).



Characteristics of cryptocurrencies

IFRIC discussed how IFRS applies to holdings of cryptocurrencies, specifically cryptocurrencies with the following characteristics:

a. A digital or virtual currency that is recorded on a distributed ledger and uses cryptography for security.

b. Not issued by a jurisdictional authority or other party.

c. Does not give rise to a contract between the holder and another party.

Nature of cryptocurrency

The Committee considered whether cryptocurrency met the definition of an intangible asset in IAS 38.

IAS 38 defines an intangible asset as *"an identifiable non-monetary asset without physical substance"*. [IAS 38.8]

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"*. [IAS 38.12]

The essential feature of a non-monetary item is *"the absence of a right to receive …a fixed or determinable number of units of currency"*. [IAS 21.16]

Cryptocurrency meets the definition of an intangible asset as (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 cryptocurrencies?

IFRIC concluded that IAS 2 'Inventories' applies to cryptocurrencies when they are **held for sale in the ordinary course of business**. Inventory is recognised at the lower of cost or net realizable value (or fair value less costs to sell for commodity broker-traders).

If IAS 2 is not applicable, an entity should apply IAS 38 using the cost or valuation model.

IFRIC 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"*.

Accordingly, IFRIC considered whether cryptocurrency meets the definition of a financial asset or is within the scope of another standard.

Financial asset

The Committee concluded that cryptocurrency is not a financial asset primarily because it does not meet the definition of cash (see below).

Cash

The description of cash in IAS 32.AG3 implies that cash is expected to be used as a medium of exchange (i.e. 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, IFRIC noted that it is not aware of any cryptocurrency that is used to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements. Consequently, they concluded that a holding of cryptocurrency is not cash.

Inventory

IAS 2 applies to inventories of intangible assets. Inventories are defined as assets: *"a. held for sale in the ordinary course of business…"*.

An entity may hold cryptocurrencies for sale in the ordinary course of business. In that circumstance, a holding of cryptocurrency is accounted for as inventory under IAS 2.

The Committee also noted that an entity may act as a broker-trader of cryptocurrencies. In that circumstance, the entity considers the requirements in IAS 2.3(b) for commodity broker-traders who measure their inventories at fair value less costs to sell. 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

An entity applies the disclosure requirements in the IFRS Standard applicable to its holdings of cryptocurrencies:

Relevant standard	Disclosure
IAS 2	paragraphs 36–39
IAS 38	paragraphs 118-128
IFRS 13	paragraphs 91–99

Entities should also 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. [IAS 1.122]

Also IAS 10 'Events after the Reporting Period' requires entities to disclose material non-adjusting events, including information about the nature of the event and an estimate of its financial effect. For example significant changes in the fair value of cryptocurrency after the reporting period.

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ADAA's AASD
Head of Accounting and Auditing Standards Desk and author Steven Ralls aasd@adaa.abudhabi.ae
Briefing paper author – Richard Wright