Talking points for podcast 105

Crypto Assets

Crypto assets are transferable digital assets that are designed in a way that prohibits their copying or duplication. They are built off a technology referred to as a 'blockchain' or distributed ledger technology. We have defined four specific subsets of crypto assets:

- **Cryptocurrency**: digital tokens or coins based on blockchain technology, such as Bitcoin. They currently operate independently of a central bank and are intended to function as a medium of exchange.
- **Asset Backed Tokens**: digital tokens based on blockchain technology that signifies and derives its value from representing ownership of a physical asset (for example, natural resources such as gold or oil).
- **Utility Tokens**: digital tokens that provide users with access to a product or service, and they derive their value from that right. Utility tokens give holders no ownership in a company's platform or assets and, although they might be traded between holders, they are not primarily used as a medium of exchange.
- **Security Tokens**: digital tokens that are similar in nature to traditional securities in that they can provide an economic stake in a legal entity: sometimes a right to receive cash or another financial asset, which might be discretionary or mandatory; sometimes the ability to vote in company decisions and/or a residual interest in the entity.

One of the key differences between cryptocurrencies and our traditional financial sector is that it is decentralized, ie there is no central intermediary, such as a central bank. The regulatory environment is still clearly evolving.

Regulators are now stepping in and implementing controls. Some countries have digital licenses now, rules for crypto custodians and other safeguards.

While IFRS Standards do not directly consider crypto assets, they provide the framework required to determine the appropriate accounting treatment for most crypto assets. In many cases, cryptocurrencies would be treated as intangible assets. Our InDepth publication highlights some of the accounting questions that are currently being debated and share our views on how IFRSs could be applied.

However, the right answer from a technical accounting perspective may not completely align with users' expectations of the transactions. Many users regard cryptocurrencies as assets that should be recorded at fair value through P&L, especially as the markets are more volatile. There could be an opportunity in the IFRS 2020 Agenda Consultation to better align the accounting with user expectations.

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