Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

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Digital currencies and blockchain: implications for accounting

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Digital Currency

A case for standard-setting activity

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The rise of digital currency

- 191,054 transactions per day
- $111.9bn market capitalisation
- 4 Australian companies publicly reporting holdings

Source: CoinDesk.com
Why do entities hold cryptocurrencies?

For investment
- used to store and grow value
- similar to holding:
  - Gold, diamonds or other precious minerals
  - Waters rights or emission rights
  - Artwork

For trading
- commodity trader that buys and sells cryptocurrencies in the short term

or

- an ‘initial coin offering’ – creating and selling a new currency
- ‘mining’ cryptocurrencies – to sell and earn revenue
How would IFRS Standards currently apply?

- Fit within scope of IAS 2 or IAS 38
- Australian entities currently applying either of these Standards

**Fair value (FV) under commodity broker-trader requirements**

- Inventory (IAS 2)
- Intangible Asset (IAS 38)

- Cost or revaluation method

**Lower of cost or net realisable value (NRV)**

**DIGITAL CURRENCY**

- Financial Instrument (IFRS 9/IAS 32)
- Cash (IFRS 9)

- No contractual relationship creating financial asset/liability between parties
- Too volatile
- No broad acceptance
- Reserve Bank of Australia publicly stated **not cash**
Do IAS 2 and IAS 38 meet user needs?

Commodity broker-trader
- only available when trading commodity in short term

Lower of Cost/NRV
- not a fair value measurement

Cost
- not a fair value measurement

Revaluation
- only available when market active
- changes in FV through Other Comprehensive Income (OCI)
So what is the gap in the accounting Standards?

IAS 2 and IAS 38 cost approaches are inconsistent with the revised *Conceptual Framework* which calls for current values.

Cryptocurrencies are volatile and a cost approach would not reflect their actual value.

Changes in FV through profit and loss would increase accountability for the investment decision.

Australia’s view: a *fair value approach* through *profit and loss* would be most useful.
new or old and how inconsistent?

Peach, Kris, 9/18/2018
How can Standard-Setters address the issues?

- **Develop** new IFRS Standard covering investments broadly
- **Amend** current Standards to scope cryptocurrencies out of IAS 38 and into IFRS 9

**Gold/minerals**

**Cryptocurrencies**

**Other commodities for investment**
Australia’s preferred approach

Develop new IFRS Standard covering investments broadly

- Australia supports the IASB developing a **worldwide** Standard
- Fills the **gap** in IFRS Standards
- Opportunity to work with users and ensure they are receiving **reliable** and **consistent** information about all investments
- Allows for principles for **future developments** - not just a ‘band-aid’ fix
Engage with the AASB

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