



Our Ref.: C/FRSC

30 May 2019

Sue Lloyd
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sue,

Tentative agenda decision – Holdings of Cryptocurrencies

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing and ethics for professional accountants, in Hong Kong. We are grateful for the opportunity to provide you with our views on this tentative agenda decision (TAD).

In response to this TAD, the HKICPA:

- (a) considered input from our technical and industry experts in accounting firms ('practitioners') who provide accounting advice to entities holding cryptocurrencies; and
- (b) developed its views through its Financial Reporting Standards Committee. The Committee comprises academics, preparer representatives from various industry sectors, regulators, and technical and industry experts from small, medium and large accounting firms.

The HKICPA observes some diversity in how entities account for holdings of cryptocurrencies. For the purpose of eliminating the existing diversity in practice, the HKICPA supports finalising the TAD as interim guidance to clarify how existing IFRS Standards apply to holdings of cryptocurrencies.

Nevertheless, the HKICPA acknowledges the following concerns on the TAD expressed by some of our stakeholders:

- (a) IAS 38 *Intangible Assets* was developed long before cryptocurrencies and was not designed with transactions that involve cryptocurrencies in mind. Applying IAS 38 to holdings of cryptocurrencies (when holdings of cryptocurrencies do not meet the broker-trader exception in paragraph 3(b) of IAS 2 *Inventories*) may not always provide the most useful information to users of financial statements. These stakeholders consider that given the nature and volatility of cryptocurrencies, measuring cryptocurrency holdings at fair value through profit or loss would better reflect the underlying economics of these assets and provide users of financial statements with relevant and useful information. They consider that the accounting for cryptocurrencies should be dealt with by standard setting instead of issuing an agenda decision.
- (b) The TAD only covers the accounting for holdings of cryptocurrencies. In Hong Kong, an increasing number of entities undertook initial coin offerings and / or launched businesses around cryptoassets during the last two years. We also expect that the level of interest in cryptoasset transactions will increase following



the announcements¹ by the Hong Kong Securities and Futures Commission regarding upcoming regulatory framework/standards on funds investing in cryptocurrencies and exchanges/trading platforms for such assets. Considering that cryptocurrencies, or more broadly cryptoassets and related transactions, are evolving, we expect questions about the accounting for cryptoasset transactions will continue to arise. We think the IASB should be responsive to these developments by commencing a standard setting project.

The HKICPA understands that standard-setting activity would take time. Therefore, the HKICPA supports finalising the agenda decision as interim guidance to clarify how existing IFRS Standards apply to holdings of cryptocurrencies. However, the HKICPA strongly recommends that the IASB commences a standard-setting project for cryptocurrencies or work with interested national standard-setters to develop a more robust accounting suitable for cryptocurrencies.

If you have any questions regarding the matters raised in this letter, please contact me or Eky Liu (eky@hkiipa.org.hk), Associate Director of the Standard Setting Department.

Sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng
Director, Standard Setting Department

1 The Hong Kong Securities and Futures Commission (SFC) plans to issue guidance on the regulatory standards expected of virtual asset portfolio managers and fund distributors. The SFC is also exploring a conceptual framework for the potential regulation of virtual asset trading platform operators.

- https://www.sfc.hk/web/EN/files/ER/PDF/App%201%20-%20Reg%20standards%20for%20VA%20portfolio%20mgrs_eng.pdf
- https://www.sfc.hk/web/EN/files/ER/PDF/App%202_%20Conceptual%20framework%20for%20VA%20trading%20platform_eng.pdf