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Analysis and Development of IFRS Requirements for Crypto-assets and Blockchain Technologies

The paper reviews the current standards and guidelines associated with Initial Coin Offerings (ICO) and similar offerings. It also discusses potential approaches for clarification or development of IFRS requirements for crypto-assets and liabilities. Several applications of Distributed Ledger Technology (DLT) such as blockchain are highlighted in variety of sectors including identification, record-keeping, data storage, copyright protection, supply chain, and insurance. Rapid evolution in blockchain technology has spurred a wide array of crypto-assets, including tokens with smart contracts which are considered for the possible development of IFRS requirements. The paper asserts the need for technology-neutral accounting which focuses on economic substance and associated rights and obligations. Growth in crypto-assets and altcoins driven by blockchain technology are noted. The challenges linked to classifying tokens due to evolving technology are discussed along with potential ways to formulate a robust methodology for crypto-asset valuation.

Current State and Emerging Trends in Crypto-Asset Accounting and Regulation

The report discusses the accounting practices and regulations around crypto-asset issuance, particularly in the context of ICOs. This includes reference to current IFRS standards, accounting guidance, and areas needing further clarification. The report further explores crypto-asset valuation methodologies, future developments in IFRS requirements for cryptoassets, and potential market developments with regards to scalability, price stability, and the viability of decentralized systems. Regulatory responses to crypto-assets and their potential implications on future innovation also figure prominently in the discourse. The report acknowledges that rapid innovation within this space may render certain classifications obsolete over time but maintains the importance of distinguishing key economic features, rights, and obligations. Critical mass uptake of crypto-assets as a means of exchange is identified as a distinct possibility, which could define them as more cash-like.Despite this, the question remains whether this represents a significant enough innovation to warrant a redefinition of cash or cash equivalents. The report also touches upon the potential for innovation to evolve in such a way that it requires unique accounting treatment. Finally, it emphasizes that while the certain categorization of crypto-assets can become outdated due to ongoing innovation, understanding the fundamental economic characteristics of crypto-assets remains key.

The Evolution and Implications of Crypto-Assets and Decentralized Network Governance

Crypto-assets such as utility and hybrid tokens are growing in popularity due to the variety of rights they bestow upon holders. These rights range from network access and blockchain creation to governance participation. Notable examples include the Swiss-based Aragon Network - a decentralized autonomous organization (DAO) where token holders contribute to governance and decision-making processes. This novel concept of decentralization dramatically sets DAOs apart from traditional organizational structures, where governance typically resides within the internal structure of the organization itself. In DAOs, crypto-assets like tokens offer their holders certain economic, governance, or utility rights. One such example is Syscoin,

offering on-chain governance through staking, a decentralized marketplace for goods, and an escrow service. However, hurdles exist in the DAO model such as technological limitations, errors, inadequate governance leading to uncertainty, and the need for efficient price discovery mechanisms. The importance of reliable data is significant, particularly as the crypto-assets market grows and the demand for credible price discovery escalates. Innovations like crosschain interoperability, network governance improvements, and proof-of-stake validation of transactions are actively being explored. Unlike traditional organisations, DAOs operate in a space that is not highly regulated yet, which provides them the capability of quick implementation of Initial Coin Offering (ICO) compared to traditional Initial Public Offerings (IPOs). Tokens issued in ICOs usually do not include voting rights and other features typically associated with securities issued in IPOs. The rights attached to these tokens include access rights, payment rights, transaction validation rights, governance rights, contribution rights, and discretionary revenues rights. Moreover, there is an increasing trend of rewarding token holders for their contributions, further incentivizing participation and contribution within these decentralized networks. However, due to the intensive energy consumption associated with mining-based systems and other concerns about long-term viability, strengthening network governance is necessary for increased uptake of crypto-assets. Hence, as the sector innovates, the need for clearer accounting practices, strengthening of network governance mechanisms, and reliable institutional-grade data becomes even more prominent.

Institutional Adoption of Crypto-assets: Opportunities, Challenges, and Future Prospects

The wider institutional acceptance of crypto-assets is determined by several factors: the enhancement of regulation and oversight rules, enforceability of contracts, the strengthening of network governance, increased transaction speed, and the stability of crypto-asset prices. Innovations in crypto-asset systems are also crucial for their advancements, especially in areas like transaction verification, network interoperability, and the application of smart contracts. However, concerns arise regarding the sustainability of energy-intensive 'mining' systems as the crypto-assets market expands. Additionally, the decentralization and governance issues related to distributed ledger technology (DLT) platforms present technological challenges. Lastly, the integration of sustainability reporting with financial reporting adds an extra layer of complexity, especially when incorporating intangible assets disclosure.

Influence of Legal and Economic Environment on Crypto-Asset Markets and Corporate Operations

Recently, the LOI Pacte in France played a pivotal role in legalizing the issuance and handling of crypto-assets and legitimizing associated market activities. Transparency and information availability from crypto-asset token issuers have a positive correlation with the success of Initial Coin Offerings (ICOs). Distributed consensus mechanisms such as Proof of Stake (PoS) are essential components in Distributed Ledger Technology (DLT) environments. Employers in the UK and many other countries cannot reduce already earned employee benefits, even in the event of business closure. Continually changing market conditions across technological, economic, or legal aspects can potentially influence the recovery cost of equity instrument investments. Market efficiency could be enhanced by improving the retail investor information environment and through regulatory intervention influencing retail trading behavior. The banking activities' structure and regulatory environments might necessitate business adaptations to new external factors. Lastly, the condition and dynamics of an entity's financial environment are sensitive to its capacity to adjust to the changes in its operating context. Increasing complexities in the operating environments of such entities make their accounting

practices both sophisticated and complex.

Advancements and Regulatory Gaps in Fintech and Crypto-Assets

The IMF publication for January points out the growing interest and active development of fintech solutions, especially in relation to crypto-assets, by a variety of startups as well as key financial players like Fidelity Investments. However, there's a significant discrepancy in regulatory frameworks for crypto-assets compared to other fintech domains such as AI lending, mobile payment services, robo-advisors, algorithmic trading, insurance, and peer-to-peer lending. Regulatory approaches to crypto-assets differ across jurisdictions. The CSA, for instance, has created a regulatory sandbox specifically for fintech companies to ensure compliance. The broad potential of fintech highlights the imminent need for a distinct, comprehensive regulatory regime which encompasses the diverse range of activities offered by the sector.

The Importance of Accountability and Stewardship in Financial Reporting

Accountability and stewardship are critical aspects in managing financial reporting, particularly in areas regarding pensions and security matters. It is vital for those responsible to understand the ongoing value of assets and utilize available methodologies to estimate this value reliably. There tends to be negative economic effects when these measures are not accurately represented. Investors rely on financial reports for both future cash flow predictions and to assess accountability, often determining executive compensation based on these assessments. These reports also play a significant role in decision-making processes, potentially influencing how resources are allocated and investments made. Furthermore, enhancing transparency, increasing accountability, and strengthening standard setting procedures are essential components for improving financial reporting systems. These attributes contribute to the credibility of the standard setter, playing a crucial role in addressing criticisms and meeting the demands of various stakeholders. As such, accountability and stewardship of financial reports should not be overlooked as they form a fundamental part of ensuring robust financial reporting systems catered to investors and managerial needs alike. There should be an expectation for standard setters to provide clear evidence backing their decisions to maintain transparency and improve accountability in the financial reporting process.

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