



# Crypto-assets – tax and financial reporting considerations

Financial Reporting Webinar Series

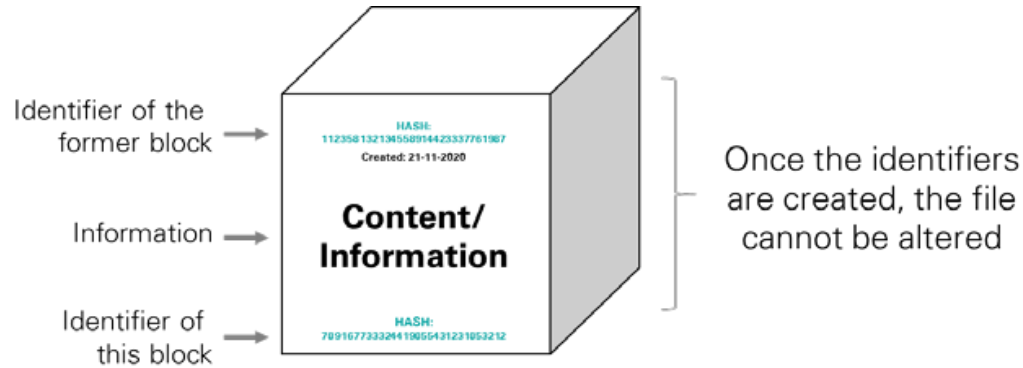
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Friday 15 July 2022



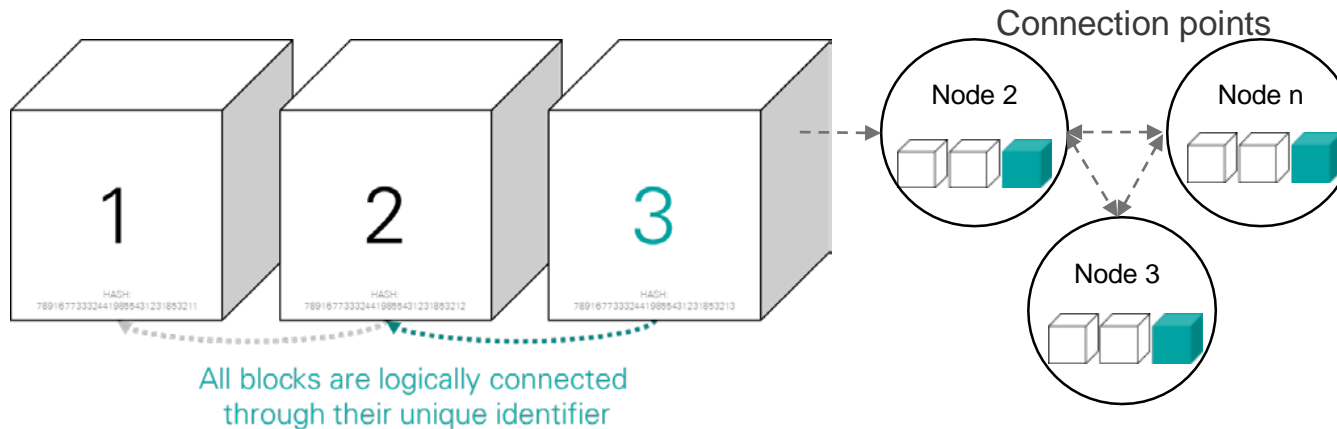
# Overview of crypto-assets

# What is blockchain?

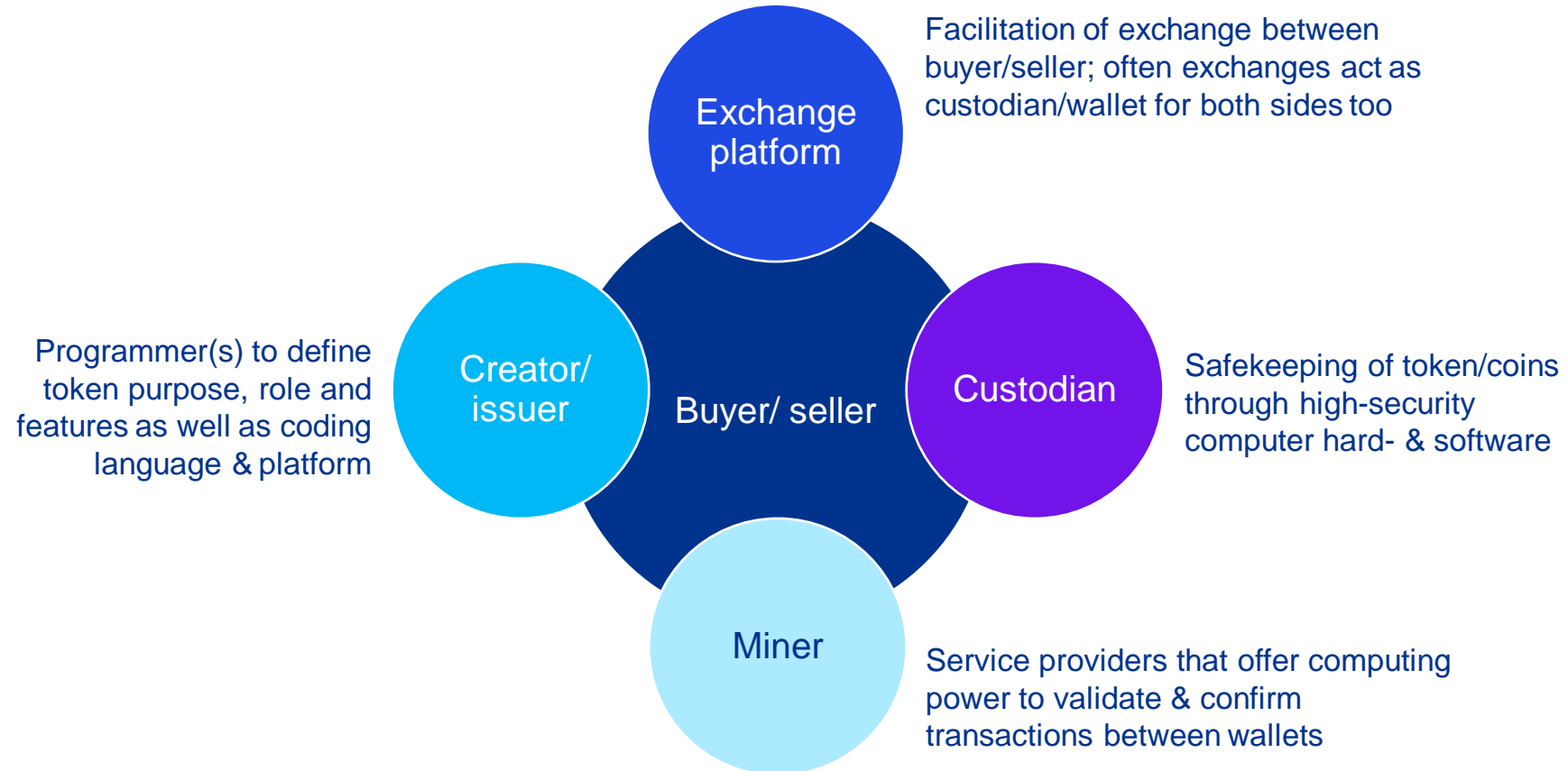
## 1) What is a block?



## 2) What is a blockchain or distributed ledger?



# Participants in the 'crypto space'



# Stable coins vs not—fiat backed vs algorithm

What happened to  when  collapsed...



Source:

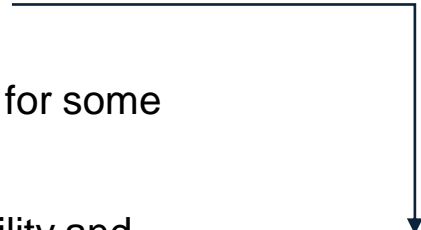
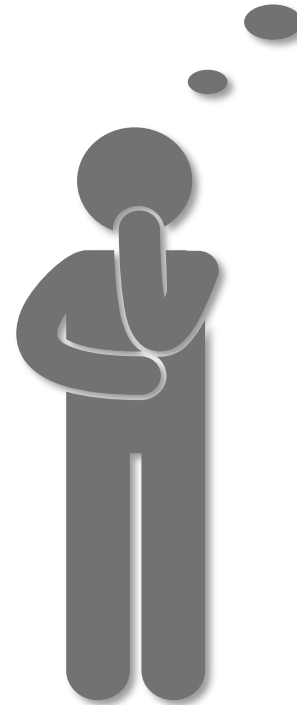
<https://coinmarketcap.com/currencies/terra-luna/>

<https://coinmarketcap.com/currencies/tether/>


# Benefits and challenges of crypto

- ✓ High security
- ✓ Quick settlement
- ✓ Low transaction cost
- ✓ Portfolio diversification
- ✓ Cross-border payment

- ✗ Uncertainty over legal rights and how law applies
- ✗ Regulatory risk
- ✗ Limited liquidity for some crypto
- ✗ High price volatility and liquidity volatility (e.g. weekend and holidays)



**TECH • BITCOIN**  
**Bitcoin isn't an inflation hedge, and it hasn't been for a long time, Bank of America says**  
BY TAYLOR LOCKE  
May 7, 2022 2:29 AM GMT+8

 HONG KONG MONETARY AUTHORITY  
香港金融管理局

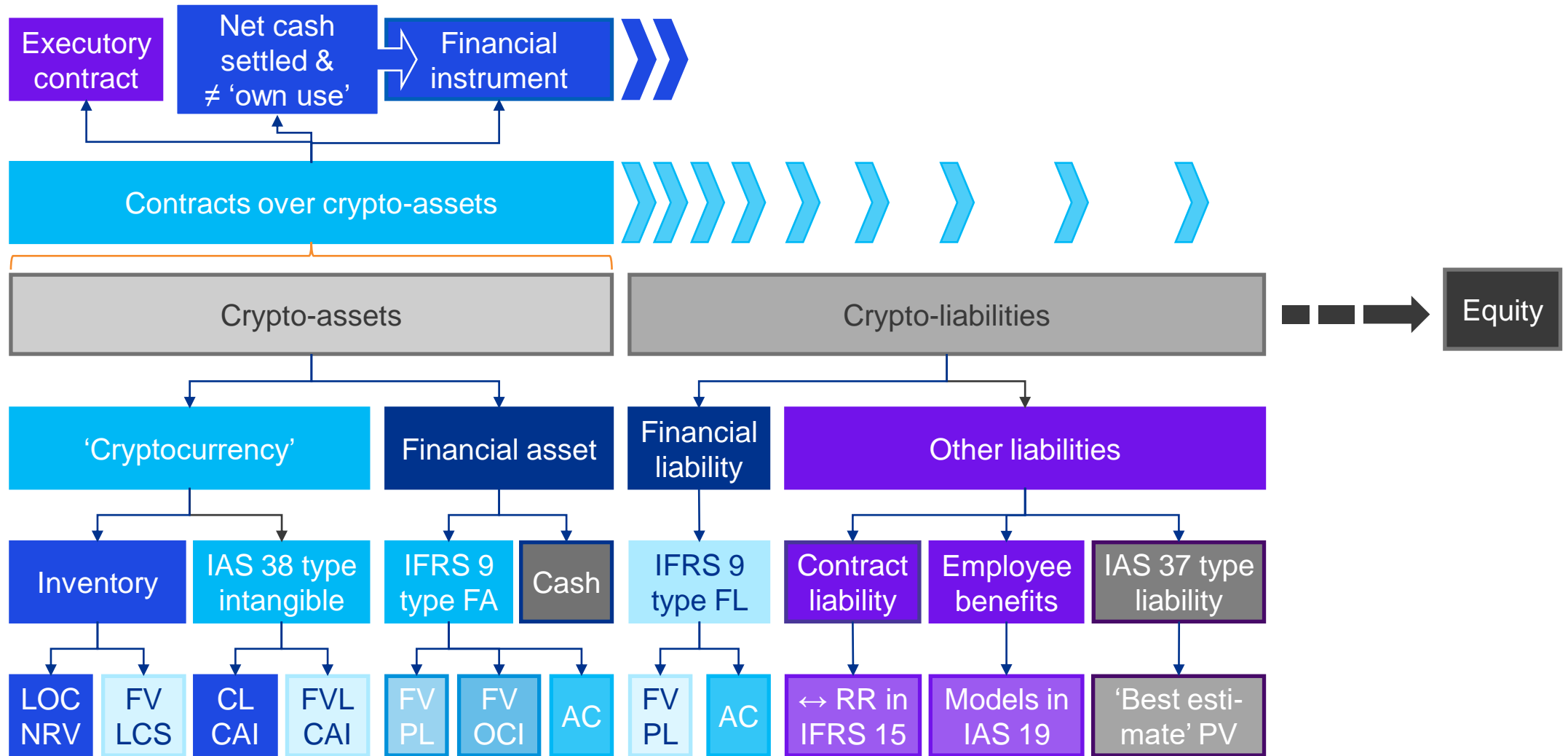
**Discussion Paper on Crypto-assets and Stablecoins**

**January 2022**

Source:  
<https://fortune.com/2022/05/06/bitcoin-isnt-inflation-hedge-gold-bank-of-america/>  
<https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2022/20220112e3a1.pdf>

# Accounting for crypto-assets

# Accounting for 'crypto': How does it fit in...?

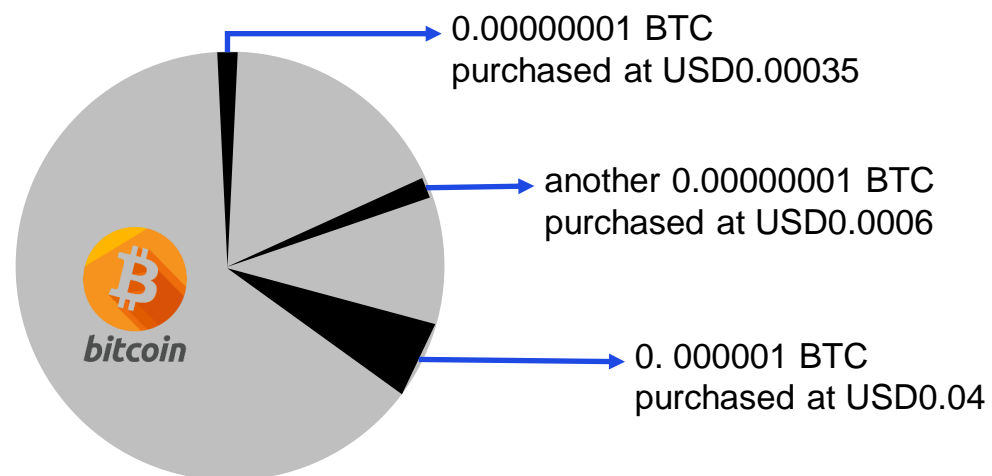




# Practical challenges: What is 'cost'?



Operational challenges!



Potential questions...

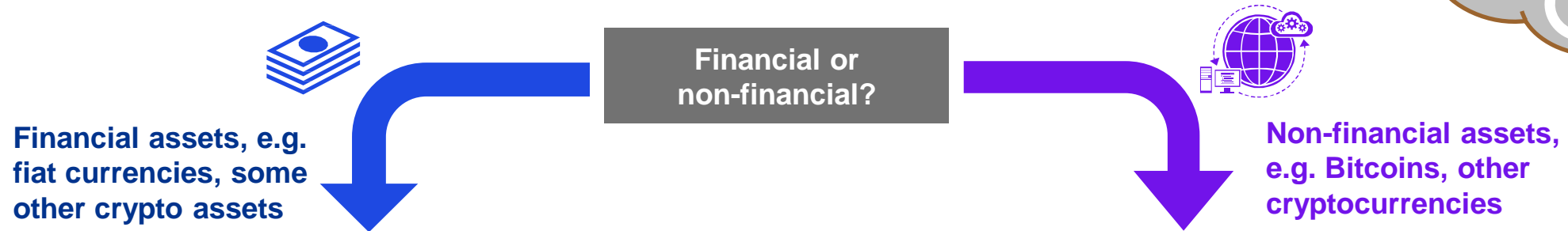
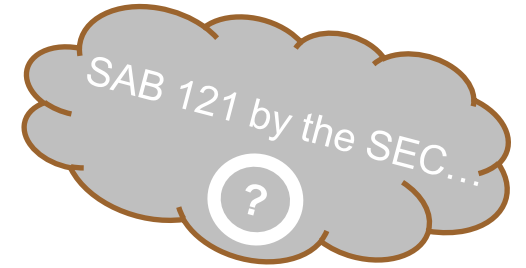
- 1 Unit of account: 1 BTC / 0.0000001 BTC / others...
- 2 Basis: Specific identification / FIFO / weighted average

How to determine the cost / carrying amount?

	IAS 38 intangible assets		IAS 2 inventories	
	Cost model	Revaluation model	Cost model	Broker-trader
Subsequent measurement	Lower of <u>cost</u> and recoverable amount	Revalued amount above <u>cost</u> goes to OCI whereas below <u>cost</u> goes to PL	Lower of <u>cost</u> and net realisable value	Fair value less costs to sell
Derecognition	Derecognition gain/loss = Net disposal proceeds minus <u>carrying amount</u> of the disposed asset		Net profit = Revenue minus <u>carrying amount</u> of inventories sold	

# Customer fund assets: On-book or off-book?

The nature of the customer fund assets and whether they are recognised on the balance sheet will affect how the related amounts are presented in profit or loss



## Reference to the definition of an asset in the Conceptual Framework

### So-called 'client assets' accounting

→ Development in the secondary literature

## Analogies to IFRSs—but how...?

- IAS 2: where is the recognition section...?
- IAS 38: economic benefits...?
- IFRS 15: notion of control—but context of seller & buyer...
- ...?

# Crypto lending & borrowing

## Borrowing from one customer and lending to another one:



Same accounting treatment as a bank...?



The analyses of financial vs. non-financial items are different

IFRIC agenda decision on commodity loans: diversity in practice

*IFRIC agenda decision in March 2017:* <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2017/ias-1-ias-2-ias-8-ias-39-ifrs-9-commodity-loans-march-2017.pdf>

# Resources

**Holdings of Cryptocurrencies—June 2019**

The Committee discussed how IFRS Standards apply to holdings of cryptocurrencies.

The Committee noted that a range of cryptoassets exist. For the purposes of its discussion, the Committee considered a subset of cryptoassets with all the following characteristics that this agenda decision refers to as a ‘cryptocurrency’:

- a digital or virtual currency recorded on a distributed ledger that uses cryptography for security;
- not issued by a jurisdictional authority or other party;
- does not give rise to a contract between the holder and another party.

**Nature of a cryptocurrency**

Paragraph 8 of IAS 38 *Intangible Assets* defines an intangible asset as ‘an identifiable non-monetary asset without physical substance’.

Paragraph 12 of IAS 38 states that 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’.

Paragraph 16 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* states that ‘the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency’.

The Committee observed that a holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that (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 holdings of cryptocurrencies?**

The Committee concluded that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies. The Committee considered the following in reaching its conclusion.

**Intangible Asset**

IAS 38 applies in accounting for all intangible assets except:

- those that are within the scope of another Standard;
- financial assets, as defined in IAS 32 *Financial Instruments: Presentation*;
- the recognition and measurement of exploration and evaluation assets; and
- expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Accordingly, the Committee considered whether a holding of cryptocurrency meets the definition of a financial asset in IAS 32 or is within the scope of another Standard.

## IFRS Interpretations Committee Agenda Decision June 2019 – Holdings of Cryptocurrencies

**KPMG**

# HONG KONG TAX ALERT

ISSUE 8 | April 2020

## Taxation of digital assets in Hong Kong

**Summary**

The Inland Revenue Department (IRD) has revised its Departmental Interpretation & Practice Notes No. 39 (DIPN 39) to update its views on the taxation of the digital economy, electronic commerce and digital assets - see Hong Kong Tax Alert Issue 5 ([link here](#)).

For digital assets, whilst the guidance in DIPN 39 is helpful and consistent with the general tax principles, taxpayers will need to carefully consider how they practically apply these principles to their respective businesses.

Fluctuations in the value of many digital assets such as Bitcoin and other cryptocurrencies (‘crypto’ or ‘tokens’) in the digital asset economy has not only attracted Crypto miners and technology start-ups, but increasingly serves as an alternative asset class for traditional asset managers.

To date there has been no guidance how crypto should be taxed which has led to divergent approaches as to how the general charging provisions in the Inland Revenue Ordinance (IRO) should apply to the various forms of crypto. The issuance of the DIPN 39 is therefore welcomed and a positive sign for the digital asset service industry in Hong Kong generally as this coincides with further regulatory guidance of digital assets by the Securities and Futures Commission in Hong Kong.

However, the guidance in DIPN 39 provides only very broad brushed principles, and having regard to the breadth of the digital asset economy falls short in articulating many practical issues crypto businesses will need to consider in order to determine how their profits should be taxed. Taxpayers who make simplistic interpretations on how to determine location and character of income from their business activities may be setting themselves up for detailed enquiry or possibly challenge from the IRD.

**IRD views**

The taxation of gains (and losses) arising from digital assets will depend both on the type of digital assets and how the assets are used in a taxpayer’s business. In this respect, the IRD classifies crypto assets into three categories:

- **Payment tokens** such as Bitcoin which are used as a means of payment for goods and services.
- **Security tokens** which provide the holder with ownership interests in the business, such as a debt or a right to a share in the profits of the business. Where the digital tokens constitute ‘securities’ as defined in the Securities and Futures Ordinance ([link here](#)), the tokens and activities involving such tokens would be subject to the regulation by the Securities and Futures Commission.
- **Utility tokens** which provide the holder with access to goods or services, and whereby the issuer of the utility tokens normally commits in the future to accepting the tokens as payment for goods and services.

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## KPMG Hong Kong Tax Alert Issue 8, April 2020 – Taxation of digital assets in Hong Kong

# Webinar dates and topics for 2022

- 26 January – HKEX Listing Rules Update
- 18 March – IFRS Sustainability Standards – The climate-related and general disclosure prototypes
- 20 May – Get ready for 2022 Interim Reporting season
- 10 June – Closing the gap between climate risk and climate strategy
- **15 July – Crypto-assets – tax and financial reporting considerations**
- **2 September – IASB projects update**
- **18 November – ESG update/TCFD/Climate-risk on financial reports**
- **16 December – Year-end reporting reminders**



**For more details and access to our webinar series:**

**<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>**

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