Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building,
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Paris, May 15, 2019

Tentative Agenda Decisions – IFRIC Update November 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to two issues that are worth considering:

- The Tentative Agenda Decision on Holdings of Cryptocurrencies is probably the adequate answer considering the current IFRS requirements. Nevertheless, the measurement models in IAS 38 are not necessarily relevant for these brand-new types of intangible assets. This highlights the need for a comprehensive standard-setting project addressing both holdings and issuance of any nature of crypto-assets.
- The Tentative Agenda Decision on IAS 19 seems to provide a simple and definitive answer to situations that are actually much more complex than described in the fact pattern. We believe that the Committee should emphasize the need for an in-depth analysis of the terms, conditions and economics of the employee benefit plan before confirming the conclusion that the entity has no obligation to make further payments if the plan does not hold sufficient assets to pay all employee benefits.

61, rue Henri Regnault - 92075 - Paris La-Défense Cedex
Tel: +33 (0)1 49 97 60 00 - Fax: +33 (0)1 49 97 60 01 - www.mazars.fr

Mazars
Société Anonyme d'Expertise Comptable et de Commissariat aux Comptes à Directoire et Conseil de Surveillance
Capital de 8 320 000 euros
RCS Nanterre 784 824 153 - Siret 784 824 153 00232 - APE 6920Z
Siege social : 61 rue Henri Regnault - 92400 Courbevoie - Tva intracommunautaire : FR 07 784 824 153

Should you have any questions regarding our comments on the various tentative agenda decisions, or should you want us to participate in a meeting as proposed above, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin

Financial Reporting Advisory

Edouard Fossat

MAZARS

Appendix 1

Holdings of Cryptocurrencies

We welcome the work undertaken by the Committee on the specific issue of cryptocurrencies.

Considering the IFRS IC's role and assignment, which is to provide interpretation based on current IFRS, we agree with the conclusions reached by the Committee in the tentative agenda decision, that holdings of cryptocurrencies fall within the scope of IAS 38, unless the cryptocurrencies are held to be sold in the normal course of business or as a broker-trader, in which situations IAS 2 applies.

Nevertheless, we have some comments that mainly relate to the scope of the IFRS IC's tentative agenda decision and more precisely to the definition of "Cryptocurrencies". It is to be noted that some comments might have an impact on the accounting analysis.

- Characteristic b) defines a cryptocurrency as *"not issued by a jurisdictional authority or **other party**"*. "Other party" is a very broad notion, and therefore definition might be misunderstood. We assume that the expression "other party" was rather used in the meaning of parties comparable to a jurisdictional authority. We encourage the Committee to clarify this wording.
- Characteristic a) states "(...) *is a digital or virtual currency*". We think the "currency" terminology should be more precisely defined to operate the distinction between "cryptocurrency" and "fiat currency". We believe "cryptocurrencies" to be a means of exchange but no currency as such. It could be clarified that a cryptocurrency is not a fiat currency.
- While we understand that the Interpretations Committee focuses on existing cryptocurrencies, we would like to draw your attention to the coming up of a new kind of cryptocurrency called "stable coins". We understand a "stable coin" is basically a cryptocurrency that intends to reduce/neutralise its volatility by being backed. For instance, Tether cryptocurrency, probably one of the most known "stable coin" today, is, according to its issuer, 100% backed by its reserves, which include "traditional" currency but not only. According to its issuer, Tether cryptocurrency is redeemable and exchangeable pursuant to Tether Limited's terms of service at the conversion rate 1 Tether USD₮ equals 1 USD[1].

[1]https://tether.to/faqs/

The relevance of the Committee's conclusion applied to Tether or other "stable coins" might be questionable. Besides, considering the ability of the community to create cryptocurrencies with new characteristics, the validity of the agenda decision would need to be assessed for any new instrument issued.

In addition, we would like to draw your attention to the existence of Central Bank Digital Currencies (CBDC) projects. According to the Bank for International Settlements survey of January 2019[2], 70% of the Central banks that responded to the survey are currently (or will be soon) engaged in CBDC work. Although the creation and use of such a digital currency seems unlikely in the near future (see the same survey), we truly believe that its likelihood should be taken into account for defining what a cryptocurrency is. Indeed, the question of whether a CBDC is within the scope of the tentative agenda decision or could be considered as cash seems relevant.

Even if we agree with the rationale developed by the IFRS Interpretations Committee in its tentative agenda decision, which is based on existing IFRS Standards, we believe other major key issues exist and should be addressed:

- Crypto-assets include cryptocurrencies, and tokens, each with multifaceted characteristics. We truly believe the Committee should consider crypto-assets as a whole and not limit its advice to cryptocurrencies only.
- The tentative agenda decision only relates to the holding of cryptocurrencies. We are convinced that the accounting treatment of tokens' issuance need to be addressed (at the date of issuance and subsequently), as well as the measurement of such assets.

We therefore strongly encourage the Committee to consider this tentative agenda decision as only a first step of a larger project. If the Committee agrees, it could be explicitly mentioned that this agenda decision is the first and preliminary answer to a broader issue that rises many other questions.

In particular, while we acknowledge that crypto-assets, in most cases, meet the definition of an intangible asset as defined in IAS 38 and accordingly should be measured either according to the cost model or the revaluation model (IAS 38.74 or IAS 38.75), we believe that none of these measurement models are relevant to cryptocurrencies. We consider, because of the volatility of cryptocurrencies, that a measurement at fair value through profit or loss would better reflect the performance of these assets and thus provide users of financial statement a more comprehensive and relevant information.

[2]Survey on CBDC published by the BIS (January 2019): https://www.bis.org/publ/bppdf/bispap101.pdf

We believe crypto-assets could be considered as a new type of assets. They have not much in common with usual intangible assets such as goodwill, development costs, acquired trademarks, licences, software etc.

Accordingly, we encourage the Committee to consider whether crypto-assets could be a distinct new category of intangible assets (that share specific characteristics and are used in various business models) with a dedicated accounting treatment. Obviously, if shared by the Committee and the Board, that conclusion should be the starting point of a comprehensive standard-setting project.

MAZARS

Appendix 2

Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers) —Agenda Paper 2

While we agree with the technical conclusion reached by the Committee, we find that the drafting of the decision lacks some precisions in the description of the fact pattern and the question raised by the submitter. This makes it difficult for the reader to understand what is at stake and how the reasoning of the Committee can guide preparers towards appropriately solving similar issues.

Besides, if the Committee wishes to provide a more in-depth answer to this submission (for educational purposes, similarly to recent agenda decisions on IFRS 15 issues), we would suggest to also develop a guidance on how to determine whether an element of cost is within the scope of paragraph 98(c) or within the scope of paragraph 95. Actually, it seems to be the basis for the question raised by the submitter, and the Tentative Agenda Decision only answers by a statement without relating explanation.

When developing this guidance, the Interpretations Committee could usefully make reference also to paragraph 98(d) of IFRS 15 which requires to recognise as an expense any costs for which there is uncertainty on whether they relate to unsatisfied or satisfied / partially satisfied performance obligations.

In addition, we believe that the paragraph relating to the selection of the method for measuring progress towards completion in the Tentative Agenda Decision should be put after the answer on whether part of the costs might be recognised as an asset. Indeed, this question arises only once it is concluded that the costs cannot be capitalised: the pattern of margin recognition indicates that the selected method might not faithfully depict the entity's performance towards complete satisfaction of the performance obligation.

MAZARS

Appendix 3

Effect of a Potential Discount on Plan Classification (IAS 19 Employee Benefits)—Agenda Paper 6

We agree with the technical analysis conducted by the Interpretations Committee, leading to the conclusion that the existence of the potential discount on annual contributions would not in itself result in classifying the plan as a defined benefit plan applying IAS 19, and agree with the conclusion that the requirements in IAS 19 provide an adequate basis for an entity to determine the classification of a post-employment benefit plan as a defined contribution plan or a defined benefit plan.

Nevertheless, that conclusion is reached based on one single statement in the fact pattern: the entity "*will have no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.*" We believe it important that the agenda decision focuses on the need for an in-depth analysis of the contractual provisions of the plan, the benefits offered to employees and the ways of curing in situations where it is expected that the assets will be insufficient to cover the promised benefits. Indeed, we consider that in the two following situations, that could be seen at first sight as situations where the entity has no obligation to make additional contributions, the entity is exposed to the actuarial and investment risks and should classify the plan as a defined benefit plan:

- Where the fixed contributions are set at such a high level that the entity is reasonably certain to receive a discount. In that case, the magnitude of the discount is the outcome of the entity's exposure to actuarial and investment risks;

- Where the Trustees can decide to set future contributions at an amount that significantly exceeds the service cost for future periods, in order to compensate the current deficit in the future.

The conclusion of the Interpretations Committee would be valid only once the comprehensive analysis of the terms, conditions and economics of the plan has confirmed that the entity is not exposed to the actuarial and investment risks.

MAZARS

Appendix 4

Subsurface Rights (IFRS 16 Leases)—Agenda Paper 5

We agree with the technical analysis conducted by the Interpretations Committee and the conclusion that the contract described in the request contains a lease as defined in IFRS 16. We therefore have no comment on the Tentative Agenda Decision as drafted.