30 September 2022

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

By email: baselcommittee@bis.org

CPA Australia Ltd
ABN 64 008 392 452

Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia

GPO Box 2820
Melbourne VIC 3001
Australia

Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

Dear Sir/Madam,

Submission on the Second consultation on the prudential treatment of cryptoasset exposures

CPA Australia is one of the world's leading professional accounting organisations representing the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia monitors cryptoasset markets and their implications for the accountancy profession. Below, we comment on the Committee's proposed removal of the accounting classification link.

As a matter of principle, CPA Australia is of the view that, where possible, the prudential treatment of banks' cryptoasset exposures should not be delinked from the accounting treatment of those cryptoassets. The accounting classification should be sufficiently robust to allow financial institutions to apply the same for prudential regulation purposes. Delinking should only be considered in extraordinary circumstances when all other reasonable options have been exhausted.

However, we acknowledge and consider justifiable, the Committee's rationale for delinking the prudential treatment from the accounting classification as International Financial Reporting Standards (IFRS) and their equivalents are not sufficiently developed to address the accounting for cryptoassets. In this regard, we also acknowledge the potential for legal risks arising from a lack of sufficiently well-developed accounting requirements within global accounting standards for cryptoassets.

We note that earlier this year, the European Financial Reporting Advisory Group (EFRAG) released its Preliminary recommended options on developing IFRS requirements for Crypto-Assets (Liabilities). EFRAG suggests amongst other things, to scope crypto assets out of IAS 2 (inventories) and IAS 38 (Intangible Assets) and into IFRS 9 (Financial Instruments) or IAS 40 (Investment Property). The International Accounting Standards Board (IASB) has not yet responded to EFRAG's recommended options. In responding to the IASB agenda consultation on its work plan for the next five years, CPA Australia recommended that the IASB should address accounting standards for cryptoassets (liabilities) in a separate and comprehensive research project. However, the IASB has decided at this stage to not commence a separate project, but rather has decided to examine cryptoassets as part of the broader topic of intangible assets.

Considering the growth of the crypto sector and its growing interconnectedness with traditional financial markets and the economy, we continue to urge international accounting standard setters to undertake comprehensive research and analysis on how to account for cryptoassets (liabilities). We recommend the Committee urge the IASB to do the same.

In the absence of fit-for-purpose accounting requirements on the topic from the IASB, we understand the rationale for the Committee's proposal to delink prudential requirements from the accounting classification.

If you have any questions about this submission, please do not hesitate to contact Dr Jana Schmitz, Digital Economy Policy Lead at jana.schmitz@cpaaustralia.com.au or Ram Subramanian, Senior Manager Reporting and Audit Policy at ram.subramanian@cpaaustralia.com.au.

Yours faithfully

Dr Gary Pflugrath FCPA
Executive General Manager, Policy and Advocacy
Encl.