

6 March 2023

Director – Crypto Policy Unit  
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Treasury  
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PARKES ACT 2600

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Dear Sir/Madam,

## Submission on the Token Mapping Consultation Paper

CPA Australia represents 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.

Mapping how existing laws apply to crypto assets is fundamental to designing suitable regulatory frameworks for crypto assets. The creation of proportionate regulatory frameworks for crypto assets is necessary to promote transparency, fairness, stability, investor protection, market integrity and innovation.

This token mapping exercise helps determine which crypto assets are 'financial products' and those which would not fall under financial services law. However, we note that the exercise is limited to mapping crypto assets to specific portions of the financial services regulatory framework. It remains unclear how other regulatory frameworks such as tax, consumer law and accounting standards apply to crypto assets. These laws also influence investor participation and innovation.

While the consultation paper states that a complete token mapping exercise is beyond its scope, it is important for the government to disclose how it believes other laws impact crypto assets. Therefore, below, we have incorporated our high-level views on the accounting issues surrounding crypto assets. Our views on how tax laws may apply to token activities, and what changes should be considered, will be expressed in a separate submission we intend to make with other accounting and tax professional associations.

Determining the economic and operational characteristics of crypto asset 'subsets' and classifying them according to a taxonomy is essential to assessing with which regulatory requirements those subsets must comply.

We support the high-level taxonomy included in this consultation paper, subject to the comments below. It will provide more clarity as to which crypto assets are financial products for the Corporations Act. However, it does not do so in all circumstances. To improve clarity, we recommend that the government be more definitive as to how it considers the taxonomy will apply to different crypto assets. It should also include more examples of how the taxonomy will apply to a larger range of crypto assets.

We recommend the government also considers:

- what additional resourcing ASIC needs to better enable it to keep pace with, and adapt to, the crypto asset sector. An active, well-resourced regulator is important for protecting consumers looking to invest in crypto assets, especially new financial products, and supporting financial innovation
- enhancing the powers and capability of ASIC to give timely market guidance on when it believes a crypto asset is a financial product
- the impact that incorporating the taxonomy into the *Corporations Act* may have on other laws
- the pros and cons of incorporating the taxonomy into other laws
- how best it can encourage the crypto asset sector to promote good consumer outcomes through the development of its own enforceable code of practice

- the potential merits of recognising decentralised autonomous organisations (DAOs) as some form of legal entity (taking into account the impact that such a reform would have on a range of laws including tax).

### **Accounting for crypto assets**

Transparency around economic activity relating to crypto assets is important to investor protection and market integrity. We believe the accounting standards that form the basis of reporting financial information on crypto asset activities need further development.

The International Financial Reporting Standards (IFRS) framework (which is the basis of Australian Accounting Standards) currently only provides guidance on accounting for cryptocurrencies. This guidance indicates that cryptocurrencies are generally accounted for either as intangible assets (where it is held as an investment) or inventories (where it is traded on a regular basis). We believe this guidance is limited and does not address many aspects of crypto assets including:

- crypto assets other than cryptocurrencies
- the accounting implications for issuers of crypto assets and crypto asset exchanges
- the treatment of crypto assets that have characteristics similar to cash or cash-equivalents.

We have previously recommended to the International Accounting Standards Board (IASB) that it undertakes a research project exploring the role and prevalence of crypto asset-based transactions in global capital markets. While undertaking this research, we recommended that the IASB considers issuing an interim IFRS (similar to IFRS 14 Regulatory Deferral Accounts). We have also recommended that the IASB considers making amendments to existing IFRS to accommodate accounting for crypto assets and liabilities.

To date, the IASB has not undertaken such research.

We recommend that the federal government supports CPA Australia views in this regard and recommends to the IASB that it undertakes this work urgently. To increase the chances of it undertaking this important work, the government may want to consider providing funding to the IASB or the Australian Accounting Standards Board for a project of this kind. Clarity around the accounting treatment of crypto assets is important for the sector's development and the participation of institutional investors.