



STATISTICS

INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS

F.18 Recording of Crypto Assets (BOPCOM VM1 22/06)

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on Balance of Payments Statistics and Eighteenth Meeting
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1

Outline

- **Background**
- **Typology/Classification of Crypto Assets**
- **Pending Issue: Crypto Assets Without Corresponding Liability?**
- **Summary of FITT Consultation**
- **Outcome of Global Consultation**
- **Questions for Discussion**

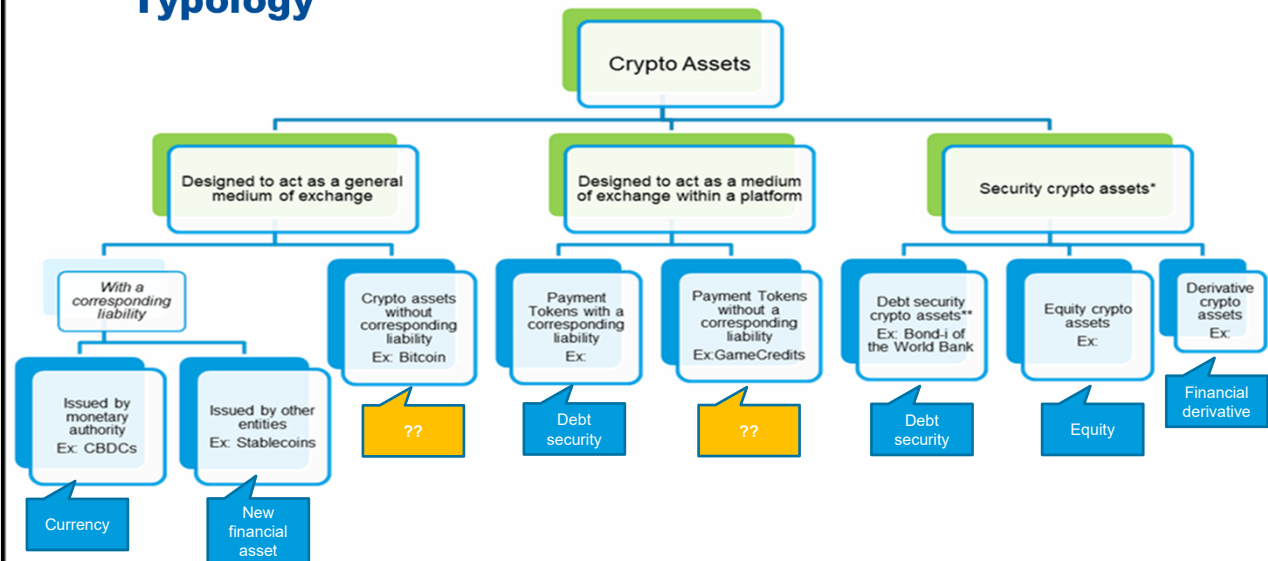
2

Background

- The emergence of crypto assets has led to increasing requests for advice on their recording, particularly as they are not referred to in current statistical manuals.
- In response, the IMF and the OECD started to draft conceptual guidance.
- Broad agreement on most types of crypto assets.
- Still discussion on those without a corresponding liability.

3

Typology



4

Pending Issue

Still discussion on crypto assets without a corresponding liability

- Designed to act as general medium of exchange (CAWLM)
- Designed to act as medium of exchange within a platform or network (CAWLP)

Main questions:

- Are they financial or nonfinancial assets?
- How to account for their creation?

Produced or Nonproduced?

Produced, because ...

- Mineable coins come into existence as result of the work of miners.
 - ▶ Who first solves the cryptographic puzzle receives a coin.
 - ▶ Miners can increase share of CAWLM by improving their mining capabilities.
 - ▶ Miners receive an explicit validation fee and newly mined CAWLM.
- Non-mineable coins can be regarded as being created and brought into circulation by their designer.
- This approach would be rather straightforward, whereas the alternative may require various assumptions.

Nonproduced, because ...

- Miners are involved in validation services and/or maintenance of the network.
 - ▶ New coins can be brought into circulation via other ways than mining.
 - ▶ Designer determines way and pace for releasing new coins.
 - ▶ Remuneration via coin is way to keep explicit fees low and to bring new coins into circulation.
 - ▶ Miners receive an explicit and an implicit fee.
- Designer as initial owner in case of explicit sale of a new coin.
- Owners of existing CAWLM as initial owner in case of release in exchange for production activities (benefiting from mining).
- This may require assumptions to derive the exact owners of existing coins.

Financial or Nonfinancial?

Nonfinancial, because ...

- They do not represent a claim (do not have a counterpart liability).
- They mainly act as store of value similar to valuables.
- Treating them as financial may open door for other commodities.
- Demand for CAWLM as investment asset is high compared to their use as medium of exchange.

Financial, because ...

- Not all financial assets represent a claim: monetary gold.
- They are not used in production, nor derive their value from artistic and/or sentimental factors.
- Instead, CAWLM derive their value from trust that they will start acting as general medium of exchange.
- Not treating CAWLM as financial assets may lead to barter trade.

Hybrid asset (creation of new CAWLM as capital formation; use as financial asset), because ...

- They have features of both financial and nonfinancial assets.
- Differentiated treatment of creation and their use avoids neutrality to net lending of CAWLM payments, but ...
- It requires a new account in the system.

Overview of the Options

Option I: Produced Nonfinancial Asset

- Nonfinancial assets and the outcome of a production process undertaken by miners in the case of mineable coins and creators/issuers for non-mineable coins; the expenditure counterpart is capital formation by the producers.
 - ▶ Consistent with counterpart liability criterion as applicable to all financial assets except monetary gold
 - ▶ Consistent with current international accounting standards
 - ▶ Consistent with the view that CAWLM appear for the first time in the wallet of miners
 - ▶ Consistent with the view that the initial owners of the coins may not be recognized as consuming the validation services provided by miners
 - ▶ Requires a revision in one of the categories of produced nonfinancial assets to include this specific type of digital valuables (possibly an update to the current definition of valuables)
 - ▶ Adds to capital formation
 - ▶ Leads to a transaction akin to barter trade in case CAWLM is used as medium of exchange (not yet the case)

Overview of the Options (continued)

Option II: Nonproduced nonfinancial asset

- Nonfinancial assets “released” to the owners of existing coins via OCVA; then distributed to the new owners (e.g., the miners in case of mineable coins) in exchange for validation services or as a payment for enhancement or maintenance of an IPP representing the crypto asset framework.

In addition to financial/nonfinancial considerations in the previous slide, the following considerations apply:

- ▶ Consistent with the view that miners do not actually produce coins but receive them in exchange for validation services or payment for the maintenance/enhancement of an IPP
- ▶ Requires an expansion of one of the categories of non-produced nonfinancial assets to include this specific type of non-produced nonfinancial assets (e.g., contracts, leases and licenses)
- ▶ Adds to production of and consumption/trade in services or to capital formation in relation to the creation of an IPP
- ▶ Practical implementation may require some assumptions on the counterpart of the implicit validation fee or payment for the IPP maintenance/enhancement, which may pose challenges and consequently may affect bilateral asymmetries.

Overview of the Options (continued)

Option III: Financial asset

- Financial assets “released” to the owners of existing coins via OCVA; then distributed to the new owners (e.g., the miners in case of mineable coins) in exchange for validation services or as a payment for enhancement or maintenance of an IPP representing the crypto asset framework.
- ▶ Consistent with the definition of nonfinancial assets
- ▶ Inconsistent with the counterpart liability criterion; requires a revision of the definition of financial assets through an additional exception, which may open the door for other commodities to be regarded as financial assets
- ▶ Consistent with the view that miners do not actually produce coins but receive them in exchange for validation services or payment for the maintenance/enhancement of an
- ▶ Adds to production of and consumption/trade in services or capital formation in relation to the creation of an IPP
- ▶ Holdings of CAWLM may increase the net financial position with the rest of the world, without any counterparty, creating inconsistency between total financial assets and liabilities world-wide. It may also complicate the interpretation of IIP
- ▶ Practical implementation may require assumptions on the counterpart of the implicit validation fee or payment for the IPP maintenance/enhancement, which may pose challenges and consequently may affect bilateral asymmetries.

Overview of the Options (continued)

Option IV: Hybrid asset

- Produced assets and the outcome of the activity of miners and creators/issuers of non-mineable coins; the expenditure counterpart is capital formation by the producers; however, transactions in existing CAWLM are treated similar to financial transactions.
 - ▶ Consistent with the current definitions of financial and nonfinancial assets
 - ▶ Requires the creation of a new asset category and a new account
 - ▶ Consistent with the view that CAWLM appear for the first time in the wallet of miners
 - ▶ Consistent with the view that the initial owners of the coins may not be recognized as consuming the services provided by miners
 - ▶ Adds to capital formation
 - ▶ Does not lead to barter trade in case CAWLM is used as medium of exchange (which is limited at this stage).

Summary of FITT Consultation

- FITT members broadly supported the recommendations and the grouping of crypto assets, the asset treatment of crypto assets with corresponding liability, and the four classification options for CAWLM, including related pros/cons.
- Preliminary views on four classification options of CAWLM were split between Option I and Options III and IV.
 - ▶ Members supporting Option I argued that CAWLM are far from being widely used as a medium of exchange; therefore, an additional exception to the counterparty liability criterion would be inappropriate. One of the members supporting Option IV noted that Option I or Option II could not be considered given the complexities and challenges in treating such assets as nonfinancial assets.
 - ▶ Two FITT members supported both the Options III and IV. One of these members in support of Option IV noted that CAWLM could be included in valuables at their creation, but not after they have been transferred (i.e., beyond the year of their first creation). While another member considered mining for CAWLM as a production activity (as is gold mining), transactions in pre-existing valuables like non-monetary gold and bitcoin should be regarded as financial in nature.
 - ▶ Further, one of the members supporting Option I noted that if CAWLM becomes the dominant medium of exchange in the long run, they could be classified as a hybrid asset at that point in time and only in a situation where the creation of a new category is appropriate.

Outcomes of Global Consultation

- Global consultation showed that more than one-third of the respondents were undecided (36%) about the proposed four options.
 - ▶ **Option I** received support from seven respondents (17%)
 - ▶ **Option II** was supported by only one respondent
 - ▶ **Option III** received support from six respondents (14%)
 - ▶ **Option IV** received support from fifteen respondents (31%)
- All other recommendations received overwhelming support from respondents.

Questions for Discussion

1. *Do the Committee and AEG agree that all crypto assets meet the asset boundary?*
2. *Do the Committee and AEG agree with the classification of crypto assets as presented in slide 4?*
3. *Do the Committee and AEG agree that the classification of CAWLM (and CAWLP) depends on whether they are financial/nonfinancial and produced/nonproduced?*
4. *Do the Committee and AEG agree this leads to the four recording options as presented in slides 8–11?*
5. *Do the Committee and AEG have any suggestions on the digital assets' decision tree (Annex II.1) and typology of crypto assets (Annex II.2)?*
6. *Do the Committee and AEG have any preferred recording option for CAWLM (and CAWLP)?*
7. *Do the Committee and AEG agree that the countries should start collecting data on ownership, transactions, and stocks of crypto assets following the high-level guidance provided in Annex VI?*
8. *Do the Committee and AEG agree that the classification of non-fungible tokens should be addressed in a separate note (under the Digitalization Task Team)?*