CRYPTOCURRENCIES – MEXICAN ACCOUNTING STANDARD

MEXICAN FINANCIAL REPORTING STANDARDS BOARD
CINIF - MÉXICO

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1. About CINIF

2. Cryptocurrencies – background

3. Cryptocurrencies – Mexican accounting standard

El Consejo Mexicano de Normas de Información Financiera, CINIF, is the Mexican Financial Reporting Standard Setter

- ***Founded:*** 2002

- ***Legal structure:*** non-profit entity

- ***Activities:*** started in 2003

ABOUT CINIF

FOUNDERS – ASSOCIATES

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CONSEJO MEXICANO DE NORMAS DE INFORMACIÓN FINANCIERA A.C.

Regulators

1. Secretaría de Hacienda y Crédito Público
2. Secretaría de la Función Pública
3. Comisión Nacional Bancaria y de Valores
4. Comisión Nacional de Seguros y Fianzas
5. Bolsa Mexicana de Valores, S.A.B. de C.V.

Central Bank

6. Banco de México

Issuers of financial information

7. Instituto Mexicano de Contadores Públicos, A.C.
8. Instituto Mexicano de Ejecutivos de Finanzas, A.C.

Business associations

9. Asociación de Bancos de México, A.C.
10. Asociación Mexicana de Instituciones de Seguros, A.C.
11. Asociación Mexicana de Instituciones Bursátiles, A.C.
12. Consejo Coordinador Empresarial, A.C.

Association of universities

13. Asociación Nacional de Facultades y Escuelas de Contaduría y Administración, A.C.

- *Develop high-quality standards that enable entities operating in Mexico to report financial information that is useful for decision-making to facilitate their sustainable development*

KIND OF ENTITIES	STANDARDS
- Listed entities (exception for entities of the financial and insurance sectors)	Full IFRS
- Financial sector entities - Insurance sector entities	NIF of CINIF
- SMEs	NIF of CINIF

Mexican law to regulate: *Financial Technology Institutions* (Fintech) published in March 2018	
Fintech law:	Permits Fintech and banks to use cryptocurrencies *as a means of payment* to carry out some transactions
Fintech law:	Mentions that the Central Bank of Mexico will authorize those cryptocurrencies with which FTI and Banks may operate
Securities Commission (the regulator):	Required CINIF to develop and issue a cryptocurrency accounting standard

Cryptocurrencies
Background

WHAT'S A CRYPTOCURRENCY?

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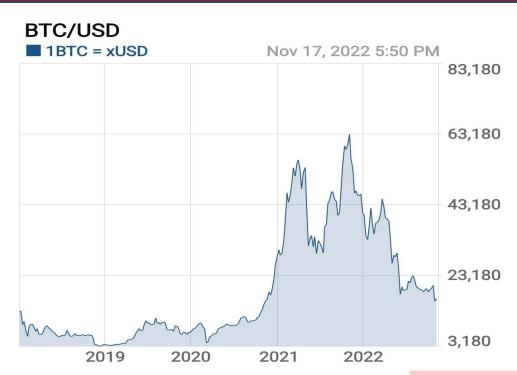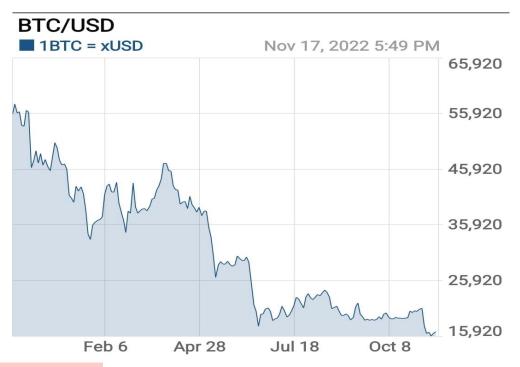| A cryptocurrency:	Additional comments
▪ Is a digital asset based on encrypted codes, that is used as a means of payment or exchange	▪ *Its transfer is carried out electronically*
▪ Is a cryptoasset…	▪ *But not all cryptoassets are cryptocurrencies, since not all cryptoassets are used as a means of payment*
▪ Has an economic value	▪ *The market assigns an economic value as a means of payment*
▪ Is obtained via transactions	▪ *Purchase, exchange, collection for the sale of goods or services*

Characteristics of cryptocurrencies…

- Generally not backed by a central bank, government or financial institution.

- In many cases, no active market exists.

- Its value is typically very volatile.

- Nevertheless… **they are accepted by the public** because they are used in transactions without intermediaries of the financial system entities (like banks).
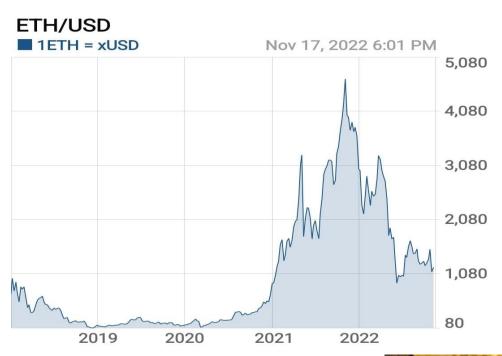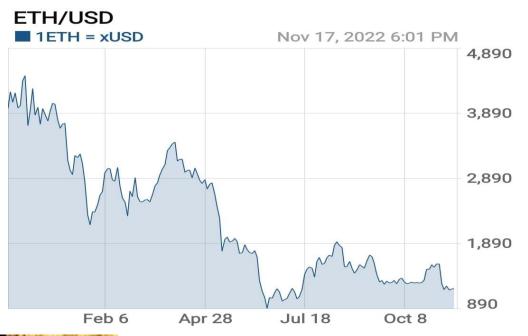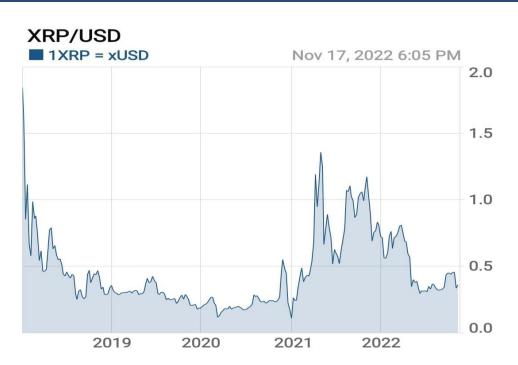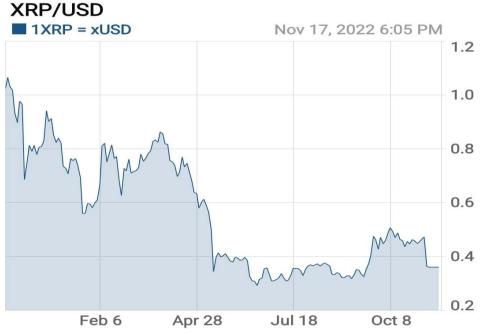
Cryptocurrencies
Background

CHARACTERISTICS OF CRYPTOCURRENCIES

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WHAT TYPE OF ASSET IS A CRYPTOCURRENCY?

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Type of asset	CINIF conclusions
Cash equivalent (IAS 7) — **NO**	*Cryptocurrencies are not readily convertible into cash and are subject to significant risks of changes in value*
Financial instrument (IFRS 9) — **NO**	*Cryptocurrencies are not backed by a contract: there is no counterpart obligated to the entity to settle*
Intangible asset (IAS 38) — **NO**	*Cryptocurrencies are not intangible assets intended for use as referred to in IAS 38*
Inventory (IAS 2) — **NO**	*This criterion would only be applicable to entities whose core business is buying and selling cryptocurrencies*
"New asset" — **YES**	*Intangible asset held to use a means of payment should be considered a new financial statement item addressed by a new standard*

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Mexican Accounting Standard

INVESTMENTS IN CRYPTOCURRENCIES
Accounting recognition

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Based on the Conceptual Framework, to be recognized a cryptocurrency must:	The entity must:
1. Be an economic resource of the entity	**Have the right to the digital record** *Example: hold the electronic access key / password*
2. Have the potential to generate economic benefits	**Demonstrate that an active market exists** *Evidence that the cryptocurrency can be sold or exchanged*
3. Be controlled by the entity	**Have the ability to obtain the benefit** *The ability to direct its use, obtain the related economic benefits and restrict its use by others*
4. Be derived from past events	**Received the cryptocurrency as a result of transactions with other entities** *Purchase, exchange or compensation for the sale of goods or services*

Cryptocurrencies
Mexican Accounting Standard

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4. Be derived from ...	**Received the cryptocurrency as a result of transactions with other entities** *Purchase, exchange or compensation for the sale of goods or services*

Recognition of a cryptocurrency:
Requires complying with all of the characteristics of an asset established in the Conceptual Framework

Type of measurement	CINIF Standard
Initial and subsequent measurement	**Fair value** *There must be evidence that the cryptocurrency can be sold or exchanged; therefore, the only aplicable fair value levels allowed are:* ▪ *Level 1 – inputs are quoted prices in active markets; or* ▪ *Level 2 – inputs are other than quoted prices included within Level 1 that are observable* *If there is no active market, fair value = 0, and the CINIF standard prohibits the use of:* ▪ *Level 3 - inputs are not observable*

Fair value:
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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Changes in measurement	**Affect:** Net income or loss via financing costs

Type of measurement	CINIF Standard

▪ **Accounts Receivable denominated in cryptocurrencies**	**Fair value**
	  ▪ *Level 1*
	  ▪ *Level 2*
	  ▪ *If Level 1 and Level 2 do not exist, fair value is = 0*

▪ **Accounts Payable denominated in cryptocurrencies**	**Fair value**
	  ▪ *Level 1*
	  ▪ *Level 2*
	
	If Level 1 and Level 2 do not exist:
	  Liability = estimated amount resources required…Level 3?

▪ **Changes in measurement**	**Affect:** Net income or loss

▪ *Statement of Financial Position*	▪ *Investments in cryptocurrencies* **– Current asset,** since held for sale ▪ *A/R and A/P in Cryptocurrencies* **– Current or long term,** based on the date of collection or payment
▪ *Statement of Profit or Loss and Other Comprehensive Income*	▪ *Changes in measurement of cryptocurrencies or of accounts denominated in cryptocurrencies* - In financing results
▪ *Statement of Cash Flows*	▪ *Cash flows for purchase/sale of cryptocurrencies* – Operating activities ▪ *Acquisition of goods or services in cryptocurrencies* – Should not be included in the statement, since they do not require cash

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