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Accounting for crypto assets in Luxembourg: a guide

By Vincent Martin, Jordan Feltesse May 19, 2023

Vincent Martin and Jordan Feltesse of Deloitte Luxembourg overview the evolving tax landscape for crypto assets in Luxembourg, offering guidance in the absence of established regulation.

The recent turbulence in the US banking system has presented yet another opportunity for the crypto market. Despite this challenging environment, the financial industry has seen a growing interest in this asset class. Major banks are forming specialised groups dedicated to blockchain technology and cryptocurrency, while institutional investors—particularly those focused on alternative funds—find the efficiency of fund tokenisation attractive.

In the EU and in Luxembourg in particular, there have been new developments in the crypto asset world. The Commission de Surveillance du Secteur Financier updated its FAQ Virtual Assets–Undertakings for collective investment on April 6 2023. Essentially, the FAQ states that Luxembourg alternative investment fund managers investing in virtual assets through one or several target funds are not required to apply for an "Other-Other Fund-Virtual assets" licence. At the EU level, there should be progress following the EU Central Bank's decision to launch the implementation phase of its central bank digital currency project in Q3 2023.

Crypto assets are increasingly prevalent and the trend is likely to persist. However, this new asset class raises an important question: how should crypto assets be accounted for under the Luxembourg GAAP?

Currently, there is no specific Luxembourg guidance or regulation for the accounting treatment of crypto assets. It is thus difficult to anticipate what might be an acceptable accounting treatment under Luxembourg GAAP.

However, we can draw examples from France and international standards such as the IFRS. In 2019, the Autorité des normes comptables (ANC) in France issued guidance (under French GAAP) on the accounting treatment of cryptocurrencies, while the IFRS committee also provided guidance on the topic.

Below are examples of different classifications that might apply to crypto assets.

Intangible asset

Most crypto assets could fit into the definition of intangible assets found in IAS 38. This approach was validated by the IFRS committee with respect to cryptocurrency on the grounds that:

- (i) It is capable of being separated from the holder and sold or transferred individually; and
- (ii) It does not give the holder the right to receive a fixed or determinable number of units of currency.

This could, in principle, apply to all crypto assets held for long-term investment purposes, and specifically to those for which IAS 2 does not apply (see inventory below). Moreover, under French GAAP, the ANC validated this approach (although not for all crypto assets) with the possibility of amortising and/or depreciating the assets.

Inventory

If an entity (broker-dealer) intends to sell crypto assets in the regular course of business, or for resale in the near future, they can apply IAS 2 to treat the crypto assets as inventory. This approach was validated by the IFRS committee as well.

Cash or cash equivalent

Crypto assets like bitcoin and stable coins are increasingly used as a medium for the exchange of goods and services. El Salvador became the first country to make bitcoin legal tender in September 2021, offering financial incentives to those who use cryptocurrency for payment. Major companies are following suit, with brands like Balenciaga and Gucci, under the Kering group, accepting crypto payments. The partnership between Shopify and crypto.com allows merchants to accept payments in up to 20 different coins. More restaurants also are accepting such payments, including popular chains like Subway, Starbucks, and Taco Bell.

However, even if some cryptocurrencies can be used as a means for exchanging goods or services, the IFRS commmittee concluded that cryptocurrencies are not cash (or a cash equivalent). This was because they do not have the characteristics of cash as described in paragraph AG3 of IAS 32.

Closing thoughts

As the prominence of crypto assets grows, the industry would benefit from guidance on the accounting treatment of such assets. Players in this space will need to exercise professional judgment and expertise, not just for accounting but also for tax and legal purposes. This is fundamental for those wishing to capitalise on the potential opportunities and navigate current and future challenges in this evolving landscape.

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