

Bank of Italy/Consob joint communication of 6 March 2025

Subject: Crypto-assets and financial reporting - Joint Communication to issuers¹ and audit firms and statutory auditors tasked with auditing the accounts of Public-Interest Entities (PIE) and Entities Subject to the Intermediate Regime (ESRI)

1. Introduction

With the entry into force of Regulation (EU) No 2023/1114 (MiCAR) has been completed the regulatory framework applicable to crypto-assets in the European Union, which was initiated in 2020 with the publication of the Digital Finance Package by the European Commission.

In particular, MiCAR introduces in the European Union an ad hoc harmonised regulatory framework for the issuance, offer to the public and provision of services related to crypto-assets which are not ascribable to instruments already regulated by other European Union legislative acts².

Although MiCAR seeks to ensure greater stability and transparency in the crypto-assets market, many risks remain for those who invest in them. In this regard, on 13 December 2024, ESMA has drawn the attention of investors to the highly speculative and volatile nature of crypto-assets. The ESMA Warning takes inspiration from the growing interest in crypto-assets observed on the market³.

In relation to the foregoing, with this document, the Bank of Italy and Consob, in compliance with their relative prerogatives, are instructing issuers who purchase crypto-assets to provide useful information in their financial statements to enable an understanding of the effects of such assets on their financial performance and financial position, where material.

It also seems appropriate to extend the communication to audit firms and statutory auditors by reporting the specific characteristics and risks associated with the audit of companies that hold crypto-assets.

¹ Issuers of financial instruments admitted to trading on a regulated market, with Italy as home Member State, pursuant to Article 1 (1) (w-quater) of Italian Legislative Decree no. 58/98 ("Consolidated Law on Finance") and issuers of financial instruments admitted to trading on a multilateral trading facilities ("MTFs"), subject to Regulation (EU) No 596/2014 ("MAR").

² For the purposes of the legal qualification of crypto-assets and in particular the distinction between crypto-assets falling within the scope of the MiCAR and crypto-assets falling within the definition of financial instrument referred to in Article 4(1)(15) of Directive 2014/65/EU, Article 2(5) of the MiCAR mandates ESMA to develop guidelines on the conditions and criteria for the qualification of crypto-assets as financial instruments. The related Final Report of 17 December 2024 can be found at <https://www.esma.europa.eu/document/final-report-guidelines-conditions-and-criteria-qualification-crypto-assets-financial>.

³ See https://www.esma.europa.eu/sites/default/files/2024-12/ESMA35-1872330276-1971_Warning_on_crypto-assets.pdf.

2. Disclosure in issuers financial statements

2.1 *Crypto-currencies*

The International Financial Reporting Standard Interpretations Committee (hereinafter "IFRS IC"), in the 'Holdings of Cryptocurrencies' June 2019 Agenda Decision, concluded that digital or virtual currencies recorded on a distributed ledger and using cryptography for security, not issued by a jurisdictional authority or other party and that do not give rise to a contract between the holder and another party (hereinafter "crypto-currencies"), meet the definition of intangible assets pursuant to IAS 38. IFRS IC emphasises that crypto-currencies, if held for sale in the ordinary course of business, fall within the scope of IAS 2 Inventories. Otherwise, they are accounted for in accordance with IAS 38.

In this regard, issuers are required to assess whether the crypto-assets they hold fall within the classification of crypto-currencies considered by the IFRS IC and to follow the indications provided in the aforementioned Agenda Decision⁴.

Particular caution must be paid to the recognition in the financial statements of the aforementioned crypto-currencies in light of their highly speculative and volatile nature, with prices, in some cases, subject to sudden and extreme fluctuations. Where material in quantitative or qualitative terms, issuers must provide useful information to enable investors to understand the nature and risks associated with the purchases of such assets as well as relevant information on the accounting policies adopted⁵.

In this regard, if the activity in crypto-currencies is material, issuers are requested to provide specific information on the measurement approach adopted in compliance with the provisions of IAS 2; if the conditions for the application of IAS 2 are not met and IAS 38 is applied, choosing to adopt the revaluation model, issuers are required to provide relevant information on the assessments carried out to conclude that there is an active market in place⁶.

The provisions on disclosures relating to the measurement of fair value, contained in IFRS 13, require that information be provided to help users of the financial statements evaluate the measurement techniques and inputs used to develop such measurements⁷. In this regard, the issuers assess whether to indicate in the financial statements the sources and any other information that may be relevant to the user of the financial statements to understand the specific ways in which the fair values of crypto-currencies are determined for the purposes of financial statement measurements⁸. Issuers are also requested to provide information on the methods for determining the costs to sell, if relevant for the

⁴ See <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2019/holdings-of-cryptocurrencies-june-2019.pdf>.

⁵ See IAS 1, paragraphs 112, 117-117C, 122 and IAS 2, paragraph 36(a).

⁶ In the event that the issuer applies the cost model – pursuant to IAS 38 – particular attention must be paid to the assessments of the presence of indications that may highlight any impairment losses and to the disclosure required by IAS 36.

⁷ See IFRS 13, paragraphs 91 et seq.

⁸ For example, if the issuer concludes that a crypto-currency is traded in different active markets, the principal market which the issuer can access.

purposes of the financial statements.

The volatility that characterises crypto-currencies markets requires accurate disclosure, in accordance with IAS 10, in the context of events occurring after the reporting period. In this regard, we highlight the points noted by the IFRS IC in the aforementioned Agenda Decision, whereby those who hold crypto-currencies, for example, assess whether changes in the fair value of the crypto-currencies in the financial statements after the reporting period are of such significance that not providing information could influence the economic decisions of the users of such financial statements.

2.2 Crypto-assets other than those addressed in section 2.1

MiCAR introduced rules that could further develop crypto-assets markets and the purchase thereof by listed issuers. However, unlike crypto-currencies, which are, at present, classified according to the Agenda Decision of the IFRS IC of June 2019, the large number of crypto-assets attributable to the MiCAR categories makes it difficult, in principle, to establish a framework for a single accounting classification within the IAS/IFRS standards⁹. The specific characteristics must therefore be verified to identify the correct accounting treatment and, where relevant, adequate disclosure must be provided in the financial statements together with the nature and risks that may arise for the issuers financial performance and financial position. Issuers are asked to provide relevant information on the assumptions made for the determination of the relevant book values¹⁰.

The representation in the financial statements must be subject to careful analysis of the characteristics of the asset and the definitions provided by the IAS/IFRS accounting standards. Where, for example, it is concluded that the asset falls within the definition of a financial asset pursuant to IAS 32¹¹, issuers are asked to provide the disclosures required by IFRS 7.

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Lastly, considering that crypto-assets are part of a new and rapidly evolving ecosystem, issuers are asked to **provide any additional relevant information in the financial statements for the analysis and assessment of the exposure and risk associated with significant positions in crypto-assets**, even if held indirectly (e.g. through investee companies)¹².

For issuers of securities traded on an MTF that do not apply international accounting standards, reference should be made to the contents above, where compatible.

⁹ Additional categories of crypto-assets other than crypto-currencies are listed, inter alia, by the European Financial Reporting Advisory Group in the document 'Recommendations and Feedback Statement – EFRAG Discussion Paper on accounting for crypto-assets (liabilities)', published in April 2022.

¹⁰ See IAS 1, paragraphs 125 and 129.

¹¹ See IAS 32, paragraph 11.

¹² In accordance with IAS 1, paragraph 31, "An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance".

3. Ongoing and ad hoc disclosure

The **public statement**, disseminated pursuant to Article 17(1) of the MAR and Article 78-bis of the Consob Issuers Regulation by the issuers referred to in the previous sections, concerning the approval of the financial statements, shall include the above information if it is considered material due to the significance of the value of the crypto-assets held in relation to the total assets and also taking into account the high volatility that characterises their measurement in the financial statements.

Communications issued pursuant to Article 17(1) of the MAR relating to the purchase or subscription of crypto-assets contain all useful information for the purposes of public assessment, including details of the characteristics of the relevant crypto-assets and the reasons for their purchase/subscription.

4. Auditing activities

In public statement no. 6/22, published on 20 December 2022, Consob has already highlighted the high risks associated with the crypto-asset sector, in consideration of the potential responsibilities arising from the performance of audit and other assurance engagements related to companies operating in this sector.

The increasingly widespread use of crypto-assets requires Consob to reconsider these issues, inviting audit firms and statutory auditors to pay particular attention - also pursuant to the provisions of international standard on quality management ISQM (Italy) 1 - in the assessment and management of risks, both during the engagement acceptance and the performance of statutory audits of the financial statements of companies that have made or, to the best of the auditors knowledge, intend to make investments in crypto-assets.

The evolution of the regulatory context and technologies, the understanding of the characteristics of different crypto-assets and the difficulties in distinguishing them from financial instruments, the capability of management to make conscious investment decisions and to adopt adequate internal control measures, the rules set in contracts with service providers and the reliability of the crypto-assets' custody arrangements must be **given particular attention by auditors when assessing the risks of the engagement and identifying the audit procedures to be performed in order to give adequate audit responses to these risks.**

Given the complexity of technology underlying crypto-assets and their volatility, it is in fact relevant for auditors to acquire information about the presence, within the company, of skills and competencies for the adequate management of risks related to transactions in this sector, including those related to IT systems.

In view of the difficulties in identifying the transactions' counterparties, it is appropriate to carry out adequate assessment of client's integrity¹³, taking into account the high risk of exposure to fraudulent behaviours and illegal activities related to crypto-assets transactions¹⁴.

It is also necessary to gain an in-depth knowledge of the business model underlying the company's investment choices¹⁵, with particular reference to the nature, characteristics and relevance of the

¹³ See ISQM (Italy) 1, section 30 (a) (i) and section A68.

¹⁴ See ISA (Italy) 240, section 11.

¹⁵ See ISA (Italy) 315, section 19(a).

crypto-assets in the company's portfolio, as well as to the frequency, volumes and values of the transactions, also in order to verify the accounting treatment applicable to different cases.

Understanding the nature and characteristics of crypto-assets is relevant even in order to verify their legal classification on the basis of the applicable laws and regulations, also taking into account the ESMA guidelines published in December 2024. It is furthermore advisable for auditors to gain an adequate understanding of the decision-making processes and technological solutions underlying crypto-asset transactions (e.g. trading platforms used to execute transactions, possible use of third-party custodians, contractual relationships with service providers, monitoring and reporting system), as well as of the company's internal control system, including the IT environment¹⁶.

The aforementioned aspects should be considered in the acceptance of new engagements and, for current engagements, throughout the performance of statutory audits, where required by the planning and execution of new investment strategies by the company.

Audit firms are also required to assess their ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements¹⁷. In this regard, it is particularly important to assess the availability of appropriate resources, both human, intellectual and technological resources (e.g. tools for extracting and reconciling blockchain data) to ensure an appropriate audit quality standard¹⁸.

Although all sectors are subject to change, the crypto-asset sector is rapidly evolving and thus auditors may need to quickly adapt their skills and competencies to regulatory, accounting and technological developments. Auditors must therefore ensure that audit team members possess adequate skills and competencies, using specialists or experts in the particular field when necessary. Specific methodologies, operational guidance and training programs should also be implemented to support the audit firm's personnel with respect to accounting and auditing issues in the crypto-asset sector.

During the engagement performance auditors must pay particular attention - in the identification and assessment of risks as well as in the performance of the audit procedures planned in response to those risks - to verify the existence, ownership, rights and obligations assertions relating to crypto-assets, as well as to the valuation and disclosure of crypto-assets in the financial statement¹⁹. In this regard, it is important that the auditor constantly communicate about these issues with those charged with governance within the audited companies.

5. Anti-money laundering

In the aforementioned warning (or public statement) no. 6/22, issued on 20 December 2022, given the high money laundering risk related to crypto-asset activities and services, auditors have been asked

¹⁶ See ISA (Italy) 315, section 21.

¹⁷ See ISQM (Italy) 1, section 30(a)(ii).

¹⁸ See ISQM (Italy) 1, section 32.

¹⁹ See ISA (Italy) 330, section 6 and ISA (Italy) 500, section 6.

to adopt particular caution in fulfilling the obligations regarding the money laundering risk-assessment of customers providing crypto-asset activities or services; thus in order to ensure timely compliance with the enhanced due diligence requirements and the suspicious transactions reporting obligations.

In this regard, it's noteworthy that auditors, even in the performance of their professional activities for customers investing in crypto-assets, pay particular attention in the fulfilment of the obligations set out in the anti-money laundering regulations.

Accordingly, auditors should duly evaluate all data and information gathered during their professional activities, both in the acceptance of the assignments and in performing the requested ongoing monitoring, aiming at identifying any potential anomalies or suspicious indicators, to be reported to the Financial Information Unit, and updating the money laundering risk of their customers if needed.

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This Bank of Italy/Consob Joint Communication does not introduce new obligations but underlines requirements already in force. The aim is to promote transparency of information relating to crypto-assets in the financial statements of issuers, in compliance with the current regulatory framework, as well as to remind audit firms and statutory auditors of the existence of specific aspects and risks associated with the performance of assignments for companies that hold crypto-assets.

In relation to the treatment of crypto-assets in financial statements prepared according to IAS/IFRS accounting standards or the provisions of the Italian Civil Code and national accounting standards, issuers, audit firms and statutory auditors must take into account any further information provided or that may be provided in the future by the relevant international and national bodies.

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