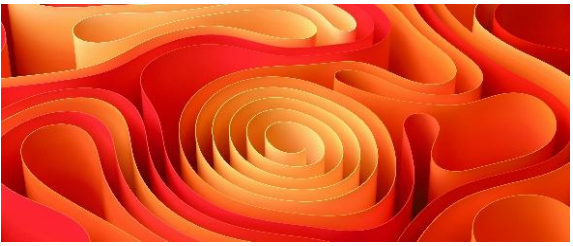
Pills

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TOPICS:

Digital innovation

SOURCE:

International Swaps and Derivatives Association

ISDA: Accounting for Tokenized Assets as Collateral

- The whitepaper examines **the accounting implications of using tokenized financial assets**, including money market funds, government securities and bank deposits, as collateral in derivatives and securities financing transactions (SFTs), under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US GAAP). The central conclusion is that tokenization alone does not change balance sheet presentation, offsetting eligibility or derecognition outcomes: these depend primarily on **contractual rights, legal enforceability and settlement mechanisms**.
- The analysis distinguishes two models. 1) **Collateralized-to-Market** (**CTM**): Variation margin remains returnable collateral without extinguishing the underlying exposure. Consequently, recognized collateral receivables and payables generally cannot be offset against derivatives or SFT exposures.; 2) **Settled-to-Market** (**STM**): Variation margin legally settles the underlying exposure, enabling derecognition and potentially reducing gross balance sheet positions.
- Under **IFRS** (IAS 32), offsetting requires a currently enforceable legal right of set-off and an intention to settle net or simultaneously. Under **US GAAP** (ASC 210 and ASC 815), specific offsetting exceptions exist for derivatives and cash collateral but generally exclude tokenized non-cash assets.
- **Distributed ledger technology (DLT), smart contracts and atomic settlement mechanisms** could facilitate STM arrangements, improve collateral mobility and enhance operational efficiency. However, these benefits require appropriate contractual structures and legally effective settlement.
- Ultimately, meaningful balance sheet reductions depend on legally enforceable STM arrangements rather than tokenization itself. Financial institutions must assess **contractual documentation, settlement finality and applicable accounting standards**.