Cryptocurrency in accounting

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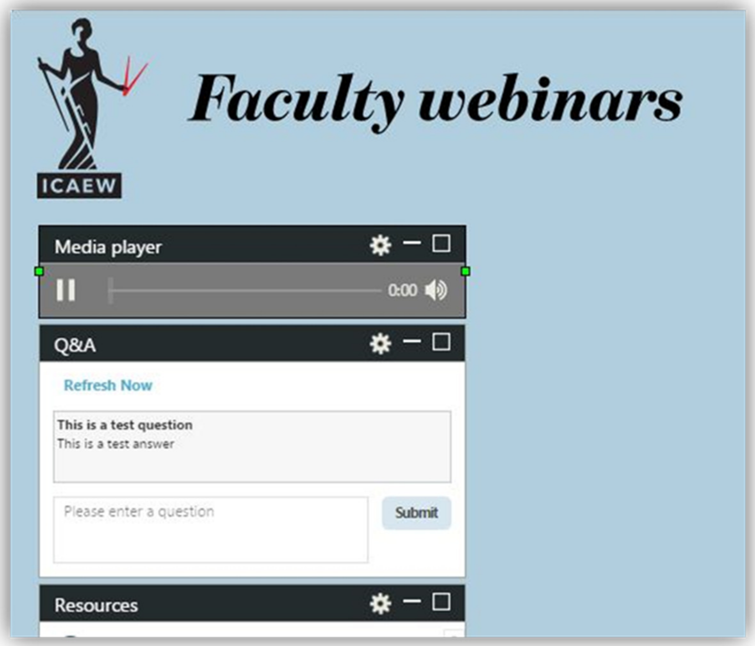

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Today's speaker

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Cryptocurrency basics

Cryptocurrency basics

1

Bitcoin

- Blockchain and bitcoin were both created by the unknown person Satoshi Nakamoto
- Bitcoin is *open* but *pseudonymous* – all transactions are public but the actors' identities are not
- Bitcoin is highly decentralised – it is not controlled by any company or government

Cryptocurrency basics

2

Altcoins

- Since bitcoin's creation in 2008, thousands of other cryptocurrency projects have come and gone
- There are thirteen "altcoins" besides bitcoin with a market cap over $1bn right now; the largest in order are Ethereum, Ripple, Bitcoin Cash, Tether, and Litecoin
- Bitcoin is still represents around two thirds half the total market cap of all coins
- Common points of difference include adding smart contracts, different economic and privacy models, and different methods for approving new transactions

Cryptocurrency basics

3

Forks

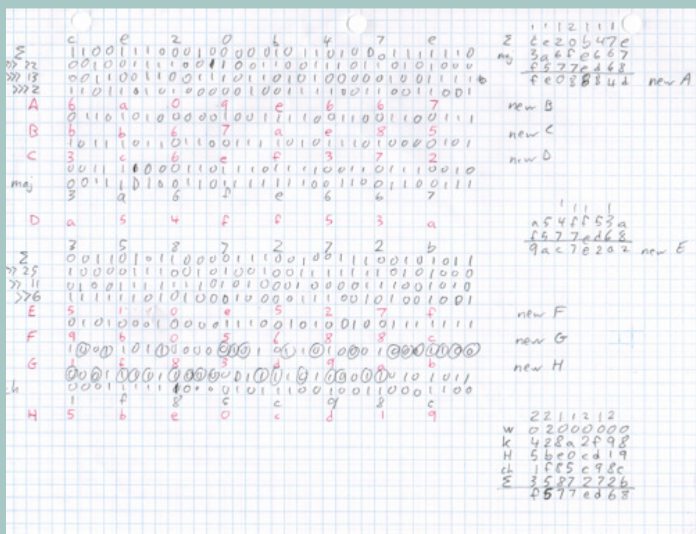
- Sometimes, irreconcilable differences may arise within a cryptocurrency's community – for example on whether or not to adopt a proposed change
- This can lead to a *hard fork*, where the past records of one cryptocurrency are split and used by two different ongoing projects – this is what created Bitcoin Cash

Cryptocurrency basics

4

Initial Coin Offerings

- The ICO is a form of fundraising where a project or company issues a new cryptoasset to fund itself or a new product
- Sales of the new token are usually paid for with other cryptocurrencies
- Depending on the deal, buyers might get equity-like rights to future profits, a pre-order of the product, or nothing beyond the possibility of their token increasing in value



Accounting considerations

Accounting considerations

Accounting for cryptocurrency assets under FRS 102

- There's little official guidance out there and no official standards in most countries
- Current rules make it clear that cash & cash equivalents and financial instruments are **not** appropriate classifications
- Most commonly seen as an intangible asset, under the cost model or the revaluation model
- Inventories treatment may be appropriate for e.g. a crypto exchange or a miner

Accounting considerations

Auditing a blockchain

- Several of the larger firms have announced blockchain auditing tools and offer blockchain assurance
- No official audit guidelines for blockchain are yet available
- Many existing audit checks are suitable for blockchain transactions – e.g. confirming ownership, checking valuations against market data, checking for subsequent events

Accounting considerations

Tax treatment

- Broadly speaking, HMRC recommends capital gains tax treatment for cryptocurrencies – including pooling of assets and allowable expenses
- Bitcoins lost due to e.g. losing a private key could be eligible for a negligible value claim
- There are circumstances where e.g. a miner or trader might be subject to income/corporation tax instead

Accounting considerations

Money laundering

- Cryptocurrencies are attractive to criminals for their (relative) non-traceability
- For the most part, money laundering guidance for cryptocurrencies is similar to paper cash
- Clients may have to e.g. prove source of funds

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