

Cryptocurrency The challenge for accountants & auditors

Stephen Reyes – Partner, Deloitte Gibraltar
June 2018



The World has gone Crypto Crazy

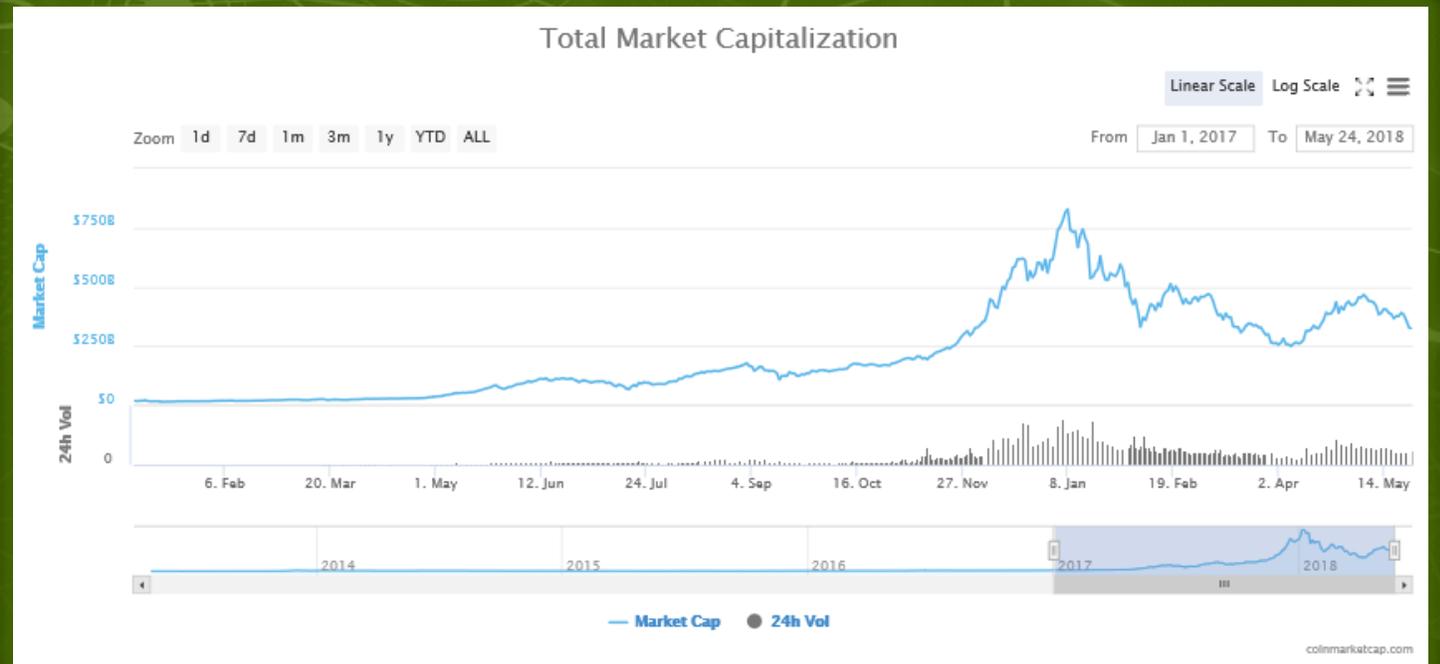
Blockchain and cryptocurrency are disrupting commerce



Snapshot taken from CoinMarketCap.com on 24 May 2018

- 1,623 cryptocurrencies in issue
 - Total Market Cap ~ \$322B
 - Went as high as ~\$800B in Jan 18
 - 23 have over \$1B Market Cap
 - 4 have over \$10B Market Cap
- | | | |
|--------------|----------|---------------|
| Bitcoin | - \$126B | ADTV ~\$6.5B |
| Ethereum | - \$ 56B | ADTV ~\$3B |
| Ripple | - \$ 24B | ADTV ~ \$0.5B |
| Bitcoin Cash | - \$ 17B | ADTV ~ \$0.8B |

CoinMarketCap.com



Blockchain Technology



- Fundamentally an accounting technology
- Based on decentralized ledgers
- Each containing a complete copy of all transactions
- Across a peer to peer network
- No need for central authority or central clearing
- Uses “miners” to write blocks to the chain by solving complex algorithms

Benefits

Increased transparency
Accurate tracking
Permanent Ledger
Immutable
Lower cost
Business Continuity

Potential applications

Cryptocurrency
Financial services
Sharing sensitive information
Voting
Asset tracking
Online gaming
Anything that requires certainty

Concerns

Complex Technology
Regulatory implications
Implementation Challenges
Sufficient expertise
Competing platforms
Energy Consumption

Smart Contract Functionality



- Key development in blockchain technology
- Piece of self-executing code that executes a transaction when a precondition occurs
- Precondition is determined by outside entities referred to as “oracles”

Benefits

Speeds up business processes
Reduces operational error
Enhances enforcement
Improves cost efficiency

Concerns

Difficult to renegotiate or modify
Errors/Unintended consequences
Relies on Oracle
Issues not tested in court

Features of an ICO

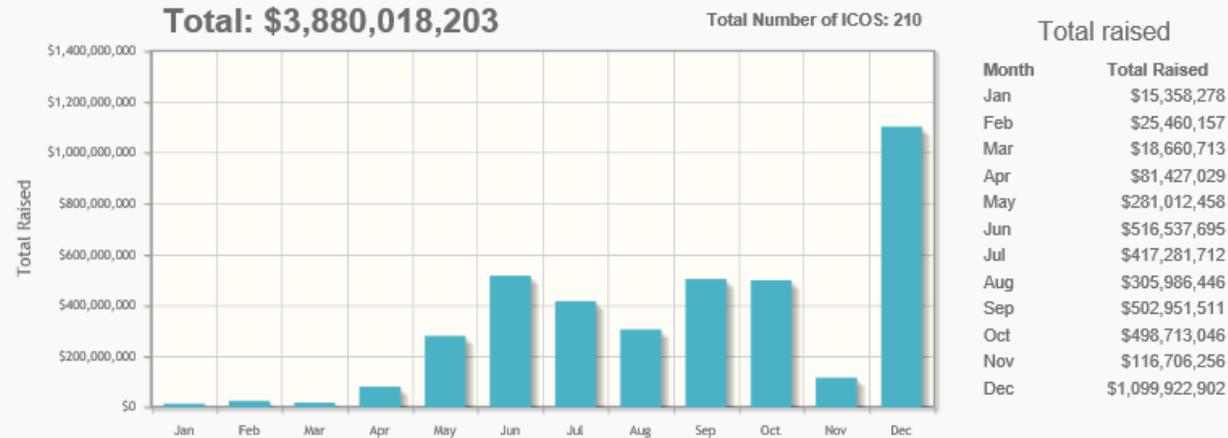


- Form of crowdfunding
- NOT an IPO – unlikely to give ownership rights
- Different types of token – utility, in-app currency, security, asset
- Details set out in a whitepaper and token purchase agreement
- Usually token issuer has few obligations, whitepaper actively sets out lack of obligations
- Token Value driven primarily by speculation
- Lack of regulation

Initial Coin Offerings - 2017

Cryptocurrency ICO Stats 2017

Year: 2017



Totals raised are grouped by the ICO closing date and are valued using BTC exchange rate at that time. Data last updated on 23rd May 2018 17:34 UTC

Top Ten ICOs of 2017

Position	Project	Total Raised
1	Hdac	\$258,000,000
2	Filecoin	\$257,000,000
3	EOS Stage 1	\$185,000,000
4	Paragon	\$183,157,275
5	Bancor	\$153,000,000
6	Status	\$90,000,000
7	BANKEX	\$70,600,000
8	TenX	\$64,000,000
9	Nebulas	\$60,000,000
10	MobileGO	\$53,069,235

Monthly Number of ICOs

Month	Number of ICO
Jan	7
Feb	6
Mar	5
Apr	15
May	26
Jun	21
Jul	21
Aug	21
Sep	14
Oct	19
Nov	10
Dec	45

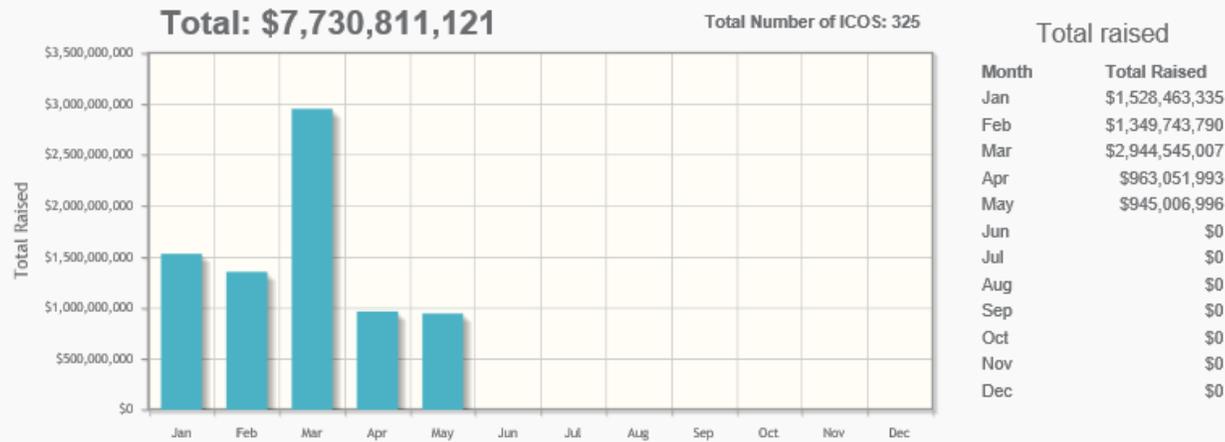
% of Funds Raised

>100%:	23
50%-100%:	63
<50%:	124

Initial Coin Offerings – 2018 (up to 20th May)

Cryptocurrency ICO Stats 2018

Year: 2018



Totals raised are grouped by the ICO closing date and are valued using BTC exchange rate at that time. Data last updated on 23rd May 2018 17:34 UTC

Top Ten ICOs of 2018

Position	Project	Total Raised
1	Telegram ICO (Pre-sale 1 & 2)	\$1,700,000,000
2	Dragon	\$320,000,000
3	Huobi token	\$300,000,000
4	Bankera	\$150,949,194
5	Envion	\$100,000,000
6	Elastos	\$94,100,000
7	Flashmoni	\$72,000,000
8	Neuromation	\$71,669,400
9	Zeepin	\$62,600,000
10	Olympus Labs	\$60,300,000

Monthly Number of ICOs

Month	Number of ICO
Jan	56
Feb	51
Mar	53
Apr	106
May	59
Jun	0
Jul	0
Aug	0
Sep	0
Oct	0
Nov	0
Dec	0

% of Funds Raised

>100%:	17
50%-100%:	177
<50%:	131

PRE-ICO SALE IS LIVE

15% BONUS ENDS IN

14 : 22 : 20 : 57

Day(s)

Hours(s)

Minute(s)

Second(s)

TOKEN SALE!

Learn More

DON'T MISS THIS EXCLUSIVE OPPORTUNITY TO PARTICIPATE IN HOWEYCOINS TRAVEL NETWORK NOW!



Investor.gov

U.S. SECURITIES AND EXCHANGE COMMISSION



Introduction to Investing

Research Before You Invest

Protect Your Investments

Additional Resources

HOME > ICO - Howeycoins

ICO - HOWEYCOINS

If You Responded To An Investment Offer Like This, You Could Have Been Scammed – HoweyCoins Are Completely Fake!

DLT & ICO Regulation in Gibraltar

Regulatory Pillars

Consumer protection
Protect Gibraltar's reputation
Economic Benefit



DLT Regulatory Principles

- 1) Honesty and integrity
- 2) Customer interests
- 3) Financial resources
- 4) Management and Control
- 5) Protection of Client Assets
- 6) Corporate Governance
- 7) Systems and Control
- 8) AML & CTF
- 9) Business continuity

- Gibraltar a trailblazer in introducing regulation
- DLT regulation introduced on 1st January 2018
- GFSC regulator
- Regulation is principles based
- Guidance issued on application of principles
- ICO regulation expected 2nd Qtr 2018

ICO Regulations

Promotion, sale and distribution of tokens
Operation of secondary market platforms trading in tokens
Providing investment and ancillary services relating to tokens

Issues for Accountants and Auditors



- Client takeon
- Accounting for cryptocurrencies or tokens held
- Accounting for issue of tokens
- Auditing issues
- The future of auditing

Issues for Accountants and Auditors – Client takeon



- Start Up
- Experience and expertise of management
- Lack of Corporate Governance structure
- Compliance with laws – AML/GDPR
- Regulatory Issues
- Feasibility of underlying business model
- Rationale for use of cryptocurrency/ICO
- Appropriate investor funding
- Reliability of Financials
- Customer interests
- Scope/risk of engagement

Issues for Accountants – Accounting for Cryptocurrencies



- Not a currency!
- Not cash or cash equivalent
- Not a financial instrument
- Usually not inventory
- Probably an intangible asset
 - Identifiable, non-monetary asset with no physical form

Intangible asset accounting treatment

Cost less impairment

If active market then FV with gains through OCI not P&L

- Fairer presentation is to FV and show gains through P&L but accounting standards do not allow that – need new specific accounting framework

Issues for Auditors – Holding cryptocurrencies



- Verifying existence and ownership
- Increased AML risk
- Valuation
- Post year end review - volatility

Issues for Accountants – ICO



- Revenue recognition
- Token creation and issue costs
- Issue of tokens to founders/employees/advisors
- Payment for products/services with tokens
- Taxation – management and control/PE
- Capitalisation of platform development

How will Blockchain impact the audit and assurance profession

If all transactions are available, do we need an auditor?



Recording a transaction is just one aspect

- Recorded transactions can still be illegal, entered into between connected parties, linked to offchain side agreement, incorrectly classified.
- What about completeness, estimates and accounting policies

New ways of auditing

- Real time auditing
- Audit automation & cognitive capability
- Data analytics

Additional assurance opportunities

- Smart contracts
- Architecture

Thank You

This presentation contains general information only and Deloitte is not, by means of this presentation, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This presentation is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this presentation.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Deloitte Limited in Gibraltar is a wholly owned subsidiary of Deloitte LLP in the UK. Please see www.deloitte.com/about for a detailed description of DTTL and its member firms. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.