Investments in Digital Currency Wallets

The Clear-Cut: ASPE

When preparing financial statements in accordance with Accounting Standards for Private Enterprises (ASPE), there is currently no guidance on how to account for investments in digital currency wallets. So in this Clear-Cut we have applied a decision tree, which is similar to what we have found organizations reporting under International Financial Reporting Standards (IFRS using to determining the proper classification of these types of assets.

This decision tree leads us to what we believe is the best classification under ASPE, at this time, for these types of assets. We have also provided some guidelines for creating an accounting policy and the related presentation and disclosures in the financial statements.

Determining Classification

Asset Classification	ASPE Definition and Recognition	Recommendation
Cash and Cash Equivalents	Definition under 1540.08 *.08 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents.*	Since the typical intention is to hold these digital currency wallets for investment purposes, there is no consideration that the funds are to be used for meeting short-term cash commitments. Furthermore, their potential volatility is in sharp contrast from the typical forms of cash equivalents such as term deposits that are very stable. Therefore, it is our view that this type of asset would not meet the conditions to be classified as cash and cash equivalents.

Asset Classification	ASPE Definition and Recognition	Recommendation
Financial Instruments	Definition under 3856.05(i) *.05 (i) A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity instrument of another entity.*	At a high level, although investments in digital currency wallets do create a financial asset, there is no evidence that a contractual arrangement exists for a financial liability or equity instrument of another entity. Therefore, it is our view that this type of asset would not meet the conditions to be classified as a financial instrument.
Investments	Scope under 3051.01 *.01 This Section establishes standards for:* *(b) measuring and disclosing certain other non-financial instrument investments (such as works of art and other tangible assets held for investment purposes)*	Under part (b) the asset would be categorized as a non-financial instrument, however, it is our view that this asset has no tangible features. Therefore, it is our view that this type of asset would not meet the conditions to be classified as an investment.
Inventories	Definition under 3031.07(a)(i) *.07 The following terms are used in this section with the meanings specified:* *(a) Inventories are assets:* *(i) Held for sale in the ordinary course of business;* *(ii) In the process of production for such sale; or* *(iii) In the form of materials or supplies to be consumed in the production process or in the rendering of services*	Since the intention is to hold these digital currency wallets for investment purposes, points (ii) and (iii) are not applicable as these assets are not related to production activities, and there is no consideration that these assets are to be held for sale in the ordinary course of business. Therefore, it is our view that this type of asset would not meet the conditions to be classified as inventories.

Asset Classification	ASPE Definition and Recognition	Recommendation
Intangible Assets	Definition under 3064.08(h) *.08 (h) An intangible asset is an identifiable non-monetary asset without physical substance.*	A monetary asset is essentially any asset whose value is stated in cash or whose value can be readily converted into a fixed amount of cash. Given the nature of digital currencies, the asset is not stated in cash, and is not considered to be readily convertible as there is no active market with fixed prices for trading these currencies. These assets can therefore be considered non-monetary and without physical substance. Therefore, at a high level, it is our view that classifying this type of asset as an intangible asset is the best fit within the current standards and given our understanding of the characteristics of these types of assets.

Recognition and Measurement

Now that we have come to a decision on classification of these types of assets, we now need to determine the proper recognition and measurement in the financial statements.
Under 3064.18
.18 The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) The definition of an intangible asset (see paragraph 3064.08-.17); and
(b) The recognition criteria (see paragraphs 3064.21-.23)

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

As noted in our discussion on the classification above, we have determined that these assets meet the definition of an intangible asset and therefore we look to part (b) for the recognition criteria

Under 3064.21 and 3064.24
.21 An intangible asset shall be recognized if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
(b) the cost of the asset can be measured reliably

.24 An intangible asset shall be measured initially at cost

In this instance, with this type of asset, all future economic benefits will flow to the entity, as the entity is the owner and holder of the units of the digital currencies, and the cost of the asset can be measured reliably, as the funds for the original investment and any subsequent investments were from the entity. Therefore, the asset should initially be measured at cost.

Subsequent Measurement

Under 3064.56
.56 A recognized intangible asset shall be amortized over its useful life to an enterprise, unless the life is determined to be indefinite. When an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its life is determined to be no longer indefinite.

Given the nature of digital currencies, once a unit (or even a partial unit) of a digital currency is created, it will not be used up, the same way a physical tangible asset would (such as a machine or a computer). Therefore, it is our opinion that these assets are considered to have an indefinite life, and are thus not required to be amortized. We then look to determine if any other criteria are to be applied.

Under 3064.65 and 3064.66
.65 An intangible asset that is not subject to amortization shall be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value. (Examples of such events or changes in circumstances are listed in IMPAIRMENT OF LONG-LIVED ASSETS, paragraph 3063.10. There may be other indications that intangible assets not subject to amortization are impaired.)

.66 When the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

Although there is no active market for these types of investments, there are a number of independent third parties that estimate the value of a unit of a digital currency based on its trading history. Therefore, at any given time, it should be possible to estimate the fair value of the units held in the wallet. As such, it is recommended that this be done periodically to determine if any impairment may exist. If an impairment loss is identified where cost is greater than the fair value, it is to be recognized into net income through the statement of operations.

Financial Statement disclosures

Now that we have determined the classification, and understand the recognition and measurement criteria, we will need to draft an accounting policy and note disclosures for the financial statements.

The accounting policy should make reference to the following:

- that the useful life of the asset is determined to be indefinite
- that the assets have been recorded at cost
- that the asset will be tested for impairment when events or changes in circumstances indicate that it's carrying amount may exceed its fair value, and if this occurs, how the impairment is to be recognized.

It is also recommended that an additional note disclosing the types of digital currencies held in the wallet, the number of units held, and the fair value of those holdings been included to provide the users of the financial statements additional information on these investments.

In addition, if an impairment loss is identified, the following is required to disclosed in the financial statements. Under 3064.94:

.94 *For each impairment loss recognized related to an intangible asset, the following information shall be disclosed in the financial statements that include the period in which the impairment loss is recognized:*

(a) a description of the impaired intangible asset and the facts and circumstances leading to the impairment;

(b) the amount of the impairment loss; and

(c) the caption in the income statement in which the impairment loss is included.