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# Audit & Accounting Alert Newsletter

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## At-A-Glance

In the last several years, the market for cryptocurrencies and other digital assets has grown from a few billion dollars to several trillion. The phenomenon is transforming the character of business transactions with new opportunities and challenges. The financial reporting standards have been slow to catch up, while duplicitous elements have taken advantage of the anonymous and unregulated aspects of the digital environment. This issue of the Accounting & Audit Alert highlights accounting and risks of this rapidly expanding trend.

Our Worldwide Update is again split into two sections. The first covers COVID-19 news from organizations across the globe, while the second covers other news.



**Gerald Herter - Editor**

# The Rise and Risk of Cryptocurrencies and Other Digital Assets

Rapid advances have outpaced financial reporting standards



At its December 15, 2021, meeting, the Financial Accounting Standards Board (FASB) reviewed results of an Invitation to Comment that the Board had issued to obtain assistance with the setting of the Board's standard setting agenda for the coming years. The item that was cited as the top priority needing standard setting attention was the accounting for digital assets, which garnered more than 50% of the responses, far ahead of the next highest priority which was ESG reporting at 38%.

Similarly, The International Accounting Standards Board (IASB), responding to its own Request for Information at a November 2021 meeting, found cryptocurrencies and related transactions as high priorities, along with climate-related risks and intangible assets.

When cryptocurrencies first appeared, there was confusion as to how to account for them, since they had some but not all the characteristics of cash, cash equivalents, and marketable securities. With the pressing practical matter of taxes to consider, the USA's IRS jumped in and classified digital assets as property, requiring reporting of gains and losses upon sale. Following this approach, the financial

reporting community coalesced around the concept of crypto as a form of non-physical property, accordingly applied the accounting standards in effect for intangible assets. While not a significant concern in the early days, now that digital assets are rapidly becoming pervasive, intangible asset accounting is inadequate to address the unique nature of this multi-faceted commodity. The IASB allow for treatment as inventory where the cryptocurrency is held for sale in the ordinary course of business, but further reform is needed.

In the updated practice aid, *Accounting for and Auditing of Digital Assets*, published by the AICPA/CIMA in May 2021, digital assets are “defined broadly as digital records that are made using cryptography for verification and security purposes, on a distributed ledger (referred to as a blockchain). The distributed ledger keeps a record of all transactions on a blockchain network. Digital assets, as defined herein, may be characterized by their ability to be used for a variety of purposes including as a medium of exchange, as a representation to provide or access goods or services, as a financing vehicle, such as a security, among other uses.”

Cryptocurrency and non-fungible tokens (NFTs) are two forms of digital assets. In an IASB project, *Holdings of Cryptocurrencies*, cryptocurrency was considered a subset of digital or “crypto” asset which has the following characteristics:

- a. a digital or virtual currency recorded on a distributed ledger that uses cryptography for security.
- b. not issued by a jurisdictional authority or other party.
- c. does not give rise to a contract between the holder and another party.”

The most widely used cryptocurrency is Bitcoin.

An NFT is a form of digital ownership that is a unique “token” or certificate that provides an electronic form of verification, such as for digital art, collectibles, and legal documents. Similar to the feature baseball trading cards which are assigned value related to their physical uniqueness, the NFT provides uniqueness to an original item of digital art. Just as a painting has more value than a copy print of the painting, digital art with an embedded NFT is worth more than a copy of the digital art without the NFT.

A concern with using the intangible asset accounting standard for digital assets is the requirement to write down the asset if the value goes down, but not allow an increase when the value goes up. In the potentially wild and rapidly volatile swings in digital asset market values, the current standard

be considered to distort the financial reporting. With the complex and varied characteristics of digital assets, a comprehensive set of guidance may take time to work out. The accounting boards must decide whether a stop-gap measure may be warranted for some of the more prominent types, while the overall standards are researched and analyzed.

In the meantime, the relatively new arena of digital assets brings new risks to be managed. Blockchain, the foundation on which digital assets are built, is considered a secure platform, since it produces a decentralized (distributed) series of entries without a central controller, so entries made cannot be changed. While that feature provides assurance for auditing purposes, care must be taken to assure that entries are correct in the first place. The autonomous nature of the blockchain precludes reversal or reclaiming an entry, potentially leading to loss.

Even more basic is the risk of falling subject to scams. Since digital assets are relatively new and require computer proficiency to fully understand, unsuspecting investors can be readily deceived. Regulations are not yet fully developed. Initial Coin Offerings (ICOs), used to market new cryptocurrencies and which sound similar to initial public offerings (IPOs), can be much riskier to uninformed.

Digital assets have also become a prolific new avenue for money laundering. The secretive nature and lack of a central banking function facilitates the movement of illicit funds through cyberspace undetected. The International Federation of Accountants (IFAC) has developed a multi-module educational aid, *Anti-Money Laundering, The Basics*, to help raise awareness and assist accountants in dealing with this criminal activity. The seventh installment, *Virtual Assets*, was released on February 22, 2022.

Further tackling the rising incidence of cybercrime, a group of London-based lawyers and forensic accountants recently joined forces to form CFAAR, Crypto Fraud and Asset Recovery, a network designed to share resources and advisory in support of global crypto dispute resolution.

Underlining the widespread impact of a crypto market estimated in the trillions of dollars, American President Joe Biden on March 9, 2022, ordered a study of the risks of cryptocurrency and the potential creation of a U.S. digital currency. China has already created a digital yuan, and many other countries are exploring the possibility.

In an effort to remain in the forefront, Integra International has just formed a Special Interest Group dealing with digital assets and distributed ledger technology (DLT). Integra members can join the

group meeting on March 24, 2022, 04:00 PM CET / 11:00 AM Eastern / 11:00 PM SGT, by register at <https://members.integra-international.net/events/EventDetails.aspx?id=1613336>

Further details can be found at [Crypto accounting: investors need more clarity on the rules](#) and [Money Laundering: The Basics](#)

# Worldwide Update



Periodic roundup of recent and upcoming actions and activities by auditing and accounting organizations throughout the world.

## COVID-19 Related International

**IASB – International Accounting Standards Board ([www.ifrs.org](http://www.ifrs.org))**

- Coronavirus Information and resources – link – <https://www.ifrs.org/news-and-events/2020/03/the-coronavirus-and-the-foundations-work/>

**IFAC – International Federation of Accountants ([www.ifac.org](http://www.ifac.org))**

1. COVID-19 Resources from IFAC's Network – link - <https://www.ifac.org/knowledge-gateway/series/COVID-19-resources-ifacs-network>

**ACCA – Association of Chartered Certified Accountants ([www.accaglobal.com/](http://www.accaglobal.com/))**

- Coronavirus Information and resources – link - <https://www.accaglobal.com/us/en/cam/coronavirus.html>

**CIMA – Chartered Institute of Management Accountants ([www.cimaglobal.com](http://www.cimaglobal.com))**

- Coronavirus Information and resources – link - <https://www.accaglobal.com/us/en/cam/coronavirus.html>



- Update on the Coronavirus and Impact for Association Activities – link - <https://www.cimaglobal.com/Members/Update-on-Coronavirus/>

### **VRF- The Value Reporting Foundation ([www.thevrf.org](http://www.thevrf.org))**

1. The Value Reporting Foundation is the result of the merger of the International Integrated Reporting Council and the Sustainability Accounting Standards Board on June 9, 2021.

### **World Economic Forum – ([www.weforum.org](http://www.weforum.org))**

1. The COVID Action Platform – link - <https://www.weforum.org/platforms/covid-action-platform> focuses on three priorities: 1. Galvanize the global business community for collective action. 2. Protect people’s livelihoods and facilitate business continuity. 3. Mobilize cooperation and business support for the COVID-19 response.

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## **Africa, Europe, India, and the Middle East (AEIME)**

### **FRC – Financial Reporting Council of the UK ([www.frc.org.uk](http://www.frc.org.uk))**

- FRC guidance for companies and auditors during COVID-19 crisis – link - <https://www.frc.org.uk/covid-19-guidance-and-advice>.

### **ICAEW - Institute of Chartered Accountants in England and Wales (<https://www.icaew.com>)**

1. Coronavirus – updates – link - <https://www.icaew.com/insights/coronavirus>.

### **EFRAG – European Financial Reporting Advisory Group ([www.efrag.org](http://www.efrag.org))**

1. *No new developments*

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## **Americas, Asia, Australia and New Zealand (AAANZ)**

### **AICPA – American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org))**

1. AICPA Coronavirus (COVID-19) Resource Center – link - <https://www.aicpa.org/news/aicpa-coronavirus-resource-center.html>

### **FASB – Financial Accounting Standards Board ([www.fasb.org](http://www.fasb.org))**