

ABC Monthly Call

October 12, 2018

Disclaimer

LEGAL NOTICE:

Copyright © 2018 Accounting Blockchain Coalition, Inc. ALL RIGHTS RESERVED.

This ABC Monthly Call document is proprietary to Accounting Blockchain Coalition, Inc. (also referred to as “ABC”) and/or its successors and assigns.

NOTICE TO USERS WHO ARE ABC MEMBERS: Members of ABC have the right to use and implement this ABC DOCUMENT NAME, however, to the Member’s continued compliance with the ABC Intellectual Property Policy, Bylaws and Participation Agreement.

NOTICE TO NON-MEMBERS OF ABC: If you are not a Member of ABC and you have obtained a copy of this document, you only have a right to review this document or make reference to or cite this document with permission from ABC. Any such references or citations to this document must acknowledge ABC copyright ownership as follows: “© 2018 Accounting Blockchain Coalition, Inc. ALL RIGHTS RESERVED.” When making any such citations or references to this document you are not permitted to revise, alter, modify, make any derivatives of, or otherwise amend the referenced portion of this document in any way without the prior express written permission of ABC. Nothing contained in this document shall be deemed as granting you any kind of license to implement or use this document or the specification described therein, or any of its contents, either expressly or impliedly, or to any intellectual property owned or controlled by ABC, including, without limitation, any trademarks of ABC.

LEGAL DISCLAIMER:

THIS DOCUMENT AND THE INFORMATION CONTAINED HEREIN IS PROVIDED ON AN “**AS IS**” BASIS. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NVM EXPRESS, INC. (ALONG WITH THE CONTRIBUTORS TO THIS DOCUMENT) HEREBY DISCLAIM ALL REPRESENTATIONS, WARRANTIES AND/OR COVENANTS, EITHER EXPRESS OR IMPLIED, STATUTORY OR AT COMMON LAW, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, VALIDITY, AND/OR NON-INFRINGEMENT.

Speakers



Mario Costanz

ABC Promoter Member, Tax Working Group Chair, and Founder & CEO of Happy Tax



Mark Li

ABC Board Member, Auditing & Accounting Working Group Chair, and Assurance Senior Manager, BPM LLP



Daniel Morris

ABC Charter Member, Regulatory Working Group Chair, and Managing Director of Morris + D'Angelo



Jay Schulman

ABC Board Member, Internal Controls Working Group Chair, and Principal at RSM US LLP

Moderator



Kim Turner

Sr. Director, Standards and Policy, Virtual, Inc.



Regulatory Update - New York Department of Financial Services and European Union

Presented by Jay Schulman

The Report

VIRTUAL MARKETS INTEGRITY INITIATIVE

REPORT



https://ag.ny.gov/sites/default/files/vmii_report.pdf

Virtual Markets Integrity Report

- Run by the NY Attorney General
- Requested participation from 13 crypto exchanges, 9 provided information:
 - Bitfinex (operated by iFinex Inc.)
 - bitFlyer USA, Inc.
 - Bitstamp, Ltd.,
 - Bittrex, Inc.
 - Coinbase, Inc.
 - Gemini Trust Company
 - itBit (operated by Paxos Trust Company)
 - Poloniex (owned by Circle Internet Financial Limited)
 - Tindex (operated by Elite Way Developments LLP)

Virtual Markets Integrity Report

- Four platforms – Binance Limited, Gate.io (operated by Gate Technology Incorporated), Huobi Global Limited, and Kraken (operated by Payward, Inc.) – claimed they do not allow trading from New York and declined to participate. The OAG investigated whether those platforms accepted trades from within New York State. Based on this investigation, the OAG referred Binance, Gate.io, and Kraken to the Department of Financial Services for potential violation of New York’s virtual currency regulations.

Major Findings

1. The Various Business Lines and Operational Roles of Trading Platforms Create Potential Conflicts of Interest.
2. Trading Platforms Have Yet to Implement Serious Efforts to Impede Abusive Trading Activity
3. Protections for Customer Funds Are Often Limited or Illusory.



What does it mean for accounting and auditing?

Quote

As a general matter, responsible businesses regularly employ third-parties to review their operations. Audits and other independent reviews provide an added measure of assurance that those aspects of the business under review are proceeding in accordance with meaningful standards. **Responsible businesses in any industry should welcome independent third-party review of their operations.**

Quote

The need for independent third-party review is especially acute in the virtual currency markets: the core technology upon which virtual currency is built, and the various applications built on that technology, are new and unproven. Extensive personal customer data is collected and shared, funds (virtual and fiat) are held and exchanged constantly, trading rules and practices are being updated and refined, and insurance or similar safeguards are not universally available or sufficiently robust. Indeed, at the most basic level, many of the companies that hold a significant position in the virtual currency space are new, with unproven track records. **The need for independent verification of core policies and procedures is acute.**

Quote

As a general matter, however, the lack of common auditing standards is troubling, given the amounts of customer money (fiat and virtual) held by these platforms, the known data security risks, and increasing integration of virtual currency into other sectors of the financial markets.



Working Group Updates



Audit and Accounting

Presented by Mark Li

Purpose / Objectives

- Focus on Audit and Accounting best practices and procedures regarding blockchain technology and digital assets.
 - Accounting treatment
 - Audit Considerations
 - Financial reporting and disclosures
- Not standards setter / authoritative body
- Approximately 40 participants and counting – CPAs, Industry Professionals, Foundations/Non-Profits, Other Associations...

Deliverables

- Provide information and documents that inform and educate, provide examples and use cases, analysis, and guides on accounting and audit topics.
- Provide audit and accounting thought leadership on digital assets relating to:
 - Recognition
 - Classification/Presentation
 - Valuation/Measurement
 - Regulatory / Compliance Matters Relating Auditing and Accounting
 - Emerging Audit and Accounting Issues or Topics
 - Industry Specific Matters / Topics (ICOs, Miners, Exchanges, Funds...)

Our A&A Working Group – Update from last meeting

Meetings:

- The A&A working group will meet every 2nd and 4th Thursday of each month from 8:30am to 9am PST (11:30 to 12pm EST).
- The meetings will be led by the Chair and the Co-Chair(s). The goal is to have an open and dynamic session, and to provide updates to the group on the working material.

Working Group Leadership

- Mark Li, Assurance Senior Manager, BPM LLP - Chair
- Prashant Nisar, Senior Manager, RSM US LLP – Co-Chair
- Andre Sterley, Senior Manager, Mazars USA LLP -Co-Chair
- Dr. Sean Smith, Assistant Professor at Lehman College (CUNY) - Co-Chair

Topics:

- Risk assessment and audit procedures to address the reliability of the underlying blockchain code (consensus protocol). Will each auditor need to separately perform an assessment, or can this be done centrally by an independent organization or regulator? What considerations should be given to this.
- Revenue recognition – what considerations should be given to crypto transactions?
- What are SAFE and SAFT? What are considerations given to account for these instruments?
- What considerations should be given to determine fair value for digital assets?



Internal Controls

Presented by Jay Schulman



Regulatory Compliance

Presented by Daniel Morris



Taxation

Presented by Mario Costanz

Emerging Issues in Crypto Tax

OVER 3,000,000 Cryptocurrency Transactions DAILY

In Notice 2014-21 IRS has deemed crypto as property

MOST of these transactions are [required](#) to be reported.

- **Coin to fiat disposition (Capital Event)**
- **Coin to coin swap (Capital Event)**
- **Purchases made with coin for goods/services (Capital Event)**
- **Receipt of coin for goods/services (Income Recognition)**
- **Mining (Income Recognition)**

Common Misconceptions

Since when did message boards, reddit and Facebook groups give tax advice?

Many traders listening to the wrong people about:

- **Accounting Methods**
- **Hard Forks**
- **Airdrops**
- **Like Kind Exchanges**
- **Only taxable if withdrawn to fiat**
- **Foreign Asset Reporting (FBAR / FATCA)**

Supply / Demand

Shortage of Crypto Tax Specialists

Blockchain & Cryptocurrency is the future. Your students are the future.

- **Coinbase data turned over to IRS in March of 2018**
- **Penalty & Interest Letters will go out soon**
- **IRS working with Chainalysis to scrape direct from blockchain**
- **IRS working on requirements for exchanges to report directly**

Contact to Join Us!

Mario Costanz, Chair – Tax Working Group
CEO of [CryptoTaxAcademy.com](https://cryptotaxacademy.com) and [CryptoTaxPrep.com](https://cryptotaxprep.com)

Contact Information:

Mario@HappyTax.com or [@mariocostanz](https://twitter.com/mariocostanz) on Twitter

Monthly Calls Moving Forward

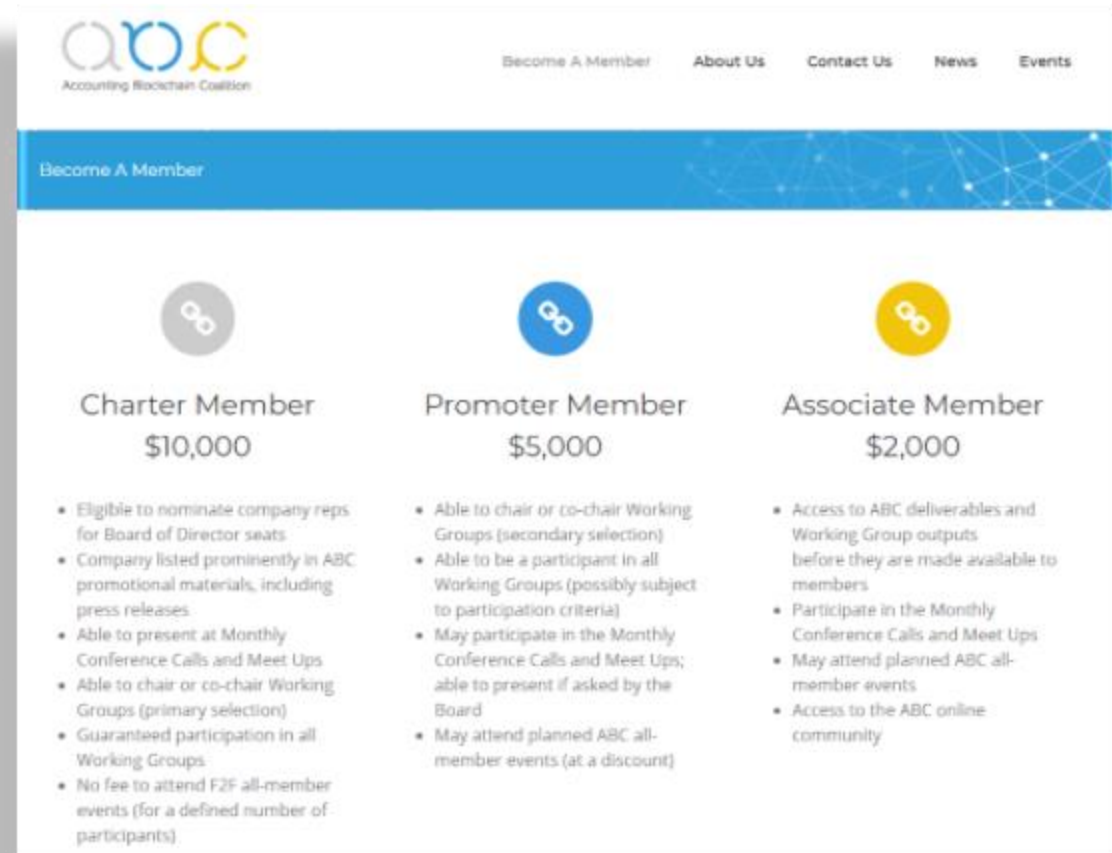
- Monthly Calls will be member-only beginning next month (November)
- ABC will continue to offer public webinars that coincide with the release of deliverables, events, and other news/updates

How To Join

Complete the online application on the ABC website:

<https://accountingblockchain.net>

NOTE: All Charter level membership applications will be reviewed and approved by the Board of Directors.



The screenshot displays the 'Become A Member' page of the Accounting Blockchain Coalition website. The page features the ABC logo at the top left and navigation links for 'Become A Member', 'About Us', 'Contact Us', 'News', and 'Events' at the top right. A blue banner with the text 'Become A Member' is positioned below the navigation. The main content area is divided into three columns, each representing a membership level with a corresponding icon (grey, blue, and yellow circles containing the ABC logo):

Membership Level	Fee	Key Benefits
Charter Member	\$10,000	<ul style="list-style-type: none">Eligible to nominate company reps for Board of Director seatsCompany listed prominently in ABC promotional materials, including press releasesAble to present at Monthly Conference Calls and Meet UpsAble to chair or co-chair Working Groups (primary selection)Guaranteed participation in all Working GroupsNo fee to attend F2F all-member events (for a defined number of participants)
Promoter Member	\$5,000	<ul style="list-style-type: none">Able to chair or co-chair Working Groups (secondary selection)Able to be a participant in all Working Groups (possibly subject to participation criteria)May participate in the Monthly Conference Calls and Meet Ups; able to present if asked by the BoardMay attend planned ABC all-member events (at a discount)
Associate Member	\$2,000	<ul style="list-style-type: none">Access to ABC deliverables and Working Group outputs before they are made available to membersParticipate in the Monthly Conference Calls and Meet UpsMay attend planned ABC all-member eventsAccess to the ABC online community

Questions?

Email membership@accountingblockchain.net
or visit <http://accountingblockchain.net>



Backup Materials

Mission

To help organizations navigate accounting issues related to digital assets and distributed ledger technologies, including blockchain. We offer a platform for our members to contribute their knowledge and expertise while fostering best practices.

ABC Board of Directors



David Deputy
Vertex, Inc.
President of ABC



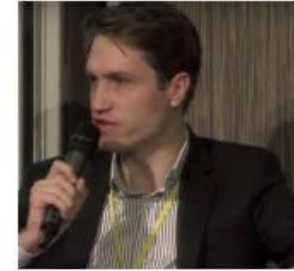
Vanessa Grellet
Consensys
Secretary/Treasurer of ABC



Keith McGowan
BDO, USA LLP



Mark Li
BPM LLP



Griffin Anderson
Consensys



Dan Balla
Crowe Horwath LLP



Bill McCarthy
Michigan State University



Yorke Rhodes
Microsoft



Jay Schulman
RSM US LLP

2018 Focus Areas



Evolution

Genesis Event 2016

Initial gathering of a community

Demonstrated need for information in the Audit, Tax, and Accounting Industries on blockchain

2017 Events

Event in June of 2017 further solidified industry interest and need

Monthly webinars on topics of interest to the community

Desire to formalize this group and produce deliverables

Leadership group formalized to decide on structure, Mission, Objectives, and launch

ABC 2018

Launched in April of 2018

Working Groups Established: Taxation, Audit and Accounting, Internal Control, Regulatory Compliance

May 17, 2018: Blockchain, Accounting, Audit & Tax Conference II

How to engage

Member Only Meetings

- Forum for members to provide input and work on technical deliverables

Webinars

- Provide industry thought leadership
- Share deliverables
- Build brand awareness
- Recruitment

MeetUps

- Provide members with networking opportunities
- Build brand awareness

Industry Events

- Platform for ABC messaging and working group output
- Build brand awareness
- Recruitment

Membership Benefits



Charter Member
\$10,000

- Eligible to nominate company reps for Board of Director seats
- Company listed prominently on ABC website and promotional materials, including press releases
- Able to present at Monthly Conference Calls and Meet Ups
- Able to chair or co-chair Working Groups (primary selection)
- Guaranteed participation in all Working Groups
- No fee to attend ABC member only events (for a defined number of participants)



Promoter Member
\$5,000

- Able to chair or co-chair Working Groups (secondary selection)
- Able to be a participant in all Working Groups (subject to participation criteria)
- May participate in the Monthly Conference Calls and Meet Ups; able to present if asked by the Board
- May attend ABC member only events (at a discount)



Associate Member
\$2,000

- Able to be a participant in all Working Groups (subject to participation criteria)
- May participate in the Monthly Conference Calls and Meet Ups
- May attend ABC member only events