Case 19-6

Classification of Cryptocurrency Holdings

Software Provider (the “Company”) supports and sells computer software. The Company accepts cryptocurrencies (e.g., Bitcoin, Ether, Ripple) as payment for the sale of its computer software. The Company holds its cryptocurrencies partially for investment (e.g., expectation that they will appreciate in value) and partially to use in the future to purchase goods or services.

Cryptocurrency is a new type of value and payment method that is different from fiat currency (e.g., U.S. dollars and foreign currencies). Presently, cryptocurrencies have no government backing or recognition by a central authority as legal tender. Their value is only supported by supply and demand.

Cryptocurrencies do not have a physical form but exist as immutable distributed ledgers (electronic records) maintained on public blockchains. They are different than electronic instances of cash, such as an online bank account, in that they are not linked to a physical currency.

Bitcoin and other similar “coins” use cryptography (e.g., use of codes to secure communications) to control the security and creation of these coins, which led to the term “cryptocurrencies.”

There are other crypto-assets that are not cryptocurrencies, such as tokens. It is important to distinguish between cryptocurrencies and tokens.

**Cryptocurrency** is a unit of value that is native to a blockchain. It is a means of exchange within the blockchain to incentivize the network of participants to use the blockchain. The sole purpose of a cryptocurrency is for exchange of value, and it has limited functionality beyond that.

A **token** is a piece of business logic (i.e., “smart contract”) coded into an existing blockchain. A token can have a functionality beyond an exchange of value — it can represent any asset or functionality desired by the developer for use on a platform. Tokens may be an interest in an entity (e.g., security token), an interest in a specific asset (asset token), or a right to a future product or service (utility token).

Cryptocurrencies are usually obtained by purchasing or receiving them on a peer-to-peer basis. That is, they can be received directly from a counterparty in exchange for an asset or service or they can be purchased in exchange for a fiat currency, often from an exchange that specializes in cryptocurrencies.

For a cryptocurrency to function as a means of peer-to-peer exchange, a ledger needs to be maintained for tracking ownership of the cryptocurrency. For cryptocurrencies, this electronic ledger is maintained using blockchain. There are many copies of this ledger and many ledger keepers. Distributing the processing allows many users to each play a small part in the maintenance of the ledger system; this means that the security of the system does not rely on a few individuals.
The amount of coins for a particular cryptocurrency that are in circulation is tightly controlled. For example, for Bitcoin there is a limit on the number of coins that can exist. New Bitcoins are only created as payment to processors (called “miners”) for providing the service of validating and distributing an electronic ledger of these transactions to those involved in maintaining the blockchain.

**Required:**

1. **How should the Company’s holdings of cryptocurrency be classified in the statement of financial position under U.S. GAAP and IFRS® Standards?**

2. **How should the holdings of cryptocurrency be initially and subsequently measured under U.S. GAAP and IFRS Standards?**