

Case 22-10c
Digital Assets Lending Transactions

Cryptocurrency Market Inc. (the “Company”) provides various financial services, including lending services related to its digital assets that are not securities, such as Bitcoin (BTC). BTC is a cryptocurrency that is readily available on exchanges specializing in cryptocurrencies and, thus, is readily convertible to cash.

Borrower Loan

On December 31, 20X0, the Company entered into a lending transaction with XYZ Inc. (the “Borrower”) to loan the Borrower 100 BTC. Key terms of the loan are as follows:

- The effective date of the loan is December 31, 20X0, which is the date the BTC assets are transferred by the Company to the Borrower.
- The loan has no maturity date. The Borrower has the option to repay or return the loaned BTC at any time, and the Company has the right to demand immediate repayment of a portion or the entirety of the loaned BTC at any time.

In conjunction with the loan, the Borrower has agreed to pay the Company a financing fee. The financing fee will accrue from the date on which the loaned BTC are transferred to the Borrower to the date on which the entirety of the BTC loaned are repaid to the Company. The financing fee is an arm’s-length transaction.

The financing fee is calculated daily and paid monthly. The fee is 4.5 percent per annum and is payable in BTC.

The Borrower is not required to provide collateral for the loan.

For the purpose of these questions, assume the following:

- The Company and the Borrower account for BTC as indefinite-lived intangible assets under ASC 350, *Intangibles — Goodwill and Other*.
- The Company does not have a controlling financial interest in the Borrower.
- There are no other rights and privileges exchanged in the loan.

Required:

1. What is the Company’s accounting for the 100 BTC loaned? Consider the accounting at the time of the initial transaction as well as any ongoing accounting requirements.
2. What is the Borrower’s accounting for the 100 BTC loaned? Consider the accounting at the time of the initial transaction as well as any ongoing accounting requirements.