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CRYPTOCURRENCY IN INTERNATIONAL TRADE: ACCOUNTING ASPECTS

Globalization has spawned a complex network of international trade and business. Global trade is dominated by multinational companies that have a global approach to operations, production and markets. This means international trade spans multiple nation states with different national regulations that multinational companies have to comply. Today international business is being held back by the following aspects: high banking fees; terrible currency conversion rates; errors in documentation; improper document storage; slow payments and document transfers. All these trade barriers come at high added costs to multinational corporations, which reflect on a business and erodes profit margins. According to the World Economic Forum's report on Enabling Trade: Valuing Growth Opportunities, reducing the barriers faced by global supply chains could increase global trade by up to 15% and increase overall GDP by 5%. This equates to around $3 trillion uplift in global economic output per year [1].

The value of cryptocurrencies is that they remove the obstacle that intermediaries (acquirers, providers, authorizers, banks) create. And it's when we consider this ability to move seamlessly between countries and currencies that its potential for international trade becomes most clear. Cryptocurrencies unlock the potential for companies, right from the smallest SMEs to the largest corporations, to be able to grow or expand their business overseas without having to navigate these obstacles – and costs – associated with the traditional financial systems [4]. For cryptocurrency it is clear that it must disrupt and create value in international business. Only then will cryptocurrency enact true change on a global scale.

The term "cryptocurrencies" is often used as a blanket term for all crypto assets. At a present time there are over 1,500 cryptocurrencies and more are being developed. Different cryptocurrencies can have different characteristics, and the reasons for acquiring them can vary, causing in different accounting consequences for international trade. As a result, an accounting policy established for one cryptocurrency may not be appropriate for others. International companies should evaluate each cryptocurrency holding separately based on their circumstances, the characteristics of the cryptocurrency and the characteristics of the market for it [2].

Existing IFRS and national GAAP in different countries do not explicitly refer to cryptocurrencies. The main questions are whether cryptocurrencies are assets for international companies and, if so, how to record these type of assets?

Currency and foreign currency indeed is generally accounted for as cash. The term "cryptocurrency" suggests that it is a currency; however, this does not mean it is necessarily cash for accounting purposes. Cryptocurrencies can be used as a medium of exchange for international trade but they have some limitations medium of exchange compared to most traditional fiat currencies. In part this is for the reason that, they are not supported by central banks or not recognized as legal tender in most countries because of high volatility and risk. Cryptocurrencies do not seem to meet the definition of the liquidity of fiat currencies and their conversion. That is why cryptocurrencies cannot qualify to be accounted for as cash or a cash equivalent [2].

International company as a holder of a cryptocurrency usually does not have any contractual right, therefore, cryptocurrencies do not seem to meet the definition of a non-cash financial asset in accordance with IAS 32 and IFRS 9. Cryptocurrencies are generally identifiable, without physical substance and are non-monetary as they do not meet the definition of monetary assets. Consequently, it appears that many cryptocurrencies are likely to meet the definition of intangible assets.

A cryptocurrency within the scope of IAS 38 and eligible for recognition should be measured initially at cost. The cryptocurrency may be subsequently measured at either cost (i.e., the cost method) or at fair value (i.e., the revaluation method). It is likely that cryptocurrencies would qualify as indefinite lived intangibles, if there are no factors to indicate a definite useful life.

For accounting purposes, cryptocurrency is considered property, thus, accounting principles, that apply to property can apply to them. At the same time, cryptocurrency is not treated as currency to determine losses or gains. Taxpayers must include the fair market value of the virtual currency as taxable income when it is used to pay for goods or services. The fair market value is determined as of the date acquired; basically it is (virtually) exchanged for currency for tax purposes. Of course, the most important accounting practice is to record the value of the cryptocurrency at the time you receive it, and at the time you "spend" it [5].

In fact practical accountants of international companies meet a problem that the current application of IFRS Standards, particularly the application of IAS 38 and the measurement of cryptocurrencies, is not reflective of economic substance and does not provide relevant information to users of international companies financial statements. As a result, accounting standards setters and other national and international bodies are actively looking at this area. Accounting for cryptocurrencies in international business was discussed by the AcSB's IFRS Discussion Group (IDG) at its January 2018 meeting. At the IASB's January 2018 meeting, the IASB discussed the possibility of having a research project relating to cryptocurrencies. The US Financial Accounting Standards Board (FASB) staff are researching the topic. CPA Canada will continue to monitor these and other developments and their potential implications for financial reporting in Canada. The Australian Accounting Standards Board (AASB) concludes that there is a lack of guidance on digital currencies and that the measurement guidance under IAS 2 and IAS 38 does not provide relevant and useful information to users of financial statements (except for instances where an entity is considered to be a commodity broker-trader). It proposes that the digital currencies be accounted for at fair value with changes in fair value recognized in profit or loss. Thus, standard setting activity is needed [3].

Crypto-assets constitute an evolving, fast-growing, but still relatively new, asset class for international business. As a result, there are no specific pronouncements from international bodies that deal with the accounting of such assets from the holder's perspective. Due to the diversity of crypto-assets, the facts and circumstances of each cryptocurrency will differ, making it difficult to draw generally applicable conclusions on the accounting treatment. There is currently no standardized definition and accounting methods for crypto-assets, cryptocurrency and, hence, the definitions and methods used in international business activity vary.

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