

The application of traditional regulatory frameworks to that of cryptocurrencies and related businesses

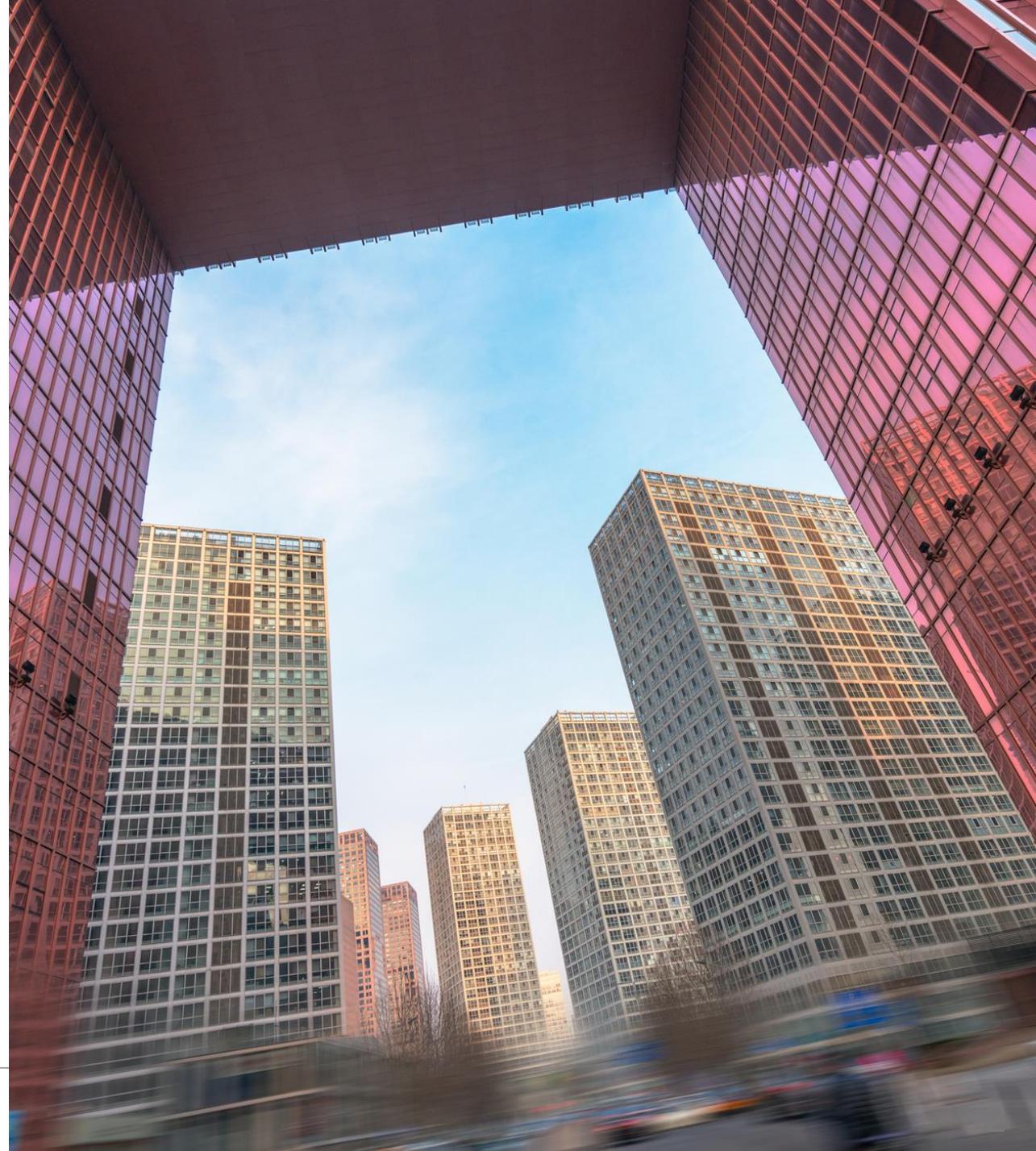
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Brief introduction

“After realising the potential that the industry has, we invested ample time into truly understanding blockchain technology. This allows us to add real value to our current and prospective clients who operate in this unique industry as well as to provide stakeholders with the quality assurance represented by the Mazars brand.” –
Wiehann Olivier



A need to regulate cryptocurrencies in South Africa and across the world

- The trading or investing in cryptocurrencies through VASP's remain unregulated in South Africa and across many countries in the world
- We need to build trust in the technology and to do this investors and possible investors need to be educated about the technology
- VASP's are pushing to have cryptocurrency regulated in SA, which will result in more trust and ultimately lead to an increase in mass adoption

While we wait for the regulating of cryptocurrencies in SA investors and VASP's need to ensure that they adhere to the current regulations applicable to SA businesses.

- Companies Act and Audit
- Financial reporting
- Taxation

Companies Act and audit

- When does a company, including a Virtual Asset Service Providers (VASP's) need to be audited
 - State owned company,
 - Public company (listed or non-listed),
 - **Assets held in a fiduciary capacity in excess of R5m,**
 - Public Interest Score (PIS) exceeding the 350 scorecard
- Most VASP's tend to hold assets in a fiduciary capacity of more than R5m
- Audits are therefore requirement for most VASP's (Distinguish - Audit vs. Independent review)
- Annual Financial Statements (AFS) need to be audited within 6 months after financial year end according to the Companies Act
- EAAB and FSCA requires companies to submit AFS to their regulating bodies within a lesser period (3 to 4 months)

Companies Act and audit

Why is it so important to ensure that VASP's comply with these requirements?

- VASP's are very similar to banks as a result of the assets or private keys held on behalf of investors and therefore are accountable institutions
- Banks and financial institutions are regulated by the FSCA because of their nature and this is no different for VASP's
- Would you trust a VASP/Bank to hold your assets if your were not comfortable that they are complying with the relevant/required laws and regulations?
- Would you invest in a company that is not able to provide audited AFS and why would it be any different with VASP's which you rely to keep your cryptocurrencies secure?

Companies Act and audit

- Assets vs liabilities – Are the assets there?
- Audit of VASP's by reputable assurance firms such as Mazars will provide investors and customers with the required comfort, but also ensure that they are adhering to laws and regulations
- Audits build trust as auditors opinions are independent and the element of independence is what gives our opinions value
- Once regulated and audits are required it will significantly decrease scams/fraud – Will lead to more trust in the industry and also assist with mass adoption.

Financial reporting

- Accounting frameworks allowed under South African Law
- Difference between International Financial Reporting Standards (IFRS) and IFRS for Small and Medium Sized Entities (SME's)
- Which businesses are allowed to use IFRS for SME and who is required to use IFRS
- Who is the Companies and Intellectual Property Commission (CIPC) and the significance of the retraction of an opinion on legal practitioners and the impact on VASP's

1.2 Small and medium-sized entities are entities that:

- (a) **do not have public accountability**; and
(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

1.3 An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) **it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses** (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Financial reporting

- VASP's can therefore only apply IFRS in South Africa and most other countries, but this does have an advantage.
- IFRS has various standards and interpretation notes, but where does cryptocurrencies fit in?

- **Cash**

It was observed that the description of cash in paragraph AG3 of IAS 32 implies that cash is expected to be used as a **medium of exchange** (i.e. used in exchange for goods or services) and as **the monetary unit** in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements.

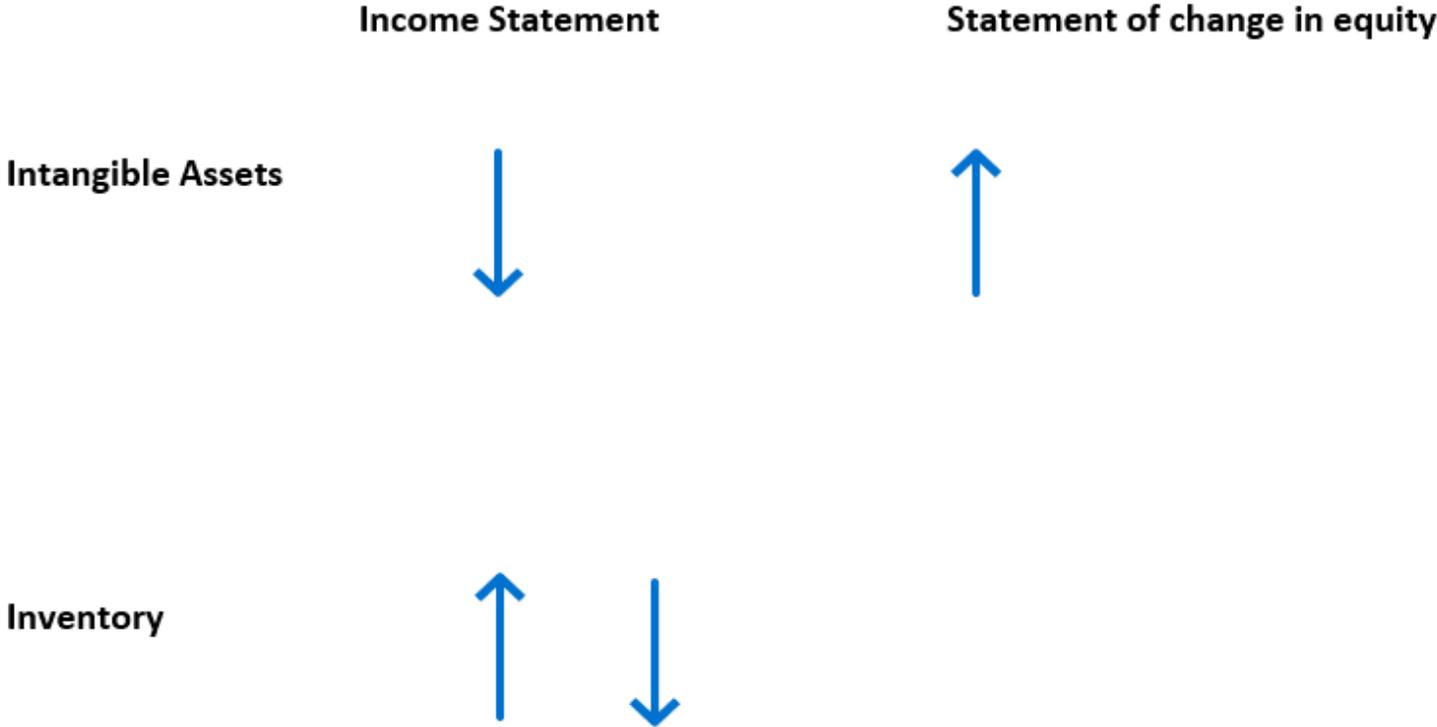
- **Financial Instruments (such as shares or other types of instruments)**

Paragraph 11 of IAS 32 defines a financial asset. In summary, a financial asset is any asset that is:

- (a) **cash**;
- (b) an equity instrument of **another entity**;
- (c) a **contractual right** to receive cash or another financial asset from another entity;
- (d) a **contractual right** to exchange financial assets or financial liabilities with another entity under particular conditions; or
- (e) a **particular contract** that will or may be settled in the **entity's own equity instruments**.

Financial reporting

- The remaining options were **Intangible assets** and **Inventory**
- There are however technical considerations as well as limitation on these two standards



Financial reporting

- IFRS 13 (Fair value measurement)
- Classifies assets and liabilities based on their inputs and the implication of cryptocurrencies (No single international exchange)
- “It's not what you know, it's what you can prove in court“ – Law Abiding Citizen
- The future of financial reporting and the disclosure under the current circumstances while there is a lack of financial reporting framework surrounding cryptocurrencies

Taxation

- Clear distinction between the difference types of fair value adjustments (Realised vs. Unrealised)
- Current legislation on gains vs overseas
- What can we expect in the future from tax authorities and crypto currencies

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