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Convexity

STRONGER PRACTICE: THE IMPACT OF REGULATIONS ON PRACTITIONERS

NEXT STAGE ON VIRTUAL ASSETS

Presented By:

Winner Mugana, ACA, CSC





Winner Mugana,
ACA. CSC

ABOUT THE PRESENTER

Winner Mugana is a chartered accountant with over 4 years of experience in the finance and accounting industry. She is currently the Head of Finance and Accounts at Convexity Technologies Ltd, a leading blockchain technology company in Nigeria. She is also a co-founder of Chainkeeping Technologies Ltd, a Digital Asset Accounting and Taxation software company.

Winner is a member of the Institute of Chartered Accountants of Nigeria (ICAN) and is also versed with the knowledge of blockchain and cryptocurrency. She is the founder of the group "Accountants in the Blockchain Industry" and is a frequent speaker at blockchain and cryptocurrency events.

Winner has a wealth of experience in the financial industry, having worked with several organizations, including FAAN, DMISS, and Concordia Luxury Apartments. She is a highly skilled and experienced accountant with a proven track record of success. She is also a passionate advocate for blockchain technology and is committed to using her skills to help businesses and individuals benefit from this emerging technology.

DAY 1:

CONTENTS

- Knowledge Refresher: Virtual Currencies
 - Meaning and misconceptions
 - How it works
 - Types and Sub-types
 - Use Cases/Applications
 - VASPs
 - Market Overview
- Virtual Asset Regulations
 - Why Regulation
 - Virtual Asset Compliance Regulations



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KNOWLEDGE REFRESHER: VIRTUAL CURRENCIES

MEANING OF “VIRTUAL ASSETS”

Virtual Assets means "a digital representation of value that:

Is not Issued/Guaranteed by a Public Authority

Is not Issued or managed by Central Bank

does not possess a legal status of currency or money

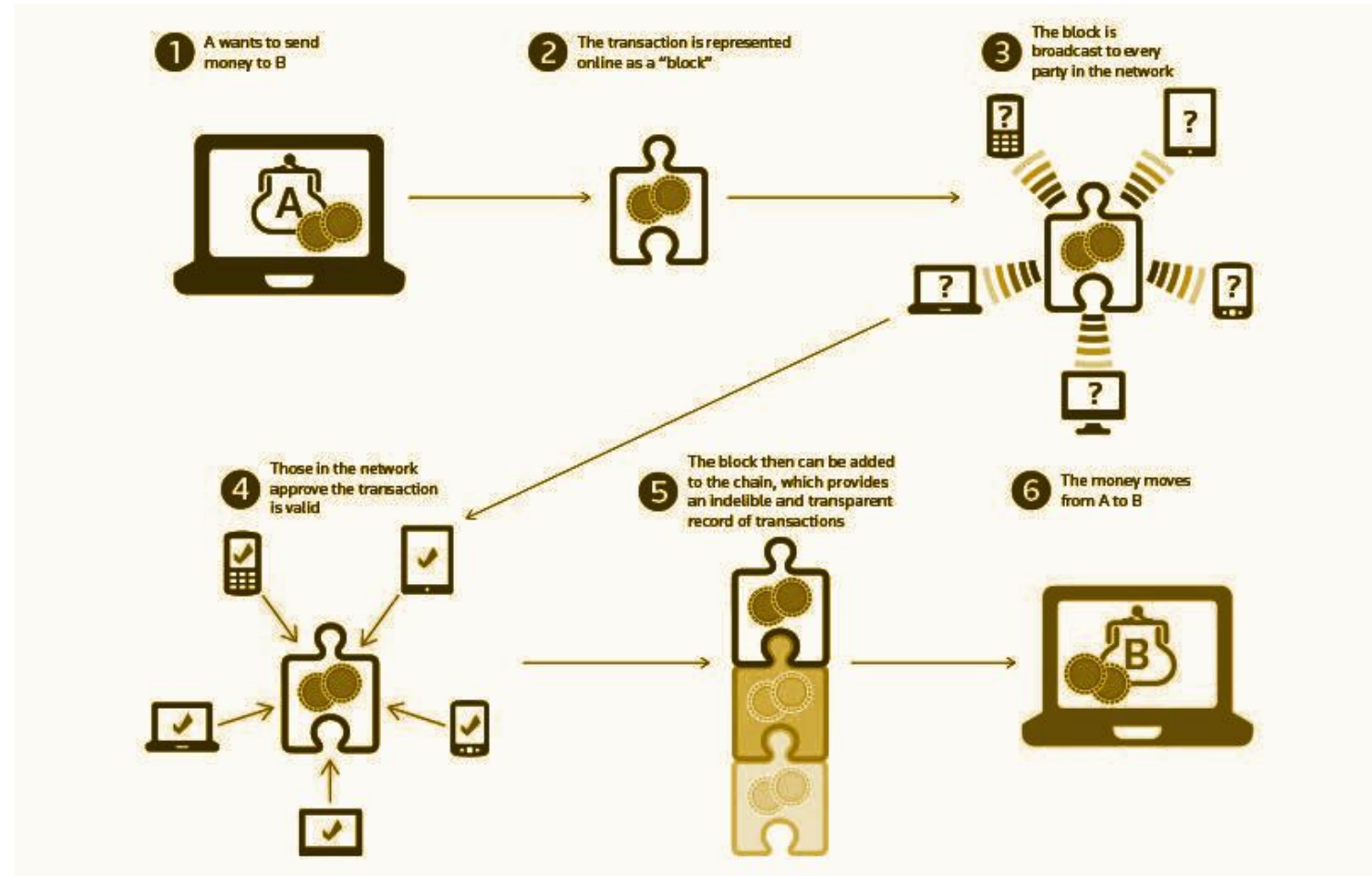
Is not necessarily attached to a legally established currency

Is transferred, stored and traded electronically

is accepted by natural or legal persons as a means of exchange

HOW VIRTUAL ASSETS WORK

- Most Virtual Assets are built on the Decentralized Ledger technology (Blockchain).
- Every transaction is recorded on the distributed Ledger (group of transactions in a block)
- Consensus Mechanism is used to Validate transactions before approval



Source: <https://encrypted-tbn0.gstatic.com/images?q=tbn:ANd9GcQQbhYTUP9vZk1qGVrdCmBbdh0wDySTatgCaQ&usqp=CAU>

TYPES OF VIRTUAL ASSETS

Centralized Virtual Assets

(Closed Virtual Assets)

Decentralized Virtual Assets

(Open Virtual Assets)

CENTRALIZED AND DECENTRALIZED VIRTUAL ASSETS

Closed/Centralized Virtual Assets

As the name suggests, a **closed/centralized virtual asset** operates in a controlled and private ecosystem. It cannot be converted into a real-world asset.

A centralized virtual asset **has a** central administrator or repository. The central administrator of a virtual asset is typically the issuer of that asset.

Example:

In-game currencies used within specific online games or virtual worlds, like World of Warcraft Gold. They can be purchased with real money but typically can't be converted back. Loyalty points: Programs like airline miles or store rewards points are also examples.

Open/Decentralized Virtual Assets

Open/Decentralized virtual asset operate in open ecosystems and can be converted into another asset within or outside the platform.

A decentralized currency **does not have** a third-party central administrator or repository. Instead, a distributed system will authenticate the transactions of a decentralized virtual asset.

Example:

Cryptocurrencies. Bitcoin and Ethereum, the two biggest cryptocurrencies by market capitalization, can be converted into other cryptocurrencies or certain fiat currencies.

VIRTUAL ASSETS SUB-TYPES AND EXAMPLES

- **Cryptocurrencies**

Designed to work as a medium of exchange (purchase and sales).

Examples:

- Bitcoin,
- Ethereum,
- Binance coin,
- Solana,

- **Stablecoins**

Designed to maintain a stable value by pegging to a reserve asset

Examples:

- cNGN,
- USD Coin (USDC),
- Tether USDT,
- DAI.

- **Non-Fungible Tokens**

Unique digital assets representing ownership of a specific item or content.

Examples:

- Digital art,
- Digital collectibles,
- In-game items,
- Real estate tokenization.

APPLICATIONS OF VIRTUAL ASSETS

**Financial
Applications**

**Non-Financial
Applications**

FINANCIAL APPLICATIONS OF VIRTUAL ASSETS

The financial application of virtual assets refers to how the digital representations of value are used **within financial systems**. This is called Decentralized Finance (DeFi)

Key Areas covered

Remittances

Virtual Assets facilitates the sending of money internationally, particularly to underserved populations, as well as family members and friends globally.

Payments

Virtual Assets facilitate faster, cheaper, and more efficient payments and funds receipt, especially for those without access to traditional banking services.

Lending and Borrowing

Virtual Assets are used to facilitate lending and borrowing without an intermediary, to generate or pay interest. DeFi app are available for borrowing, lending, liquidity, yield farming, or other activities.

NON-FINANCIAL APPLICATIONS OF VIRTUAL ASSETS

The non- financial application of virtual assets refers to how the digital representations of value are used in systems other than the financial systems.

Key Areas covered

Digital Arts and Collectibles

Also known as Non Fungible Tokens (NFTs). These are digital representation of art works and collections. Ownership of such works can be easily verified and the art work can be digitally traded.

Digital Supply Chain

Virtual assets enhance supply chain management by recording each step of the supply chain process on an immutable ledger, from origin to delivery, businesses can verify product authenticity, track provenance, and reduce fraud.

Identity Verification

With virtual assets, Instead of relying on centralized authorities, individuals can control their digital identities, with verifiable credentials stored on the blockchain. This approach enhances privacy, reduces the risk of identity theft.

VIRTUAL ASSET SERVICE PROVIDERS (VASPs)



Custodial Wallets

Entities that operate platforms for the buying, selling, and/or exchange of virtual assets for fiat currencies, other virtual assets, or both.

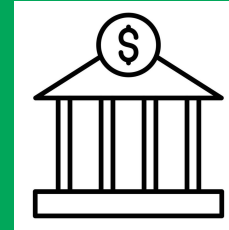
Examples: Crypto Exchanges like Binance, Bybit, Kucoin



Non-Custodial Wallets

Entities that provide Non-custodial wallets, where the user has sole control over their private keys. This means they have full control over their funds.

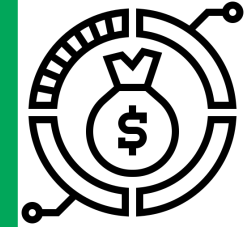
Examples: Crypto Wallets like Trust Wallet, Metamask, Ledger



Virtual Asset Issuers

Entities that issue new virtual assets, whether through Initial Coin Offerings (ICOs), Security Token Offerings (STOs), or other means. Includes creation and issuance of Stablecoins.

Examples: Wrapped CBDC Ltd, Circle USDC.



Virtual Asset Managers

Entities that provide other financial services related to virtual assets, such as portfolio management, participation in and/or operation of markets in virtual assets

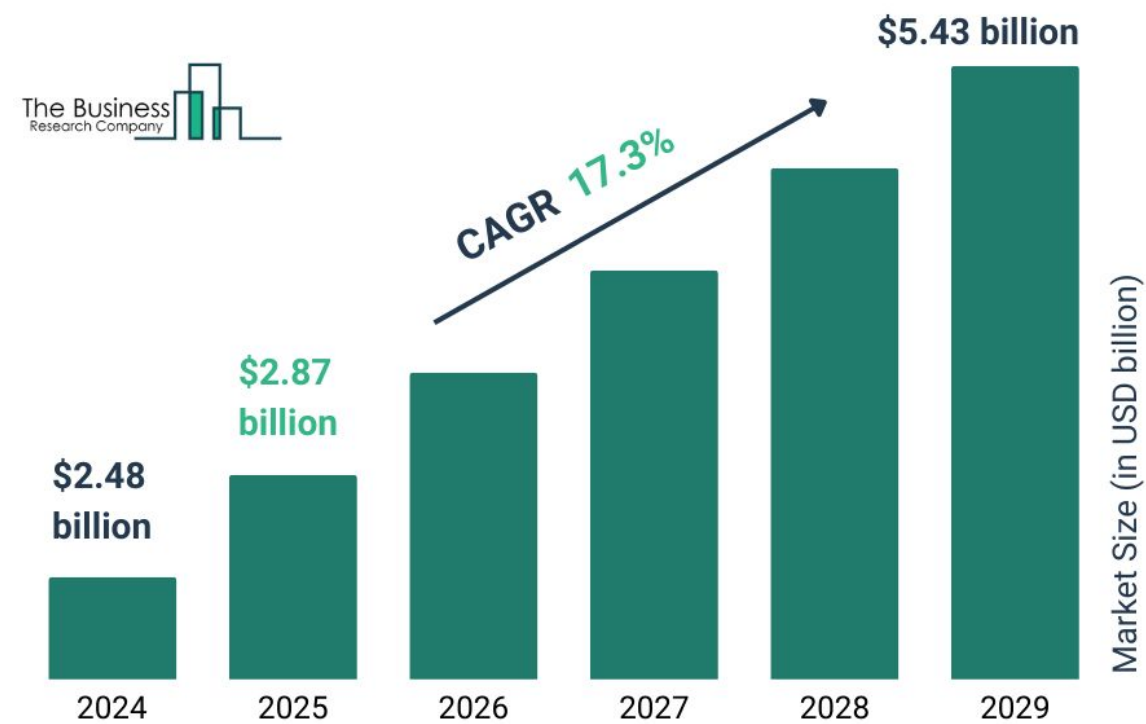
Examples: Pantera Capital, Grayscale Investments

CURRENT VIRTUAL ASSET MARKET OVERVIEW

The cryptocurrency market size has grown rapidly in recent years. It will grow from \$2.48 billion in 2024 to \$2.87 billion in 2025 at a compound annual growth rate (CAGR) of 17.30%. The growth in the historic period can be attributed to early adoption and enthusiasm, market speculation, global financial uncertainty, regulatory developments.

Forecast Market Size Value in 2034	USD 5.43 billion
Market Size Value in 2025	USD 2.87 billion
CAGR from 2025 to 2034	17.30%

Cryptocurrency Global Market Report 2025

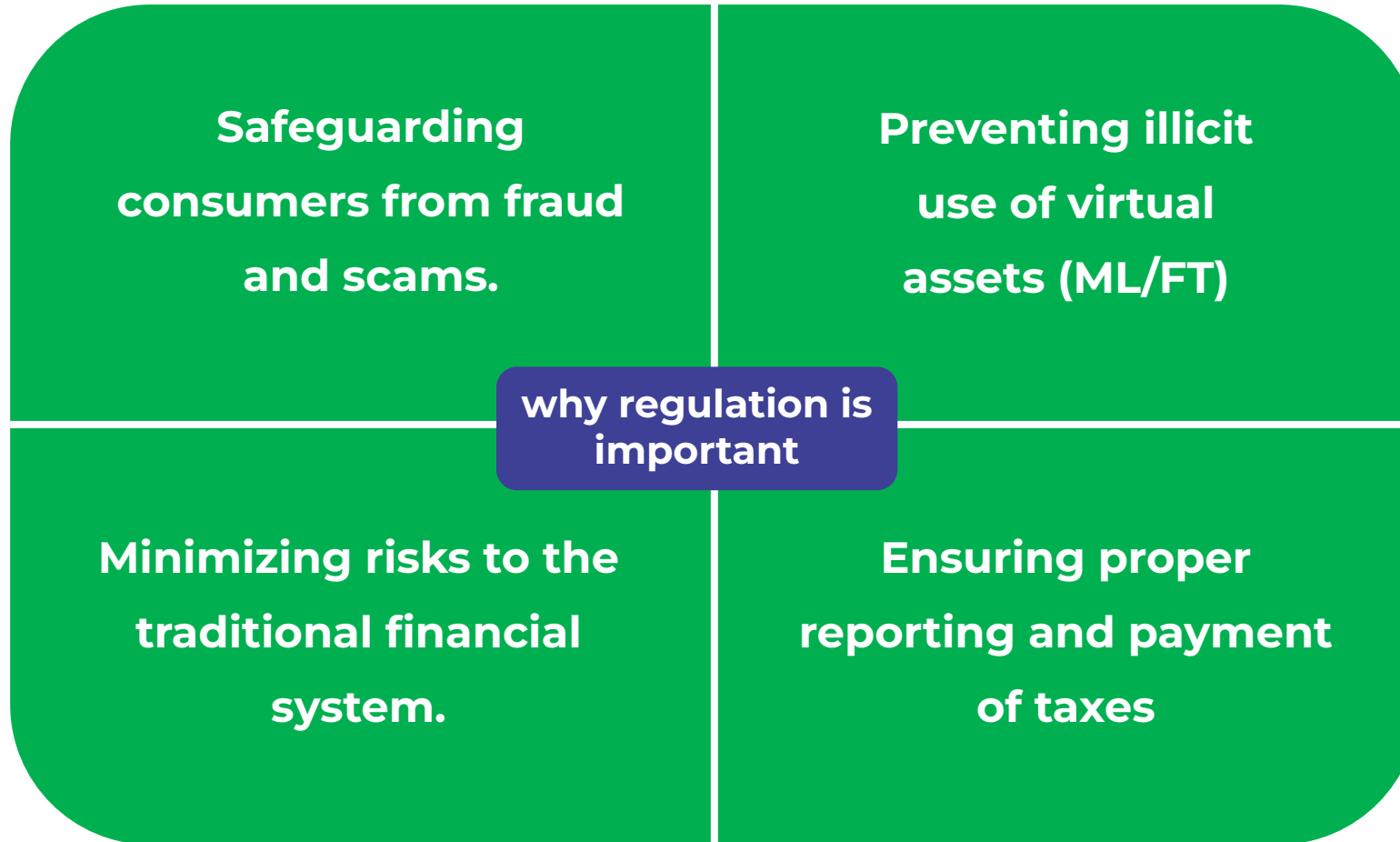




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VIRTUAL ASSETS REGULATION

WHY REGULATE VIRTUAL ASSETS



Safeguarding consumers from fraud and scams.

A significant recovery in Harris County, Texas.

The Houston Police Department (HPD) successfully investigated a cryptocurrency fraud case where an elderly resident was scammed out of over USD 1 million. Detective J. Taylor used blockchain intelligence tools to trace the stolen Ethereum to accounts at a cryptocurrency exchange. HPD froze the accounts, recovered USD 150,000, and returned it to the victim, marking a significant recovery for Harris County, Texas.

<https://www.trmlabs.com/resources/case-studies/how-the-houston-police-department-recovered-150k-in-stolen-crypto>



Preventing illicit use of virtual assets (ML/FT)

Bitfinex Hack (2016)

The Bitfinex cryptocurrency exchange was hacked, resulting in the theft of millions of dollars in Bitcoin. The stolen funds were laundered through various channels, including unregulated exchanges and mixers, making it difficult to trace and recover the assets.

<https://www.chainalysis.com/blog/bitfinex-hack-plea-july-2023/>



Minimizing risks to the traditional financial system.

Pro Research Analysis by Consensus

The rise of cryptocurrency has significantly influenced traditional financial markets. by introducing new dynamics into the financial ecosystem. The decentralized nature of cryptocurrencies allows them to function as units of account, mediums of exchange, and stores of value, similar to traditional fiat currencies, but without the need for intermediaries

<https://consensus.app/questions/what-impact-cryptocurrency-traditional-financial/>



Ensuring proper reporting and payment of taxes

Virtual asset tax compliance

Regulation enhances transparency, improve tax compliance, and close gaps in unreported crypto income.

<https://consensus.app/questions/what-impact-cryptocurrency-traditional-financial/>



KEY VIRTUAL ASSET COMPLIANCE REGULATIONS

- 1 Financial Action Task Force (FATF)**
- 2 Securities and Exchange Commission (SEC)**
- 3 Basel Committee on Banking Supervision (BCBS)**
- 4 International Organization of Securities Commissions (IOSCO)**

FINANCIAL ACTION TASK FORCE (FATF)

The Financial Action Task Force (FATF) has extended its anti-money laundering and counter-terrorist financing (AML/CFT) standards to cover virtual assets (VAs) and virtual asset service providers (VASPs). The core principle is to apply the same AML/CFT obligations to VASPs as apply to traditional financial institutions by preventing the misuse of VAs for illicit activities, bring VASPs into the regulated financial system, and foster international cooperation.



<https://www.fatf-gafi.org/>

FINANCIAL ACTION TASK FORCE (FATF)

Key aspects of the rules include:

DEFINITION OF VASPS



The rules define what entities are considered VASPs and thus subject to regulation.

CUSTOMER DUE DILIGENCE (CDD)



VASPs must identify and verify their customers.

LICENSING AND REGISTRATION



VASPs must be licensed or registered in the jurisdictions where they operate.

FINANCIAL ACTION TASK FORCE (FATF)

RECORD KEEPING



VASPs must maintain records of transactions.

SUSPICIOUS TRNX REPORTING (STRs)



VASPs must report suspicious transactions to authorities.

TRAVEL RULE



VASPs must exchange originator and beneficiary information for VA transfers.

FINANCIAL ACTION TASK FORCE (FATF)

Role of Practitioners:



Client Due Diligence

Practitioners need to understand their clients' involvement with VAs, including the source of funds, nature of transactions, and compliance with AML/CFT regulations.



Audit and Assurance

Auditing VA transactions requires specialized skills to verify the existence, ownership, valuation, and security of these assets.



Financial Reporting

The accounting treatment of VAs is complex and evolving, requiring Practitioners to stay updated on the latest standards and guidance.



Risk Assessment

Practitioners must assess the risks associated with VA transactions, including money laundering, fraud, and regulatory non-compliance.

SECURITIES AND EXCHANGE COMMISSION (SEC)

The Securities and Exchange Commission (SEC) in Nigeria has been developing a regulatory framework for virtual assets to provide legal certainty, protect investors, and foster innovation.

<https://sec.gov.ng/wp-content/uploads/2022/05/Rules-on-Issuance-Offering-and-Custody-of-Digital-Assets.pdf>



SECURITIES AND EXCHANGE COMMISSION (SEC)

Key aspects of the rules include:

CLASSIFICATION OF VIRTUAL ASSETS



SEC recognizes virtual assets as securities, if they meet the characteristics of securities under the existing securities laws

REGULATORY FRAMEWORK



Covers Registration requirement for VASPs, Rules for issuance of virtual assets, Investor protection measures.

LICENSING AND REGISTRATION



VASPs operating in Nigeria are required to register with the SEC and comply with specific requirements

SECURITIES AND EXCHANGE COMMISSION (SEC)

INVESTOR PROTECTION



Includes Disclosure requirements for Virtual Asset Issuers, advertising and marketing rules, Measures to prevent market manipulation

AML AND CFT



SEC regulations incorporate AML and KYC requirements to align with int'l standards and prevent the use of virtual assets for illicit activities.

SUPERVISION AND ENFORCEMENT



SEC is responsible for supervising and enforcing the regulations, with the authority to take action against non-compliant entities.

SECURITIES AND EXCHANGE COMMISSION (SEC)

Role of Practitioners:



Valuation and Reporting

Practitioners must be able to accurately value virtual assets, especially those classified as securities, for financial reporting. This requires understanding the specific rules and guidelines issued by the SEC.



Audit and Assurance

Practitioners need to develop audit procedures to verify the existence, ownership, and valuation of virtual assets held by their clients. They must also assess the risks associated with these assets, including the risk of fraud and non-compliance.



Client Due Diligence

Practitioners should understand their clients' virtual asset activities, including the nature of transactions, compliance with SEC regulations, and adherence to anti-money laundering (AML) and know-your-customer (KYC) requirements.

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

The Basel Committee on Banking Supervision (BCBS) is a global body that sets standards for the regulation of banks. Its guidelines aim to promote the stability of the international banking system.

Purpose of BCBS Standards on Virtual Assets:

- To ensure that banks adequately manage and mitigate the risks associated with virtual assets.
- To prevent virtual assets from undermining the stability of the global banking system.
- To promote a level playing field for banks across different jurisdictions.



<https://www.bis.org/bcbs/publ/d580.htm>, <https://www.bis.org/bcbs/publ/d545.pdf>

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

Key aspects of the rules include:

PRUDENTIAL TREATMENT



This framework sets out how banks should measure and manage the risks of holding or providing services related to virtual assets.

CLASSIFICATION OF VIRTUAL ASSETS



Group 1: Higher-risk virtual assets that do not meet strict criteria, **Group 2:** Lower-risk virtual assets that meet specific criteria.

CAPITAL REQUIREMENT



Imposition of stricter capital requirements on banks' exposures to higher-risk virtual assets (Group 1) than to lower-risk ones (Group 2)

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

RISK MANAGEMENT



Banks must have robust risk management frameworks to address the risks associated with virtual assets: Operational, Market, Liquidity, and Credit risk

DISCLOSURE REQUIREMENTS



Banks are required to disclose their exposures to virtual assets, providing transparency to market participants.

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

Role of Practitioners:



Valuation and Reporting

Practitioners must understand how banks classify and measure their virtual asset exposures, as this will affect how these assets are valued and reported on financial statements, especially based on classification into Group 1 and/or 2.



Capital Adequacy Assessment

Practitioners play a role in assessing whether banks are meeting the BCBS's capital requirements for virtual asset exposures. They need to verify that banks are holding sufficient capital, especially for higher-risk assets.



Risk Management Evaluation

Practitioners need to evaluate the adequacy of a bank's risk management practices related to virtual assets, including the identification, measurement, and mitigation of operational, market, liquidity, and credit risks.



Disclosure and Transparency

The BCBS requires banks to disclose their exposures to virtual assets. Practitioners are involved in preparing and auditing these disclosures, ensuring they are accurate and transparent.

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

The International Organization of Securities Commissions (IOSCO) is an association of organizations that regulate the world's securities and futures markets. IOSCO has issued reports, guidance, and recommendations to help its members understand and respond to the challenges posed by virtual assets. It emphasizes the importance of applying the "same risk, same regulatory outcome" principle, meaning that similar risks should be regulated similarly, regardless of the underlying technology.



<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf>

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

Key aspects of the rules include:

SECURITIES REGULATION



IOSCO's primary concern is with virtual assets that qualify as securities. It provides guidance to its members on applying securities laws to these assets.

INVESTOR PROTECTION



Need to protect investors from the risks associated with investing in virtual assets - fraud, market manipulation, and inadequate disclosure.

MARKET INTEGRITY



Maintenance of the integrity of securities markets, by addressing issues such as market abuse and ensuring fair trading practices

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

REGULATORY COOPERATION



IOSCO promotes cooperation among securities regulators across different jurisdictions to address the cross-border nature of virtual asset activities.

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

Role of Practitioners:



Audit & Financial Reporting

Practitioners need to stay informed about IOSCO's pronouncements on virtual assets, as these pronouncements can influence how these assets are treated in financial reporting and auditing.



Accounting Treatment

The "same risk, same regulatory outcome" principle suggests that Practitioners should apply similar accounting treatments to virtual assets and traditional securities with similar risk profiles



Staying up-to-date with regulations

The push for consistent regulatory approaches highlights the need for Practitioners to be aware of international developments in virtual asset regulation.



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Questions and Answers

Kahoot!

**Thank
You**

**For
Your
Audience**



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DAY 2:

CONTENTS

- Virtual Asset Regulations
 - Virtual Asset Accounting Regulations and Application.
 - IASB
 - FASB
 - Virtual Asset Tax Regulations and Application.
 - CARF
 - Other Countries review
 - Nigeria's virtual asset tax law demystified



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VIRTUAL ASSETS REGULATION

CONTINUED

VIRTUAL CURRENCY ACCOUNTING REGULATION

The below are the Bodies have have Accounting Regulations that cover Virtual Currencies;

**International
Accounting Standards
Board (IASB)**

**Financial Accounting
Standards Board
(FASB)**

The International Accounting Standards Board (IASB) does not provide specific guidance on accounting for virtual currencies. However, it has stated that existing IFRS standards may be applicable in certain situations.

INTERNATIONAL ACCOUNTING STANDARDS BOARD REGULATION

Key Areas covered

INVENTORY

If an entity holds virtual assets for sale in the ordinary course of business, these will be held as inventory and accounted for under IAS 2 Inventories. This generally means measuring them at the lower of cost and net realizable value.

FINANCIAL ASSETS

It might be classified as a financial asset under IFRS 9 Financial Instruments. The specific accounting treatment would depend on the entity's business model and the characteristics of the virtual asset.

INTANGIBLE ASSETS

In some cases, virtual assets might be classified as intangible assets under IAS 38 Intangible Assets.

FINANCIAL ACCOUNTING STANDARD BOARD REGULATION

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update (ASU) 2023-08, which provides the first-ever set of official accounting rules for cryptocurrency under Generally Accepted Accounting Principles (GAAP) and is effective for fiscal years beginning after December 15, 2024, including interim periods within those years.

FINANCIAL ACCOUNTING STANDARDS BOARD REGULATION

Key Aspects of ASU 2023-08

FAIR VALUE MEASUREMENT

The core principle of the ASU is that certain crypto assets held by entities must be measured at fair value. This means that the value of a company's crypto holdings will be updated each reporting period to reflect their current market value.

SEPARATE REPORTING

Crypto assets will be presented at fair value separately from other intangible assets on the balance sheet. Changes in the fair value of crypto assets will be presented apart from changes in the carrying amounts of other intangible assets in the income statement.

RECOGNITION IN NET INCOME:

Changes in the fair value of crypto assets will be directly reflected in the company's net income.

KEY CONSIDERATIONS

In measuring Virtual Assets in the Book of Account, there are a few consideration to be done

1

Purpose of Holding:

The entity's purpose for holding the virtual currency is crucial in determining the appropriate accounting treatment.

2

Business Model:

The entity's business model and how virtual currencies are integrated into its operations will also play a role.

VIRTUAL CURRENCIES ARE TO BE
PRESENTED SEPARATELY IN THE

- **STATEMENT OF FINANCIAL POSITION, and**
- **STATEMENT OF PROFIT OR LOSS**

STATEMENT OF FINANCIAL POSITION

ASSETS

Non-Current Assets

Intangible Asset - Virtual Currencies

- Inventories
- Financial Assets
- Held for Sale
- Cash and Cash Equivalent

Current Assets

LIABILITIES

- Stablecoin Liability

EQUITY

STATEMENT OF PROFIT/LOSS

REVENUE

COST OF SALES

OTHER INCOME

Virtual Assets

- Capital Gain/Loss (Realized Gain/Loss)
- Miscellaneous Incomes

EXPENSE

OTHER COMPREHENSIVE INCOME

Virtual Assets

- Fair Value Gain/Loss (Unrealized Gain/Loss)

MEASUREMENT BASED ON THE PURPOSE OF HOLDING VIRTUAL CURRENCIES

Virtual currencies purchased with the sole aim of selling in the ordinary course of business (Inventory)	Measurements
	IAS 2 - Inventories
	Initial Measurement - To be measured at Cost (First In First Out, Weighted Average Cost Method)
	Subsequent Measurement - At reporting date, it would be measured at the lower of Cost and Net Realizable Value

Example:

A P2P Merchant, FastFast Business Enterprise had an opening balance of \$24,000 cash. He made the following transactions in January 20x5;

Date	Description	Amount
1/1/20x5	Bought 2 BTC	\$24,000
15/1/20x5	Sold 1 BTC	\$16,000
21/1/20x5	Bought 2 BTC	\$31,600
22/1/20x5	Sold 2 BTC	\$30,000

You are required to make the necessary ledger entries.

INVENTORY

- Initial Measurement upon purchase
- Subsequent measurement at the Lower of Cost and Net Realizable Value

Inventory Table (FIFO)

	Purchased	Sold	Unit Cost/Selling Price	Balance
1/1/x5	2 BTC		\$12,000	2 BTC
15/1/x5		1 BTC	\$12,000	1 BTC
21/1/x5	2 BTC		\$15,800	3 BTC
22/1/x5		2 BTC	1 @ \$12,000	1 BTC
			1 @ \$15,800	
	<u>4 BTC</u>	<u>3 BTC</u>		

Assuming the reporting date is 31/1/x5, the closing inventory of 1 BTC is to be carried at the lower of Cost and Net Realizable Value

Cost = \$15,800 while NRV = Market Price at 31/1/x5, is \$15,500.

Dr	Inventory Account				Cr
1/1/x5	2 BTC	\$24,000	15/1/x5	1 BTC	\$12,000
21/1/x5	2 BTC	\$31,600	22/1/x5	2 BTC	\$27,800
			Fair Value Loss		\$300
			Closing Inventory		<u>\$15,500</u>
		<u>\$55,600</u>			<u>\$55,600</u>

Dr	Revenue Account				Cr
31/1/x5	Bal/c/d	\$46,000	15/1/x5	1 BTC	\$16,000
			22/1/x5	2 BTC	<u>\$30,000</u>
		<u>\$46,000</u>			<u>\$46,000</u>

Dr	Cash and Cash Equivalent				Cr
1/1/x5	Bal/b/f	\$24,000	1/1/x5	2 BTC	\$24,000
15/1/x5	1 BTC	\$16,000	21/1/x5	2 BTC	\$31,600
22/1/x5	2 BTC	<u>\$30,000</u>	31/1/x5	Bal/c/d	<u>\$14,400</u>
		<u>\$70,000</u>			<u>\$70,000</u>

MEASUREMENT BASED ON THE PURPOSE OF HOLDING VIRTUAL CURRENCIES

<p>Held or Purchased for the long term to be sold at a later date with gain. This is called Hodling.</p> <p>(Intangible Asset Held for Future Sale)</p>	<p>Measurements</p> <p>IFRS 5: Non-current Assets Held for Sale</p> <p>Initial Measurement - To be measured at Cost</p> <p>Subsequent Measurement: After initial classification as held for sale, the asset is remeasured at each reporting date to reflect any changes in fair value less costs to sell.</p> <p>Impairment Losses - If the fair value less costs to sell is lower than the carrying amount, an impairment loss is recognized in profit or loss statement.</p>
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Example:

A company purchased 10 BTC @ \$50,000 each on 5th March 20x5, with the intention to Hodl and sell in the long term to make profit. The market price at the reporting date 31/12/X5 and 31/12/X6 were \$49,000 and \$52,000 respectively.

Solution

Initial Recognition

Dr	Non Current Asset Held for Sale	\$500,000
Cr	Bank	\$500,000

- Subsequent Measurement: After initial classification as held for sale, the asset is remeasured at each reporting date to reflect any changes in fair value less costs to sell.
- Impairment Losses - If the fair value less costs to sell is lower than the carrying amount, an impairment loss is recognized in profit or loss statement.

Non Current Asset Held for Sale Account					
Dr			Cr		
5/3/x5	10 BTC	\$500,000	31/12/x5	Impairment	\$10,000
		_____	31/12/x5	Bal/c/d	<u>\$490,000</u>
		\$500,000			\$500,000
1/1/x6	Bal/b/f	\$490,000	31/12/x6	Bal/c/d	\$520,000
	31/12/x6 Fair Value Gain	<u>\$30,000</u>			_____
		\$520,000			\$520,000

At Reporting Date 31/12/X5

Carrying Amount	\$500,000
Fair Value less Cost to sell	<u>\$490,000</u>
Impairment loss	<u>\$10,000</u>

Cr	Non Current Asset held for sale	\$10,000
Dr	P/L (Impairment Loss)	\$10,000

At Reporting Date 31/12/X6

Carrying Amount	\$490,000
Fair Value less Cost to sell	<u>\$520,000</u>
Fair Value Gain	<u>\$ 30,000</u>

Dr	Non Current Asset held for sale	\$30,000
Cr	P/L (Fair Value Gain)	\$30,000

MEASUREMENT BASED ON THE PURPOSE OF HOLDING VIRTUAL CURRENCIES

	Measurements
Held or Purchased for Trading (Spot, Futures, Margin, Options Trading) to make Profit or Staking. (Derivative Financial Assets)	IFRS 9 - Financial Instruments (Derivative Financial Assets) Initial Measurement - To be measured at Fair Value on the commitment date less the Present Value of expected losses Subsequent Measurement - remeasured at fair value through Profit or loss (FVTPL) with changes in Fair Value recognized directly in profit or loss.

Example:

A company purchased 10 BTC @ \$50,000 each on 5th March 20x5, with the intention trade it, to make profit. The expected return based on the contract with traders is 20% by year end. The expected loss based on the agreed stop-loss to be used is \$10,000. At the reporting date, the traders had 12 BTC and the market price was \$57,000. The gain was transferred to the Company's Operating Account with the capital of \$500,000 retained in the trading account for the next accounting period.

Solution

Initial Recognition

Dr	Financial Asset	\$490,000 (\$500,000 less \$10,000)
Cr	Bank	\$500,000
Dr	Impairment	\$10,000

- Subsequent Measurement - remeasured at fair value with changes in Fair Value recognized directly in profit or loss.

Dr	Financial Asset Account		Cr
5/3/x5 10 BTC	\$490,000	31/12/20x5 Transferred to Bank	\$184,000
31/12/x5 Trading Profit	\$100,000		
31/12/x5 Fair Value Gain	<u>\$94,000</u>	Bal/c/d	<u>\$500,000</u>
	<u>\$684,000</u>		<u>\$684,000</u>

At Reporting Date 31/12/X5

Carrying Amount	\$490,000
Trading Profit (2 BTC)	\$100,000
Fair Value Gain	\$94,000
Carrying Amount @ YE	\$684,000

Dr	Financial Asset	\$194,000
Cr	Other Income - Trading	\$90,000
Cr	Other Income - Fair Value Gain	\$94,000
Cr	Impairment Loss	\$10,000

On Transfer of Trading Gains and Fair Value

Dr	Cash and Cash Equivalent	\$184,000
Cr	Financial Asset	\$184,000

MEASUREMENT BASED ON THE PURPOSE OF HOLDING VIRTUAL CURRENCIES

	Measurements
Held/received as cash in the ordinary course business operations (Cash and Cash Equivalent)	Upon receipt or purchase, this is measured at the price at that date. Subsequently it is measured at Fair Value with translation gains recognized as reserve in Other comprehensive income and Equity, to be reclassified upon realization. It is also subsequently recognized based on the decision of the Entity on its use.

Example:

A customer purchased goods and services from Andy Ltd and paid an equivalent of the Sales Value with 12.5 ETH when ETH's market price was \$8,000. At the reporting date, the market price of ETH was \$8,300.

Solution

Sale of Goods/Services

Dr	Cash and Cash Equivalent	\$100,000
Cr	Revenue Account	\$100,000

Reporting Date

Dr	Cash and Cash Equivalent	\$3,750
Cr	Translation Reserve	\$3,750

MEASUREMENT BASED ON THE PURPOSE OF HOLDING VIRTUAL CURRENCIES

	Measurements
Received as reward or benefit for an activity. E.g. Airdrops, Inheritance, learn and earn rewards, play ad earn rewards. (Other Income - Virtual Currencies)	Upon receipt, this is measured at the price at that date and recognized as a sub line Item under Other Income . Subsequently it is measured and recognized based on the decision of the Entity on its use, which can be as the previously explained classifications.

Example:

A company received an airdrop of 0.0590 BTC for having BTC in its holdings, when BTC was \$100,000.

Solution

Ledger Entry

Dr	Cash and Cash Equivalent	\$5,900 ($\$100,000 * 0.0590$)
Cr	Other Income	\$5,900 ($\$100,000 * 0.0590$)

CAPITAL GAINS

Realized Profit/Gain on sale of Virtual Currencies. This can be either through Payment for goods or conversion to cash or conversion to another virtual currency
(Capital Gain/Loss)

Measurements

Notwithstanding the classification of Virtual Currencies, whether as Financial Assets, Cash and Cash Equivalent, NCA Held for sale, etc, once there is a sale or payment the Capital Gain must be computed:

$$\text{Capital Gain/Loss} = \text{Sales Price less Cost Price}$$

This is to be recognized as a separate line item and taxed differently at 10% in line with the current Nigeria's tax regulation.

Example:

A company received an airdrop of 0.0590 BTC for having BTC in its holdings, when BTC was \$100,000. After a Month, the value had increased to \$105,000 and the company decided to sell it and convert to Cash.

Solution

Capital Gain Computation

$$\begin{aligned} &= \text{Sales Price} - \text{Cost Price} \\ &= (0.0590 * \$105,000) - (0.0590 * \$100,000) \\ &= \$6,195 - \$5,900 \\ &= \$295 \end{aligned}$$

VIRTUAL CURRENCY TAX REGULATION

**Crypto Accounting
Reporting Framework
(CARF)**

**Regulatory
Approaches in Key
African Countries**

**Nigeria: Federal Inland
Revenue Service
(FIRS)**

TAX CHALLENGES POSED BY VIRTUAL ASSETS

Classification and Valuation issues -

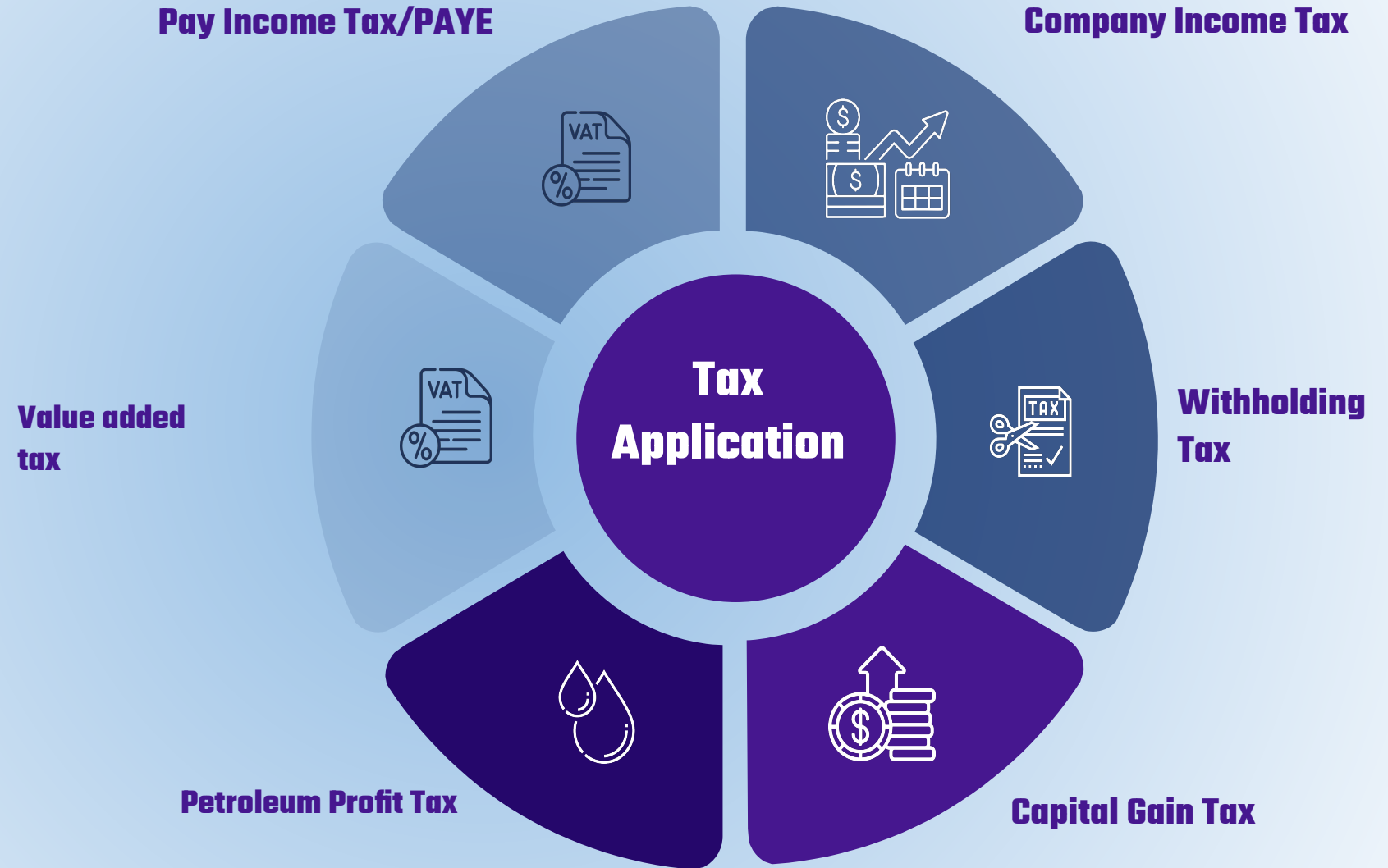
Determining whether virtual assets are income, capital gains, property, or currency and also determining the fair market value of virtual assets.

Capacity Building - There is a need for increased capacity building among tax authorities in Africa to effectively understand and address the complexities of virtual asset taxation

Enforcement - Tax authorities in Africa may face challenges in enforcing tax laws related to virtual assets due to the decentralized and cross-border nature of these assets.

Lack of Clarity - Many countries are still developing their regulatory frameworks for virtual assets, leading to uncertainty about how these assets will be taxed.

TAXATION APPROACHES



CRYPTO ASSETS REPORTING FRAMEWORK (CARF)

The Crypto Asset Reporting Framework (CARF) is an international framework developed by the Organization for Economic Co-operation and Development (OECD) for the automatic exchange of information on crypto-assets. It's designed to improve tax compliance and prevent tax evasion by ensuring that tax authorities have visibility into cryptocurrency transactions.

KEY ASPECTS OF CARF

AUTOMATIC EXCHANGE OF INFORMATION

CARF requires Crypto-Asset Service Providers (CASPs) to report information about their users and their crypto-asset transactions to tax authorities. This information is then automatically exchanged between participating jurisdictions.



KEY ASPECTS OF CARF

SCOPE OF REPORTABLE CRYPTO-ASSETS

CARF covers a broad range of crypto-assets, including cryptocurrencies and other digital assets held or transferred by CASPs on behalf of their customers.



KEY ASPECTS OF CARF

REPORTING ENTITIES

The framework applies to entities that provide services related to crypto-assets, including exchanges, brokers, and custodians. These entities are responsible for collecting and reporting the required information.
(VASPs)



KEY ASPECTS OF CARF

INFORMATION TO BE REPORTED

CASPs must report information such as:

- The identity of the customer
- The customer's residence
- The types and amounts of crypto-assets held or transferred
- The value of transactions



KEY ASPECTS OF CARF

PURPOSE

CARF aims to address the tax challenges posed by the growth of the crypto-asset market by:

- Increasing transparency
- Deterring tax evasion
- Helping tax authorities to accurately assess and collect taxes on crypto-asset transactions



KEY ASPECTS OF CARF

INTERNATIONAL COOPERATION

CARF promotes international cooperation among tax authorities, enabling them to exchange information and work together to ensure tax compliance in the crypto-asset space.



Tax regulations for virtual assets vary significantly across the globe, reflecting the evolving nature of these assets and the challenges they pose to traditional tax systems.

► CRYPTO TAX – Various Countries classifications



Applied their normal income tax rules to cryptocurrencies and expects affected taxpayers to declare cryptocurrency gains or losses as part of their taxable income.

► CRYPTO TAX – Various Countries classifications



General national tax law principles are applied to virtual assets. The taxation of virtual assets in Mauritius depends on how the transactions and holdings are classified under existing tax laws.

► CRYPTO TAX – Various Countries classifications



The Nigeria Tax Bill 2024

The newly proposed tax bill (Part 2, No. 4(j)), explicitly states that “profits or gains from transactions in digital assets” are part of Incomes, Profits or gains chargeable to tax. In calculating these gains/incomes/profits, the law states that “any loss incurred in any period from sales, disposal or any other transaction in digital assets shall only be deductible against the profit or gain from digital assets”.

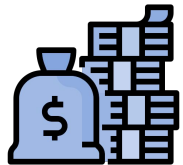
Tax regulations for virtual assets vary significantly across the globe, reflecting the evolving nature of these assets and the challenges they pose to traditional tax systems.

TAXES APPLICABLE TO VIRTUAL ASSETS



Capital Gains Tax (CGT)

This tax is computed at 10% of Net Capital Gains. The Net Capital Gains is the difference between the Selling Price and the Cost Basis of the digital asset of a digital asset user.



Income Tax (PIT and CIT)

This is a tax levied on every Income other than the Capital Gains of a Digital Asset user.



VAT Considerations

Depending on the transaction, where a user offer services or sells goods/products to a customer and receives payment in digital asset, that revenue will be subject to VAT.



WHT Considerations

Depending on the transaction, where a user receives services or goods/products from a Vendor and receives payment in digital asset, that revenue will be subject to .

◀ RESIDENCY AS IT RELATES TO DIGITAL ASSET TAXATION

Digital Assets Chargeable to Tax in Nigeria are those resident in Nigeria. Digital assets are said to be resident in Nigeria **where the person who holds direct or indirect beneficial ownership, control or interest over the right or property is resident in Nigeria or has a permanent establishment in Nigeria to which the property is connected.**





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CONCLUSION

CONCLUSION

The emergence and fast adoption of virtual assets has presented both challenges and opportunities for practitioners. While their volatile nature and evolving regulatory landscape pose complexities, **understanding their intended use and applying appropriate accounting standards** is crucial, as well as keeping up-to-date with emerging regulations.

THE PRACTITIONER'S TOOLKIT FOR THE NEXT STAGE

DEVELOPING A VIRTUAL ASSET PRACTICE

- Identifying Client Needs and Opportunities.
- Building Expertise and Capacity Within Your Firm.
- Networking and Collaboration.

ESSENTIAL TOOLS AND RESOURCES

- Blockchain Analytics Tools.
- Risk Assessment Frameworks.
- Compliance Software.

ETHICAL CONSIDERATIONS

- Conflicts of Interest.
- Client Confidentiality.
- Professional Skepticism

CONTINUING PROFESSIONAL DEVELOPMENT (CPD)

- Staying Up-to-Date with the Latest Developments.
- Relevant Certifications and Training Programs.



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Questions and Answers

Kahoot!

**Thank
You**

**For
Your
Audience**