



# AFTER THE FALL: THE FUTURE OF CRYPTO

FEATURING HERB RUBENSTEIN, JD, MPA, PGA

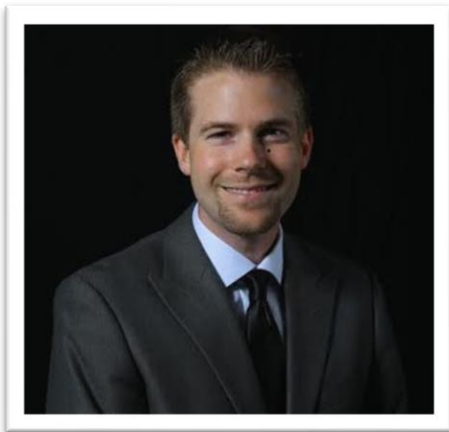




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## Learning Objectives

- Identify cryptocurrency technology from a technical and business perspective
- Discover how cryptocurrency component parts and ecosystem create value in the marketplace
- Identify key Cryptocurrency opportunities for you and your future in the accounting profession
- Recognize FASB, AICPA and SEC Rules regarding cryptocurrency

# What is CryptoCurrency?

- Not an easy question to answer, but it was answered recently by a federal judge in the case of Ripple Labs: See: <https://www.reuters.com/business/finance/signs-crypto-winter-ending-regulatory-fog-begins-lift-2023-07-14/>
- SEC sues cryptocurrency XRP and the company that created it, Ripple Labs, a software company, arguing that it violated securities laws and regulation by selling crypto which it argued was a "security."
- Federal Judge ruled XRP was a currency and not a security (something expected to rise in value and bought and held for profit – common definition of security)
- Some believe banks will now be much more willing to "handle" crypto deposits, transactions, and crypto prices will rise
- There are over 22,000 cryptocurrencies: See: <https://www.forbes.com/advisor/investing/cryptocurrency/different-types-of-cryptocurrencies/#:~:text=How%20Many%20Cryptocurrencies%20Are%20There,market%20capitalization%20of%20%241.1%20trillion.>

# Polling Question 1

I would rate my familiarity with Crypto Currency as:

- A) Have not heard much about Crypto Currency before this webinar
- B) My business offers services to clients who use crypto
- C) I am an expert on crypto currency
- D) I do not think crypto currency will catch on in the US



# Early History of Crypto Currency (2009-17)

- Once the internet took hold CryptoCurrency was inevitable due to “globalization” since crypto is a “global currency”
- Global currency, no exchange rates, no government manipulation of value, block chain technology keeps perfectly accurate, permanent and immutable (not changeable) record of all transactions
- Global actors seeking to decentralize and spread commerce to the billions with cellphones, internet but can't afford banks
- Micro-transfers of money, frictionless and one day virtually costless
- Creating new forms of organizations like DAO's and virtual assets like Non-Fungible tokens
- Bitcoin Price .09 in 2009, \$1,247, 4/2017 then \$19,650 12/17 then crash

# Middle History of Crypto Currency (2018-22)

- Volatile asset, several major coins, Bitcoin, Eth, USD (Stable Coin)
- Over 10,000 different cryptocurrencies hit the market
- Value rises from 1/18 at \$10,100 to \$65,500 by 11/21 and plunges to \$15,800 by 11/22
- Lots of theft due to human error, high environmental costs to produce/mint coins (thousands of computers must agree via blockchain technology and record/follow coin in its minute parts)
- Bad actors use “exchanges” to reinvest the money people hold with them and lose it; USD crashes – insufficient capital, Ponzinomics

# Recent History of Crypto Currency (2022-23)

- Government enforcement of basic fraud, misrepresentation, securities violations by nearly every major crypto exchange
- Slow rise in the NFT economy, ownership of digital assets and digitization of other assets (deeds, memberships, ticket sales, religious artifacts, The Constitution) and slow rise of DAO's which are designed to be decentralized, member owned, no hierarchy
- Government regulation now being contemplated
- US Government's pilot tests its own digital currency backed by the US dollar and pilot goes well ending in 7/23
- Decentralization, goal of Dee Hock when he created VISA that he wanted to be run locally through small banks, seems to be failing crypto as it did Dee Hock, and centralization and economies of scale taking over making a few rich but not expanding commerce quickly
- Banks, MicroStrategy, financial houses take large stakes in crypto, Venture money continues to pour in to sector, but at slower rate as crypto recovers from bottom and is at about \$30,000 in 7/23



# This is the However Slide on Crypto's Price

- Binance, a huge crypto exchange just announced it was laying off 1,000 people
- Coinbase, another major crypto exchange says it will only deal with “retail” customers going forward
- Celsius, with debts of 4.7B and likely 4.7B owed to depositors, filed for bankruptcy in June 2022 and now its CEO has recently been arrested. It is selling off its crypto holdings in a “fire sale” which might bring down crypto prices: See: <https://blockworks.co/news/celsius-sending-crypto-exchange>
- Big purchases/sales in a “small market” are unpredictable and make this market very volatile.
- Some say crypto prices are tied to “known measures of liquidity – M1 and M2 money supply, expansionary/restrictive fiscal policies, but this does not seem to be the case lately.
- Herb's rule: Only speculate with money you are fine losing, timing is everything in whether you profit or not. I don't recommend anyone but currency traders or others watching and learning about this market full-time, get much into crypto trading, and certainly not companies, although MicroStrategy seems to be doing well with its massive crypto purchases (over 600M) on its balance sheet.

# Prices of Crypto Over the Past Year

- \$16,666 Jan 3, 2023; \$30,786 Jul 12, 2023; Up 80% in 2023
- Maybe related to large buyers like MicroStrategy – purchased over half-billion much at appx \$17,000 and some in the low \$20,000's
- SAP planning major roll out of a cryptocurrency exchange
- State of Colorado accepts bitcoin for tax payments, the logical result of its marijuana industry's reliance on cash
- Opening up crypto wallets, still not easy, with its 12 word, must be in perfect order “password” (lose it lose your money)
- Models being built on how to predict future crypto prices for each currency – See Yale: <https://insights.som.yale.edu/insights/data-from-twitter-can-predict-crypto-coins-ascent>

# Major Cryptocurrencies

- Bitcoin (BTC) Market cap: \$590.7 billion. ...
- Ethereum (ETH) Market cap: \$224.6 billion. ...
- Tether (USDT) Market cap: \$83.4 billion. ...
- Binance Coin (BNB) Market cap: \$38.5 billion. ...
- U.S. Dollar Coin (USDC) Market cap: \$27.4 billion. ...
- XRP (XRP) Market cap: \$24.9 billion. ...
- Cardano (ADA) Market cap: \$10.2 billion. ...
- Dogecoin (DOGE): See:  
<https://www.forbes.com/advisor/investing/cryptocurrency/top-10-cryptocurrencies/> and <https://www.schwab.com/cryptocurrency>

# Major CryptoCurrency Exchanges – More than just a bank and NOT specifically regulated except through normal criminal laws – often off-shore

- Binance
- Coinbase
- Kraken
- KuCoin
- Bybit
- OKK
- Bitstamp
- Source: <https://coinmarketcap.com/rankings/exchanges/>

# Problems with Crypto

- Unregulated market, difficult to ensure asset, difficult to handle if the individual becomes the “CUSTODIAN” of the currency, which means the individual is “THE BANK” for him/herself
- Huge reputational problems with fraud, gimmicks, bad actors
- Lurching enforcement will put many crypto-billionaires behind bars
- Industry started as anti-banks, anti-government, utopian ideal
- Ran into reality – you still had to run your crypto enterprise as a business and many failed to do that
- Accounting, legal industries getting up to speed but has a long way to go due to lack of consistent government regulation/enforcement

# Inherent Weak Link in Crypto World

- Crypto was to be a currency only, not a security or the center of a financial set of tools like derivatives, collateralization,
- Big finance took over and made it an investment asset, tool, used as collateralization when it was highly volatile, derivatives, credit swaps, huge borrowing between crypto companies all led to huge risk taking and billions and billions of losses
- Decentralization is always tough to maintain as people sell to highest bidder and economies of scale leads initially to better bargains, lower transaction fees, but eventually gives way to monopoly power
- Many pro-government regulation people and businesses like banks, current stock exchanges present negative news every day harming the industry – remember how often banks used to get robbed!
- Overpromises - like hedge against inflation (works for crypto holders in Brazil, Venezeula as value of currencies there plummet, but not crypto

# Recent News In the Crypto Space

- Blockchain/Crypto combination can speed payments and governments now looking to use them for government benefits
- See: <https://subscriber.politicopro.com/article/2023/07/new-york-fed-led-experiment-concludes-blockchains-cbdc-could-speed-payments-00104909>
- Great regulatory overview: <https://arizent.brightspotcdn.com/6e/1b/fb80d7ed443ab2467b27ba450b06/apex-ebook-crypto-regulation-2023.pdf>
- OECD finalizes global tax reporting regs/framework for crypto, EU endorses crypto assets regulation bill; US lags behind
- Kraken ordered to turn over all records including user information since inception: See: <https://www.accountingtoday.com/articles/kraken-ordered-to-turn-over-its-users-information-to-the-irs>

# Sources of Value in Crypto Currency

- Transactional efficiency and could streamline commerce
- Opens up new markets
- Straddles fence between two worlds – currency and investment vehicle with derivatives, other financial uses are unlimited
- Creates new “group” in the economy and promotes new product development
- Builds on the great strength of blockchain record keeping
- Many companies and governments would do well to begin to accept crypto as revenue, tax revenue
- Aids in international transactions as no currency transfer fees
- Globally accepted, except where governments are trying to outlaw it



# Crypto Currency Business Cases – Opportunities Today

- New accounting services for consumers trading in cryptocurrency and accepting or paying for services using cryptocurrency
- Consulting services for enterprises that want to use cryptocurrency in their current business model
- Stable Coins and US government pilot project with the first US Government backed digital currency
- International Aspects of Cryptocurrency

# Crypto Business Cases – Opportunities and Challenges Today

- Taxation and tax planning
- Analysis of value of crypto for the balance sheet
- Microstrategy and treating crypto as an investment tool and holds 4.7B in crypto assets after new 342M purchase in 2023. See: [https://www.virginiabusiness.com/article/microstrategy-buys-347m-more-in-bitcoin-in-q2/?oly\\_enc\\_id=7798C9398367B9Q](https://www.virginiabusiness.com/article/microstrategy-buys-347m-more-in-bitcoin-in-q2/?oly_enc_id=7798C9398367B9Q)
- Market timing strategies for holding crypto
- Facilitating crypto payments via crypto wallets on cell phones
- Password issues, hacking and theft issues related to crypto – Fraud is Fraud
- Uncertainly in the US regulatory approach to crypto

# Stablecoins real world accounting use cases

- Stablecoins' value is “tied” to a fiat currency. They serve 2 significant roles:
- One is a unit of account for trading platforms both centralized offshore exchanges and decentralized financial markets
- Use case 2 is intermediate-term savings mechanism for people in emerging markets or countries with failing currencies
- Tether is the largest existing stablecoin. One major use of stablecoins is to bridge between official currencies (fiat) and crypto-assets
- EURS is a digital token developed by STATIS that is pegged to the Euro. It is the world's largest Euro backed stablecoin

# Polling Question 2

I have clients that have asked for professional advice about

- A.** How to accept and spend cryptocurrency
- B.** Future of Crypto regulation
- C.** Taxation and Filing tax returns including Cryptocurrency deals
- D.** No one has asked me for accounting guidance around Crypto



# The Evolving Regulatory Environment of Crypto in the US

FASB, SEC, ICFTC, IRS, emerging Bills

# US Government Regulatory Current Situation

- March 2023 FASB proposes new accounting standards for crypto treatment - [https://fasb.org/page/getarticle?uid=fasb\\_Media\\_Advisory\\_03-23-23](https://fasb.org/page/getarticle?uid=fasb_Media_Advisory_03-23-23)
- SEC enforcement attacking all crypto exchanges, many large crypto players for sanctions violation, money laundering and issues ICO (initial coin offering) guidance: <https://www.sec.gov/files/dlt-framework.pdf>
- SEC views crypto as investment vehicle/asset; See: <https://www.sofi.com/learn/content/cryptocurrency-rules-regulations/>
- CFTC – crypto considered “commodity” subject to CFTC regulation, still waiting for comprehensive regulation from CFTC if given Congressional authority
- NFTs are by their very nature non-fungible and may carry rights to underlying assets but treatment of them on the balance sheet (at what value) still being discussed
- Some stablecoins are considered tangible assets; crypto intangible

# Crypto and Taxes (including cost basis)

- See: <https://www.bankrate.com/investing/crypto-taxes-guide-bitcoin-ethereum/#:~:text=The%20IRS%20generally%20treats%20gains,held%20less%20than%20a%20year.>
- IRS definition of digital asset:  
<https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets>
- Crypto rules by IRS still not released in mid-2023; See:  
<https://www.politico.com/news/2023/06/26/crypto-tax-regulations-00101937>

# Crypto and Taxes (Con't) From the IRS

- Transactions involving a digital asset are generally required to be reported on a tax return.
- Taxable income, gain or loss may result from transactions including, but not limited to:
- Sale of a digital asset for fiat
- Exchange of a digital asset for property, goods, or services
- Exchange or trade of one digital asset for another digital asset
- Receipt of a digital asset as payment for goods or services
- Receipt of a new digital asset as a result of a hard fork
- Receipt of a new digital asset as a result of mining or staking activities
- Receipt of a digital asset as a result of an airdrop
- Any other disposition of a financial interest in a digital asset

Note: the transfer of property, including a digital asset, as a bona fide gift, requires the filing of Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return if the fair market value of the property, at the time of the transfer, exceeds the donor's annual gift exclusion amount available at the time of the transfer.



# State Government Regulation of Crypto

- See: <https://pro.bloomberglaw.com/brief/cryptocurrency-laws-and-regulations-by-state/>
- Varies state to state
- New York, Florida, CA all seek to be crypto leaders to promote their economies
- State and Federal banking laws will need to be changed

# US Securities Exchange Commission (SEC)

- As of July 2023, the SEC had yet to begin any kind of formal effort to issue rules directing crypto exchanges to register as securities exchanges.
- In the absence of formal rulemaking efforts exchanges, traders and consumers are guessing at what the SEC approach might be
- There is no timeline for the bills in Congress and the SEC does not seem ready to issue crypto rules
- The method today is enforcement with individual start ups and Web3 companies
- The legal consequences of issuing unregistered securities include fines and criminal prosecution. All three crypto major exchanges, Binance, Kraken and Coinbase are under investigation and expect charges soon against each
- SAP stepping in and will create a new crypto exchange

# Internal Revenue Service (IRS)

- IRS Notice 2014-21 provides guidance for individuals and businesses
- For Federal Tax purposes transactions involving digital assets are taxable by law just like transactions of any other property. US residents are expected to report these transactions on their tax returns.
- Taxable events include:
  - sale of a digital asset
  - exchange of digital assets, property, goods and services
  - exchange or trade of one digital asset for another
  - receipt of a digital asset as payment for goods or services, mining, staking
  - receipt of a digital asset as a result of an air drop
  - use of digital asset to pay for goods and services, mining, staking
  - any disposition of a financial interest in a digital asset
  - receipt of transfer of a digital asset for free that does not qualify as a bona fide gift

# American Institute of CPAs

- In December 2022 the AICPA issued an updated nonauthoritative guidance in the form of a Practice Aid on how to account for digital assets: See: <https://www.aicpa-cima.com/resources/download/accounting-for-and-auditing-of-digital-assets-practice-aid-pdf>
- The guide is based on professional literature and experience of the Digital Assets Working group and is specific to the US generally accepted accounting principles (GAAP)
- Plus newer guide: <https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2023/aicpa-digital-assets-crypto>
- Plus see Blockchain and Distributed Ledger Technology report by the AICPA

# Questions to Expect from Clients

- Is cryptocurrency taxable?
  - Are currency swaps a taxable event?
  - Are NFTs taxable?
- Can I do a “wash sale” with crypto? Yes, but...Congress is seeking to close this since “wash sales” with securities require a waiting period
- How do we harvest losses?
- Are there capital gains reduction strategies?
- What happens if my assets get stolen from my wallet?
- Do cryptocurrency exchanges deliver tax documents?
- Can I create a company to be a professional trader?

# Expanding your Business and Influence

- Below are proven methods for expanding your business or improving your influence if you work for an organization that does not provide public accounting services to clients
- This is an excellent career development strategy, plus should put money in your pocket by making you more valuable to public clients and where you work
- Pretty risk free strategies if you avoid items I suggest avoiding
- 6 suggestions for Accounting Professionals
- 3 things to avoid.

# Suggestion Group 1:

- Develop or expand your relationship with a University or College who teaches about crypto and how accounting departments are dealing with producing students capable of managing crypto in businesses
- Build your “ecosystem” of support and daily sources of information on Crypto
- Attend meetups, University lectures in the computer science, business and Law school
- Talk to young professionals who have been using crypto for years
- Most colleges and universities have a student run “Blockchain Society”
- Invite clients to “Open Discussions” about CryptoCurrency and Your Business and listen to their concerns, their activities & educate, not sell at these events

# Suggestion Group 2:

- Develop a learning plan regarding learning all of the “ins and outs” regarding cryptocurrency, and the accounting profession – Learn the terminology
- Take online courses from reputable teaching organizations
- Listen to podcasts
- Attend industry events both in the US and internationally
- Stay current on the ethical landscape as well as the regulatory landscape in this emerging field
- Create clear offerings like a “free cryptocurrency tax assessment” – See: [https://webbmorton.com/cryptocurrency-ip/?gad=1&gclid=Cj0KCQjwnrmlBhDHARIsADJ5b\\_n9tgHtd-uv0APbzINwVrETNa6UxaJ36puatfiXSQQInu\\_aqz64ILwaAmnjEALw\\_wcB](https://webbmorton.com/cryptocurrency-ip/?gad=1&gclid=Cj0KCQjwnrmlBhDHARIsADJ5b_n9tgHtd-uv0APbzINwVrETNa6UxaJ36puatfiXSQQInu_aqz64ILwaAmnjEALw_wcB)



# Suggestion Group 3:

- Recruit crypto experts into your organization and get them to start publishing thought leadership, short articles, white papers
- Create webinars, present to others - be an educator
- Develop a podcast for your company and clients
- Build your own expertise and train fellow members of your organization in all key aspects of crypto currency accounting where accountants play a pivotal role
- Write white papers, articles, feature crypto good and bad news in your newsletters
- Shoot short videos on crypto for your website, Youtube, Vimeo, if very short, Instagram, maybe use Threads or Twitter to follow crypto experts or share your insights and questions about crypto

# Suggestion Group 4:

- Adopt crypto currency assets in a small way into your business - set up to accept crypto payments is a great place to start
- Develop a new business model for cryptocurrency related accounting services
- Do cost/benefit analysis projects (feasibility analysis) for clients and your organization if you work internally in an organization
- Help the accounting profession (AICPA) and state, local and federal government come up with new ethical standards, new regulations and keep abreast of what is going on internationally with cryptocurrency regulations
- Build your reputation as someone knowledgeable about crypto with speeches to local business and nonprofit associations and organizations – no selling

# Suggestion Group 5:

- Develop an objective point of view about current, mid-term and long-term limitations and risks of cryptocurrency
- Study other accounting firms and competitors regarding what they are doing in this space
- Ask your clients how you can help them in this emerging business
- Partner with other firms that have the expertise
- Seek to recruit clients who are already considering or embarking on crypto currency strategies or learning and possibly survey your clients about their crypto currency intentions over the next several years...

# Suggestion Group 6:

- Invest in your human capital and the technological capital you need to be a “player” in this emerging business opportunity
- Encourage clients and others to invest in their human capital in this field
- Invest in pilot projects to help team and clients learn
- Think very long term
- Understand the relationship between crypto-currency and blockchain, microfinance and expanding banking to billions of people
- Study the “ethics” issues that are huge regarding crypto, exchanges and how people lose access to their crypto accounts and lose their crypto money
- Understand all of the political sides and points of view, as spoken by government and business leaders, on crypto

# Polling Question 3

The best way to show clients and potential clients that you are gaining expertise in cryptocurrency accounting are:

- A.** Writing articles/newsletters and giving speeches/podcasts/videos
- B.** Creating a new set of specific services in blockchain and Web3 accounting
- C.** Developing an internal training program on blockchain and Web3
- D.** All of the above



# Caution 1: Things NOT TO DO

- Overpromise the potential of crypto currency related technologies
- Underestimate the costs and learning curve necessary to be professional in this emerging business area which leads to “under-deliver”
- Overstate your capabilities or overestimate the capabilities of your clients or the organization where you work as an accountant
- Under invest in the training and human capital of those around you who will be helping you serve your clients
- Think that the rules and regulations are stable or set
- Not invest in cybersecurity protection and insurance protection (check your policies) when you start using crypto

# Caution 2: Things Not to Do

- Do not try to convince those who “do not believe in cryptocurrency and related technologies are a fad and not potentially beneficial
  - We did not try to convince people the typewriter, telephone, fax machine, email, social media, websites or electric cars were beneficial
- Do not invest huge sums for client development in this space – streamline how you market and educate potential clients for these services
- Do not feel you have to defend every criticism of this emerging technology or respond to every negative event – there will be many
- Fail to keep track of your time in learning about crypto – this is a real cost due to opportunity cost
- Dismiss crypto currency out of hand or spend much business and professional time with people who do

# Caution 3: Things Not to Do

- Don't get discouraged this is an emerging technology. There are lots of uncharted waters.
- Think of this space as “stable.” It is emerging, so plan for and be prepared for volatility in each of these areas:
  - Value of cryptocurrencies and NFT's, coming and going of Web3 companies with valuations changing, availability of investment capital, regulatory volatility and wild differences in countries and states in reg framework
- Think short-term. This is the “beginning,” so take a long run view
- Overlook learning key terms and not getting immersed at the ground-level
- Don't try to go “it alone.” This is a team sport and very complex



# Polling Question 4

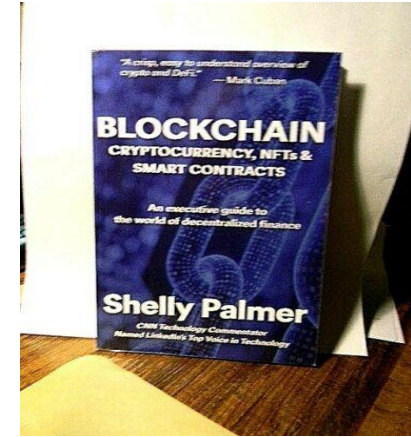
Getting up to speed regarding Web3 and blockchain will require:

- a. Learning a new vocabulary
- b. Going back to graduate school
- c. Getting a new certification in Web3 accounting
- d. Mastering writing computer code



# Resources

- Shelly Palmer's book:
- Bitcoin Whitepaper: <https://bitcoin.org/bitcoin.pdf>
- Relevant newsletters and websites including:
  - Messari.io (Crypto Bloomberg)
    - Annual Theses published every January
  - The Milk Road (Sam Parr & Shaan Puri)
  - The Pomp Newsletter (Andrew Pompliano)
  - Blockworks | Weekly <newsletter@blockworks.co>
- The “Don Ho” Rule: Click and read hyperlink in every document



# Conclusion

- You and your organization can benefit from learning about and implementing carefully selected cryptocurrency strategies
- The AICPA as far back as 2016 was supportive of the potential of cryptocurrency because it realized its potential to impact how accountants work: See:  
<https://us.aicpa.org/advocacy/cpaadvocate/2016/virtual-currency-guidance-needed>
- Regulations are coming and they will be helpful to stabilizing this “wild west environment”
- Cryptocurrency, especially when offered by governments, will be a large part of the future of Internet based commerce

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