

Welcome to the

Introduction to Cryptocurrencies

*Introduction to Cryptocurrencies, Investment Opportunities
and Regulations.*

Presenter: Andoni Nicolau

26 JULY 2022



Andoni Nicolau

Andoni is the head of Digital Assets at Jaltech and is an Actuarial Science and Statistics graduate from Wits University. In addition, Andoni has completed various bitcoin and cryptocurrency courses through international universities. Professionally, Andoni has been active in the cryptocurrency industry since 2016, during which time he has invested and traded for private clients.

With his background and experience Andoni joined Jaltech with the goal of making cryptocurrency investments accessible and understandable to the regulated market.

COURSE OUTLINE

Module 1: Properties of Money

Module 2: What is Blockchain?

Module 3: Investment Opportunities

Module 4: Regulation and Tax Treatment

MODULE 1

Properties of Money

Module 1: Properties of Money

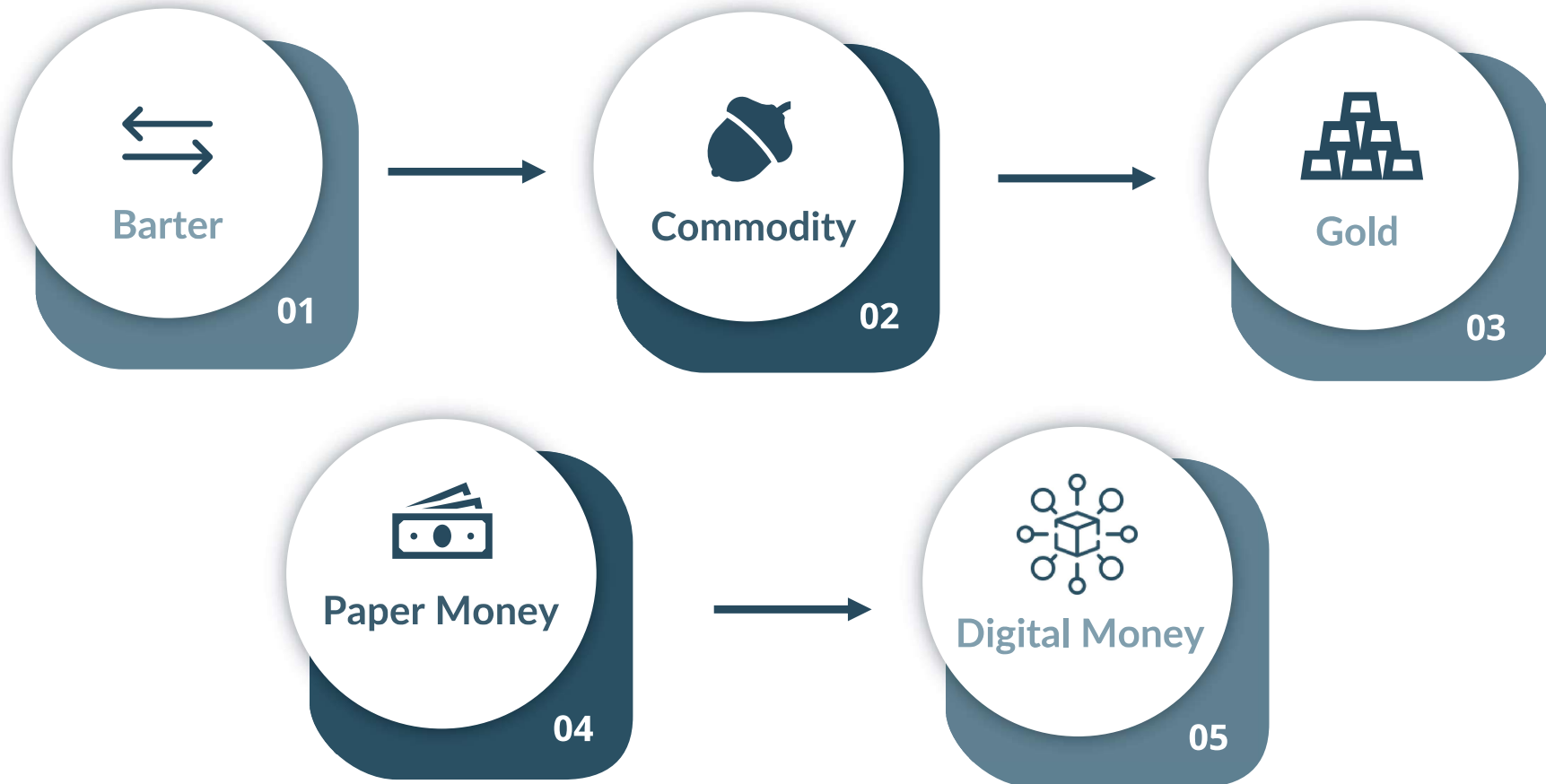
TOPICS

1. Evolution of Money
2. Functions & Characteristics of Money

LEARNING OUTCOMES

- Understand how money has evolved
- Different goods can be used as money
- Understand how cryptocurrencies compete

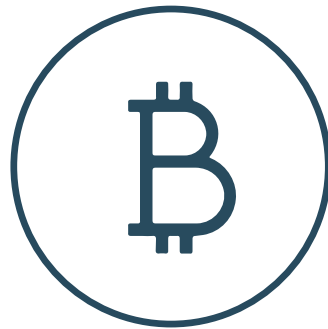
EVOLUTION OF MONEY



FUNCTIONS OF MONEY



Store of Value
(SoV)



Medium of Exchange
(MoE)



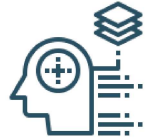
Unit of Account
(UoA)

CHARACTERISTICS OF MONEY



Scarcity

01



Divisibility

02



Transportability

03



Verifiability

04



Durability

05



Decentralization

06



MODULE 2

What is Blockchain?

Module 2: What is Blockchain?

TOPICS

1. Centralized Systems
2. Decentralized Systems
3. Network Consensus
4. Incentive Models

LEARNING OUTCOMES

- Differentiate between centralized and decentralized systems
- Grasp how network consensus is achieved
- Understand what incentives cause networks to grow

CENRALIZED MONETARY SYSTEMS

Centrally controlled

– One entity is the decision maker

Centralised ledger

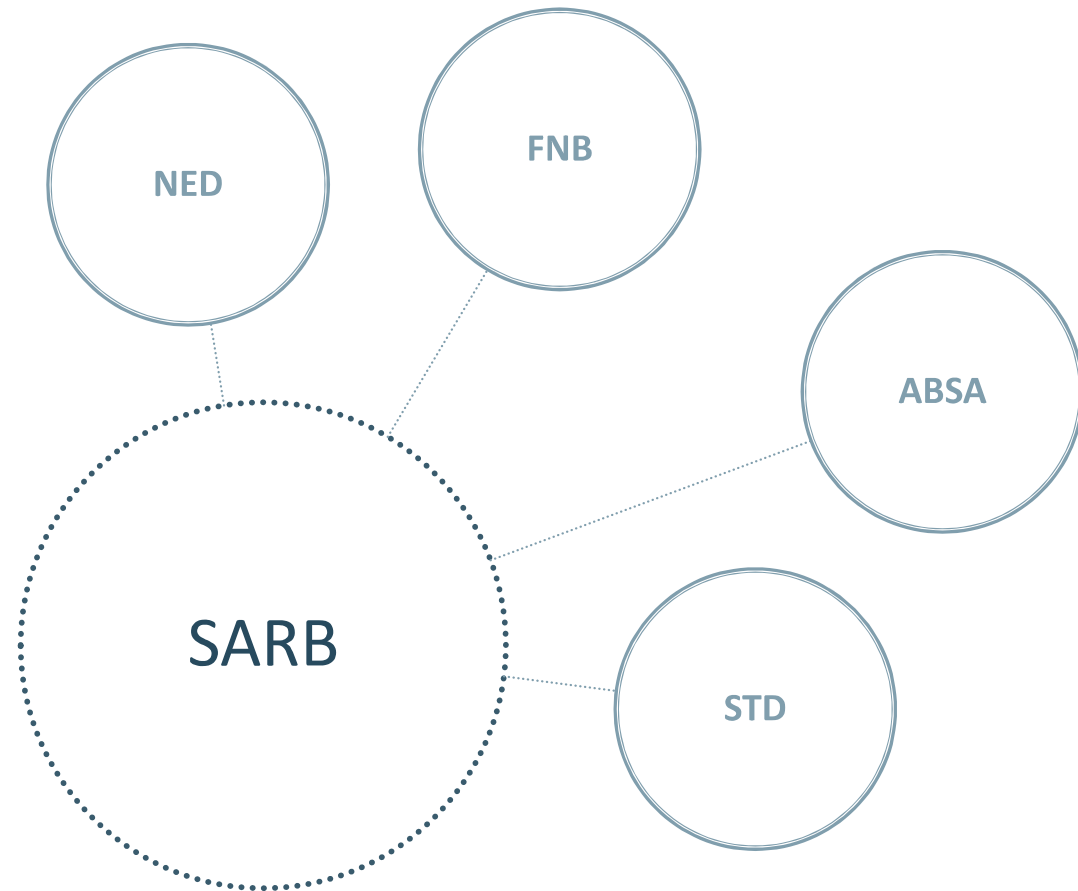
– One entity controls ledger entries

Fraud risk

– Journals can be altered



South African Reserve Bank



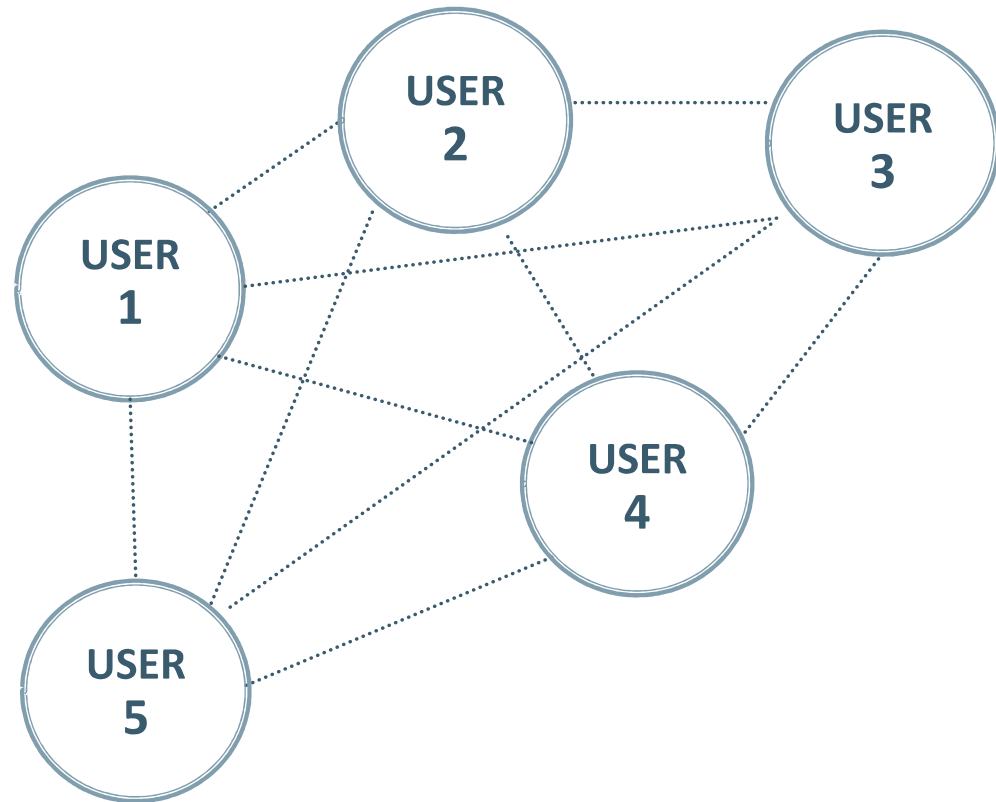
DECENRALIZED NETWORKS - BLOCKCHAIN

Decentralised Ledger

Robust

Self-regulating

Immutable



PROOF OF WORK CONSENSUS MECHANISM



Proof of work is the mechanism that ties the digital realm to the real world.

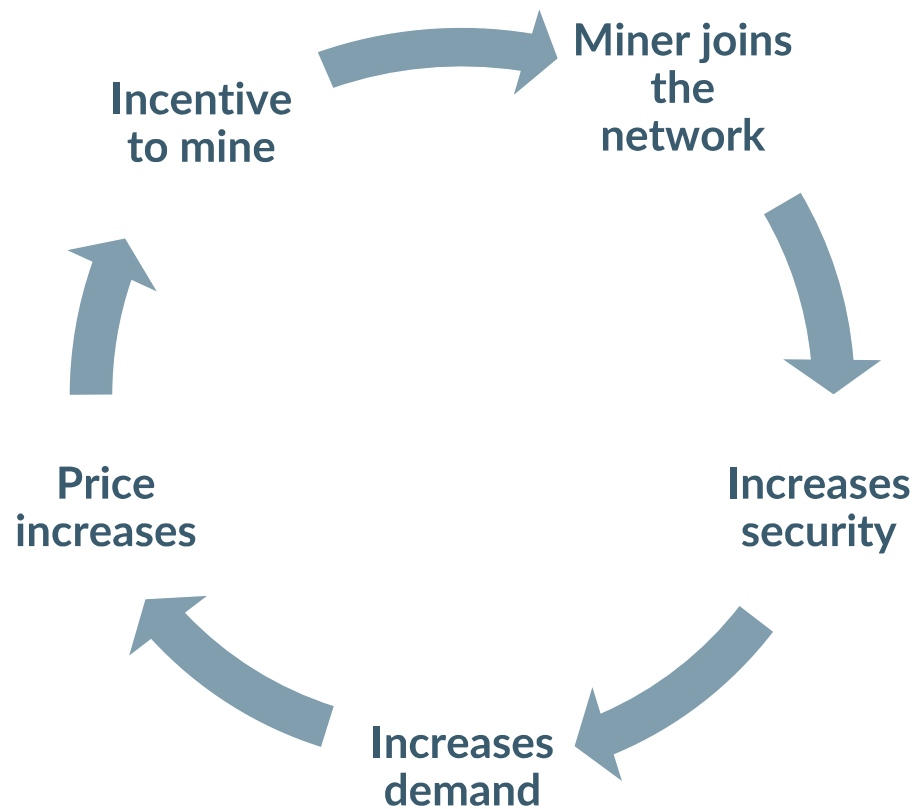


PoW is a partial solution to the Byzantine General's problem.



PoW is the process which gives finality to transactions and regulated the distribution of new currency.

SECURITY AND INCENTIVE MODEL



MODULE 3

Investment Opportunities

Module 3: Investment Opportunities

TOPICS

1. Universe of Crypto Tokens
2. Token Classifications
3. Return and Investor Profiles
4. Risks and Criticisms

LEARNING OUTCOMES

- Differentiate between various cryptocurrencies
- Understand the different investment opportunities and where to access them
- Appreciate the inherent risks

UNIVERSE OF TOKENS

CURRENCIES



BITCOIN



ETHEREUM



BINANCE

GAMING



ENJIN



DECENTRALAND



WINK

INTERNET OF THINGS



IOTA



DIGIBYTE



VECHAIN

DEFI



UNISWAP



CHAINLINK



PANCAKE SWAP

MEMES



DOGE



SHIBA



SAFEMOON

NFT



CHILIZ



ORIGIN PROTOCOL



BAKERY TOKEN

TYPES OF CRYPTOCURRENCY

MONEY

..... NON-SOVEREIGN SUPPLY



GAS

..... INFRASTRUCTURE

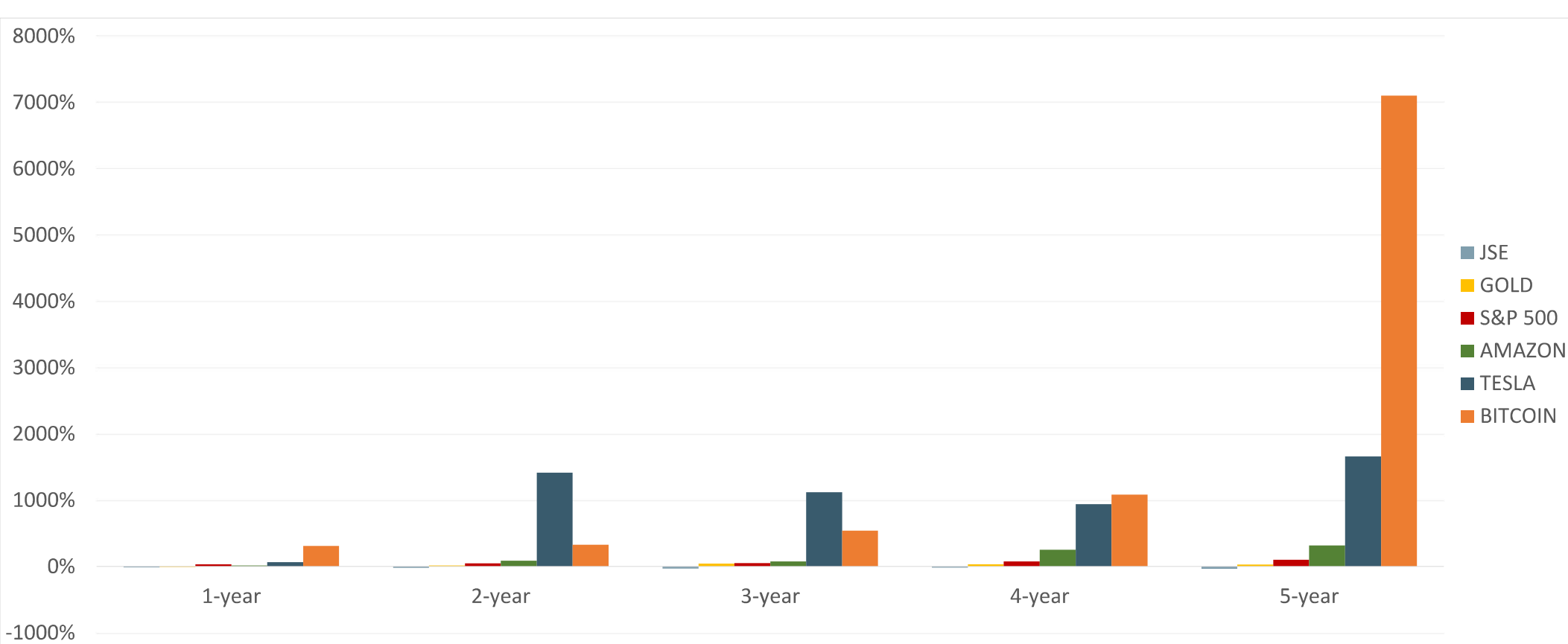


UTILITY

..... BUSINESSES/SERVICE



COMPARATIVE RETURNS AGAINST GOLD & STOCKS



INVESTOR PROFILES



Who?



How Long?



Why?

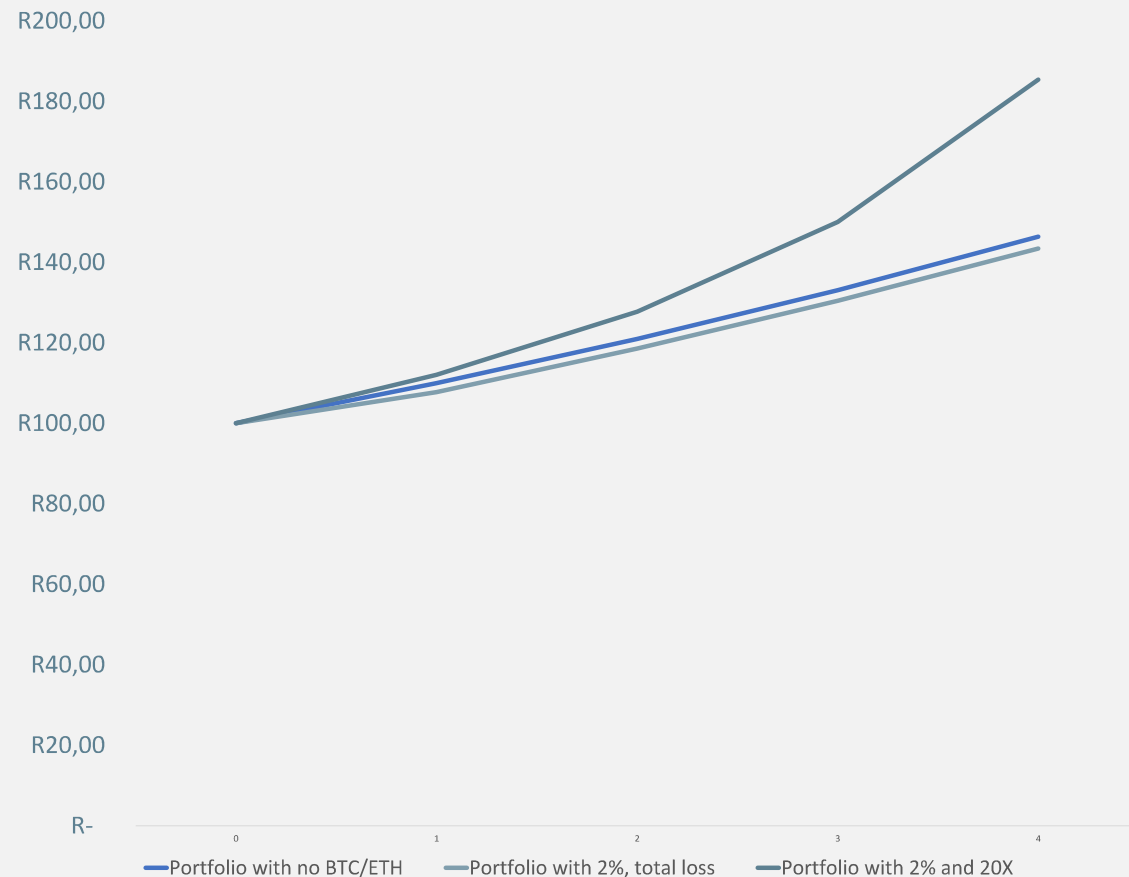


ASYMMETRIC PAYOFFS: SIMPLE ILLUSTRATION

What do we mean by asymmetric payoffs?

- Maximum loss: 100% of small allocation
- Average YoY gains of 200%

	0	1	2	3	4
Portfolio with no BTC/ETH	R 100	R 110	R 121	R 133	R 146
Portfolio with 2%, total loss	R100	R 107	R 118	R 130	R 143
Portfolio with 2% and 20X	R 100	R 112	R 127	R 150	R 185



RISKS & CRITICISMS

1

Macro Risk

2

Technical Risk

3

Decentralization

4

Regulatory Risk

Environmental Risk

5

Counterparty Risk

6

Hacked Crypto Exchanges



Notable Cryptocurrency Exchange Hacks: 2018 - 2022



MODULE 4

Regulations & Tax Treatment

Module 4: Regulations and Tax Treatment

TOPICS

1. Current Regulatory & Tax Treatment
2. Future Regulatory & Tax Treatment

LEARNING OUTCOMES

- Understand the laws and tax treatments pertaining to cryptocurrencies

CURRENT REGULATORY TREATMENT

SARB

2014 position paper

- Is not legal tender
 - Falls outside of SARB regulatory mandate
 - Cannot be used to avoid exchange controls
-

SARS

April 2018

- Regarded as asset of intangible nature
 - Applies normal income tax rules to gains or losses
 - Onus with taxpayer to declare (Income Tax vs CGT)
 - Typically taxed as part of revenue account
-

IFWG

Policy
recommendations

- Consists of members from NT, SARB, FIC, FSCA
 - Creation of CASPs
 - CAR WG released updated paper on 11 June 2021
-

FSCA

November 2020 notice

- Give partial effect to IFWG policy recommendations
 - Crypto Assets classified as a financial product under FAIS
 - Intention to create new license category
-

LATEST REGULATORY ANNOUNCEMENTS

SARB & IFWG

June 2022 press release

- SARB to classify cryptocurrencies as a financial product
- To be regulated under FAIS Act
- 12-18 month timeline to implement regulation

FSCA

Expected H1 2023

- New license category and accreditation for CASPs
-

QUESTIONS

THANK YOU

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ACCOUNTING FOR CRYPTOCURRENCY

Shehnaaz Suleman



PRESENTER

SHEHNAAZ SULEMAN, PARTNER

Shehnaaz is a partner in BDO Financial Services in the IFRS Technical department at BDO South Africa. She has 10 years' experience in the technical accounting space, with a focus on financial service entities. She has previously worked in the departments of professional practice in two of the big 4 audit firms and was a key member of the technical accounting team. She was responsible for providing technical accounting guidance and supported the audit teams across Africa as well as in the UK. Part of this role involved heading up an IFRS 17 Centre of Excellence globally where practical challenges and differences in interpretation of the new requirements were discussed and debated.

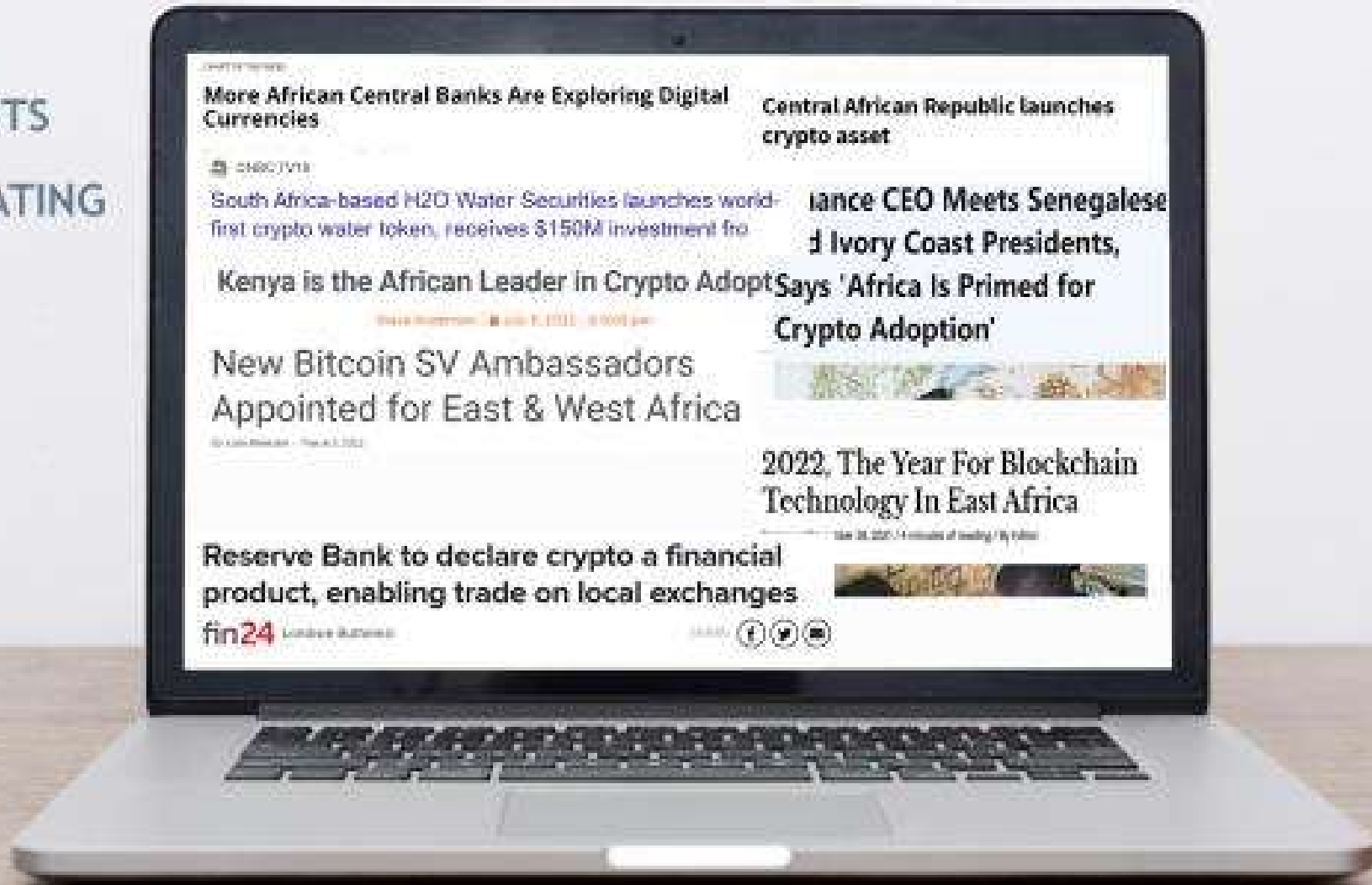


AGENDA

1. BDO'S Crypto credentials
2. Accounting considerations for crypto & NFTs
 1. IFRS considerations
 2. IASB view on crypto



OUR
CLIENTS
ARE
MIGRATING



More African Central Banks Are Exploring Digital Currencies

Central African Republic launches crypto asset

04/02/2022

South Africa-based H2O Water Securities launches world-first crypto water token, receives \$150M investment from

inance CEO Meets Senegalese and Ivory Coast Presidents,

Kenya is the African Leader in Crypto Adoption

Says 'Africa Is Primed for Crypto Adoption'

New Bitcoin SV Ambassadors Appointed for East & West Africa

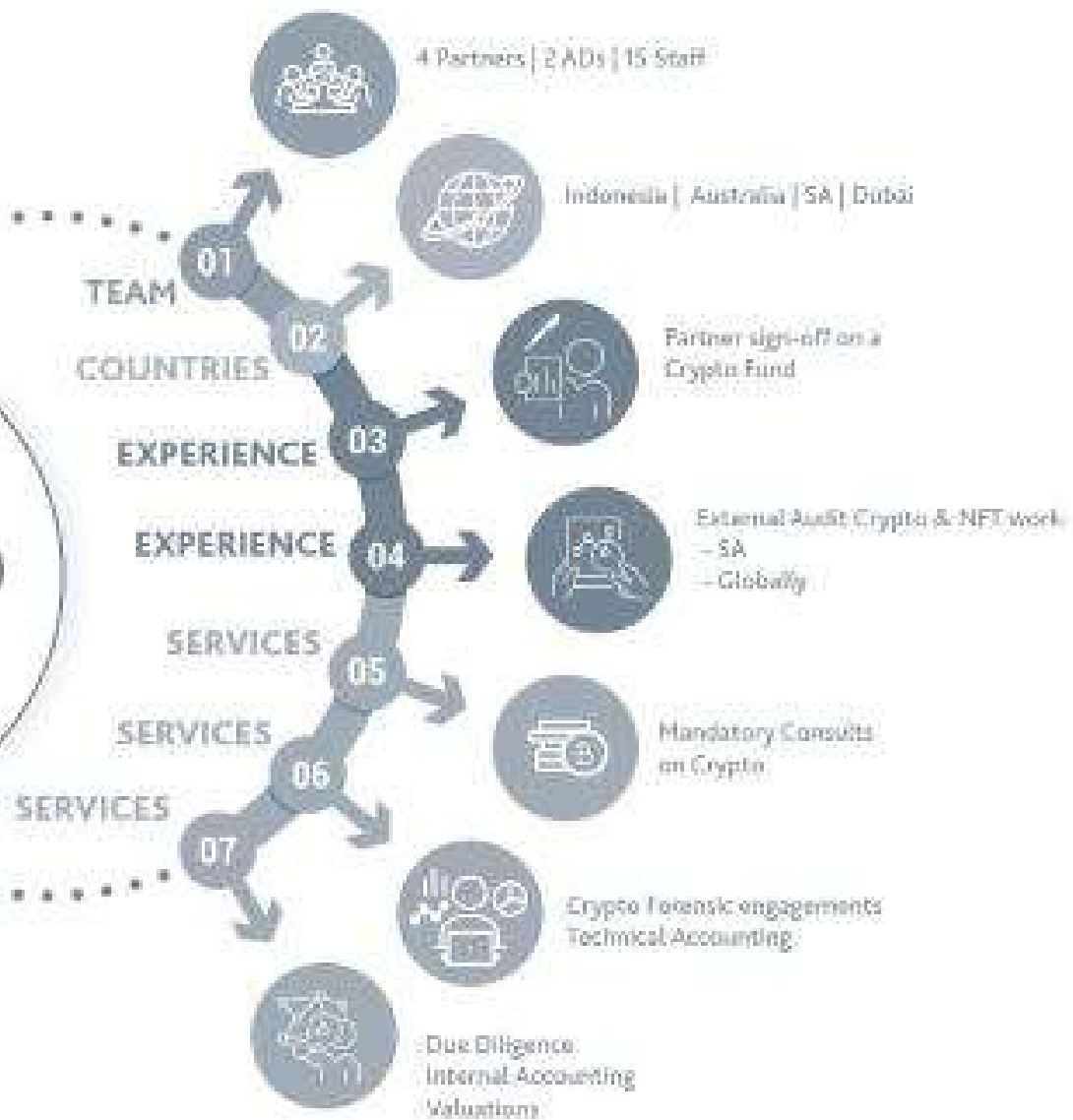
2022, The Year For Blockchain Technology In East Africa

Reserve Bank to declare crypto a financial product, enabling trade on local exchanges

fin24



THE BDO SA CRYPTO DESK



EMBRACING CRYPTO ADVISORY AS A REVENUE STREAM

A NEW SERVICE OFFERING

CRYPTO EXCHANGES | CRYPTO FUNDS | CRYPTO CUSTODIANS | DIGITAL MARKETPLACES | NFT CREATORS | MARKETPLACE OPERATORS |
LENDING/DEFI | DERIVATIVES | STABLE COINS & TOKENIZATION

AUDIT | ADVISORY | TAX

INTERNAL
AUDIT
REVIEWS

AUDIT
OPINIONS

SECONDMENTS

VALUATIONS

ASSURANCE
OPINIONS

TAX ADVICE

QUALITY
REVIEWS

REGULATORY

TECH DUE
DILIGENCE

ACQUISITION
DUE
DILIGENCE

TECHNICAL
ACCOUNTING
OPINIONS

EDUCATION/
WORKSHOP
SESSIONS

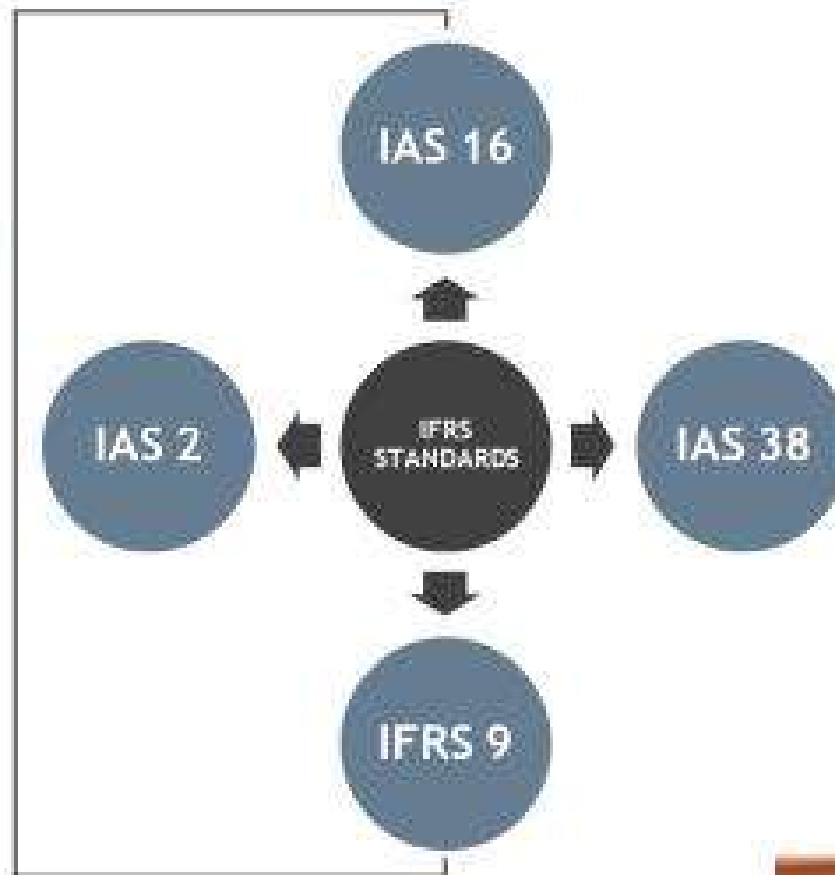
TECHNOLOGY SALES: B-CRYPT

HISTORY OF THE BOARD'S DISCUSSIONS

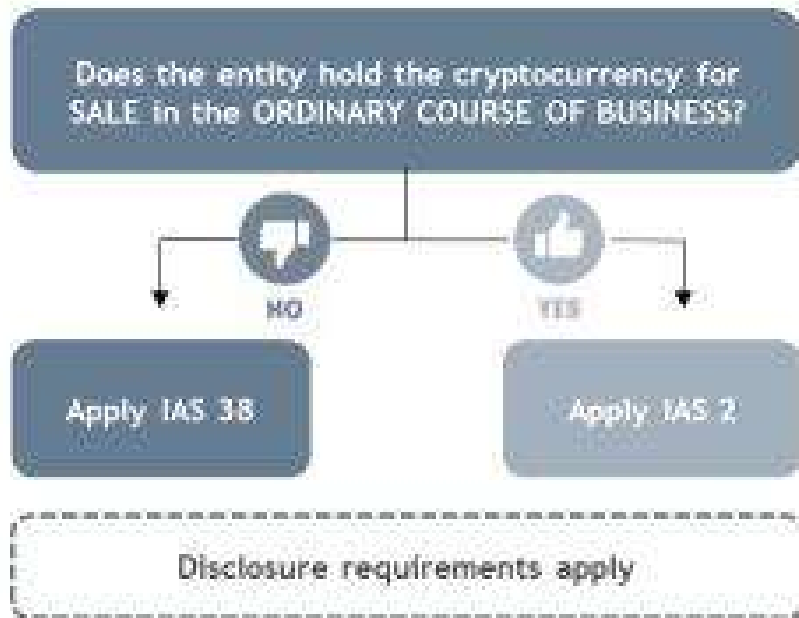


WHICH STANDARDS COULD APPLY?

*I*nternational
*F*inancial
*R*eporting
*S*tandards



AGENDA DECISION: HOLDING OF CRYPTOCURRENCIES



! An entity does not account for holdings of cryptocurrencies as CASH or a FINANCIAL ASSET



DEFINING THE IASB WORK PLAN FOR 2022 - 2026



Objective of the agenda consultation

To seek views on

- ▶ The strategic direction and balance of the IASB's activities
- ▶ The criteria for assessing the priority of financial reporting that could be added to the work plan
- ▶ New financial reporting issues that could be given priority in the IASB's work plan

TOP FIVE PANEL DISCUSSION CONSIDERATIONS



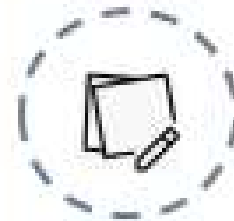
El Salvador now
accepts crypto
as legal tender



Crypto held for
trading



STO vs ICO



Preparation of
Annual
Financial
Statements



Users of Annual
Financial
Statements

HOLDER ACCOUNTING

DEVELOPING IFRS REQUIREMENTS

Guidance for when cryptoassets are non-financial assets held as investments

Limitations of IAS 2 and IAS 38 measurement requirements

Update of "financial assets" definition

Update of "cash and cash equivalents" definition

Intermediary holders (i.e. custodians, brokers, exchanges)

Utility tokens when considered as prepayments

Updates to IFRS

Clarification of IFRS



ISSUER ACCOUNTING

WHICH IFRS STANDARDS COULD APPLY?

In the absence of specific IFRS guidance, ICO issuing entities can apply one or a combination of the following IFRS standards:

IFRS 9

Financial liability
for issuance of
security and asset-
based tokens

IAS 32

Equity instrument
for issuance of
security and asset-
based tokens

IFRS 15

Prepayment for
future goods or
services for
issuance of utility
tokens

IAS 37

Obligation leading
to a provision
(such as a
constructive
obligation)

If one of the above standards are applied, then the entity may not elect the path through IAS 8 - in which the entity develops its own accounting policy.



VALUATION METHODS

CHALLENGE

Cryptoassets in early stages of development makes it hard to derive a robust valuation methodology

Many cryptoassets show a high intra-day volatility of prices

Establishing whether an active market under IFRS exists might be challenging



Cost of Production



Equation of Exchange



Network Value to Transactions Ratio

APPROACHES TO THE CLARIFICATION OR DEVELOPMENT OF IFRS

OPTION 1

No change to existing IFRS requirements

OPTION 2

Clarify/amend existing IFRS requirements

OPTION 3

Develop a new standard on cryptoassets or broader category of digital assets





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