

cryptio

Accounting and reporting best practices for stablecoin issuers

In collaboration with **IBDO**



About Cryptio

Cryptio is the leading enterprise-grade accounting, tax, financial reporting, and audit preparation solution. It is a complete back-office platform that delivers financial integrity and accountability for businesses in digital assets. Its platform allows users to transform on-chain crypto activity (including DeFi & NFTs) into auditable records for accounting, reporting, treasury, and tax filings.

Cryptio is trusted by 450+ leading enterprises in crypto and beyond



Forewords

Foreword by



Kyle Sewell

Assurance Technical Principal;
Digital Assets / Distributed
Ledger Practice



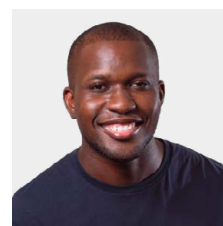
Anthony Ferguson, CPA

Assurance Principal;
Fintech Industry
National Leader



Jeff Rundlet

Head of Accounting
Strategy



Tremaine Hudson

Head of Accounting
Operations



The emergence of stablecoins marks a pivotal evolution in the financial landscape, blending the innovation of cryptocurrencies with the reliability of traditional fiat currencies. As digital assets gain traction, stablecoins have become essential instruments for bridging the gap between the volatile world of crypto and the stable fiat ecosystem. However, with this innovation comes an array of complex accounting, regulatory, and operational challenges. It is imperative for stablecoin issuers to navigate these intricacies with precision and foresight.

At BDO and Cryptio, we recognize the critical importance of establishing robust accounting practices and internal controls to manage stablecoin activities effectively. This document serves as a resource, offering practical insights and strategies for stablecoin issuers to ensure financial stability, operational integrity, and regulatory compliance. It should be used in conjunction with consultation with qualified legal, accounting and taxation professionals.

Furthermore, the establishment of rigorous internal controls cannot be overstated. From segregation of duties and access controls to reconciliation procedures and external audits, this document outlines control measures that help safeguard assets and foster stakeholder trust. The regulatory landscape surrounding stablecoins is constantly evolving, and staying abreast of these developments is crucial. This guide provides an overview of the current regulatory environment and analyzes ongoing discussions and potential future regulations that may influence the industry. Staying abreast of the evolution of regulatory, operational and the financial dynamics of stablecoins is the reader's responsibility.

In conclusion, the rapid growth and adoption of stablecoins present both opportunities and challenges for issuers. With the best practices outlined in this document, stablecoin issuers can navigate this dynamic landscape with confidence, demonstrating their commitment to financial integrity, transparency, and compliance. At BDO and Cryptio, we are proud to support the development of robust accounting and regulatory frameworks that will pave the way for sustainable growth and trust in the stablecoin market.

Executive summary

Stablecoin issuers are under growing pressure to establish robust accounting and reporting practices to demonstrate their financial stability, operational integrity, and adherence to regulatory frameworks. This necessitates a comprehensive approach to accounting and reporting tailored specifically to the unique characteristics of stablecoin operations.

This document offers an exploration of best practices for stablecoin accounting and reporting, serving as a roadmap for stablecoin issuers navigating this complex terrain.

Currently there is minimal guidance from the FASB, IASB and the AICPA regarding best practices for issuers of stablecoins. Hence, this document provides a broader perspective on the current state of the global environment, recognizing the lack of authoritative guidance. This highlights the importance of adopting best practices to fill the gaps and ensure sound financial management and compliance in the evolving landscape of stablecoin regulation.

Accounting frameworks

Selecting the appropriate accounting framework is paramount to accurately representing the financial performance and risk profile of stablecoin operations. This document delves into the nuances of existing standards such as GAAP, IFRS, and local standards, providing insights on framework selection based on regulatory considerations and industry best practices.

Transaction accounting

Accurate accounting for stablecoin transactions is critical for financial transparency and integrity. This document covers expense allocation and collateral management, offering practical recommendations for stablecoin issuers to accurately capture and report transactional activity.

Reserve management

Effective management of stablecoin reserves is essential for maintaining trust and stability within the ecosystem. This document provides detailed insights into reserve classification, valuation methodologies, and disclosure considerations, empowering stablecoin issuers to demonstrate the adequacy and transparency of their reserves.

Internal controls

Robust internal controls are foundational to safeguarding assets and ensuring compliance with regulatory considerations. This document explores key components of internal controls, including segregation of duties, access controls, reconciliation procedures, and external reviews, enabling stablecoin issuers to establish a secure and reliable operational framework.

Auditing and reporting

Independent audits and transparent reporting are indispensable for building trust and credibility among stakeholders. This document outlines audit procedures, roles of auditors, and reporting considerations, equipping stablecoin issuers with the tools and insights necessary to undergo rigorous scrutiny and provide stakeholders with accurate and reliable financial information.

Sound accounting and reporting practices are essential for navigating the evolving landscape of stablecoin operations. By adopting the key considerations and regulatory updates outlined in this document, stablecoin issuers can demonstrate their commitment to financial integrity, transparency, and regulatory compliance, fostering trust and confidence among stakeholders and facilitating sustainable growth within the stablecoin ecosystem.

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The stablecoin market has experienced exponential growth, with its current market capitalization surpassing \$165 billion USD¹, and is showing no signs of slowing down.

As stablecoins become a fundamental component of the financial landscape, regulatory scrutiny and investor demand for transparency have intensified. Stablecoin issuers are facing increasing pressure to establish robust accounting and reporting practices to demonstrate their financial stability, operational integrity, and adherence to regulatory frameworks.

This document provides an overview of best practices for stablecoin accounting and reporting. It covers key topics such as accounting frameworks, stablecoin reserve classification and valuation, expense allocation, disclosure considerations, internal controls, auditing and reporting. By following these best practices, stablecoin issuers can enhance transparency, build trust, and ensure compliance with evolving regulatory considerations.

¹ [Estimate from JP Morgan in Aug 2024](#)

Authors



Kyle Sewell

Assurance Technical Principal; Digital Assets / Distributed Ledger Practice

IBDO



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cryptio



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Accounting framework: Selecting the right methodology

The choice of accounting framework plays a pivotal role in ensuring the accurate and consistent representation of stablecoin issuers' financial performance and risk profile. A comprehensive accounting framework provides a structured approach to classifying, valuing, and disclosing stablecoin reserves, transactions, and related risks.

It's recommended stablecoin issuers carefully evaluate various accounting frameworks and standards, considering factors such as regulatory considerations in their specific regions, industry practices, and the unique characteristics of their stablecoin operations.

Accounting frameworks for stablecoin projects in different regions





The accounting frameworks for stablecoin projects vary depending on the region in which the project is domiciled. Here is an overview of the accounting frameworks that apply to some of the biggest stablecoin projects in different parts of the world:

USA

While there is currently no specific guidance for stablecoin issuers, it is best practice to adhere to US GAAP, which includes ASU 2023-08, Accounting For And Disclosure Of Crypto Assets.

Stablecoins:

-  Tether (USDT)
-  USD Coin (USDC)

Accounting Framework: GAAP

EU

Current best practice given lack of guidance suggests stablecoin issuers in the EU and UK comply with IFRS, which provides a high level of transparency and comparability.




Stablecoins:

-  EUR CoinVertible
(Société Générale, France's third-largest bank trading their own stablecoin on Bitstamp)
-  TrueUSD (TUSD)
-  DAI

Accounting Framework: IFRS

UK




Stablecoins:

-  USD Coin (USDC)
-  DAI
-  Binance GBP (BGBP)

Accounting Framework: IFRS

Dubai

Stablecoins:




-  USD Coin (USDC)
-  Binance USD (BUSD)
-  Tether (USDT)

Accounting Framework: GAAP

South America

Accounting frameworks for stablecoin projects vary depending upon the specific country in South America – it's recommended to consult with local accounting experts to determine the appropriate framework.

Stablecoins:

-  DAI
-  Binance USD (BUSD)
-  Celo Dollar (cUSD)



Accounting Framework:

Mixture of local GAAP and IFRS

Hong Kong

HKFRS recommends stablecoin issuers to disclose detailed information about their stablecoin reserves, including the composition, valuation, and risk profile of the assets backing the stablecoins.

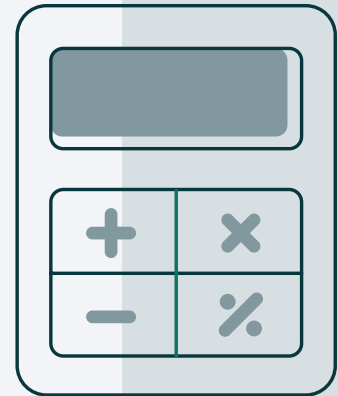
Stablecoins:

-  Tether (USDT)
-  USD Coin (USDC)

Accounting Framework: HKFRS

Please note current accounting standards (e.g., GAAP, IFRS, HKFRS) do not specifically cover the accounting for transactions involving stablecoins. Therefore, companies might have to draw parallels with existing standards to develop accounting policies for their stablecoin-related activities.

Existing accounting standards and frameworks: Exploring the options



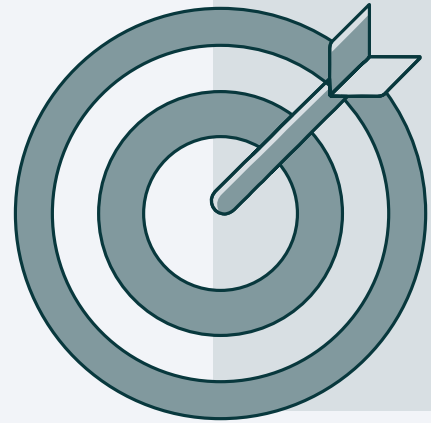
In the absence of authoritative guidance, the AICPA's Assurance Services Executive Committee (ASEC) has proposed criteria for presenting the sufficiency of assets for redemption. This innovative framework provides financial reporting considerations for asset-backed fiat-pegged tokens. The criteria can be applied for reporting at a specific measurement point in time on:

- The token issuer's redeemable tokens outstanding and related disclosures
- The redemption assets available to redeem tokens and related disclosures
- The comparison between the balance of redemption assets and the token issuer's redeemable tokens outstanding and related disclosures.

This document sets forth criteria for reporting on the adequacy of cash, cash equivalents, or other assets for redeeming outstanding asset-backed fiat-pegged tokens in line with the token issuer's terms at a specific measurement point in time. The framework also addresses considerations such as:

- Classification of stablecoin reserves based on their nature, liquidity, and risk profile, taking into account market conditions and the specific assets held, including a description of the valuation methodologies used by asset class
- Measurement of stablecoin reserves, including the valuation methodologies used by asset class
- Disclosure of the collateralization strategy for stablecoins, including types of collateral and valuation methods

Addressing gaps and challenges: Embracing continuous improvement



Despite the progress made in developing accounting standards for stablecoins, several gaps and challenges remain:

Technological complexity:

The unique features of blockchain technology, such as immutability and decentralized governance, pose challenges in accurately representing stablecoin reserves and transactions.

Accounting for risk management:

Accounting standards need to adequately address the risks associated with stablecoin operations, such as counterparty risk, operational risk, and market risk.

Regulatory uncertainty:

The lack of clear regulatory guidance may drive inconsistencies in accounting practices, disclosures, and compliance across stablecoin issuers. This could lead to varied approaches to reserve management and tax treatment, undermining comparability and investor confidence.

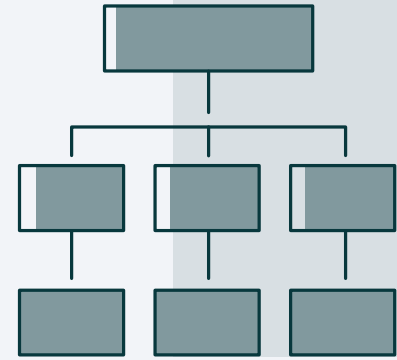
It's recommended that stablecoin issuers, accounting professionals, and regulators continue to collaborate to address these challenges and refine accounting standards for stablecoins. Industry-wide initiatives, such as the Stablecoin Standards Association, can play a crucial role in promoting consensus on accounting practices and fostering a more harmonized regulatory landscape.

Accounting for stablecoin reserves:

Ensuring transparency and resilience

Stablecoin reserves are the cornerstone of stablecoin stability. Their accurate classification, valuation, and disclosure are essential for maintaining trust and ensuring the integrity of stablecoin ecosystems. It's important to consider adopting a robust approach to reserve management, ensuring that reserves are sufficient to meet redemption requests and that they are adequately protected against the risk of loss.

Classification of stablecoin reserves



Liquidity and Risk Profile

Stablecoin reserves can be categorized by their liquidity, which is their ability to be quickly converted into cash or other liquid assets.

Current best practices suggest that liquid reserves, such as cash or highly liquid government bonds, should be readily available to meet redemption requests without causing significant price instability.

The importance of ensuring confidence and trust in the redeemability of the tokens is paramount. This involves evaluating whether the assets held by the stablecoin issuer support the redeemability of its asset-backed

fiat-pegged tokens (i.e., whether the 1-to-1 peg is maintained through collateral backing). Thus, stablecoin issuers often hold assets (e.g., cash, cash equivalents, or other assets) equal to or exceeding the number of redeemable tokens outstanding.

Reserves can also be classified by their risk profile, indicating potential losses or value fluctuations. It is recommended that higher-risk reserves, such as illiquid assets or investments in volatile markets, be held in moderation to mitigate the overall risk for the stablecoin issuer.

Valuation of stablecoin reserves



Fair Value

The valuation of stablecoin reserves can be challenging due to the unique characteristics of certain assets and the lack of established market prices. It's recommended that stablecoin issuers employ reliable valuation methodologies that consider market conditions, asset-specific factors, and applicable accounting standards.

Regular Adjustment

Due to the dynamic nature of financial markets and current best practice given lack of guidance, it's recommended stablecoin reserves are regularly revalued to reflect current market conditions. This ensures that the reported value of reserves accurately reflects their true economic worth and provides stakeholders with up-to-date information about the issuer's financial position.

Disclosure considerations for stablecoin reserves



Detailed disclosure

It's recommended that Stablecoin issuers provide comprehensive disclosures about their stablecoin reserves, including:

1. Composition of reserve assets, including the counterparties holding these assets
2. Reconciliation of natively minted stablecoins against the supply of redeemable stablecoins outstanding
3. Comparison of stablecoin reserves against the supply of redeemable stablecoins outstanding

This transparency allows stakeholders to understand the underlying assets backing the stablecoin and assess the issuer's risk management practices.

Maturity profile

It's recommended stablecoin issuers disclose the maturity profile of their stablecoin reserves, indicating the time horizon for liquidating reserves to meet redemption requests. This information helps stakeholders understand the issuer's ability to meet redemption requests without causing significant disruption to the stablecoin ecosystem.

Collateralization strategy

For stablecoins that are collateralized by assets other than cash, it's recommended issuers disclose the collateralization strategy, including the types of collateral held, their valuation methodologies, and any haircuts applied. Haircuts represent the percentage of an asset's value that is not considered available to meet redemption requests.

Risk management practices

It's recommended stablecoin issuers disclose their risk management practices for stablecoin reserves, including hedging strategies, counterparty risk assessment, and cybersecurity measures. This transparency demonstrates the issuer's commitment to mitigating risks and protecting the stability of the stablecoin system.

Compliance efforts

It's important to consider disclosing your compliance efforts with relevant regulations, such as anti-money laundering (AML), know-your-customer (KYC), and cybersecurity regulations. This transparency demonstrates the issuer's commitment to adhering to regulatory considerations and maintaining a secure and compliant environment.

By employing these best practices, stablecoin issuers can foster trust, build credibility, and navigate the evolving regulatory landscape. By adopting robust internal controls, engaging independent auditors, and providing comprehensive disclosures, stablecoin issuers can demonstrate transparency and accountability, paving the way for sustainable growth and wider acceptance in the financial ecosystem.

Accounting for stablecoin transactions: Expense allocation

Expense allocation is essential for stablecoin issuers to achieve accurate financial reporting and maintain transparency. Properly distributing expenses, such as those for reserve maintenance, technology infrastructure, and regulatory compliance, greatly influences the accuracy of financial statements and the perceived value to users.

Expenses associated with stablecoin operations



Issuance and redemption costs

It's encouraged that elements of the transaction or contractual arrangement (for example, expenses related to stablecoin issuance and redemption, such as transaction fees, custody fees, and operational costs) be evaluated against the applicable accounting framework to determine the appropriate accounting treatment.



Compliance and regulatory costs

Expenses incurred to comply with applicable regulations, such as anti-money laundering (AML) and know-your-customer (KYC) are recommended to be recognized as they are incurred.

Disclosure considerations for stablecoin transactions



Volume and type of transactions

It's recommended stablecoin issuers disclose the volume and type of stablecoin transactions conducted, including issuances, redemptions, and transfers. This information helps stakeholders understand the issuer's operational activity and assess its ability to meet redemption requests.



Fees charged

Stablecoin issuers may consider disclosing the fees charged for stablecoin issuance, redemption, and other services. This transparency allows stakeholders to evaluate the issuer's revenue model and assess its competitiveness in the market.



Related party transactions

It's recommended that stablecoin issuers disclose any related-party transactions involving stablecoin reserves or transactions. This transparency helps stakeholders identify potential conflicts of interest and assess the issuer's governance practices.

Internal controls:

Fostering robust financial operations

Robust internal controls are essential for stablecoin issuers to safeguard assets, prevent fraud, and maintain financial stability.

Activities carried out by stablecoin issuers, including minting, burning, managing reserve assets, and processing applications related to stablecoin operations, complicate the assessment of controls for protecting crypto assets more than for traditional financial assets. It is crucial to implement well-thought-out safeguards and controls from the beginning, such as when tokens are minted and wallets are created. Here are some best practices and recommendations for enhancing internal controls in the following areas:

Segregation of duties and user access

It is recommended that stablecoin issuers implement segregation of duties controls, clearly separating responsibilities for asset custody, transaction authorization, and financial reporting. This division reduces the risk of unauthorized transactions and misappropriation of funds. In the absence of authoritative guidance, current best practices suggest implementing strong access controls to restrict access to systems and data related to stablecoin reserves and

transactions. This helps protect sensitive information and prevents the misuse of access by segregating incompatible functions.

Current best practice given lack of guidance suggests strong access controls may be implemented to restrict access to systems and data related to stablecoin reserves and transactions. This protects sensitive information and the potential misuse of access (i.e., segregation of incompatible functions).

Reconciliation procedures

In addition to the accuracy of balances and transactions, including whether the stablecoin issuer's assets are properly segregated from the stablecoin reserves (i.e., the redemption assets), effectively designed controls will mitigate risks

associated with the reporting of stablecoins. In addition, controls that improve reliability in stablecoin reserves, the supply of outstanding tokens, and details of purchases and redemptions.

Purchases and redemptions

Maintaining the integrity and security of stablecoin transactions involves the implementation of stringent controls over stablecoin purchases. This starts with establishing customer accounts, including wallet addresses, and conducting thorough verification of identity, which includes validating personal and financial information. By validating customer information before executing transactions, these measures help mitigate the risk of fraud and enhance the overall security of the stablecoin ecosystem. Furthermore, developing and adhering to policies for minting and burning activities play a fundamental role in upholding the

integrity of stablecoin transactions. For instance, it's encouraged that token issuers develop policies and procedures for purchases and redemptions that consider the method and timing of such transactions, validate customer information and wallet addresses before executing transactions, and reconcile purchases (tokens minted) and redemptions (tokens burned) with corresponding bank activity. These controls are essential for protecting the interests of both token issuers and customers, ensuring that stablecoin purchases are conducted securely, responsibly, and in compliance with necessary regulations.

By implementing strong internal controls, stablecoin issuers can mitigate risks, protect assets, and enhance the reliability of their financial reporting. This contributes to building trust among stakeholders and fostering sustainable growth within the stablecoin ecosystem.

Auditing and reporting:

Ensuring transparency and reliability

Independent audits and comprehensive reporting play a crucial role in upholding the integrity of stablecoin issuance and fostering trust among stakeholders.

Roles and responsibilities of auditors



Independent assessment

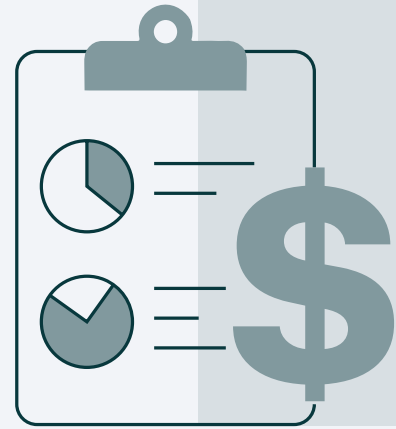
Independent auditors provide an objective and impartial assessment of a stablecoin issuer's financial reporting and internal controls. This assurance helps stakeholders rely on the accuracy and reliability of the issuer's financial statements and operations.



Expertise and specialized knowledge

It is critical that auditors possess the necessary expertise and specialized knowledge in stablecoins and the underlying blockchain technology to understand and effectively evaluate the issuer's financial reporting and internal controls. This expertise ensures that the audit process is comprehensive and aligns with industry standards and regulatory considerations.

Reporting considerations for stablecoin issuers



Regular financial statements

It's important for stablecoin issuers to provide regular financial statements, such as balance sheets, income statements, and cash flow statements, to stakeholders. These statements should be prepared in accordance with applicable accounting standards and should provide a transparent overview of the issuer's financial position, performance, and cash flows.



Detailed disclosures

Following current best practice, it's recommended stablecoin issuers provide detailed disclosures in their financial statements and other reporting documents to enhance transparency and address stakeholder concerns. These disclosures should cover the composition and valuation of stablecoin reserves, the nature of stablecoin transactions, risk management practices, and compliance with applicable regulations. For example, the AICPA/CIMA Exposure draft offers suggested disclosures, including example disclosures for consideration.



Prompt disclosure of material events

It's recommended stablecoin issuers disclose material events that may impact their financial condition or operations. This includes significant changes in the composition of stablecoin reserves, material losses or risks, and any regulatory actions that may affect the issuer's operations.

By adhering to rigorous audit standards and providing comprehensive reporting, stablecoin issuers can build trust and credibility among stakeholders, fostering sustainable growth and wider acceptance within the stablecoin ecosystem.

Conclusion

As stablecoins gain prominence in the financial landscape, sound accounting and reporting practices are becoming increasingly crucial for maintaining trust, transparency, and regulatory compliance.

By adopting robust accounting frameworks, implementing effective internal controls, engaging independent auditors, and providing transparent disclosures – stablecoin issuers can demonstrate their commitment to financial integrity and foster sustainable growth within the burgeoning stablecoin ecosystem.

Stablecoin Glossary

Stablecoin:

A type of digital asset designed to maintain a stable value by being pegged to an asset such as a fiat currency, commodity, or a basket of assets.

GAAP (Generally Accepted Accounting Principles):

A common set of accounting principles, standards, and procedures issued by the FASB, and followed in the United States.

IFRS (International Financial Reporting Standards):

A set of global accounting standards issued by the IASB.

FASB (Financial Accounting Standards Board):

The private standard-setting body responsible for establishing and improving GAAP.

IASB (International Accounting Standards Board):

The independent standard-setting body responsible for developing and approving IFRS.

HKFRS (Hong Kong Financial Reporting Standards):

Accounting standards adopted by Hong Kong.

AICPA (American Institute of Certified Public Accountants):

The world's largest member association representing the accounting profession which develops and establishes ethical standards and U.S. auditing standards.

DeFi (Decentralized Finance):

Blockchain-based network of financial services that aim to disrupt traditional financial intermediaries.

NFTs (Non-Fungible Tokens):

Unique digital assets that represent ownership of specific items and cannot be exchanged for other items of the same type.

AML (Anti-Money Laundering):

Set of procedures designed to prevent criminals from disguising illegally obtained money as legitimate income.

KYC (Know Your Customer):

A risk management procedure that identifies and verifies the identity of clients and beneficial owners to comply with AML regulations.

Guide contributors/ acknowledgments

Members of the tech working group

Kyle Sewell

Assurance Technical Principal;
Digital Assets / Distributed Ledger
Practice
BDO

Anthony Ferguson, CPA

Assurance Principal
Fintech Industry National Leader
BDO

Jeff Rundlet, CFA

Head of Accounting Strategy
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