An Analysis of the Internal Consistency of the New Accounting Standard for Virtual Currencies in Generally Accepted Japanese Accounting Principles: A Virtual Currency User Perspective

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ABSTRACT

While there is no specific guidance in IFRS or US GAAP on accounting for virtual currencies, the ASBJ issued the PITF on the Accounting for Virtual Currencies under the PSA on March 14, 2018 as part of J-GAAP. The standard subscribes that, if an active market exists for the virtual currency, such a virtual currency should be measured using the market price at the balance sheet date, and any difference between the carrying amount should be recognized as a gain or loss. This article examines logically the internal consistency of the accounting information of virtual currencies subscribed by the standard in J-GAAP and between the standard and IFRS. The results indicated that it is appropriate to present virtual currencies at the recoverable amount as in the case of other monetary assets in J-GAAP and that there are no significant differences internationally between the standard and the IFRS.

KEYWORDS

Accounting Standards Board of Japan (ASBJ), Australian Accounting Standards Board (AASB), Cryptocurrency, Digital Currency, IASB, IFRS

INTRODUCTION

In recent years, the prevalence of virtual currencies has increased both internationally and domestically in Japan. According to CoinMarketCap (2018), there are currently some 1,610 cryptocurrencies (that is, virtual currencies) that are traded in 10,891 markets. The total market capitalization for these markets is some US$368.323 billion with a daily trade volume of US$25.295 billion. Of this, the five largest currencies account for 71.7 percent, particularly Bitcoin with a share of 38.2 percent, with Blockchain.info (2018) showing that the market capitalization of Bitcoin has gradually increased, but especially rapidly since 2017.

In light of various concerns related to the trade in virtual currencies, the Financial Services Agency (2018) in Japan has established the Study Group on Virtual Currency Exchanges, Etc. to examine whether a new institutional system should be created that can better respond to these and other challenges. In its first meeting on April 10, 2018, the Japan Cryptocurrency Business Association (2018, p. 16) revealed that the volume of spot trading in the five largest virtual currencies was some JPY2.4 in FY 2014, JPY60.7 billion in FY 2015, JPY1,536.9 billion in FY 2016, and JPY12,714

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billion in FY 2017, and that the total volume of deposit, margin, and futures trading in these same virtual currencies was JPY0.2 billion in FY 2014, JPY27 billion in FY 2015, JPY1,979 billion in FY 2016 and JPY56,432.5 billion in FY 2017. Clearly, ‘cryptocurrencies are growing and are volatile. Shareholders and other lenders exposed to companies that hold cryptocurrencies need to know about them. New guidance may need to be developed to avoid diversity in practice and provide meaningful information’ (Kam, 2017, p. 2).

On March 14, 2018, following the Exposure Draft on the Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act (PITF) (Exposure Draft of PITF No. 53, hereafter ‘the Exposure Draft’), as of December 6, 2017, the Accounting Standards Board of Japan (ASBJ) issued PITF No. 38, the Tentative Practical Solution on the Accounting for Virtual Currencies under the Payment Services Act (hereafter ‘the Standard’). To the authors’ knowledge, this is the world’s first accounting standard for virtual currencies.

Focusing on a limited number of issues, the Standard aims to clarify the tentative practical solution on the accounting treatments and disclosure for virtual currencies under the Payment Services Act (Act No. 59 of June 24, 2009; hereafter ‘the Act’). Under generally accepted Japanese accounting principles (J-GAAP), the Standard is published as a practical solution, and not as accounting standards or implementation guidance. A practical solution provides details of tentative treatments for an area where there is urgent need for guidance as there are currently no accounting standards dealing with it. This is important because at present virtual currencies cannot be classified in any existing category of assets such as foreign currencies, financial assets, inventories held for trading, intangibles, or assets.

The purpose of this study is to verify whether the Standard is logically sound internationally as well as under J-GAAP to ascertain the rationale for the required accounting treatments of virtual currencies. The Standard accepts an accounting treatment based on the purpose of holding an asset and the presence of an active market. However, more strictly, the new accounting treatments should be analyzed from the perspective of the nature of a monetary asset and on a realizable basis.

INSTITUTIONAL BACKGROUND IN JAPAN

In 2016, the Act was amended by the Act for the Partial Revision of the Banking Act, Etc. This made it compatible with the Environmental Changes Wrought in the Development of Information and Communication Technologies (Act No. 62 of June 3, 2016) to define virtual currencies (Article 2(5)) and to introduce a registration system for virtual currency dealers (Article 63-2). As a result of the amendment, from the first full annual period following April 1, 2017, the financial statements of registered virtual currency dealers would be subject to financial statement audits by a certified public accountant or an audit corporation (Article 63-14(3)).

Considering the amendment, in the due process for developing accounting standards, the Japanese Institute of Certified Public Accountants (JICPA) functioned as a proposer in order to develop new accounting standards for virtual currencies that would operate as a standard for making financial statements and, at the same time, would enable auditors to judge an opinion about a fair representation in an audit report. On March 14, 2017, at the 29th Council of the Standards Advisory Council (SAC), it was recommended that the ASBJ develop guidance for the accounting for virtual currencies, so that the audits of financial statements of registered virtual currency dealers could be implemented smoothly (ASBJ 2017a).

Following the recommendation of the SAC, ‘the accounting treatments of virtual currencies’ were decided as an agenda and discussed in a Technical Committee and the ASBJ. Table 1 shows that to avoid diversity in accounting practices for virtual currencies in Japan (ASBJ, 2017a), the agenda had to be immediately treated. The ASBJ decided to address only a limited number of issues (ASBJ, 2018b, para. 22) given that ‘consideration to accounting for virtual currencies was not internationally had at least till that time’ (ASBJ, 2017a), that the virtual currency business was at a very early stage
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