



Public Reporting Requirements

10th September 2017

Table of Contents:

1. Quarterly Reporting	pg. 1
1.1. Market Overview	
1.2. Cryptocurrency Analysis	
1.3. Governments Adapting to Change	
1.4. Fund Strategy	
1.5. Technical vs. Fundamental Analysis	
1.5.1. Technical Analysis	
1.5.2. Fundamental Analysis	
1.6. Risk and Return	
1.7. Year-end Predictive Analysis	
2. Annual Financial Statements	pg. 2
3. CRYPTO20 Responsibilities and Significant Accounting Policy Considerations	pg. 2
3.1. Introduction	
3.2. Fund Director Responsibilities	
3.2.1. Fiduciary Duties	
3.2.2. Duties of Skill and Care	
3.2.3. Statutory Obligations	
3.3. Current Issues in Terms of Auditing	
3.4. Current Accounting Options	
3.4.1 IAS 7: Cash and Cash Equivalents	
3.4.2. IFRS 9 Financial Instruments	
3.4.3. IAS 16: Property, Plant and Equipment	
3.4.4. IAS 40: Investment Properties	
3.4.5. IAS 2: Inventories	
3.4.6. IAS 38: Intangible Assets	
4. Conclusion	pg. 5
5. References	pg. 6

1. Quarterly Reporting

CRYPTO20 will produce quarterly reports to enable investors to track the performance of the fund and to ensure all operations are as transparent as possible. Below we can explore the potential layout of this report:

1.1. Market Overview:

Industry trends, major developments over the last quarter, possible legislation and regulations and how this will affect CRYPTO20 and crypto assets globally.

1.2. Cryptocurrency Analysis:

Overview of market capitalization, circulating supply, maximum supply, performance over the last quarter and an overview of specific news affecting its movements.

1.3. Governments Adapting to Change:

In depth analysis of new laws and regulations affecting the global markets.

1.4. Fund Strategy:

Explanation of an Index fund strategy, key benefits and costs involved. A look into rebalancing and how this brings broad market exposure.

1.5. Technical vs. Fundamental Analysis:

Key differences and how it will be applied to the CRYPTO20 tokens and underlying cryptocurrencies.

1.5.1. Technical Analysis:

A study of market action, primarily through the use of charts, for the purpose of forecasting future price trends.

Key assumptions of technical analysis and a detailed look at the following:

- Bollinger Bands: A range of price volatility for the period.
- MACD: Moving average of convergence/divergence for the period.
- Trend line: The sloping line of support or resistance for the period.
- The relative strength index (RSI) signalling overbought and oversold conditions for the period.

1.5.2. Fundamental Analysis:

Acknowledgement of the fact that for crypto assets fundamental analysis is more complex due to the lack of traditional earnings and dividend models. Detailed look into the following:

Key driving factors, CRYPTO20 roadmap, market outlook, competitors, economic moat and macroeconomic events.

1.6. Risk and Return: Explanation of risks involved, volatility and potential for losses. Calculation of correlation and how this can reduce volatility. Return over the quarter.

1.7. Year-end Predictive Analysis: A glance at the CRYPTO20 roadmap, upcoming events and potential partnerships.

2. Annual Financial Statements

Shareholders will receive annual financial statements, including the following:

- i. Statement of financial position at the end of the period.
- ii. Statement of profit or loss and other comprehensive income for the period.
- iii. Statement of changes in equity for the period.
- iv. Statement of cash flows for the period.
- v. Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.
- vi. Profitability indicators: Return on assets (ROA), Return on investment (ROI), Average price per token detailed in notes of the annual financial statements.

3. CRYPTO20 Responsibilities and Significant Accounting Policy Considerations

3.1. Introduction:

Accounting for crypto currencies remains a grey area. The International Accounting Standards Board (IASB) will either create a new standard or change existing standards to address accounting for Investments in intangible assets, including digital currencies. They are also known to feed of successful businesses leading the way in how to account for their investments as we see in the case of commodity broker-traders. The IASB might take years to develop and implement a new standard, considering all possibilities early will enable CRYPTO20 to lead the way and give tokens offered credibility as an alternative investment vehicle.

Below we will explore all current possibilities (In terms of IFRS) and assess each based on current knowledge. We will also consider the legal aspects to ensure the fund directors discharge their duties in accordance with applicable laws and regulations.

3.2. Fund Director Responsibilities:

3.2.1. Fiduciary Duties:

- a. "To act bona fide in what they consider being the best interests of the Fund."
- b. "To exercise their powers under the Articles for the purposes for which they are conferred."
- c. "To avoid conflict between the interests of the Fund and their personal interests and duties or (where such conflicts are permitted by the Articles) making sure that any such conflicts are properly disclosed."
- d. "To exercise their powers as a director independently, without subordinating their powers to the will of others (except to the extent that such powers have been properly delegated)."
- e. "Not to make secret profits from acting as a director of the Fund."

3.2.2 Duties of Skill and Care:

- a. "To acquire and maintain a sufficient knowledge of the business of the Fund on a continuing basis."
- b. "To supervise the discharge of functions which have been delegated to advisers and service providers."
- c. "They are obliged to undertake these duties with care, diligence and skill. As noted above, they are subject to a minimum objective standard as a director of the Fund, but the expected standard will be raised if you have more knowledge, skill or experience than would ordinarily be expected of a director in their position."

3.2.3. Statutory Obligations:

- a. "To maintain the Register of Members, the Register of Directors and Officers and the Register of Mortgages and Charges."
- b. "To maintain proper books of account for the Fund."
- c. "To maintain a registered office in the Cayman Islands for the Fund."
- d. "To comply with the Money Laundering Regulations (as amended) (AML Regulations) issued under the Proceeds of Crime Law."
- e. "To ensure that the Offering Document issued by the Fund describes the shares in all material respects, and contains such other information as is necessary to enable a prospective investor in the Fund to make an informed decision whether or not to invest; and to update the Offering Document to take account of any material changes."
- f. "To ensure that the Fund is audited on an annual basis."
- g. "To comply with reporting obligations including, without limitation, notifying the Registrar of Companies (ROC) of any changes in the directors, officers or registered office of the Fund, arranging for the filing of the Fund's annual return and exempt company declaration with the ROC and filing of the Offering Document and annual audited financial statements with the Cayman Islands Monetary Authority (CIMA)."
- h. "In practice, the maintenance of statutory registers, the establishment of policies and procedures in accordance with the AML Regulations and the compliance with statutory filing obligations will be delegated by the directors to the registered office and/or administrator of the Fund. However, while the directors may be entitled to appoint service providers to take responsibility for particular obligations, as a director of the Fund you are still obliged to supervise the discharge of the delegated functions."

3.3. Current Issues in Terms of Auditing:

As noted above the classification of these assets remains a grey area and this naturally leads to issues in the audit of these funds. Crypto20 seeks to be fully compliant with all laws and regulations and consideration has already been given to the following issues:

- (i) Existence of the assets
- (ii) control of the assets
- (iii) custody.

Therefore it will be essential for CRYPTO20 to prove that not only does the asset exist but the entity controls these assets and to confirm custody of the assets; this will be achieved through the Public Audit of ICO Funds, this is currently planned to be delivered before or on 14 January 2017.

3.4. Current Accounting Options:

Below we will consider all relevant guidance and through assessing these options conclude on what the best classification would be and set the foundation for the significant accounting policies that would form part of the Annual Financials statements.

3.4.1. IAS 7: Cash and Cash Equivalents.

Cash:

Cryptocurrencies are not issued or backed by any government yet.

Cash equivalents:

Short-term, highly liquid investments that is readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. This can be challenged based on the fact that crypto currencies can be highly volatile; hence there is a significant risk of changes in value.

3.4.2. IFRS 9 Financial Instruments

IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. A general consensus is that cryptocurrencies do not give the holder a contractual right or obligation to receive cash or another financial asset. In CRYPTO20's case this might be true as the holder will have contractual right to receive cash or another financial asset.

3.4.3. IAS 16: Property, Plant and Equipment

Property, plant and equipment are tangible items. A cryptocurrency has no physical form. No need for further consideration.

3.4.4. IAS 40: Investment Properties

Investment property is land or a building (including part of a building) or both, again does not meet this criteria.

3.4.5. IAS 2: Inventories

Inventories do not need to have a physical form, but do need to be held for sale in the ordinary business. Setting aside whether crypto currencies are commodity-equivalents, commodity broker-traders trade equity or debt securities account for these security investments as inventory so long they are measured at fair value through the profit and loss. There is a possibility of taking advantage of this guidance should they be classified as security investments in the future.

3.4.6. IAS 38: Intangible Assets

There are 3 parts to this definition, namely: (i) identifiable (ii) non-monetary (iii) without physical form. Cryptocurrencies seem to meet the definition of an intangible asset: identifiable as it can be sold or exchanged individually; not cash and a non-monetary asset; as we know they have no physical form.

Some experts believe the International Accounting Standards Board might adapt the current IAS 38 standard to accommodate cryptocurrencies. Should this be the case we can further explore the treatment after initial recognition.

Intangible assets recognition:

Initial recognition will be at cost; subsequent measurement can be at cost or fair value, less amortization (amortization will only be calculated when the assets have a finite life). The fair value option will be available as these assets will have active markets, those who do not will be carried at cost. All fair value gains will be taken through other comprehensive income while losses will be taken through the profit and loss and there will be no need for amortization as described as above.

Intangible assets typically include: computer software, licenses, trademarks, patents, films, copyrights and import quotas. As we can see there is a gap in the accounting treatment as these assets are currently not covered by any standard. Using this classification could potentially allow for the capitalization of cost related to creating these assets.

“Expenditure for an intangible item is recognized as an expense, unless the item meets the definition of an intangible asset, and:

- It is probable that there will be future economic benefits from the asset; and
- The cost of the asset can be ‘reliably measured’.

4. Conclusion

CRYPTO20 seeks to be fully compliant with all relevant laws and regulations. This would mean that CRYPTO20 and the fund directors discharge their duties in accordance with laws and regulations of the Cayman Islands.

One aspect of this would be to compile annual financial statements in accordance with IFRS - it should be noted that CRYPTO20 will be working closely with professional accountancy firms after the Initial Coin Offering (ICO) and continue to build a professional relationship to not only ensure compliance but also ensure that the operations are as transparent as possible through high quality financial reporting.

Based on the analysis above CRYPTO20 has concluded that the guidance offered by IAS 38: Intangible Assets would give the most true and fair reflection of the company’s financial position at year end.

5. References

- i) <http://www.ifrs.org/issued-standards/list-of-standards/>
- ii) <http://www.applebyglobal.com/publication-pdf/guide/guide-to-duties-and-obligations-of-a-director-of-a-cayman-islands-fund.pdf>
- iii) <http://www.pwccn.com/en/migration/pdf/accounting-cryptocurrencies-dec2016.pdf>
- iv) <https://www.linkedin.com/pulse/new-accounting-standards-crypto-currencies-ias38-some-martin-spratt>
- v) <http://www.cftc.gov/idc/groups/public/@swaps/documents/file/principlespractices.pdf>
- vi) [https://uk.practicallaw.thomsonreuters.com/5-504-1111?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/5-504-1111?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1)