Square: Murky Crypto Accounting Rules Pose Risk

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NEWS

Square Inc. has identified another business risk for publicly traded companies that deal in cryptocurrencies: unclear accounting rules.

In its most recent annual filing with the U.S. Securities and Exchange Commission (SEC), the digital payments company wrote that Generally Accepted Accounting Principles (GAAP), the U.S. accounting standard for public companies, offers no specific guidance for cryptocurrencies. This makes it difficult for Square to know how to report its profits or losses from cryptocurrency transactions.

Moreover, the document suggested that auditors or regulators could disagree with how Square accounted for cryptocurrencies. The filing continued:

> *"The accounting can be complex and subject to challenge or scrutiny. The final conclusions on the accounting treatment for our cryptocurrency transactions could affect the presentation of our results of operations."*

In other words, if Square gets it wrong, then the company may have to restate its financials, which could hurt its stock price or operations.

Last month, the payment platform introduced bitcoin buying and selling to most states through the Cash App, allowing users to send payments in the cryptocurrency to friends and family, as previously reported.

Other risks

Additionally, Square also noted other regulatory difficulties that could arise from its bitcoin buy/sell feature.

In its filing, Square said that it does not think its bitcoin service qualifies as offering securities to its customers, meaning it should not fall under state or federal securities regulations.

Similarly, the company does not see itself as a broker-dealer or investment advisor as defined by U.S. securities laws, or as a commodities dealer.

While Square believes these conclusions are accurate, "the regulation of cryptocurrency and crypto platforms is still an evolving area and it is possible that a court or a federal or state regulator could disagree with one or more of these conclusions," the company wrote.

"If we fail to comply with regulations or prohibitions applicable to us, we could face regulatory or other enforcement actions and potential fines and other consequences," the company went on. "Further, we might not be able to continue operating the feature, at least in current form, and to the extent that the feature is viewed by the market as a valuable asset to Square, the price of our Class A common stock could decrease."

Square is one of several prominent financial services companies that have added discussions of crypto, blockchain or distributed ledger technology to the "risk factors" sections of their annual filings this month. Others include Bank of America, JPMorgan Chase and Goldman Sachs.

Companies often take a "kitchen sink" approach to these passages, including a variety risks that they may consider remote - but material enough to warrant investors' attention.

Square payment image via Mybloodtypeiscoffee / Wikimedia Commons

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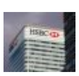

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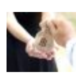

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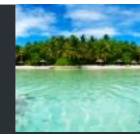

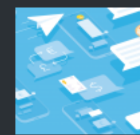

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