

Digital Currency and Small Business – Because Money Matters!

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February 21, 2023



The Association of
Accountants and
Financial Professionals
in Business

Featured Presenters



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Agenda

1. Introduction
2. Section 1 – Digital Currency and Its Impact
3. Section 2 – CBDC, eYuan and SMEs
4. Section 3 – FASB Update: Crypto Accounting
5. Conclusion
6. Key take away



Section One

- Overview
- Legal Aspects
- Economic Factors
- Infrastructure Considerations
- Cultural Benefits
- Payment Flows
- Differences between cryptocurrencies and CBDCs



Poll Question 1:

Are you familiar with digital payments, cryptocurrencies, and Central Bank Digital Currency (CBDC)?

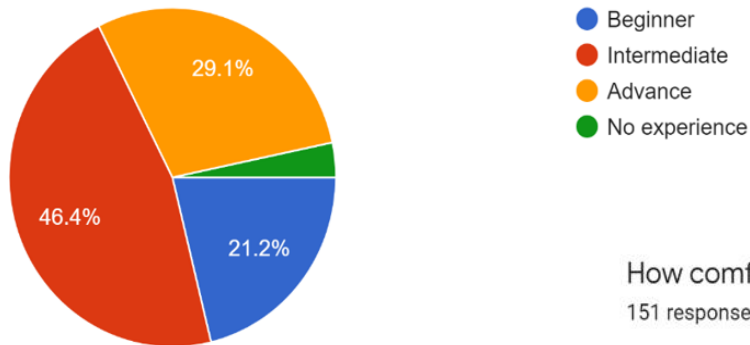
- a. Yes
- b. No

Poll Question 1 Results: (Placeholder)

Study Survey Results

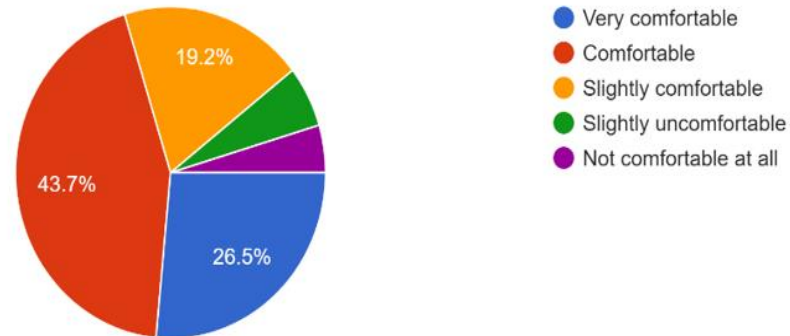
What is your experience with digital payment?

151 responses

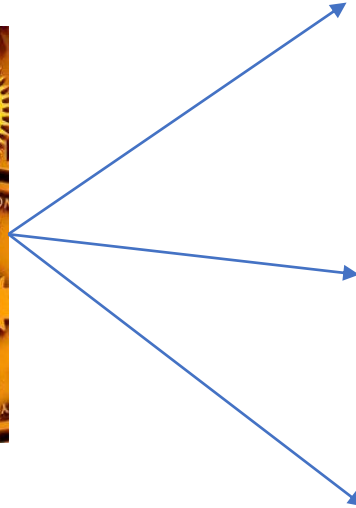


How comfortable are you in dealing with cryptocurrencies or digital payments?

151 responses



What is a digital currency?



Digital Payments

- Electronic transfers of funds
- Fiat currencies issued as legal tender by governments, cryptocurrencies, or CBDCs.
- Examples: Venmo, Paypal, Zelle, digital or e-wallets



How have digital currencies
changed the world?

Cash Payment Trends

- USA – Decreased from 40% in 2012 to 19% in 2020
- Sweden - Decreased from 33% in 2012 to 10% in 2020
- China – 50% digital wallet payments and 13% cash

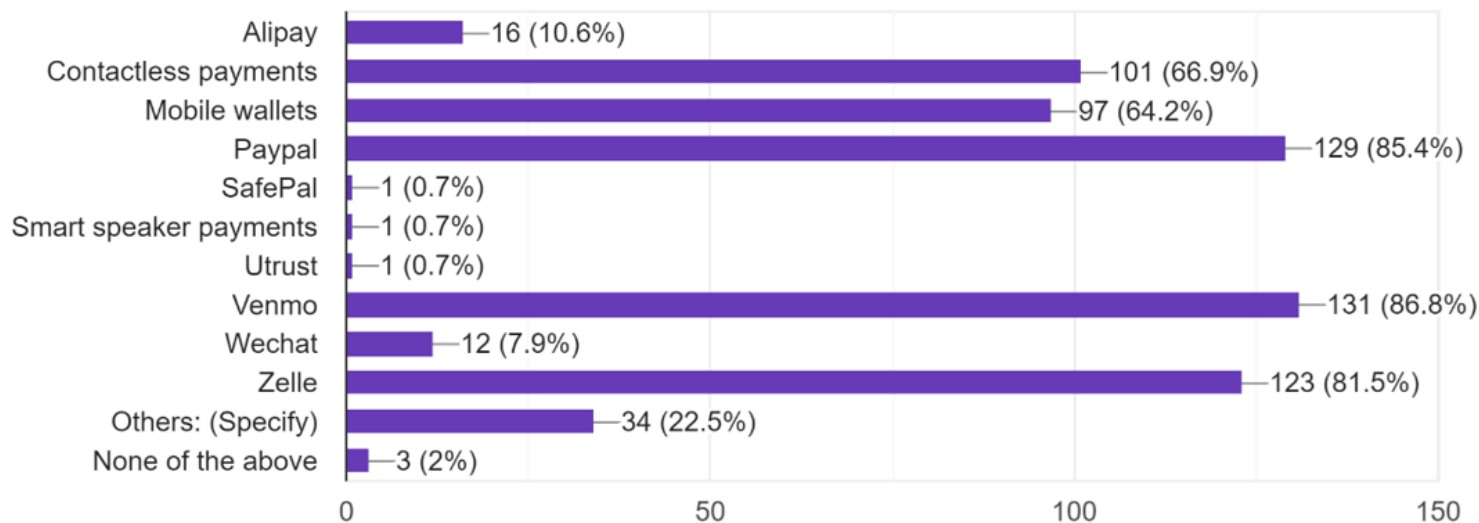
US Digital Payments

- Automated Clearing House (ACH)
- Real-time Interbank Payment System (RTP) for lower value remittances round the clock everyday
- Digital Wallets
- FedNow Service in 2023
- Digital dollar?

Types of Digital Payments

With which digital payment are you familiar? (Check all that apply.)

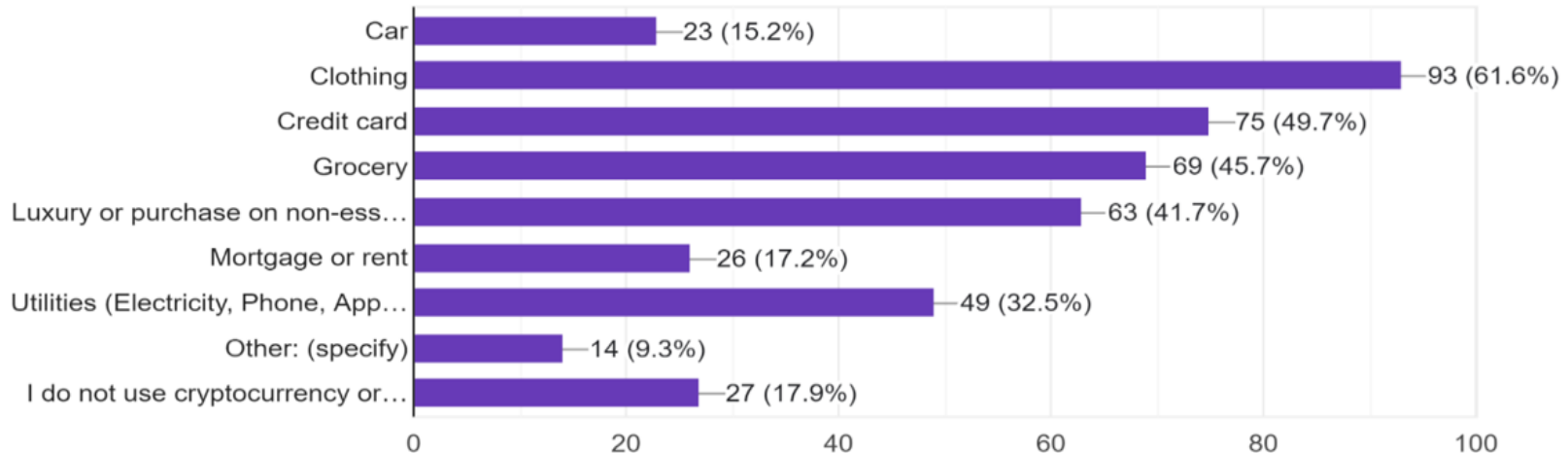
151 responses



Applications of Digital Payments

If you are paying bills with cryptocurrencies or digital payments, which ones apply? (Check all that apply)

151 responses



Cross Border Payments

- Slow settlement
- High fees
- Limited accessibility
- Caused by:
 - Laws
 - Exchange rate mechanics
 - Technological infrastructure
 - Time differential
 - Correspondent banking coordination



Poll Question 2:

Have you bought or sold cryptocurrencies and/or Central Bank Digital Currencies (CBDCs)?

- a. Yes
- b. No

Poll Question 2 Results: (Placeholder)

Cryptocurrencies

- Decentralized, peer-to-peer payments
- Cryptographic and distributed-ledger technologies
- About 21,910 cryptocurrencies with market capitalization of \$850 billion (*CoinMarketCap, as of 7 December 2022*)
- Significant use of energy and expose consumers to loss, theft, and fraud
- Stablecoins peg their value to one or more assets, such as a currency or commodity
- Could cause disruption of payment system and concentration of economic power

Types of Cryptocurrencies and Countries by Usage

Vietnam	1
Philippines	2
Ukraine	3
India	4
United States	5
Pakistan	6
Brazil	7
Thailand	8
Russia	9
China	10

Name	Price	1h %	24h %	7d %	Market Cap ①	Volume(24h) ①	Circulating Supply ①	Last 7 Days
 Bitcoin BTC	\$22,779.40	▲ 0.19%	▼ 0.72%	▲ 7.63%	\$438,958,523,727	\$23,801,730,182 1,045,293 BTC	19,269,981 BTC	
 Ethereum ETH	\$1,637.04	▲ 0.19%	▲ 0.38%	▲ 4.10%	\$200,330,843,303	\$7,034,937,930 4,298,671 ETH	122,373,866 ETH	
 Tether USDT	\$1.00	▲ 0.00%	▼ 0.00%	▼ 0.02%	\$66,756,241,290	\$33,147,995,052 33,142,098,618 USDT	66,744,307,804 USDT	
 BNB BNB	\$305.35	▲ 0.06%	▲ 1.06%	▲ 0.27%	\$48,215,051,438	\$604,202,149 1,977,119 BNB	157,903,273 BNB	
 USD Coin USDC	\$1.00	▲ 0.02%	▲ 0.01%	▲ 0.03%	\$43,507,507,254	\$3,211,663,260 3,211,503,780 USDC	43,503,674,962 USDC	
 XRP XRP Buy	\$0.4095	▲ 0.53%	▲ 0.58%	▲ 2.90%	\$20,802,695,964	\$959,785,197 2,343,679,997 XRP	50,796,877,639 XRP	
 Binance USD BUSD	\$0.9998	▼ 0.02%	▼ 0.05%	▼ 0.01%	\$16,080,783,561	\$9,223,555,536 9,222,408,681 BUSD	16,083,287,246 BUSD	
 Cardano ADA	\$0.3762	▲ 1.13%	▲ 1.15%	▲ 4.58%	\$13,007,055,263	\$693,717,354 1,843,214,388 ADA	34,572,231,146 ADA	
 Dogecoin DOGE	\$0.09029	▲ 0.23%	▲ 5.31%	▲ 3.90%	\$11,978,912,510	\$895,587,427 9,916,833,648 DOGE	132,670,764,300 DOGE	
 Solana SOL Buy	\$24.69	▲ 0.46%	▼ 2.27%	▲ 1.42%	\$9,164,773,844	\$971,209,497 39,408,788 SOL	371,197,003 SOL	

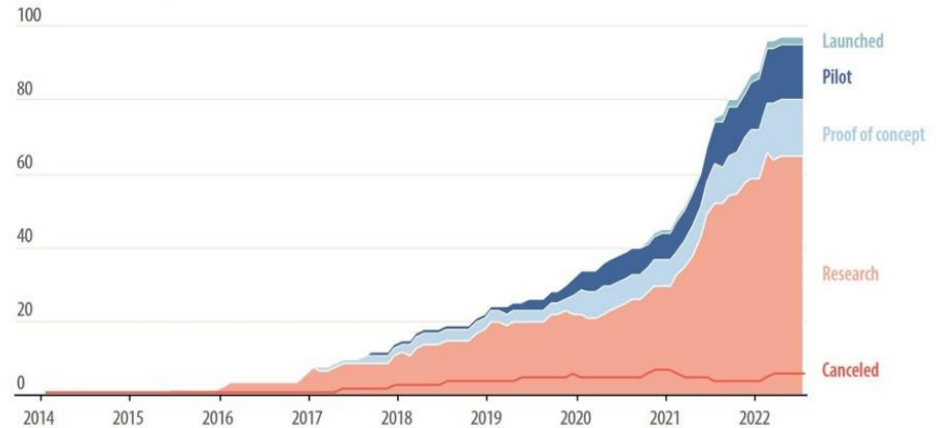
(Source: [Chainanalysis](#) as of 23 January 2023)

Central Bank Digital Currency (CBDC) Background

- Digital liability of central bank available to general public
- Over 100 countries engaged in R&D
- Federal Reserve Bank of New York in proof-of-concept stage for 12 weeks

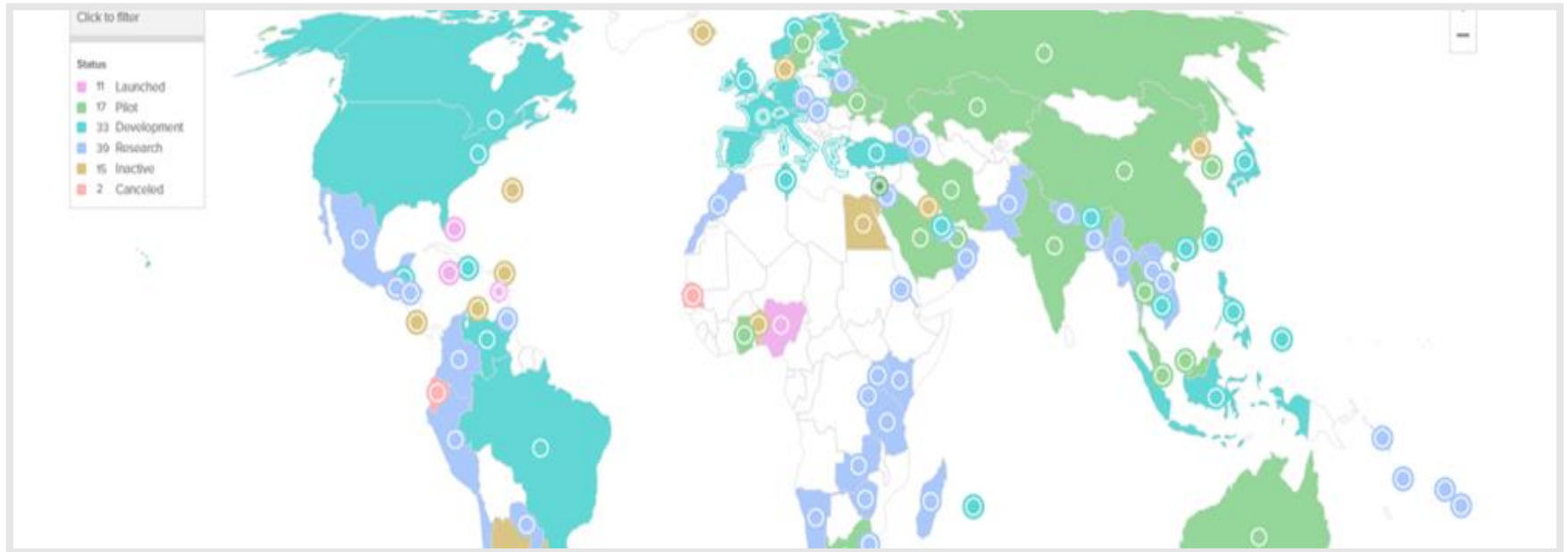
Gaining currency

CBDC research and development have exploded in the past few years, with 15 pilots ongoing across the world and 15 more in an advanced research stage.

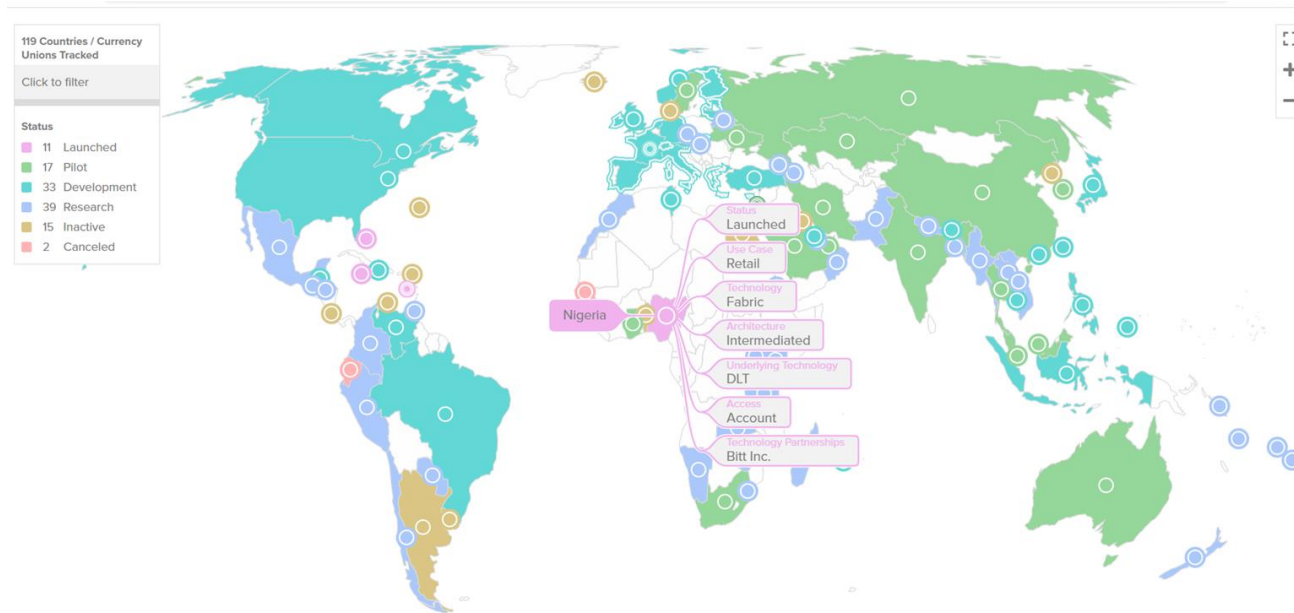


Source: CBDC Tracker (cbctracker.org). The chart shows the status of CBDCs worldwide by month. Proof of concept = advanced research stage.

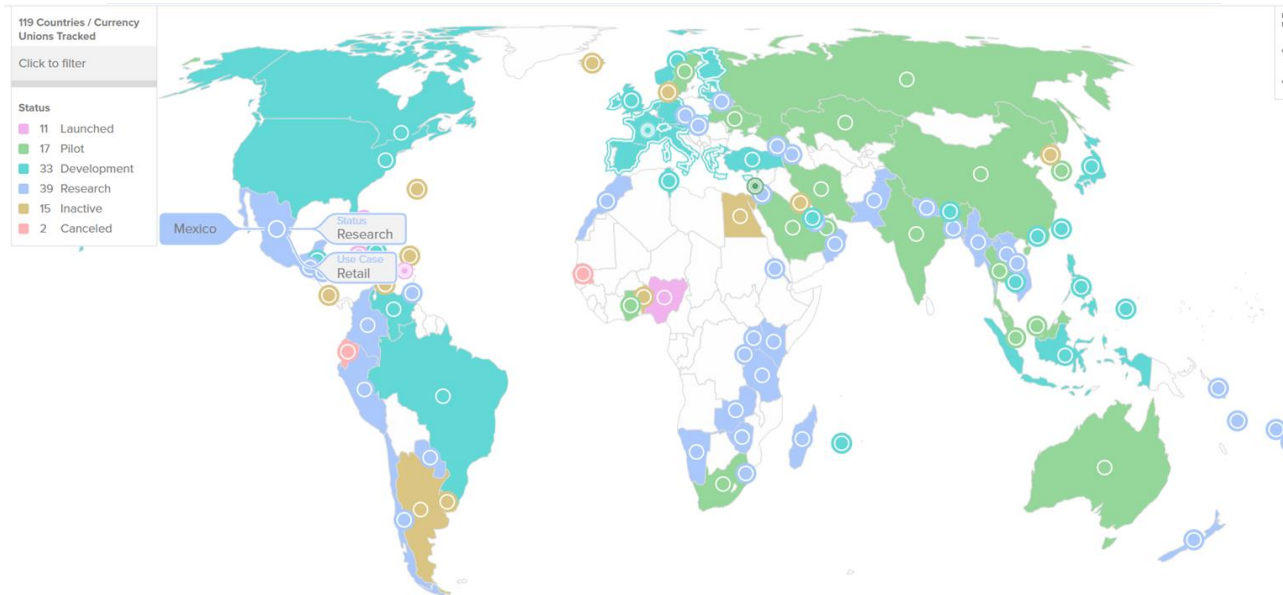
CBDC Development Tracker



CBDC Development Tracker - Nigeria



CBDC Development Tracker - Mexico



Legal Aspects – US Cryptocurrency Exchange Crackdown

- DOJ's NCET investigates those who enable the use of digital assets to facilitate crime
- DOT's FCEN allowed by fiscal 2021 defense authorization law to take extra steps Russian illicit finance
- SEC has been targeting exchanges
- SEC 2020 lawsuit against Ripple
- If cybercriminals cannot reliably convert the cryptocurrency, the incentives to commit those crimes plummet

Legal Aspects - SEC, US Dept. of Treasury, Executive Branch Oversight

- US wants to slow the issuance of new coins
- Bank Secrecy Act, anti tip off statutes, and laws
- Assessment of decentralized finance (DeFi) in 2023 and NFTs in July 2023



Canadian, UK, and EU Regulators

Canada

- CSA (Canadian Securities Administrators) and IIROC (Investment Industry Regulatory Organization of Canada) - Register with provincial regulators
- Crypto investment firms must register with FINTRAC (Financial Transactions and Reports Analysis Centre of Canada)

UK

- Crypto exchanges must register with FCA (Financial Conduct Authority)
- Reporting requirements relating to KYC (Know Your Client) standards, as well as AML (Anti-Money Laundering) and CFT (Combating the Financing of Terrorism)
- Must notify OFSI (Office of Financial Sanctions Implementation) of suspected offense to sanctions

European Commission

- Passed MiCA (Markets in Crypto-Assets Regulation)

Japanese, Australian, & Singaporean Regulators

Japan

- Register with FSA (Financial Services Agency), comply with AML/CFT obligations
- JVCEA (Japanese Virtual Currency Exchange Association)
- The Act on Prevention of Transfer of Criminal Proceeds

Australia

- Register with AUSTRAC (Australian Transaction Reports and Analysis Centre) and meet specific AML/CTF obligations
- ASIC (Australian Securities and Investments Commission) introduced regulatory requirements for initial coin offerings
- Plans to create a licensing framework around cryptocurrency

Singapore

- MAS (Monetary Authority of Singapore) licenses and regulates exchanges as outlined in the (PSA) Payment Services Act

South Korean, Indian, and Brazilian Regulators

South Korea

- Register with KFIU (Korea Financial Intelligence Unit), a division of FSC (Financial Service Commission)
- Banned all privacy coins from exchanges
- Digital Asset Basic Act, which might take shape by the first half of 2023

India

- Current regulations don't provide much guidance
- Digital version of the rupee launched on 1 November 2022

Brazil

- Approved a regulatory framework legalizing the use of cryptocurrencies in Nov 2022

Middle East and South Asia

Middle East

- Fasset – a digital-asset gateway, received authorisation to expand its operations in the EU, which will allow for sharia compliant connection of remittance corridors of the global diaspora to their home markets

South Asia

- Fasset partnered with Mastercard to operate in Indonesia, which was to approve its operation as a full-service crypto exchange in 2022

Payment Challenges / Initiatives

- 7 million or 5% of US households are unbanked
- Over 8 million have accounts but rely on costly money orders, checking-cashing services, and payday loans
- BankOn, account through low cost, low risk consumer checking account
- Federal Reserve Bank of Atlanta's Committee on Payments Inclusion promotes for less fortunate consumers



Economic Factors

- Adds \$3.7 trillion to the GDP of emerging economies by 2025
- 2 billion individuals and 200 million micro, small, and midsize businesses lack access to savings and credit
- Governments could gain \$110 billion per year by reducing leakage in public spending and tax collection
- Save \$400 billion annually in direct costs
 - 80-90% less expensive to service
 - Providers could increase their deposits by as much as \$4.2 trillion
- Ethiopia, Nigeria, and India have the greatest opportunity for growth
- China, Brazil, and Mexico could add four to five per cent to their GDP
- 80% of adults in emerging markets had a cell phone, while only 55% have financial accounts
- McKinsey recommends leaders to harmonize:
 - Building extensive digital infrastructure
 - Promote a vibrant environment for financial services
 - Innovate digital finance products for individuals and small businesses

Infrastructure Considerations

- Smart phones facilitate lower investment relative to other projects
- Connect apps to digital payment platforms
- Product design, available access points, awareness, financial literacy, and leveraging large-volume payments, supported by:
 - Financial ICT infrastructure
 - Legal and regulatory frameworks
 - Public and private sector commitment”.
 - (World Bank)



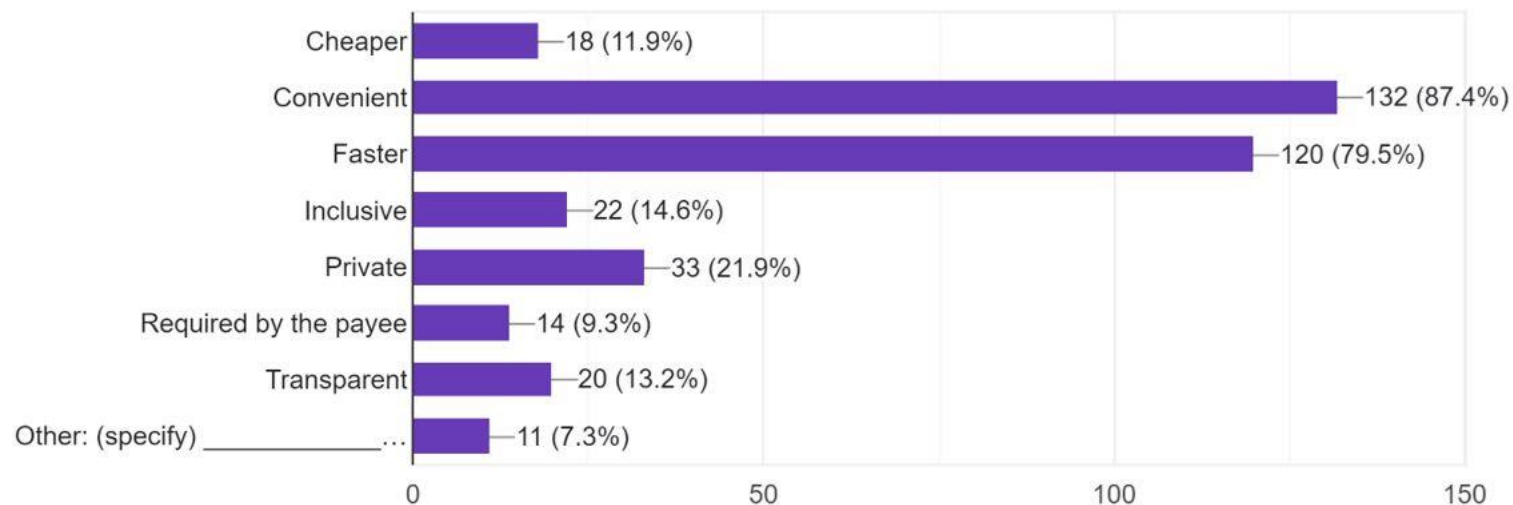
CBDC Wish List

- Privacy-protected
- Allow transparency to prevent criminal activity
- Intermediated – Commercial banks or regulated non-banks would offer accounts or digital wallets
 - Fed Reserve not mandated to serve individuals
 - Private sector already has privacy/identity management system and can innovate
 - Promotes stability of financial sector
- Widely transferable to different intermediaries
- Identity of recipient verified to comply with AML rules

Benefits of CBDC

- Convenient, electronic form of central bank money that offers safety and liquidity
- Support faster, cheaper cross border payments
- Enable entrepreneurs to create new financial products
- Expand consumer access to the financial system
- Liability of the Federal Reserve, not of a commercial bank, so no need for insurance
- Could preserve USD's international role as reserve currency and primary currency for cross border transactions
- Envisioned to supplant stablecoins or cryptocurrencies
- Regulations could stem high profile bankruptcies, such as those of Terra Luna, FTX, possibly Genesis

Benefits of CBDC



Cultural Benefits of Digital Payments

- Increases women economic participation by giving them greater control over business and budgeting (*The Opportunities of Digitizing Payments, 2014*)
- Kenya's M-Pesa mobile services, *"increased daily per capita consumption levels of 194,000, or roughly 2%, of Kenyan households, lifting them out of extreme poverty"*
 - Daily consumption in female-led households grew by over 18%
 - Both genders were able to advance their careers from agriculture to enterprising ventures as well as increase savings due to more dependable and efficient access to their funds through a wider network

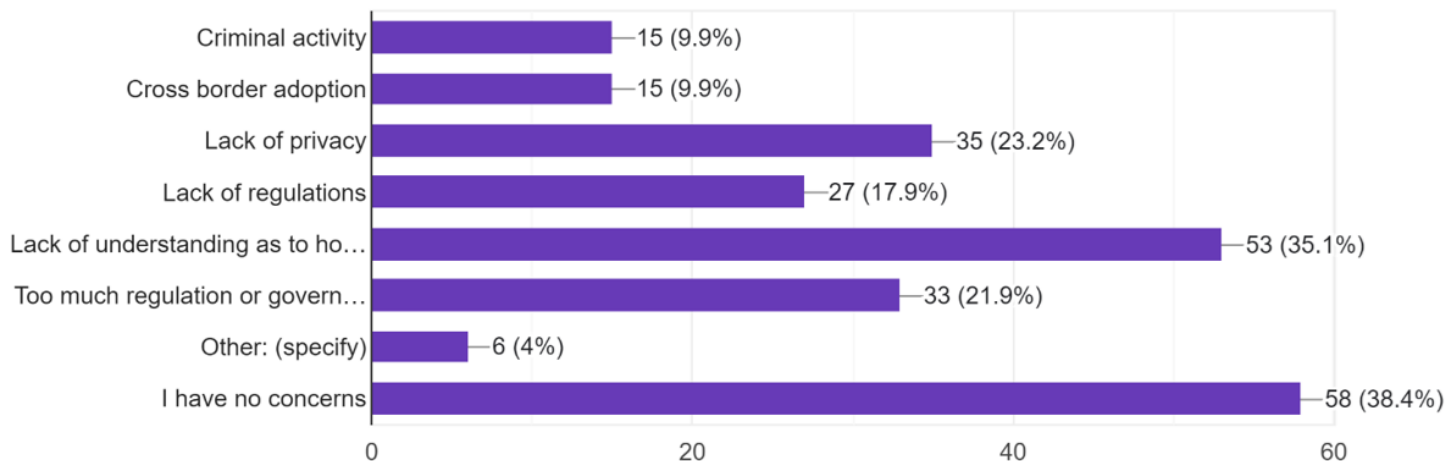
CBDCs Could Affect

- Financial sector market structure could significantly change
- Deposits and low risk investments, like mutual funds, if they compete with interest bearing CBDCs or high return stablecoins
- Cost/availability of credit could rise as a result
- Safety and stability of the financial system
- Efficacy of monetary policy

Concerns about China's CBDCs - Survey

What are your concerns about China's Central Bank Digital Currency e-CNY adoption? (Check up to your top three concerns.)

151 responses

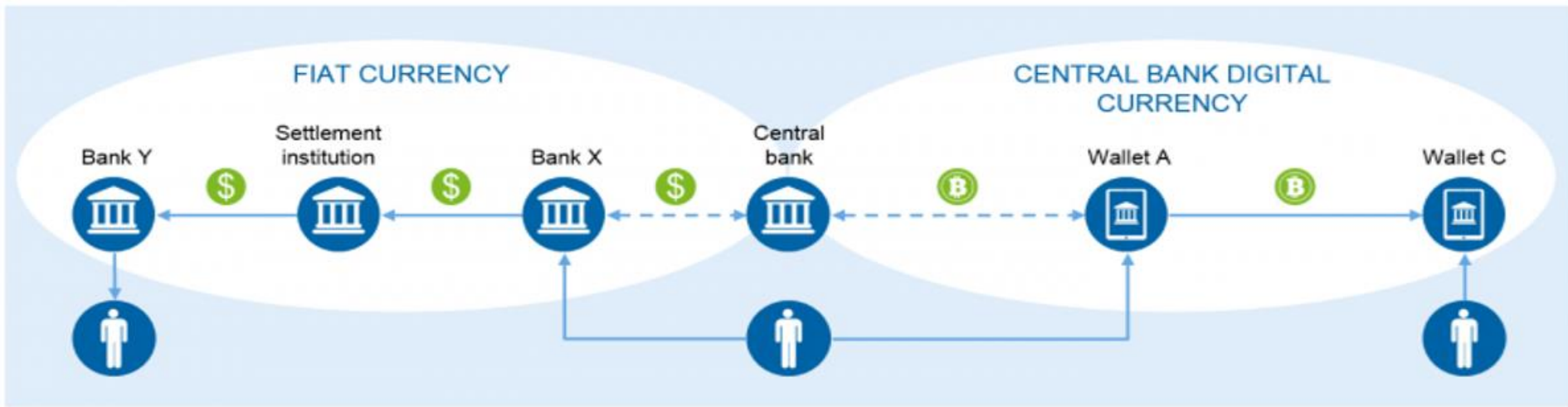


Countries Who Dropped CBDCs

- Denmark
- Japan
- Ecuador
- Finland

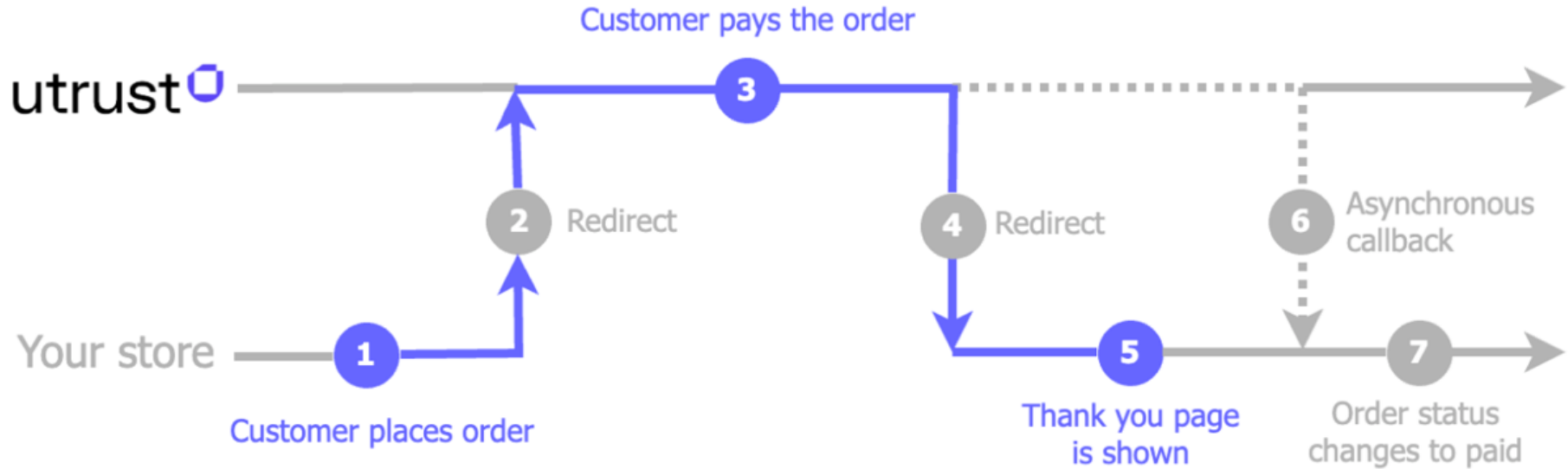


Traditional Currency Versus CBDC Payment Flow



Source: Figure 1: Dual Currency System – overview, [Central Bank Digital Currency and its impact on the banking system](#) | [BankingHub](#)

Utrust Cryptocurrency Order to Payment Flow



Source: The Utrust Payment Process, <https://academy.moralis.io/blog/ultimate-utrust-review-what-is-utrust-and-the-utk-token#>

Cryptocurrencies Versus CBDCs

- A **CBDC** is a digital currency issued and regulated by the central bank or monetary authority
 - Deigned to be stable compared to cryptocurrencies
- Due to ***their privacy and decentralized nature***, cryptocurrencies have been associated with money laundering, ransomware, and payment for illegal online gambling
- Cryptocurrencies tend to want to ***bypass the KYC***, know your customer, legal requirement
- Cryptocurrencies lack intrinsic value, suffer acute price fluctuations, have low scalability, and heavily consumes energy, that render them mostly ***speculative*** instruments



Poll Question 3:

Will you consider in investing in Digital Currency in 2023 beyond?

- a. Yes
- b. No
- c. I'm not sure

Poll Question 3 Results: (Placeholder)

Section Two

1. Payments Trends
2. How digital payments started in China
3. China's CBDC Development
4. Impact on SMEs and use cases
5. Supply Chains
6. Future outlook



China CBDC – The E-Yuan

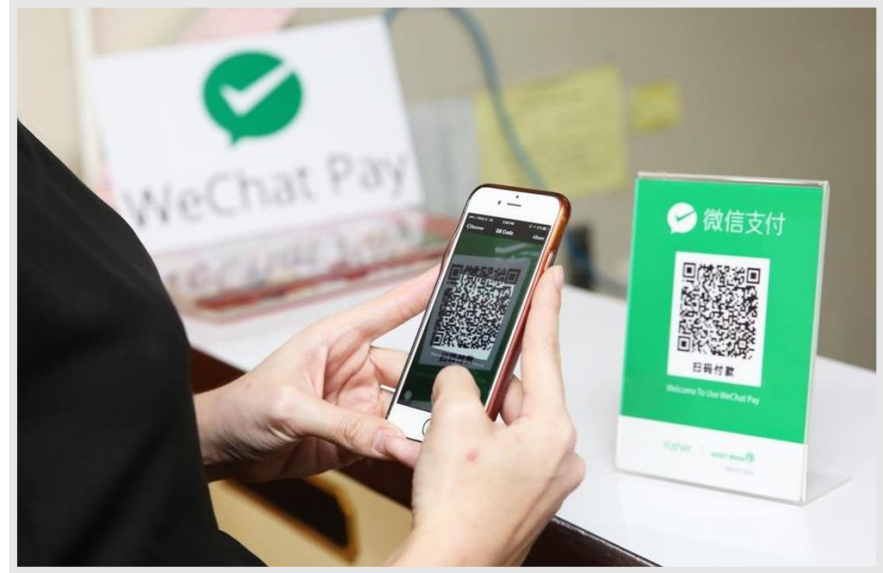
Payment Trends

- Credit card use in the US is \$8T (1/3) of GDP
- Mobile payments in China are 4X its GDP, and are used not only for retail but all sorts of services, payments, etc.
- Payments are going mobile and digital globally



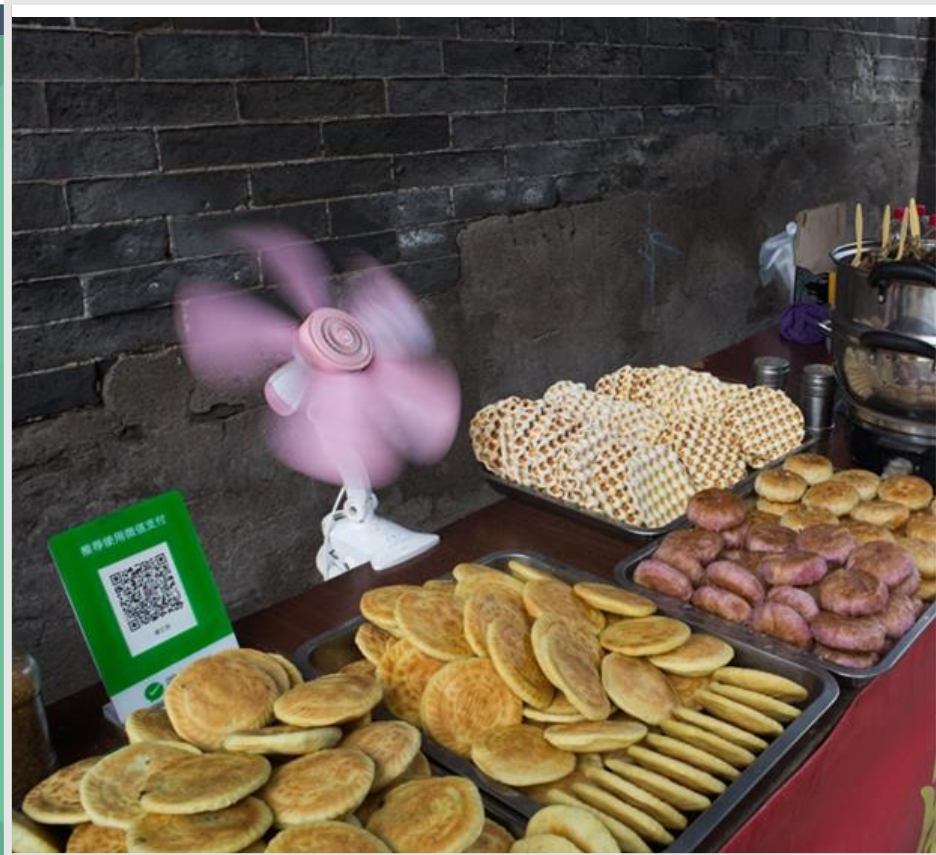
How Digital Payments started in China

2014 - Launch of QR Codes for Payment



Inclusion by Design

- QR codes are designed to be seamless and direct, scanning allows you to pay the vendor immediately
- The vendor receives money immediately, with no transaction cost
- Everyone can receive, or make payment, all are included





Next Generation Payments – The E-Yuan

- Issued by the government directly
- Is equivalent to National paper currency
- Is not built on a blockchain system, it's a cryptographic database system
- No Intermediaries

China's CBDC Development

Motivation

- Evolution of money & already cashless
- Financial inclusion
- More robust payment system
- We need another payment option if one system fails

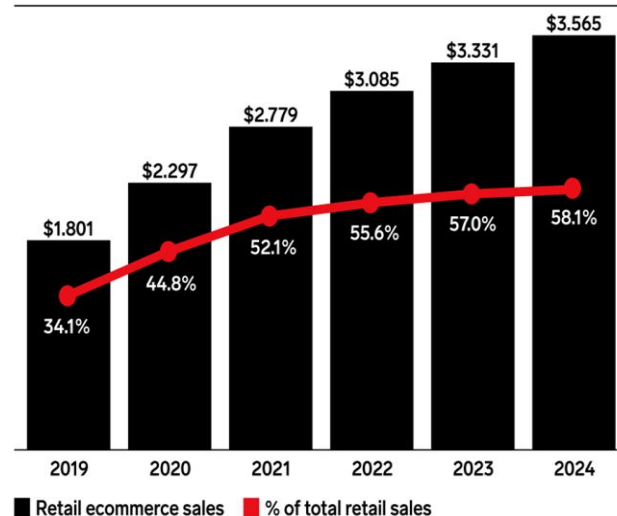


Payments are largely cashless already

- Digital society for a digital economy
- 50%+ of all retail transactions are on e-commerce platforms
- Compared to the US – 13%, UK – 28%

Retail Ecommerce Sales in China, 2019-2024

trillions and % of total retail sales

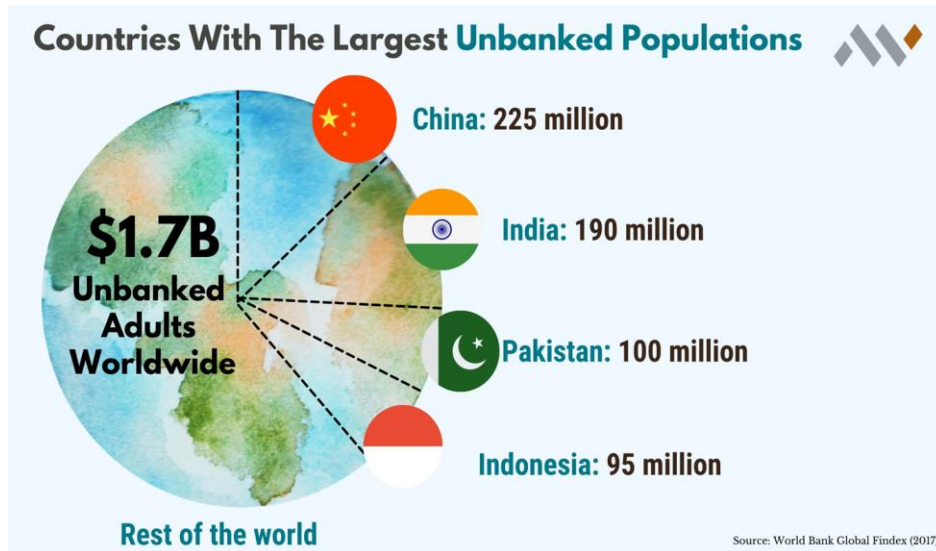


Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes or money transfers, food services and drinking place sales, gambling and other vice good sales; excludes Hong Kong

Source: eMarketer, Dec 2020

Financial Inclusion

- 225m people in China do not have bank accounts or access
- No bank accounts and free
- Design as the current cash system, a 2-tier system
- CBDC must have ubiquitous usage capability



Financial Inclusion

- There is no charge for payment, no fees or exclusion
- Payment is so simple you can just use a card
- You can use Alipay/WeChat payment platform as well
- China has the advantage of already using QR codes but needs to develop the back-office rail



How it Affects SMEs

Trial Run in Shenzhen

- Gave “Hong Bao’s” (red envelopes) to the winners of a lottery – 200RMB
- Must be spent in two weeks
- Could spend at 3000+ retailers throughout the city



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in Business

Benefits to SMEs

- Free and immediate payment
- Will work anywhere, anytime
- No network connection is needed
- Acts as cash below 2000RMB
- There is no data footprint, recorded as an anonymous transaction.

Current uses of E-Yuan for SMEs

- Salary, tax, utility payments
- Vendor payment (low adoption)
- Transportation (bikes, metro, taxi)
- Can exchange for cash

For an SME, It Is...

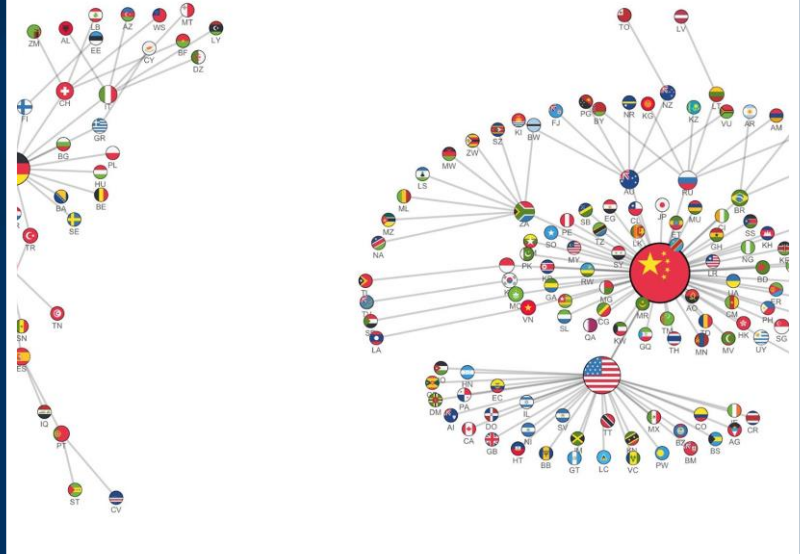
- Less about how you pay for coffee and more about future payments where they will be automatic, and robots/machines will do it
- Car Example – tolls, gas, can program it to spend a certain amount on it, only \$50 for gas, etc.
- Companies can set limits and/or program their currency for certain uses
- Nationwide ubiquitous payment – universally accepted and free

Supply Chains

- China is the world's largest exporting country
- Products bought will be paid for in E-RMB digital currency
- Digital systems (logistics, payments) make payment immediately, with very minimal fees, and without intermediaries

connected to their
ading partner in 2020

international Monetary Fund. Flags were not
lack.



Supply Chains

- Aug – Sept 2022 trial period
- Tested 160 cross-border payments totaling over 150 million yuan using China's CDBC (E-Yuan)
- Hong Kong, Thailand, and the United Arab Emirates
- BRICS and BRI countries use first
- Less dependence on USD and other currencies



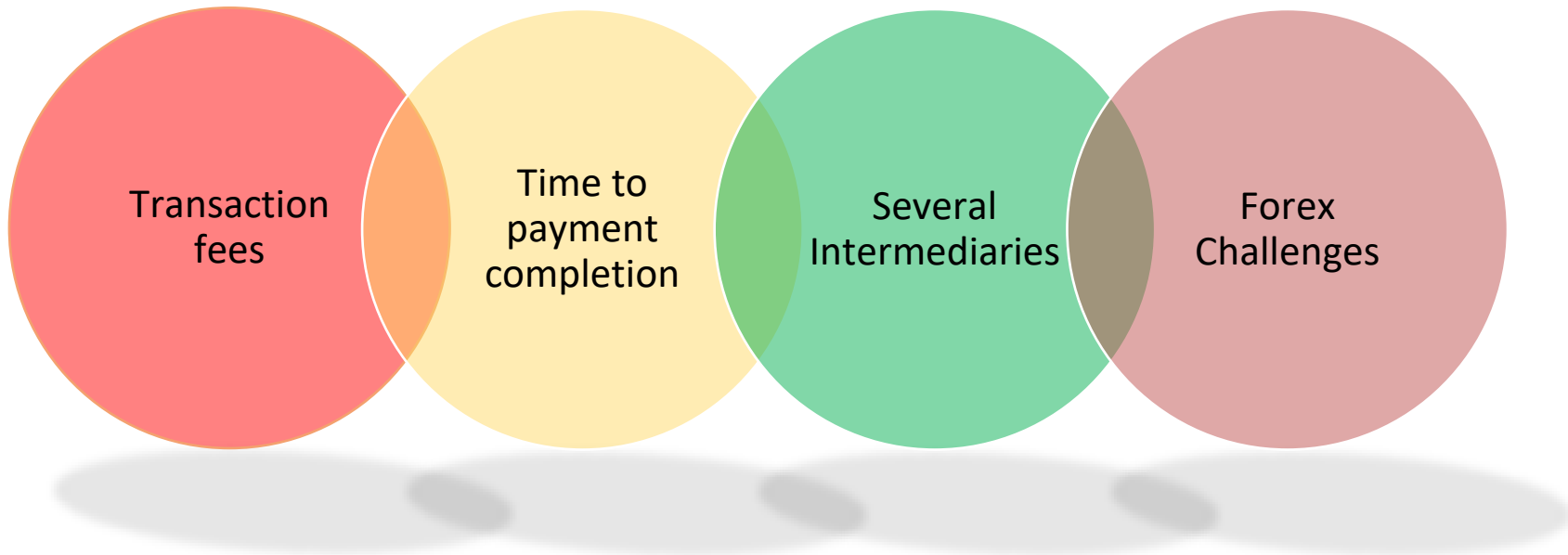
Poll Question 4:

What would induce you to engage in eYuan? (please select all that apply)

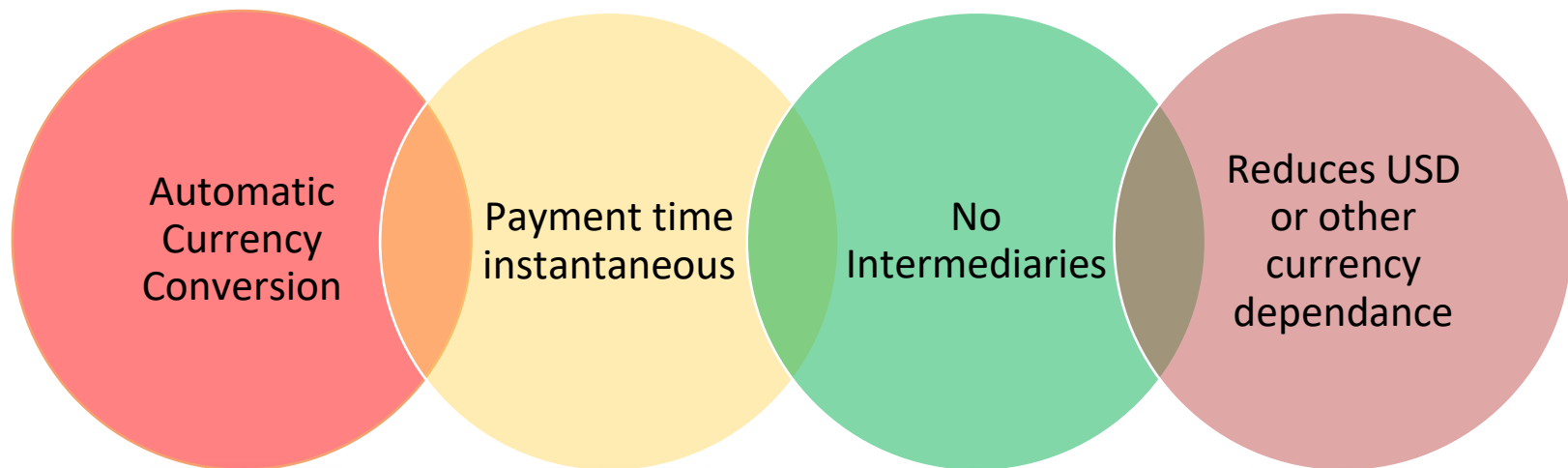
- a. More transparent Chinese regulation
- b. Cross border acceptance of the currency
- c. Statistical evidence of its security and safety
- d. Price stability
- e. Low or elimination of criminal activity
- f. Greater understanding of the currency
- g. All of the above
- h. I have no concerns
- i. Other

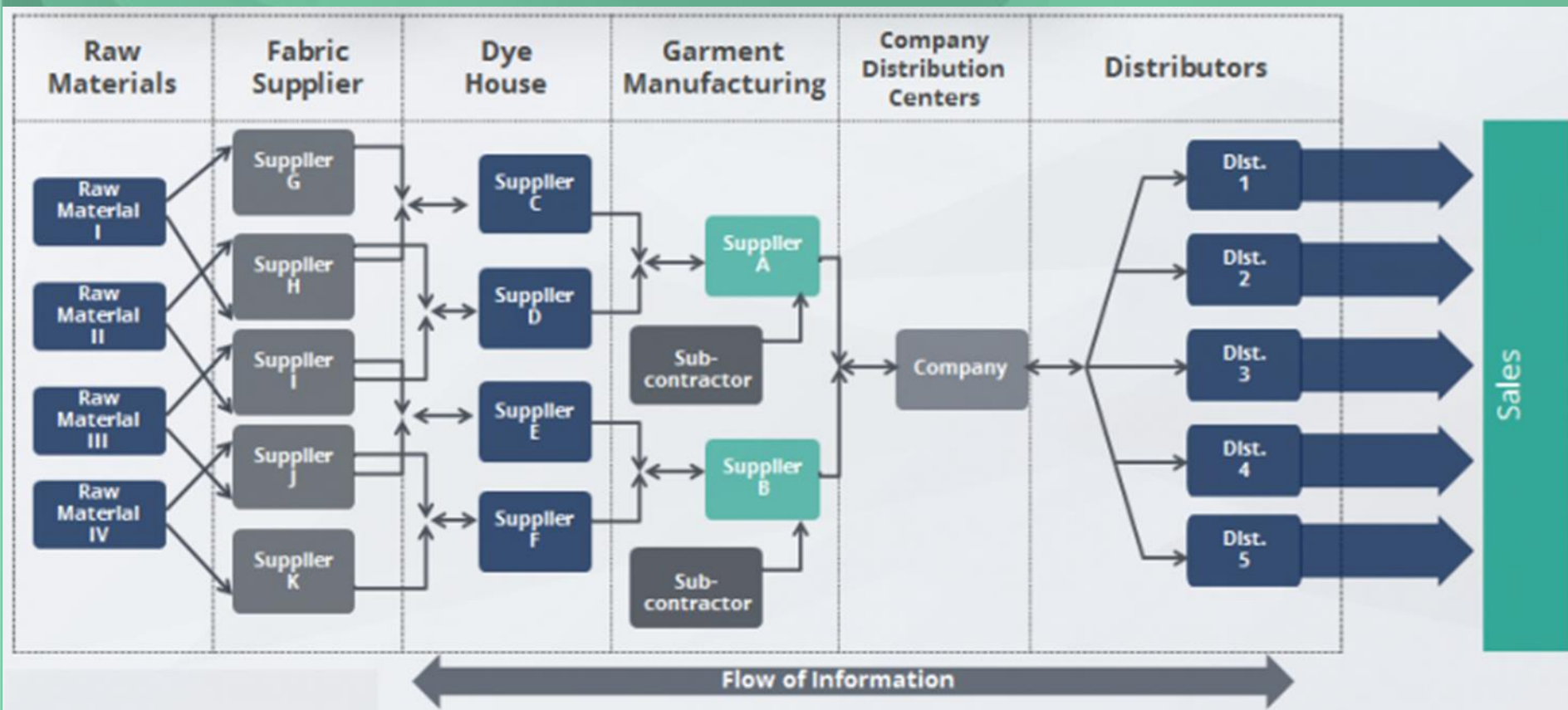
Poll Question 4 Results: (Placeholder)

Costs to SMEs in the Current Trade System



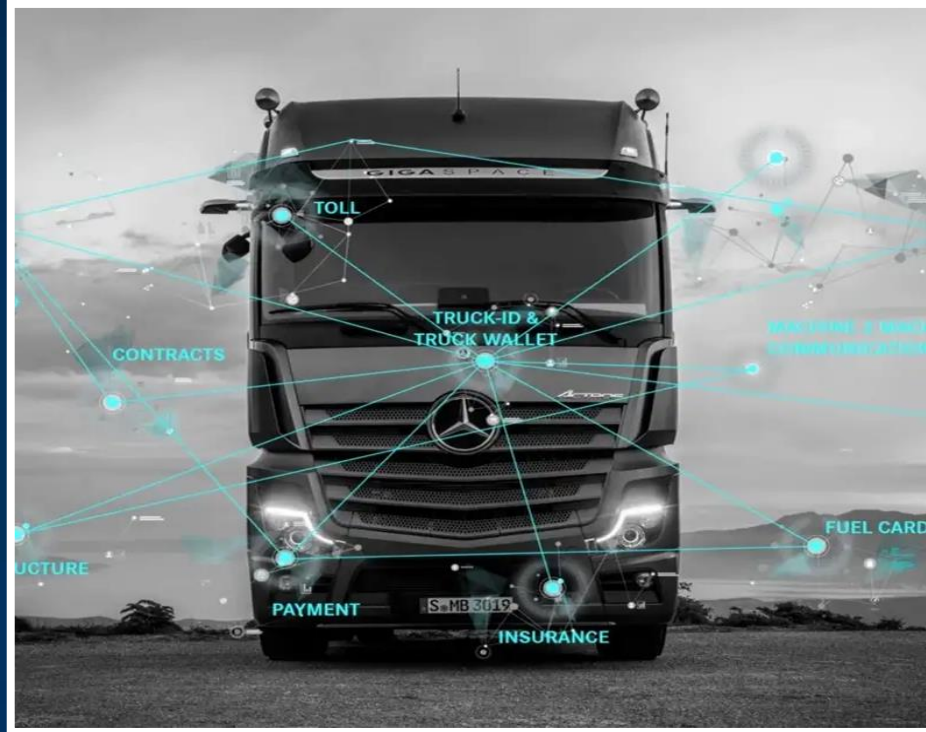
Costs Using the E-Yuan in Trade





The Future

- A future with 5G, IOT devices, and robots – machines will pay, not humans
- With free and immediately received payments, the cost of goods and services will be reduced
- Integration of systems and all things digital
- Platform services are where money will be made



Poll Question 5:

Have the collapses of FTX increased your concern on Digital Currency Accounting and Reporting?

- a. Yes
- b. No

Poll Question 5 Results: (Placeholder)

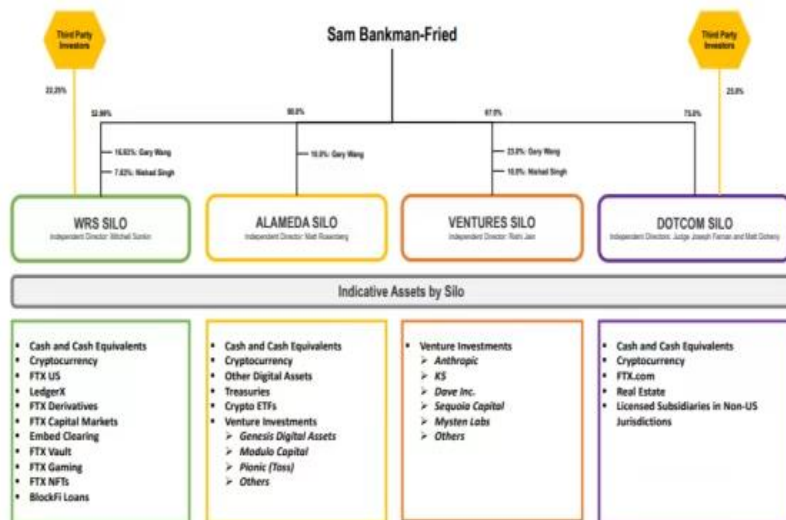
Section 3

- FASB Update - Crypto Accounting
- Challenges in the horizon



FTX Trading Limited Chapter 11 Filing at Nov 11, 2022

FOUR SILOS FOR RECOVERY PURPOSES



Dotcom Silo Consolidated Assets as of September 30, 2022

Current Assets

Cash and Cash Equivalents	\$483,724
Restricted Cash	\$10,188
U.S. Dollar Denominated Stablecoins	\$1,140,795
Customer Custodial Funds	—
Accounts Receivable	\$9,459
Accounts Receivable, Related Party	\$188,155
Loans Receivable	\$103,949
Prepaid Expenses and Other Current Assets	\$42,661
Crypto Assets Held at Fair Value	\$659

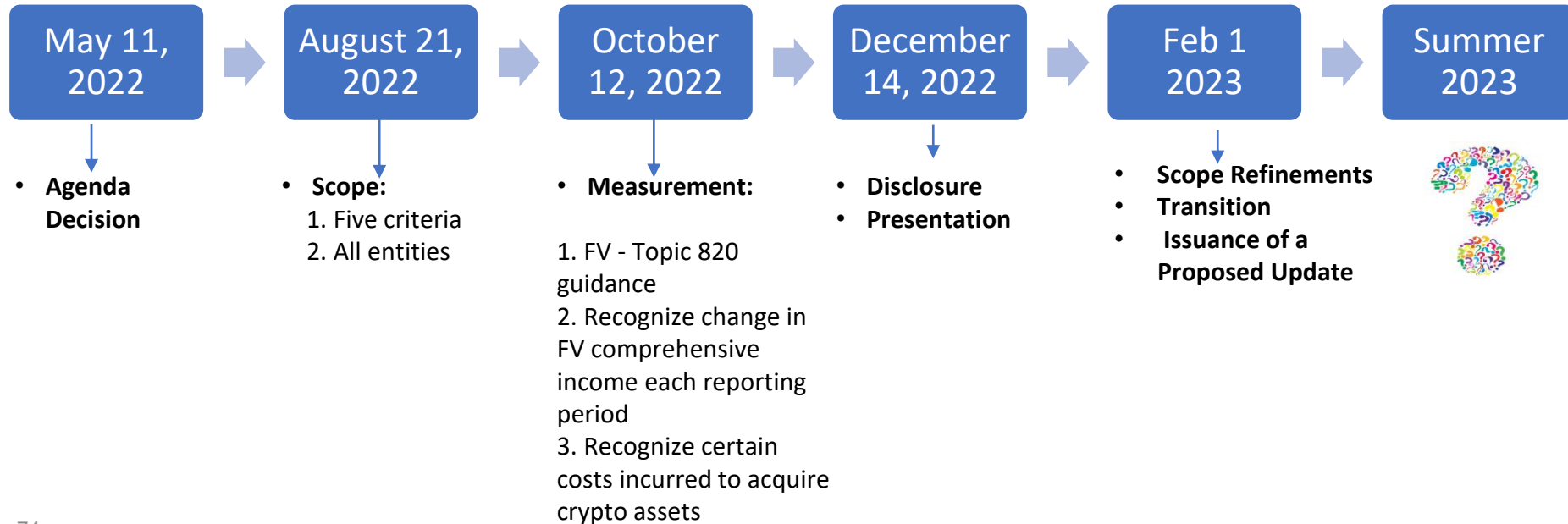
Total Current Assets **\$1,979,590**

Property and Equipment, Net \$256,996

Other Non-Current Assets \$22,148

Total Assets **\$2,258,734**

FASB's Proposed Guidance Technical Agenda Timeline on Accounting for and Disclosure of Crypto Assets



Horizons for SMEs

Questions and Answers



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Thank you!



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