

Square, Inc. Bitcoin Investment Whitepaper

October 2020

On October 7, 2020, Square, Inc. purchased approximately 4,709 bitcoins at an aggregate purchase price of \$50 million. Square has been a leader in the bitcoin space since 2018 through our Cash App product, which provides customers the ability to buy and sell bitcoin. As believers in bitcoin's potential for continued future growth, the company formed Square Crypto, an independent team solely focused on contributing to bitcoin open source work for the benefit of all. Square also recently launched the Cryptocurrency Open Patent Alliance (COPA), a non-profit organization encouraging crypto innovation, opening access to patented crypto inventions, and helping companies and individuals defend themselves against patent aggressors.

Given the rapid evolution of cryptocurrency and unprecedented uncertainty from a macroeconomic and currency regime perspective, we believe now is the right time for us to expand our largely USD-denominated balance sheet and make a meaningful investment in bitcoin. We view bitcoin as an instrument of global economic empowerment; it is a way for individuals around the world to participate in a global monetary system and secure their own financial future. This investment is an important step in furthering our mission.

We've chosen to open source this documentation in order to clearly articulate the process behind the execution of our purchase as others consider similar moves.

Execution

To maintain transaction privacy and price slippage on execution, Treasury purchased the bitcoin over-the-counter with a bitcoin liquidity provider that we currently use as part of Cash App's bitcoin trading product. We negotiated a spread on top of a public bitcoin index and executed trades using a Time-Weighted Average Price (TWAP) over a predetermined 24-hour period with low expected price volatility and high market liquidity, in order to reduce risks associated with cost and pricing. Criteria that we evaluated when selecting our liquidity providers included pricing, annual trade desk volume, and integrations with our existing trading and settlement rails. Popular over-the-counter desks, some of which we've utilized in the past, can be found [here](#).

Custody

As part of Cash App's launch into enabling customers to buy and sell bitcoin, we invested heavily in building out our cryptocurrency infrastructure to help protect our customers' funds.

Cryptocurrencies like bitcoin require private keys to access and move funds, and securing these private keys is important because transfers are irrevocable. Since launching bitcoin support, we have developed a robust approach to bitcoin cold storage, and we recognize the importance of sharing our work with the community. As a result, we've [open-sourced](#) documentation, code, and tools for "[Subzero](#)", our Hardware Security Module-backed solution for protecting Square's

bitcoin holdings. However, there are several third party providers readily available for those looking to outsource the custody, including those listed [here](#).

Insurance

Although this investment is held in cold storage, in order to further protect our bitcoin holdings Square maintains a Crime insurance policy to protect against internal or external theft of bitcoin both in hot wallet and cold storage. There are different types of insurance available to protect against loss of cryptocurrency depending on whether the assets are held in hot wallets or cold storage. Crime programs cover theft or digital loss of physical assets in hot or cold storage, whereas Specie programs cover only loss of assets in cold storage on specifically designated premises and may not cover against all cases of insider theft. It is important to evaluate where the digital assets are stored and what level of insurance coverage is provided before selecting a custodian.

Accounting

From an accounting perspective, the guidance on accounting for cryptocurrencies continues to evolve. According to AICPA's [Accounting for and auditing of cryptocurrencies](#), because crypto assets lack physical form, they meet the definition of intangible assets and would be accounted for under FASB ASC 350, *Intangibles — Goodwill and Other*. Since there is no limit on their useful lives, cryptocurrencies are therefore classified as indefinite-lived intangible assets. The short term or long term classification of the asset depends on how long the company plans and intends to hold the investment for — in Square's case the likely balance sheet classification will be Other Non-current Assets, with a breakout in the footnotes noting the market value as of quarter end.

Intangible assets not subject to amortization (indefinite-lived) shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. If the price of bitcoin drops below the carrying value at any point during the assessed period there would be an impairment charge — effectively the carrying value is marked to the lowest price in a period. After an impairment loss is recognized, the adjusted carrying amount of bitcoin will be its new accounting basis. A subsequent reversal of a previously recognized impairment loss is prohibited until the sale of the asset. It is important to therefore clearly establish how the market price is determined and tracked for each tranche of bitcoin purchased. Given that bitcoin is purchased for investment purposes, impairment losses will be recorded in other income/loss and as such, would impact the US GAAP metrics but may not impact non-GAAP metrics.

We hope this outline of our decision to allocate a portion of Square's assets into bitcoin provides useful information to others contemplating a similar strategy.

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This whitepaper is for informational purposes only. Individuals and entities should not construe any such information as legal, tax, investment, financial, accounting or other advice. Nothing

contained in this whitepaper constitutes a recommendation or endorsement by Square to buy or sell bitcoin, cryptocurrencies or other financial instruments.