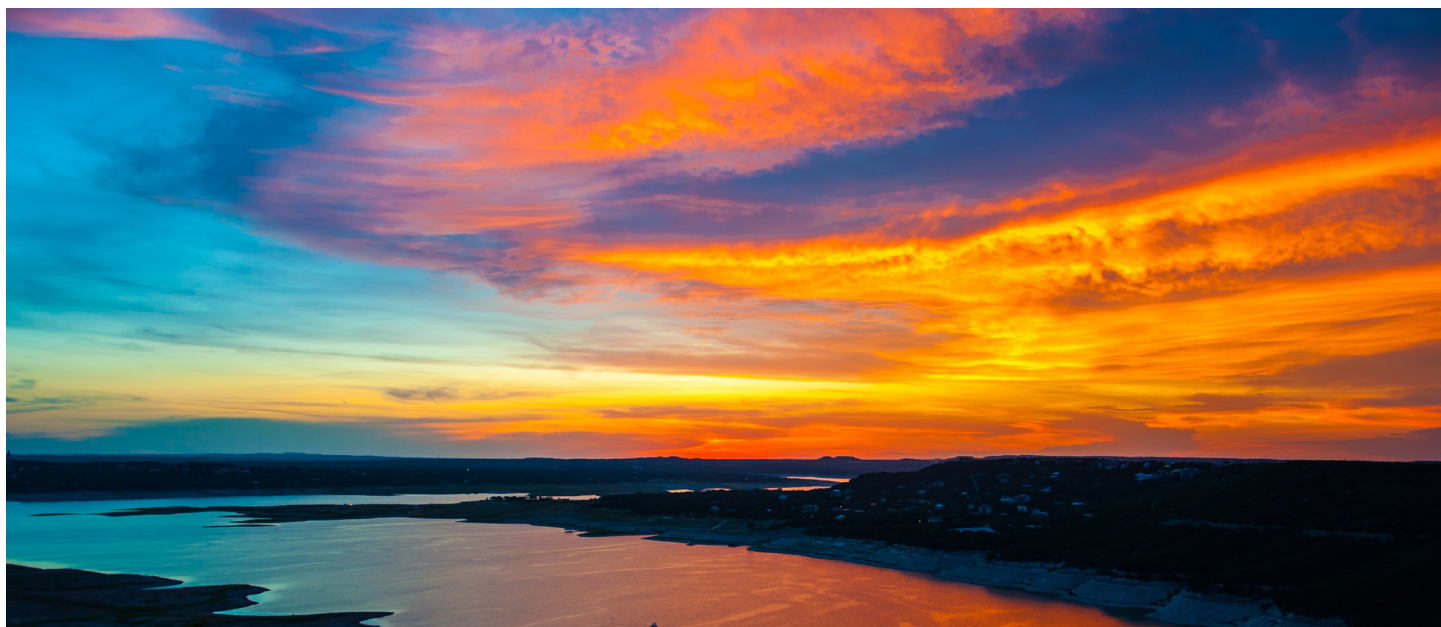




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SAB 121 and Done: SEC Issues SAB 122 to Rescind Guidance on Safeguarding Crypto Assets

Introduction

On January 23, 2025, the SEC published [Staff Accounting Bulletin \(SAB\) No. 122](#) to rescind [SAB 121](#). SAB 121 previously required an entity to recognize a liability and corresponding asset for its obligation to safeguard crypto assets. The rescission of SAB 121 will have a significant impact on the financial statements of entities that were previously within the scope of SAB 121.

Background on SAB 121

The SEC staff issued SAB 121 on March 31, 2022, in response to an increase in the number of entities that safeguard crypto assets, since there are unique technological, legal, and regulatory risks associated with safeguarding such assets. An entity generally does not record safeguarded crypto assets of its users on its balance sheet (with a corresponding liability to return those assets) unless the entity has control of those assets. SAB 121 resulted in a significant change to the accounting and financial reporting for these entities, since it required the fair value of the crypto assets being safeguarded to be recorded as a liability, with a corresponding asset, when an entity does not control the crypto assets.

In addition to the requirement related to balance sheet recognition, SAB 121 required entities to disclose detailed information about the nature and amount of crypto assets being safeguarded, as well as any vulnerabilities related to concentrations in crypto asset safeguarding. Such disclosures included information about who holds the cryptographic keys, who maintains internal recordkeeping, and who is obligated to secure the assets and protect them from loss or theft.

SAB 121 did not define safeguarding, and entities were often required to use significant judgment in determining whether a transaction was within the scope of SAB 121. In addition, on-balance-sheet recognition posed challenges for certain regulated entities subject to regulatory requirements based on balance sheet metrics (e.g., capital or reserve requirements).

Rescission of SAB 121

The SEC's decision to rescind SAB 121 by issuing SAB 122 will result in a number of implications related to entities' derecognition of the obligations and assets previously required by SAB 121. Full retrospective application of SAB 122 is required for annual periods beginning after December 15, 2024, but entities are permitted to early adopt SAB 122 in any interim or annual financial statement period included in filings with the SEC on or after January 30, 2025.



Connecting the Dots

Reporting entities should carefully evaluate disclosures about the impact of SAB 122, including those that may be required by SAB Topic 11.M (SAB 74)¹ for those that do not early adopt. For more information, see [Section 2.19](#) of Deloitte's Roadmap *SEC Comment Letter Considerations, Including Industry Insights*.

Accounting Implications

Safeguarding Liability

Regarding safeguarding obligations and the corresponding assets, SAB 122 states, in part:

Upon application of the rescission of [SAB 121], an entity that has an obligation to safeguard crypto-assets for others should determine whether to recognize a liability related to the risk of loss under such an obligation, and if so, the measurement of such a liability, by applying the recognition and measurement requirements for liabilities arising from contingencies in [ASC 450-20²] or [IAS 37³] under U.S. generally accepted accounting principles and IFRS Accounting Standards, respectively.



Connecting the Dots

Given the rescission of SAB 121, we expect that an entity will remove its safeguarding obligation and corresponding asset from its balance sheet unless a loss contingency exists. ASC 450 requires an entity to record an accrual for a loss contingency when (1) it is probable that a loss has been incurred and (2) the amount can be reasonably estimated. An entity that has not suffered a loss event would not be expected to record a liability when adopting SAB 122. For more information about loss contingencies, see Deloitte's Roadmap *Contingencies, Loss Recoveries, and Guarantees*.

Change in Accounting Principle

SAB 122 states that "[e]ntities should include clear disclosure of the effects of a change in accounting principle upon initial application of this rescission." As is consistent with SAB 122, ASC 250-10-45-5⁴ indicates that an entity that is reporting a change in accounting principle should apply the change retrospectively⁵ "unless it is impracticable to do so." ASC 250-10-45-5 goes on to state that an entity is typically required to provide the following:

- a. The cumulative effect of the change . . . on periods prior to those presented . . . in the carrying amounts of assets and liabilities as of the beginning of the first period presented.

¹ See SEC Staff Accounting Bulletin Topic 11.M, "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period."

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

³ IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

⁴ See also IAS 8, *Accounting Policies, Changes in Accounting Estimate and Errors*.

⁵ The ASC master glossary defines retrospective application as "[t]he application of a different accounting principle to one or more previously issued financial statements, or to the statement of financial position at the beginning of the current period, as if that principle had always been used, or a change to financial statements of prior accounting periods to present the financial statements of a new reporting entity as if it had existed in those prior years."

- b. An offsetting adjustment . . . to the opening balance of retained earnings . . . for that period.
- c. [F]or each individual prior period presented [in the financial statements, adjustments] to reflect the period-specific effects of applying the new accounting principle.

Entities should include all applicable disclosures regarding a change in accounting principle (see the [Disclosures](#) section below).

Previously Recorded Loss Events

In a manner similar to that described in ASC 805 and IFRS 3,⁶ the measurement of the safeguarding asset under SAB 121 factored in any potential loss events that would have resulted in an impairment of the asset; such a charge would have been reflected in the income statement. The occurrence of a loss event would result in a difference between the safeguarding asset and safeguarding liability. If no potential loss events occurred in a given reporting period, there would be no net effect on the income statement (i.e., net zero impact).

However, in a manner consistent with retrospective application, companies must reanalyze any loss events reported in prior periods to determine the appropriate accounting for any loss event (i.e., an entity would need to assess the previously recorded SAB 121 asset impairment under ASC 450-20).

Disclosures

SAB 121 required entities to provide a significant number of disclosures both in the footnotes to the financial statements and outside the financial statements. While SAB 122 highlights the importance of disclosures, it does not contain any new crypto disclosure requirements to apply upon adoption of SAB 122. Regarding disclosures, SAB 122 states, in part:

Entities should include clear disclosure of the effects of a change in accounting principle upon initial application of this rescission^[7]. . . . The staff reminds entities that they should continue to consider existing requirements to provide disclosures that allow investors to understand an entity's obligation to safeguard crypto-assets held for others. These requirements include but are not limited to, Items 101,^[8] 105,^[9] and 303^[10] of Regulation S-K; [ASC 450-20]; and [ASC 275].

Upon adoption of SAB 122, an entity should consider the disclosure requirements in ASC 250-10-50-1 related to a change in accounting principle. Further, the entity should assess whether any of the information previously required by SAB 121 is relevant to users of its financial statements and should therefore continue to be disclosed. Such information may be consistent with information disclosed about ongoing risks and uncertainties in accordance with the guidelines in ASC 275.

For additional considerations related to risks and uncertainties, see Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#).

Conclusion

The issuance of SAB 122 to rescind SAB 121 represents a significant change for entities involved in safeguarding crypto assets. Given the relative ease of unwinding the safeguarding asset and liability, as well as the complexity of determining whether certain transactions were within the scope of SAB 121, we expect that many entities will elect to effect the rescission early and remove the safeguarding asset and liability.

⁶ IFRS 3, *Business Combinations*.

⁷ Entities should consider the guidance in ASC 250-10-50-1 through 50-3 and IAS 8 on a change in accounting principle, as well as SEC Regulation S-K, Item 302, "Supplementary Financial Information," and paragraph 8 of PCAOB Auditing Standard 2820, *Evaluating Consistency of Financial Statements*.

⁸ SEC Regulation S-K, Item 101, "Description of Business."

⁹ SEC Regulation S-K, Item 105, "Risk Factors."

¹⁰ SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."



Connecting the Dots

In addition to the publication of SAB 122, two other recent developments will affect the crypto industry.

First, on January 21, 2025, SEC Acting Chairman Mark Uyeda launched a crypto task force (the “Task Force”) that will be led by SEC Commissioner Hester Peirce. In its [press release](#) on the development, the SEC stated that the Task Force’s focus is to “draw clear regulatory lines, provide realistic paths to registration, craft sensible disclosure frameworks, and deploy enforcement resources judiciously.”

In addition, on January 23, 2025, President Trump signed an executive order, [Strengthening American Leadership in Digital Financial Technology](#). The executive order, which is largely aligned with the principles of the Task Force, is intended “to establish regulatory clarity for digital financial technology and secure America’s position as the world’s leader in the digital asset economy, driving innovation and economic opportunity for all Americans.” As part of the executive order, a Presidential Working Group on Digital Asset Markets will be established.

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