



In This Issue

- [Introduction](#)
- [Scope](#)
- [Measurement](#)
- [Presentation](#)
- [Disclosures](#)
- [Transition](#)
- [Contacts](#)
- [Appendix A — Example of Annual Disclosures](#)
- [Appendix B — Example Reconciliation Disclosure for Interim Reporting Period in the Year of Adoption](#)

Frequently Asked Questions About Implementation of the FASB's New Crypto Assets Standard

This publication was updated on July 17, 2024, to address questions raised by early adopters of ASU 2023-08 about the disclosures required for interim and year-end reporting periods both before and after adoption of the ASU. Text that has been added or amended since this publication's initial issuance has been marked with a ***red boldface italic date*** in brackets.

Introduction

On December 13, 2023, the FASB issued [ASU 2023-08](#),¹ which provides guidance on the accounting for crypto assets (codified as ASC 350-60).² Although the standard will not be effective until 2025,³ early adoption is permitted for periods for which financial statements have not yet been issued (or made available for issuance).

Early adopters may encounter certain implementation questions when addressing the requirements of the ASU related to the types of assets that are within the ASU's scope, how to apply the fair value guidance to crypto assets, how to determine significant holdings for disclosure purposes, and other accounting and disclosure issues.

¹ FASB Accounting Standards Update (ASU) No. 2023-08, *Accounting for and Disclosure of Crypto Assets*.

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 For all entities, the ASU's amendments are effective for fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. See the [Effective Date and Transition](#) section within Deloitte's December 15, 2023, [Heads Up](#) for more information.

This *Heads Up* discusses our perspectives on several frequently asked implementation questions related to the standard, some of which remain unresolved as of the issuance date of this publication. [Appendixes A and B](#) include comprehensive examples that illustrate the annual and interim disclosure requirements, respectively, in the year of adoption of the ASU. **[Paragraph amended July 17, 2024]**

For a comprehensive overview of ASU 2023-08, see Deloitte's December 15, 2023, [Heads Up](#).

Scope

While ASU 2023-08 applies to assets that meet all of the scope criteria in ASC 350-60-15-1, not all digital assets or all crypto assets will meet these criteria. As outlined in ASC 350-60-15-1, the scope criteria are as follows:

- The crypto asset meets the U.S. GAAP definition of an intangible asset.
- The holder does not have “enforceable rights to or claims on underlying goods, services, or other assets.”
- The asset is created or resides on “a distributed ledger based on blockchain or similar technology.”
- The asset is secured by cryptography.
- The asset is fungible.
- The asset is “not created or issued by the reporting entity or its related parties.”⁴

Questions and Answers

Question 1

Are wrapped tokens within the scope of ASU 2023-08?

Answer

The term “wrapped token” generally describes a digital asset that is pegged to the value of another digital or crypto asset or provides the holder with the same rights or claims to the underlying asset. Although the March 2023 proposed ASU specifically noted that wrapped tokens were not expected to be within the scope of the new guidance, the final ASU does not mention wrapped tokens. ASC 350-60-15-1(b) indicates that assets that “provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets” are not within the scope of the new guidance, regardless of whether the underlying assets themselves would be in scope. As a result, entities should carefully evaluate, on an asset-by-asset basis, whether wrapped tokens meet the scope criteria in ASC 350-60, giving particular consideration to whether the wrapped token provides any enforceable rights to or claims on other assets (i.e., the underlying wrapped crypto asset).

Question 2

Are stablecoins within the scope of ASU 2023-08?

Answer

A stablecoin is a digital asset that contains mechanisms designed to minimize price volatility by linking its value to a more traditional asset such as a fiat currency (e.g., the U.S. dollar or a commodity). The terms of any stablecoin must be evaluated to determine the appropriate accounting treatment. Some stablecoins will be classified as financial assets or financial

⁴ A reporting entity that performs mining or validating services, and that receives newly created crypto assets as consideration for those services, would not be deemed the creator of those crypto assets as long as the services constitute the entity's only involvement with the creation of the asset.

instruments. Other stablecoins might meet the definition of intangible assets but may not meet all the scope criteria in ASC 350-60, particularly if the stablecoin provides the holder with enforceable rights to or claims on other assets. For example, a stablecoin may be collateralized and redeemable for the asset(s) used to collateralize the stablecoin.

Question 3

How should an entity account for digital assets that are not within the scope of ASU 2023-08, such as digital assets that are not intangible assets (e.g., certain stablecoins); digital assets with enforceable rights to underlying goods, services, or other assets (e.g., certain wrapped tokens); or nonfungible digital assets (e.g., nonfungible tokens)?

Answer

The accounting for stablecoins will depend on the rights and obligations of the stablecoin, and therefore a stablecoin could be accounted for under the guidance on financial assets or financial instruments, traditional intangible assets, crypto assets, or other GAAP. Similarly, an entity may need to use the traditional intangible asset model or another accounting model to account for digital assets such as wrapped tokens (depending on their nature) even if the underlying crypto asset would be within the scope of the ASU. An entity will need to use judgment in accounting for each type of digital asset that it holds.

Since the guidance in ASU 2023-08 does not apply to assets that are not “fungible,” questions will remain about how entities should account for and disclose nonfungible digital assets such as nonfungible tokens (NFTs). Because of the unique nature of NFTs, it may be difficult for an investor or purchaser to determine (1) whether the asset should be amortized and, if so, over how long an estimated life, and (2) whether the asset is impaired and, if so, by how much. In addition, the investor or purchaser may receive a bundle of rights with the purchase of an NFT, such as a right to physical goods (e.g., branded clothing or physical artwork), entrance to a virtual concert, lifetime membership to an elite club, and other items that could include services to be received in the future. The transaction price paid by the investor or purchaser would typically need to be allocated to the multiple elements acquired on the basis of their fair values, which may be challenging to determine. Further, the investor or purchaser would have to evaluate the nature of the underlying rights acquired to determine which accounting guidance applies to each right received. For example, if the investor or purchaser pays up front and will receive services in the future (e.g., hosting of virtual items associated with the NFT, gaming experiences), the allocated cost may represent a prepaid asset. For more information about accounting considerations related to NFTs, see Deloitte’s June 21, 2022, [Accounting Spotlight](#).



Quick Tip

When determining the accounting for and disclosure of digital assets, an entity should start by assessing the scope criteria in ASU 2023-08. If a crypto asset is deemed to be within the scope of ASC 350-60, the crypto asset is within its scope for all measurement and disclosure requirements of the subtopic. However, if the digital asset is not within the scope of the ASU, the asset would not be within the scope of any of the guidance in ASC 350-60. Entities should consider other relevant GAAP for potential disclosures of digital assets outside the scope of ASC 350-60.

For additional scope questions related to [SEC Staff Accounting Bulletin \(SAB\) No. 121](#), see the [SAB 121 Applicability](#) section below.

Measurement

Fair Value Considerations

ASU 2023-08 requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recorded in net income in each reporting period. The Background Information and Basis for Conclusions of ASU 2023-08 indicates that entities should use the existing guidance in ASC 820 in (1) determining the principal (or most advantageous) market, the levels of inputs in the fair value hierarchy, and the fair value of the transactions affected by related parties; (2) measuring fair value when the volume of transactions has decreased significantly; (3) identifying transactions that are not orderly; and (4) using quoted prices provided by third parties. Entities have raised questions regarding how to apply the fair value requirements in ASC 820 to crypto assets.

Questions and Answers

Question 4

What factors should entities consider in determining the principal market for crypto assets?

Answer

The principal market is the market that has the greatest level of volume and activity for the crypto asset that the entity can access. There is a presumption that the market an entity transacts in is its principal market unless there is evidence to the contrary. An entity that primarily transacts in a private market may find it challenging to provide evidence that a public market has more volume and activity than the private market given the lack of public data about the private market. Therefore, it may be difficult for the entity to assert that the public market is the principal market in such cases (see the AICPA's practice aid [Accounting for and Auditing of Digital Assets](#)).⁵ In addition, during the panel discussion on current SEC Office of the Chief Accountant projects at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, Senior Associate Chief Accountant Gaurav Hiranandani noted that because of the rapid evolution of crypto assets, there may be a lack of consistent information about the characteristics of different crypto asset markets. This may introduce additional difficulties for entities in identifying a principal market. For more information, see Deloitte's December 10, 2023, [Heads Up](#).



Quick Tip

As a result of inconsistencies in the available information about market characteristics as well as differences in entities' processes for identifying a principal market, entities may have different principal markets for different assets held by the entity on the basis of where the entity trades. For example, an entity may identify one principal market for Crypto Asset A and a different principal market for Crypto Asset B. In addition, because a principal market is required to be a market that an entity has access to, different entities could identify different principal markets for the same assets. For example, two entities may both hold Crypto Asset C but because of differences in access and other potential factors, the entities may use different principal markets when measuring C's fair value. See [Chapter 6](#) of Deloitte's Roadmap [Fair Value Measurements and Disclosures \(Including the Fair Value Option\)](#) for additional information on the principal market for fair value measurements.

⁵ The practice aid provides nonauthoritative interpretive guidance from the AICPA's Digital Assets Working Group on how to account for and audit digital assets.

Question 5

Is it acceptable for an entity to identify a market aggregator tool as its principal market?

Answer

A market aggregator tool retrieves and processes real-time data for various assets. Among other uses, these tools may be used to aggregate data across multiple markets to identify price points and volume at any specific moment. Because a market aggregator tool is not a market but instead provides multiple quotes from different marketplaces, it would be inappropriate to identify a market aggregator tool as the principal market under ASC 820. However, an aggregator tool can be leveraged (e.g., to determine which markets have the highest volume of activity) to identify the entity's principal market if that market meets the criteria to be considered the entity's principal market under ASC 820.

For more information about the accounting and disclosure guidance in ASC 820, see Deloitte's Roadmap [Fair Value Measurements and Disclosures \(Including the Fair Value Option\)](#).

Transaction Costs Incurred to Acquire Crypto Assets

The amendments do not provide guidance on how to recognize or present transaction costs incurred to acquire crypto assets, such as commissions and other related transaction fees. The March 2023 proposed ASU would have required transaction costs to be expensed as incurred, but the FASB decided not to address the accounting for transaction costs in the final ASU. While the ASU does not change industry-specific guidance for an entity that is required to capitalize transaction costs, questions may arise regarding how to account for such costs.

Question and Answer

Question 6

How should an entity account for transaction costs?

Answer

Because ASU 2023-08 does not address the accounting for transaction costs, in the absence of industry-specific guidance (e.g., investment companies under ASC 946), an entity would typically apply ASC 350-30-30-1, which generally requires the capitalization of transaction costs by reference to ASC 805-50-30-1 through 30-4 unless the digital asset is acquired as part of a business combination. However, paragraph BC35 of ASU 2023-08 notes that "regardless of whether transaction costs are capitalized or expensed, the effect on comprehensive income in the period that crypto assets are acquired is the same because those crypto assets are required to be remeasured to fair value." This means that the requirement to subsequently measure the assets at fair value should result in a similar timing of expense recognition (and therefore the same impact on net income) as the immediate expensing of transactions costs (i.e., a cost that is capitalized would then form part of the unrealized loss on the remeasurement of the crypto asset since crypto assets are required to be subsequently measured at fair value).

If capitalized, transaction costs incurred to acquire crypto assets are likely to be presented as a cash outflow from investing activity (if settled in cash).

Presentation

Income Statement Presentation

ASU 2023-08 does not prescribe where remeasurement gains and losses should be recorded within the income statement. Therefore, early adopters have raised the question below.

Question and Answer

Question 7

Where should remeasurement gains and losses be presented within the income statement?

Answer

An entity should consider the nature of an investment in crypto asset holdings that are within the scope of ASU 2023-08. If the holdings are operational in nature, the entity may consider recognizing the gains and losses (both realized and unrealized) within operating income. However, if the holdings are for investment purposes rather than operational, it may be appropriate to include the remeasurement gains and losses below the line item for operating income if the entity presents that subtotal. Entities should apply judgment when evaluating the presentation of operating or nonoperating gains and losses on crypto asset holdings. Note that these amounts should be presented separately from changes in other intangible assets.

See [Section 2.9.2.4](#) of Deloitte's Roadmap [SEC Comment Letter Considerations, Including Industry Insights](#) for additional considerations on operating versus nonoperating subtotal presentation.

Disclosures

Evaluating Holdings for Significance

ASU 2023-08 adds ASC 350-60-50-1, which requires an entity to disclose certain information for each significant crypto asset holding. Because of this requirement, entities have raised questions regarding the meaning of a "significant" crypto asset holding under the ASU.

Question and Answer

Question 8

What factors should an entity consider in determining its significant crypto asset holdings?

Answer

While ASU 2023-08 clarifies that significant holdings are determined on the basis of fair value, there is no bright-line threshold for significance (such as a requirement to disclose the top 5 or 10 crypto asset holdings by fair value). Paragraph BC61 of the ASU notes that "[u]sing the term *significant holdings* is consistent with other GAAP requirements and is not further defined in the [ASU's] amendments."

Entities should apply appropriate judgment in determining which holdings are significant, which may include considering both qualitative and quantitative factors. In making this determination, entities should aim to provide more transparency to investors to enable them to understand present risks. Entities should apply a consistent method over time and may consider disclosing their policy for identifying significant holdings.

Cost-Basis Method

The ASU requires entities to disclose their method of determining the cost basis for their crypto asset holdings. Entities have raised questions about the appropriate method to use.

Question and Answer

Question 9

What methods may be used in the disclosure of the cost basis?

Answer

ASU 2023-08 allows multiple cost methods (e.g., first in, first out; specific identification; average cost; or other methods) for determining the cost basis of crypto assets. Note that before adoption of the ASU, impairment testing under the cost-less-impairment model was performed at the lowest level of identifiable cash flows, which resulted in operational challenges for entities using the average cost method for tracking the cost basis of crypto assets. Therefore, more entities might use the average cost method after adopting the ASU.

Gains and Losses in the Crypto Asset Reconciliation

The new guidance requires a reconciliation, in the aggregate, of activity from the opening balance to the closing balance of crypto assets. Such a reconciliation should include the disclosure, on a crypto-asset-by-crypto-asset basis, of both the gains and losses from remeasurement that are included in net income.

See [Question 18](#) for a discussion of how an entity would present the reconciliation in interim reporting periods in the year of adoption. **[Paragraph added July 17, 2024]**

Question and Answer

Question 10

How would an entity disclose remeasurement gains and losses in the reconciliation?

Answer

Assume that an entity purchases units of Crypto Asset A during an annual period. After the purchase, the price of A decreases, resulting in a remeasurement loss of \$100. The entity subsequently sells all its units of A and then purchases additional units of A later in the same period. After that purchase, there is a price increase that results in a remeasurement gain of \$60, which offsets only a portion of the previously recognized \$100 remeasurement loss. In this case, the entity would include the net remeasurement loss of \$40 related to A in the line item for losses in that period's reconciliation, along with the net losses from other crypto asset holdings that had net losses from remeasurement.

Total Amount of Cumulative Realized Gains and Losses

Under ASC 350-60-50-4(b), entities are required to separately disclose the "[t]otal amount of cumulative realized gains and cumulative realized losses from dispositions that occurred during the period" covered by the reconciliation. Because the realized gain or loss represents the difference between the original cost basis of the asset sold and the disposal price, the cumulative realized gains and cumulative realized losses may not equal the remeasurement gains and remeasurement losses separately presented within the reconciliation (e.g., if a crypto asset purchased in a prior period had unrealized gains or losses in that prior period but was sold in the current period).

Question and Answer

Question 11

How would an entity disclose cumulative realized gains and losses on crypto assets?

Answer

Assume that an entity's dispositions of crypto assets in its reconciliation for an annual period consists of the following:

- Sales of Crypto Asset A that resulted in a realized gain of \$200 and a realized loss of \$100.
- Sales of Crypto Asset B that resulted in a realized gain of \$50 and a realized loss of \$100.
- Sales of Crypto Asset C that resulted in a realized gain of \$40 and a realized loss of \$20.

Unlike the disclosure of remeasurement gains and losses, which is discussed above, cumulative realized gains and cumulative realized losses are presented as the total realized gains for all crypto assets and the total realized losses for all crypto assets. Therefore, the entity would disclose cumulative realized gains of \$290 (\$200 from A, \$50 from B, and \$40 from C) and cumulative realized losses of \$220 (\$100 from A, \$100 from B, and \$20 from C). While entities are permitted to voluntarily provide disaggregated realized gains and losses for individual crypto assets, ASU 2023-08 does not require that level of disclosure. If a more disaggregated disclosure is provided, we believe that the entity should ensure that the total amount of cumulative realized gains and cumulative realized losses is included in the disclosure.

Note that if entities receive crypto assets as noncash consideration in the ordinary course of business and convert those crypto assets nearly immediately into cash, they do not need to include that activity in the above disclosure.

SAB 121 Applicability

SAB 121 requires an entity that safeguards crypto assets to record a safeguarding obligation and corresponding asset on its balance sheet. Since safeguarding liabilities and the corresponding assets are measured at the fair value of the digital assets held, entities are required to include disclosures regarding fair value measurements under ASC 820. Therefore, questions have arisen regarding the interaction of SAB 121 and the disclosures in ASC 350-60.

Questions and Answers

Question 12

Are SAB 121 assets required to be included in the crypto asset disclosures introduced by ASU 2023-08?

Answer

As discussed in SAB 121, the safeguarding asset is separate and distinct from the crypto asset that is being safeguarded. Therefore, safeguarding assets within the scope of SAB 121 are not subject to the disclosure requirements in ASC 350-60. In addition, safeguarding assets should be presented separately from crypto assets on the balance sheet.

Question 13

Should assets within the scope of SAB 121 be disclosed together or separately from crypto assets in the ASC 820 fair value disclosures?

Answer

Since assets within the scope of SAB 121 are distinct from the actual crypto assets that are being safeguarded, we believe that those assets should be evaluated and disclosed separately under ASC 820.

Transition

Entities that are early adopting the guidance in ASU 2023-08 have raised accounting and disclosure questions related to the transition requirements upon initial adoption of the ASU.

Cumulative-Effect Adjustment

In the year of adoption, ASC 350-60-65-1(b) requires an entity to recognize a cumulative-effect “adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period” in which an entity adopts the amendments.⁶

Previously, entities may have used, or been required to use, a mark-to-market method of accounting for digital assets for tax purposes. Entities that have historically marked their digital assets to market for tax purposes may have a deferred tax impact that is eliminated upon subsequent measurements for assets within the scope of the ASU. Entities should carefully consider and analyze the tax accounting methods undertaken to ensure that the tax impacts of adoption are appropriately reflected in the financial statements.

Question and Answer

Question 14

What adjustments are recorded through retained earnings as part of the cumulative-effect adjustment upon adoption of ASU 2023-08?

Answer

The retained earnings adjustment includes the offsetting entry for the difference between (1) the carrying amount of crypto assets held as of the end of the prior reporting period under the cost-less-impairment model and (2) the fair value of those crypto assets as of the beginning of the year in which the entity first applies the ASU. Note that any other adjustments related to balance sheet amounts that result from the adoption of the ASU (e.g., adjustments to deferred tax assets as a result of the remeasurement of crypto assets) would also be included in the cumulative-effect adjustment to retained earnings upon adoption.

Hedge Accounting

Before adopting ASU 2023-08, an entity could designate crypto assets in a hedging relationship (e.g., crypto asset borrowings), which would allow the crypto assets to be remeasured at fair value. Upon adoption of the ASU, an entity would be required to remeasure any crypto assets within the scope of the new guidance at fair value through earnings, and thus the crypto assets would not be eligible to be designated as a hedged item under ASC 815-20-25-43(c)(3).

Question and Answer

Question 15

If an entity previously elected hedge accounting for a crypto asset borrowing arrangement (with the crypto asset as the hedged item), what is the cost basis of the crypto asset upon ceasing hedge accounting?

⁶ The cumulative-effect adjustment means that the impact of a change in accounting principle is reported as a cumulative catch-up adjustment to beginning retained earnings. The Board decided against requiring a full retrospective approach, or providing an option for entities to do so, because the expected costs of full retrospective application may not justify the potential expected benefits for investors. *[Paragraph amended July 17, 2024]*

In the year of adoption, entities should ensure that their accounting policies specify the disclosures needed both before and after the adoption of ASU 2023-08. *[Paragraph added July 17, 2024]*

Answer

Whenever an entity ceases hedge accounting for a fair value hedge, the fair value of the hedged item (the crypto asset) would form its new cost basis. Therefore, it is not likely that an entity would need to make an adjustment to the carrying basis of the crypto assets upon adoption of ASU 2023-08. For more information about the guidance on hedging, see Deloitte's Roadmap [Hedge Accounting](#).



Quick Tip

While hedge accounting requires the gain or loss on the hedging instrument and the hedged item to be recorded in the same financial statement line item, an entity might record remeasurement gains and losses on crypto assets in a separate line item from that for derivative gains and losses on a bifurcated embedded derivative related to an obligation to return crypto assets.

Cost-Basis Disclosures

Entities adopting ASU 2023-08 may have questions regarding the cost basis disclosed for significant holdings (ASC 350-60-50-1) and the calculation and disclosure of realized gains and losses.

Question and Answer

Question 16

In cost-basis disclosures, should an entity use (1) the basis of the assets as recorded in the prior year-end balance sheet (which may have been impaired) or (2) the cost basis of the assets when they were initially recognized?

Answer

ASU 2023-08 does not specify what cost basis to use for the disclosures during the transition period. In general, because the cumulative-effect adjustment to retained earnings will be based on the carrying amount at the end of the prior annual reporting period, we believe that the cost basis of the assets as of the end of the prior year, inclusive of any impairments, should be used for the disclosure. However, an entity may instead elect to use an alternative cost basis. The entity should make sure to disclose the basis used as of the adoption date in its disclosures.

Interim and Year-End Disclosures in the Year of Adoption

[Section added July 17, 2024]

Entities that are adopting ASU 2023-08 may have questions regarding the disclosures required for interim and year-end reporting periods. Note that in the year of adoption, entities should also consider whether sections of the Form 10-Q (e.g., Item 3 or Item 4) may need to be updated as a result of the adoption.

Questions and Answers

Question 17

Should an entity that is adopting ASU 2023-08 provide both annual and interim disclosures in the first interim period after adoption and in each subsequent interim period of the adoption year?

Answer

Yes. The SEC rules and staff interpretations require SEC registrants to provide both annual and interim disclosures in the first interim period after the adoption of a new accounting standard and in each subsequent quarter in the year of adoption. Specifically, [Section 1500](#) of the SEC Division of Corporation Finance Financial Reporting Manual states:

[SEC Regulation] S-X Article 10 requires disclosures about material matters that were not disclosed in the most recent annual financial statements. Accordingly, when a registrant adopts a new accounting standard in an interim period, the registrant is expected to provide both the annual and the interim period financial statement disclosures prescribed by the new accounting standard, to the extent not duplicative. These disclosures should be included in each quarterly report in the year of adoption.

In a manner consistent with the above guidance and ASC 250-10-50-2, an entity adopting ASU 2023-08 must provide the interim and annual disclosures required by ASC 350-60-50 in each interim period of the adoption year.

Question 18

How should an entity that is adopting ASU 2023-08 present the reconciliation in the interim reporting periods in the year of adoption?

Answer

As stated in [Question 17](#), entities that are adopting ASU 2023-08 will be required to provide reconciliations for all interim periods in the year of adoption. Such reconciliations could be presented in various formats. For example, an entity could present the reconciliation for the second quarter ending June 30, 20X4, as follows:

- *Option 1* — Each quarter-to-date reconciliation in tabular format (e.g., rollforward from January 1, 20X4, to March 31, 20X4, to June 30, 20X4).
- *Option 2* — A year-to-date reconciliation in tabular format (e.g., rollforward from January 1, 20X4, to June 30, 20X4).
- *Option 3* — Quarter-to-date and year-to-date reconciliations in tabular format (e.g., rollforward from April 1, 20X4, to June 30, 20X4, and from January 1, 20X4, to June 30, 20X4).

[Appendix B](#) provides an example of how an entity can present a reconciliation in the format noted in Option 3, which represents a combination of Options 1 and 2. If an entity is planning to present only a year-to-date reconciliation (Option 2), it may be beneficial to consider whether previous filings included quarter-to-date information.

SEC Regulation S-K, Item 302, “Supplementary Financial Information”

[Section added July 17, 2024]

Entities that are adopting ASU 2023-08 may also have questions about the applicability of [SEC Regulation S-K, Item 302](#), in the year of adoption.

Question and Answer

Question 19

How should an entity that is adopting ASU 2023-08 present Item 302(a) disclosures in an offering or in the first Form 10-K after adoption in the year of adoption?

Answer

Under Item 302(a),⁷ if an entity reports a material retrospective change (or changes) for any of the quarters within the two most recent fiscal years, it must disclose (1) an explanation for the material change(s) and (2) summarized financial information reflecting such change(s) for the affected quarterly periods, including the fourth quarter. Summarized financial information, which is required in a Form 10-K and certain registration statements, should include, at a minimum:

- Net sales or gross revenues.
- Gross profit (or costs and expenses related to net sales or gross revenues).
- Income (loss) from continuing operations.
- Net income (loss).
- Net income (loss) attributable to the entity.
- Earnings (loss) per share.

Since this requirement only applies when there is a material retrospective change, an entity may not have provided such information in its most recent Form 10-K. However, upon reporting a material retrospective change, an entity would be required to include such disclosure in its next Form 10-K or in conjunction with reissuance of its annual financial statements in certain registration statements. An entity should consult with its legal counsel and independent auditor regarding the appropriate disclosure to provide in the new registration statement.

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⁷ Smaller reporting companies and foreign private issuers are exempt from the requirements in Item 302.

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Appendix A — Example of Annual Disclosures

[Appendix title amended July 17, 2024]

Below is an illustrative example of required annual disclosures for an entity that adopted ASU 2023-08 in 20X4. An entity should consider the level of detail and aggregation necessary to provide appropriate information to its financial statement users; note, however, that there may be other ways to satisfy the ASU's disclosure objectives. Crypto assets that are not within the scope of the ASU should be separately disclosed. *[Paragraph amended July 17, 2024]*

Interim disclosure requirements may not necessarily be the same as annual requirements. Further, interim disclosure requirements for fiscal years after the adoption year may not necessarily be the same as interim disclosure requirements in the year of adoption. See [Question 17](#) for discussion of interim and annual disclosure requirements. Also see [Question 18](#) and [Appendix B](#) for a discussion and example, respectively, of a reconciliation disclosure for interim period reporting in the year of adoption. *[Paragraph added July 17, 2024]*

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Crypto assets held at fair value

As of December 31, 20X4, the Company held \$210.0 million of crypto assets at fair value. We reflect crypto assets held at fair value on the consolidated balance sheets within the Crypto assets held line item. The activity from remeasurement of crypto assets at fair value is reflected in the consolidated statements of operations within Other income (expense), net. Crypto assets that are received as noncash consideration in our revenue arrangements and sold for cash nearly immediately are presented as cash flows from operating activities, while other sales and purchases are reflected as cash flows from investing activities in the consolidated statements of cash flows. Refer to Note X, *Crypto Assets Held*, and Note Y, *Fair Value Measurements*, for additional information.



Quick Tip

For crypto assets subject to contractual sale restrictions as of the balance sheet date, entities are required to disclose:

- The fair value of those assets.
- The nature and remaining duration of the restrictions.
- The circumstances in which the restrictions could lapse.

Two potential scenarios are as follows:

1. In June 20X4, the Company invested in an early-stage digital asset protocol and received certain tokens as part of its investment. Under the requirements of the investment, the tokens are subject to a contractual sale restriction that is time-based and lasts until the second anniversary of the investment date. The restriction does not contain any other obligations. Following the expiration of this restriction, the Company will be subject to certain, more limited transfer restrictions depending on the market capitalization of the tokens. The fair value of these tokens was \$15 million as of December 31, 20X4. *[Paragraph added July 17, 2024]*
2. In March 20X4, the Company entered into a credit facility with Lender as discussed in Note Z, *Debt*. As part of the credit facility, the Company pledged Crypto A as collateral for the credit facility that is subject to contractual sale restrictions until the first anniversary of the credit facility. Following the expiration of this restriction, the Company will be subject to certain, more limited transfer restrictions depending on the liquidity ratio held by the Company. The fair value of the Crypto A pledged was \$20 million as of December 31, 20X4.

Note X, Crypto Assets Held

The following table sets forth the units held, cost basis, and fair value of crypto assets held, as shown on the consolidated balance sheet as of December 31, 20X4:

	December 31, 20X4		
	Units	Cost Basis	Fair Value
Crypto assets held:			
Crypto A	3,925	\$ 107,000,000	\$ 157,000,000
Crypto B	25,000	65,500,000	50,000,000
Other		<u>2,500,000</u>	<u>3,000,000</u>
Total		<u>\$ 175,000,000</u>	<u>\$ 210,000,000</u>



Quick Tip

As discussed above, for annual and interim periods, the ASU requires entities to disclose the “name, cost basis, fair value, and number of units for each significant crypto asset holding.” Entities must also disclose the aggregate cost basis and fair value of crypto assets that are determined not to be individually significant. While not required, entities may disclose narratively the number of insignificant crypto assets, aggregated into one line item within the footnote.

As discussed in [Question 8](#), significant crypto asset holdings are not defined in the ASU. However, the ASU states that significance is determined by the assets’ fair value, and enhanced disclosures should “provide investors with relevant information to analyze and assess the exposure and risk of significant individual crypto asset holdings.” Therefore, significance should be based on management’s judgment. Considerations may include:

- The nature of the crypto assets.
- The concept of “significant” in other GAAP.
- Entity materiality.

The following table represents a reconciliation of the fair values of the Company’s crypto assets held for the year ended December 31, 20X4:

	For the Year Ended December 31, 20X4
Crypto assets held:	
Beginning balance at fair value	\$ 130,000,000
Additions	60,000,000
Dispositions	(15,000,000)
Unrealized gain, net	50,500,000
Unrealized loss, net	<u>(15,500,000)</u>
Ending balance	<u>\$ 210,000,000</u>

Additions are the result of purchases and receipts from customers as payments for goods and services, while dispositions are the result of sales and payments for services. During the year ended December 31, 20X4, the Company had crypto asset dispositions of \$15.0 million, inclusive of realized gains of \$5.0 million and realized losses of \$1.0 million.



Quick Tip

As shown above, an entity is required to disclose an annual reconciliation of aggregate crypto asset holdings, from the opening balance to the closing balance, that addresses (1) additions (i.e., discussing the nature of the activities resulting in those additions), (2) dispositions (i.e., discussing the nature of the activities and the total amount of cumulative realized gains and losses from dispositions during the period), and (3) net remeasurement gains and net remeasurement losses, each on a crypto-asset-by-crypto-asset basis, that are included in net income for that respective period. Assets with net remeasurement gains or net remeasurement losses within the period should be presented in the applicable line of the reconciliation (e.g., a crypto asset with transactions resulting in both remeasurement gains and losses during the period, but that results in a net remeasurement gain overall, should be presented within net gains in that period).

The Company uses a first-in, first-out methodology⁸ to assign costs to crypto assets for purposes of the crypto assets held and realized gains and losses disclosures above.



Quick Tip

The ASU does not prescribe a specific cost method for determining the cost basis; however, the method an entity used must be disclosed. Methods could include:

- First in, first out.
- Specific identification.
- Average cost.
- Other cost methods.

Disclosure Considerations in Transition⁹

Recently adopted accounting pronouncements

In December 2023, the FASB issued ASU No. 2023-08, *Intangibles — Goodwill and Other — Crypto Assets* (Subtopic 350-60) (ASU 2023-08), which provides an update to existing crypto asset guidance and requires an entity to measure certain crypto assets at fair value. In addition, this guidance requires additional disclosures related to crypto assets once it is adopted. As of January 1, 20X4, the Company has adopted ASU 2023-08.

The Company reflects crypto assets held at fair value on the consolidated balance sheets and consolidated statements of cash flows, the activity from remeasurement of crypto assets at fair value on the consolidated statements of operations, and the required expanded disclosures in Note X, *Crypto Assets Held*. The adoption of ASU 2023-08 resulted in a cumulative-effect adjustment to increase the opening balance of retained earnings of \$10.0 million as of January 1, 20X4.

⁸ Note that for illustrative purposes only, the first-in, first-out method is used as the cost method in this example.

⁹ While not specifically required in the ASU, this example language would be expected within an entity's financial statements in accordance with [SAB Topic 11.M \(SAB 74\)](#), "Miscellaneous Disclosure; Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period."

Appendix B — Example Reconciliation Disclosure for Interim Reporting Period in the Year of Adoption

[Appendix added July 17, 2024]

Below is an illustrative example of a required interim disclosure for a calendar-year-end entity that adopted ASU 2023-08 in the beginning of 20X4. The example shows how an entity may present the reconciliation for the second quarter ending June 30, 20X4.

The following table represents a reconciliation of the fair values of the Company's crypto assets held for the three-month and six-month periods ending June 30, 20X4:

	For the Three-Month Period Ending June 30, 20X4	For the Six-Month Period Ending June 30, 20X4
Crypto assets held:		
Beginning balance at fair value	\$ 140,000,000	\$ 130,000,000
Additions	24,500,000	40,000,000
Dispositions	(2,000,000)	(10,000,000)
Unrealized gain, net	30,000,000	35,000,000
Unrealized loss, net	<u>(5,000,000)</u>	<u>(7,500,000)</u>
Ending balance	<u>\$ 187,500,000</u>	<u>\$ 187,500,000</u>

Additions are the result of purchases and receipts from customers as payments for goods and services, while dispositions are the result of sales and payments for services. During the three months ended June 30, 20X4, the Company had crypto asset dispositions of \$2.0 million, inclusive of realized gains of \$1.0 million and realized losses of \$0.5 million. During the six months ended June 30, 20X4, the Company had crypto asset dispositions of \$10.0 million, inclusive of realized gains of \$1.5 million and realized losses of \$0.8 million.



Connecting the Dots

As noted in the answer to [Question 17](#), the SEC rules and staff interpretations require SEC registrants to provide both annual and interim disclosures in the first interim period after the adoption of a new accounting standard and in each subsequent quarter in the year of adoption.

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