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FASB Directs Staff to Draft Final Standard on Crypto Assets

Overview

At its September 6, 2023, [meeting](#), the FASB discussed feedback on its [proposed ASU](#)¹ on the accounting for and disclosure of certain crypto assets. On the basis of comments received on the proposal, the Board directed its staff to draft a final standard. Under the new guidance, an entity would be required to subsequently measure certain crypto assets at fair value, with changes in fair value included in net income in each reporting period.

Background

Currently, an entity must account for crypto assets as indefinite-lived intangible assets in accordance with ASC 350² (i.e., the assets must be measured at historical cost less impairment) unless the entity is within the scope of the investment-company guidance in ASC 946³ or is a certain type of broker-dealer. Stakeholders have raised concerns that, among other factors, this traditional intangible asset model (1) does not faithfully represent the economics of crypto assets and (2) makes the recognition of impairments needlessly complex by requiring entities to use a crypto asset's lowest observable fair value within a reporting period. Accordingly, the FASB proposed amendments that would better reflect the economics of crypto assets held by entities as well as reduce the complexity and cost of complying with a historical-cost-less-impairment model under the existing requirements in ASC 350.

¹ FASB Proposed Accounting Standards Update (ASU), *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60)*.

² FASB Accounting Standards Codification (ASC) Topic 350, *Intangibles — Goodwill and Other*.

³ FASB Accounting Standards Codification Topic 946, *Financial Services — Investment Companies*.

Key Tentative Board Decisions

At the meeting, the FASB reaffirmed a majority of the proposed ASU's requirements. Key tentative decisions are highlighted below.

Scope

The guidance in the proposed ASU applies to crypto assets that, among other things,⁴ reside on "a distributed ledger based on blockchain technology." In response to feedback from constituents, the Board decided to extend the scope of that guidance to add crypto assets that reside on a distributed ledger that is based on technology that is similar to a blockchain.

Although some stakeholders suggested that the guidance should apply to certain assets that provide rights to other crypto assets (e.g., "wrapped tokens"), the Board ultimately decided not to include such assets within the scope of the final standard.

Measurement

The Board reaffirmed the proposed ASU's requirement that an entity must subsequently measure crypto assets that are within the scope of the guidance (as amended) at fair value, with changes in fair value included in net income for each reporting period.

Presentation

The Board reaffirmed its proposed guidance on the presentation of crypto assets. Accordingly, under the final standard, an entity would be required to:

- Present on the balance sheet the aggregate amount of "crypto assets measured at fair value separately from other intangible assets" that are not measured at fair value.
- Present in net income changes in the fair value of crypto assets separately from changes in the carrying amount (e.g., impairments and amortization) of other intangible assets, including other crypto assets that are not measured at fair value.
- Classify as cash flows from operating activities those cash receipts from the nearly immediate sale of crypto assets that were "received as noncash consideration in the ordinary course of business (for example, in exchange for the transfer of goods and services to a customer)."

Disclosures

The Board reaffirmed its proposed guidance on annual and interim disclosures related to significant holdings of crypto assets, restrictions on crypto assets, and an annual reconciliation of activities for the entity's crypto holdings. However, on the basis of feedback from stakeholders, the Board decided to exclude from the annual reconciliation "activity related to crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash." An entity that does not include this activity in its annual reconciliation would be required under the final guidance to separately disclose where it has presented such activity in its income statement.

⁴ The proposed ASU would apply only to a crypto asset that meets the definition of an intangible asset, is fungible, is secured by cryptography, does not provide the holder with "enforceable rights to, or claims on, underlying goods, services, or other assets," resides on "a distributed ledger based on blockchain technology, [and is] not created or issued by the reporting entity or its related parties."

Effective Date and Transition

Effective Date

The Board decided that the final standard would be effective for all entities in fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption would be permitted.

Transition

When adopting the final standard, an entity would be required to record a cumulative-effect adjustment to retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual period of adoption. Retrospective restatement would not be required for prior periods.

Next Steps

The Board directed the staff to move forward with drafting a final ASU for approval by ballot. Issuance of a final ASU is expected during the fourth quarter of 2023.

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