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# FASB Proposes Guidance on Crypto Assets

## Overview

On March 23, 2023, the FASB issued a [proposed ASU](#)<sup>1</sup> on the accounting for and disclosure of certain crypto assets. Comments on the proposal are due by June 6, 2023.

## Background

Currently, an entity must account for crypto assets as indefinite-lived intangible assets in accordance with ASC 350<sup>2</sup> (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 946 or is a certain type of broker-dealer.<sup>3</sup> Stakeholders have raised concerns that this traditional intangible asset model, among other reasons, (1) does not faithfully represent the economics of crypto assets and (2) makes it needlessly complex to recognize impairments by requiring entities to use a crypto asset's lowest observable fair value within a reporting period. The proposed amendments would address these concerns by requiring an entity to subsequently measure certain crypto assets at fair value.

<sup>1</sup> FASB Proposed Accounting Standards Update (ASU), *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*.

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

<sup>3</sup> Currently, only entities that are within the scope of the investment-company guidance in ASC 946 and certain broker-dealers are permitted to measure crypto assets at fair value.

## Main Provisions of the Proposed ASU

### Scope

The proposed ASU applies to a crypto asset held by an entity when all of the following criteria are met:

- 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 resides on “a distributed ledger based on blockchain 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.”



### Connecting the Dots

Because the proposed ASU only applies to “fungible” crypto assets that meet the definition of an intangible asset, questions remain about how entities should account for and disclose other types of crypto assets, such as nonfungible tokens (NFTs). Financial statement preparers accounting for NFTs will need to fully understand the rights associated with these tokens and what is being transferred through them. For more information about accounting considerations related to NFTs, see Deloitte’s June 21, 2022, [Accounting Spotlight](#).

In addition, it appears as though wrapped tokens<sup>4</sup> would be outside the scope of the proposed ASU as the FASB board (“the Board”) observes that wrapped tokens may provide their holders with a right or a claim on another asset (i.e., the underlying wrapped crypto asset). Because there could be different ways in which crypto assets are wrapped, the Board is concerned that expanding the scope to include wrapped tokens could result in consequences that have not been fully evaluated. As a result, under the proposed ASU, an entity may need to use the traditional intangible asset model or another accounting model to account for the wrapped token (depending on its nature) even if the underlying crypto asset is within the proposal’s scope. An entity will need to use judgment in accounting for wrapped tokens.

The proposed amendments would not apply to crypto assets that the reporting entity (or its related party) has issued or created, even if those entities have obtained the crypto assets from an unrelated third party. The entity therefore would be required to apply the traditional intangible asset model to those assets, as appropriate, even if they are otherwise within the scope of the proposed amendments. The FASB explained in the proposed ASU’s Background Information and Basis for Conclusions that it decided to exclude crypto assets created or issued by the reporting entity or its related party from this amendment because “stakeholders did not ask that the Board address the issuer’s accounting” and “issuers did not support measuring crypto assets created or issued by a reporting entity or its related parties at fair value.”

### Measurement of Crypto Assets

An entity would be required to subsequently measure crypto assets that are within the proposed ASU’s scope at fair value, with changes in fair value included in net income for each reporting period. The transaction costs of acquiring a crypto asset, such as commissions and other related transaction fees, would be expensed as incurred unless other industry-specific guidance applies.

<sup>4</sup> Wrapped tokens are tokenized representations of another crypto asset that have additional features not contained in the original version, such as the ability to transact on a different blockchain (i.e., wrapped bitcoin that can be transacted on the Ethereum blockchain).



### Connecting the Dots

The proposed ASU does not provide guidance on how an entity would initially measure crypto assets upon recognition. Instead, the proposed ASU indicates that other U.S. GAAP would apply to initial measurement of such assets. Consequently, there may be situations in which an entity initially measures a crypto asset at an amount that differs from the asset's fair value at the time of initial recognition, depending on the facts and circumstances of the arrangement. Such a difference, coupled with the requirement to subsequently measure the crypto asset at fair value, could lead the entity to recognize a change in the asset's measurement from its initial measurement even though the asset's fair value has not changed.

## Presentation

Entities would be required, for crypto assets within the scope of the amendments, 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 changes in the fair value of crypto assets in net income 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 the 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) . . . as cash flows from operating activities.”



### Connecting the Dots

The Board acknowledged that some stakeholders were concerned about the net income volatility that could result from presenting fair value changes in net income. However, the Board believes that the benefits derived from holding a crypto asset are similar to those derived from holding equity securities that have a readily determinable fair value (i.e., holding and selling crypto assets at an appreciated value). As a result, the proposed ASU requires that fair value changes in crypto assets be presented within net income. However, the proposed ASU does not stipulate whether fair value changes should be presented as operating or nonoperating income. To determine the correct presentation, an entity would need to use judgment and consider both the nature of the crypto assets and, as applicable, the guidance in [SEC Regulation S-X, Rule 5-03](#),<sup>5</sup> if a subtotal line item of operating income is presented.

Further, in considering a particular situation in which the economics of the activity would not be appropriately reflected, the FASB decided to require entities to present, as operating cash inflows, the cash receipts from the nearly immediate<sup>6</sup> sale of crypto assets that were received as noncash consideration in the ordinary course of business. In this situation, an entity would, in the normal course of business, receive crypto assets as noncash consideration for a revenue-generating activity (e.g., mining). If the entity were to immediately convert the crypto assets it just received for cash, the cash flows associated with converting the crypto assets would be presented as investing cash flows under current guidance, an outcome that the Board believes would not represent the economics of the transaction. Accordingly, the proposed ASU requires an entity to classify as operating cash flows the cash receipt from the sale of those crypto assets that are received as noncash consideration if the crypto assets are sold nearly immediately for cash.

<sup>5</sup> SEC Regulation S-X, Rule 5-03, “Statements of Comprehensive Income.”

<sup>6</sup> According to the proposed ASU, the phrase “nearly immediately” means “a short period of time that is expected to be within hours or a few days, rather than weeks.”

## Disclosures

Entities would be required, for crypto assets within the scope of the amendments, to disclose:

- In both interim and annual periods, significant crypto asset holdings, including “the name, cost basis, fair value, and number of units” of each significant<sup>7</sup> crypto asset held.
- In both interim and annual periods, “the aggregate fair values and cost bases” of the individually insignificant crypto asset holdings.
- In both interim and annual periods, the fair value of crypto assets subject to contractual sale restrictions, the nature and remaining duration of the restrictions, and circumstances in which a lapse in the restrictions could occur. Entities that hold multiple crypto assets subject to contractual sale restrictions should consider all of the following factors<sup>8</sup> when providing disclosures:
  - The appropriate level of detail needed to meet the disclosure requirements.
  - How much emphasis to place on each required disclosure.
  - The appropriate level of aggregation or disaggregation.
  - The additional information financial statement users need to evaluate the information provided.
- At year-end, how the cost basis was determined (e.g., average cost, specific identification). While the proposed ASU would require an entity to annually disclose its method of determining the cost basis of the crypto assets, it does not prescribe a particular method or methods to use.
- At year-end, a reconciliation of activities for their crypto holdings. The reconciliation would include information such as purchases, sales, gains, and losses during the period. Specific considerations include:
  - A description of purchases and sales made during the period should be disclosed.
  - The income statement line item in which the gains and losses are recognized would be disclosed, if such gains and losses are not presented in a separate income statement line item.
  - The gain line and loss line in the reconciliation should include crypto asset holdings in a net gain or net loss position. Accordingly, an entity needs to determine the net gain/loss position for each crypto asset holding on a crypto-asset-by-crypto-asset basis.
- At year-end, the difference between the sale price and the cost basis of crypto assets sold during the period.



### Connecting the Dots

The disclosure requirements also apply to companies subject to other industry-specific guidance since the Board believes that investors would benefit from the enhanced disclosures. The proposed ASU’s Background Information and Basis for Conclusions indicates that if the disclosure requirements in industry-specific guidance differ from those in the proposed ASU, companies subject to the industry-specific guidance should continue to follow that guidance as well.

Entities should also comply with the disclosure requirements of other Codification topics if it is appropriate to do so (e.g., ASC 820’s fair value measurement disclosure requirements for both interim and annual reporting periods).

<sup>7</sup> The significance of each crypto asset holding must be determined on the basis of the holding’s fair value.

<sup>8</sup> The Board noted that these factors are consistent with the disclosure requirements in [FASB Accounting Standards Update No. 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions](#).

## Proposed Effective Date and Transition

### Effective Date

The FASB plans to establish an effective date for the amendments after considering stakeholder feedback on the proposed ASU. Early adoption would be permitted in any interim or annual period after the issuance of the final ASU provided that (1) it is done as of the beginning of the fiscal year of the interim or annual period in which an entity decides to early adopt the guidance and (2) the financial statements for that period have not been issued or made available for issuance.

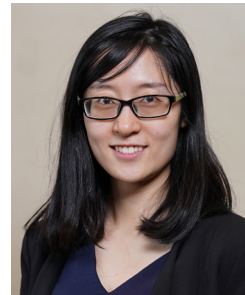
### Transition

The proposed ASU would require entities to record a “cumulative-effect adjustment, including the direct effects of that adjustment such as tax consequences, to the opening balance of retained earnings” as of the beginning of the annual reporting period in which the guidance in the final ASU is adopted. The adjustment should be calculated as the difference between (1) the fair value of the crypto assets as of the beginning of the fiscal year of adoption and (2) the carrying value of the crypto assets as of the prior fiscal year-end.

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