KPMG

FASB proposal

Accounting for and disclosure of certain crypto assets

March 23, 2023

FASB proposes fair value measurement, separate presentation and disclosures for in-scope crypto assets.

Source and applicability

- Proposed ASU, Accounting for and Disclosure of Crypto Assets
- Applies to entities with, or considering, investments in crypto or other digital assets.

Fast facts, impacts, actions

The proposed ASU would introduce Subtopic 350-60 (crypto assets), which would apply to:

- all digital assets in its scope ('in-scope crypto assets'), which would appear to include bitcoin, ether and many smaller (by market capitalization) crypto assets (e.g. cardano, litecoin, polkadot); and
- all entities (public and private); however, certain provisions would not apply to entities applying industry-specific US GAAP (e.g. Topic 946 on investment companies).

Crypto assets held by their issuer or creator (or related parties) would not be in the scope of the new Subtopic.

The main proposals are as follows.

Transaction costs	Entities would expense transaction costs and fees to acquire in-scope crypto assets as incurred (unless industry-specific US GAAP specifies otherwise).
Subsequent measurement	After their acquisition, in-scope crypto assets would be measured at fair value under Topic 820 with fair value changes recorded in current period net income.
Presentation	In-scope crypto asset holdings would be presented separately from other intangible assets. Similarly, gains and losses on in-scope crypto assets would be recorded separately from impairments or other changes in carrying amount (e.g. amortization) of other intangible assets.
Disclosures	Enhanced disclosures about in-scope crypto asset holdings and activity would be required.

Importantly, the proposed ASU does not address, and therefore would not change, existing requirements on when to recognize or derecognize crypto assets, or how to account for certain crypto assets that do not neatly fit into existing US GAAP (e.g. 'wrapped tokens').

Background

In-scope crypto assets are currently accounted for as indefinite-lived intangible assets. Under the indefinite-lived intangible asset accounting model, crypto intangible assets are not amortized. Instead, they are written down (impaired) to fair value whenever their fair value falls below their carrying amount. These impairments are never reversed, even if the fair value of the asset recovers during the same reporting period. Certain entities that follow specialized industry guidance (e.g. investment companies under Topic 946 or broker dealers under Topic 940) are currently required to measure crypto assets at fair value.

In July 2021, the FASB issued its 2021 Invitation to Comment, *Agenda Consultation*. Of the more than 500 comment letters received, over 400 solely commented on the accounting for crypto assets. Nearly all of the commenters suggested the FASB undertake a project to require or permit crypto assets with a 'readily determinable fair value' (such as bitcoin) to be measured on a recurring basis at fair value. Stakeholders commented that the current accounting model does not provide decision-useful information to investors, or appropriately reflect the economics of a holder's investment in crypto assets like bitcoin or ether. In response, the FASB has issued this proposed ASU, which would require fair value measurement for certain crypto assets and provide financial statements users with additional disclosures on entities' crypto asset holdings.

Scope of the proposed ASU

'In-scope crypto assets' are those digital assets that:

- meet the US GAAP definition of an intangible asset;
- do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services or any other asset(s) (the 'other goods or services criterion');
- reside or are created on a distributed ledger (i.e. blockchain)
- are secured through cryptography;
- are fungible; and
- are not created or issued by the reporting entity or its related parties.

The proposed ASU would apply to all entities (i.e. public, private, not-for-profit and across all industries), even though some of its proposed requirements would not apply to entities that apply certain industry-specific US GAAP (e.g. Topic 946 on investment companies or Topic 958 on not-for-profit entities). See Initial measurement and Proposed disclosures.

The scope of the proposed ASU appears principally intended to capture digital assets like bitcoin and ether. However, we believe the above scoping criteria are intended to, and will also, capture many other lesser-known and smaller (by market capitalization) digital assets, such as cardano, polkadot, litecoin and bitcoin cash.

What is out of scope?

The proposed ASU observes that non-fungible tokens (NFTs) fail to meet the required fungibility criterion; in addition, we believe they also generally fail the other goods or services criterion (see KPMG Issues In-Depth, Accounting for non-fungible tokens (NFTs)). The proposed ASU also states that digital assets subject to other, existing US GAAP (e.g. a 'stablecoin' that meets the definition of a financial asset) would remain subject to that other US GAAP and not be in the scope of the new Subtopic. Lastly, the proposed ASU expressly states that 'wrapped tokens' are outside the scope of the proposed Subtopic.

Wrapped tokens, like wrapped bitcoin and wrapped ether, are digital assets that represent other digital assets on a non-native blockchain (e.g. one wrapped bitcoin represents one bitcoin on the Ethereum blockchain). Their exclusion from the proposed ASU means questions that currently exist in practice about their accounting may continue.

Measurement of in-scope crypto assets

Initial measurement

The proposed ASU does not prescribe the initial measurement basis (e.g. cost, fair value) for acquired in-scope crypto assets. Therefore, other US GAAP would apply (e.g. the general intangibles guidance in Subtopic 350-30 for purchased crypto assets, Topic 805 for crypto assets acquired in a business combination or Topic 606/Subtopic 610-20 for crypto assets received in exchange for goods or services).

However, the proposed Subtopic would require that commissions, transaction fees and other charges incurred to acquire crypto assets be expensed as incurred. An exception would arise for entities that follow industry-specific US GAAP that addresses such costs (e.g. investment companies or broker-dealers that apply Topic 946 or Topic 940, respectively).

Subsequent measurement

After acquisition, all in-scope crypto assets would be measured at fair value under Topic 820, with fair value changes recorded in current period earnings. No exceptions would apply.

For crypto assets without readily determinable fair values or that are not traded in active markets, some stakeholders suggested retaining the current historical cost less impairment measurement approach, using net realizable value or even simply assigning a carrying amount of $0. The FASB declined, observing that the existing guidance in Topic 820 is sufficient to permit fair value measurement even for these crypto assets.

Financial statement presentation

The proposed ASU would require the following with respect to financial statement presentation for all entities other than investment companies subject to Topic 946 and not-for-profit entities subject to Topic 958, who would generally continue to present their financial statements in accordance with those Topics.

Balance sheet	The aggregate amount of in-scope crypto assets would be presented separately from other intangible assets. An entity could choose to present in-scope crypto assets on a more disaggregated basis (e.g. by individual holding).
Income statement	Gains and losses each period on in-scope crypto assets would be recorded in net income, separately presented from impairments or other changes to carrying amounts of other intangible assets.
Statement of cash flows	Cash inflows from the sale of in-scope crypto assets received as noncash consideration in the ordinary course of business and converted 'nearly immediately' into cash would be classified as cash inflows from operating activities. Entities would otherwise follow the guidance in Topic 230. 'Nearly immediately' refers to a prompt conversion that should generally be interpreted as a short period of time (e.g. a matter of days, or even hours, rather than weeks).

During its deliberations, the FASB decided that guidance on current versus noncurrent balance sheet classification of in-scope crypto assets was not necessary. Entities would apply existing US GAAP.

Disclosure

To address stakeholder concerns over the availability of useful decision-making information, the FASB has proposed several new disclosure requirements. These requirements would apply equally to public and private entities, including those that follow industry-specific guidance (e.g. Topic 940 or Topic 946) to the extent the new disclosure requirements would not be duplicative.

The following disclosures would be required in entities' interim and annual financial statements:

- the entity's crypto asset holdings at each reporting date presented:
  - for each significant (as determined by fair value) holding (e.g. bitcoin, ether), the number of units held, cost basis and fair value; and
  - the aggregate cost basis and fair value of all other individually insignificant holdings;
- the fair value of any crypto assets subject to restriction, the nature and remaining duration of the restriction(s) and what conditions must be met to remove the restriction(s).

The following disclosures would be required only in entities' annual financial statements:

- the disclosures required by Topic 820;
- the method used to determine the cost basis of the entity's crypto asset holdings (e.g. FIFO, average cost);
- a rollforward (reconciliation) of the entity's crypto asset holdings in the aggregate, showing additions, disposals (by sale or otherwise), gains and losses, along with disclosure about the nature of the additions (e.g. purchases, mining or staking rewards) and/or disposals; and
- the cumulative realized gains and losses from disposals, disaggregated so that realized gains and losses are presented on a gross, not net, basis.

Effective dates and transition

Effective date(s) will be decided in future deliberations of a final ASU. However, the FASB has tentatively decided that the effective date(s) would not differ between public and private entities.

Early adoption would be permitted in any interim period as of the beginning of the entity's fiscal year that includes the interim period.

Entities would adopt the proposed Subtopic on a modified retrospective basis. This approach would result in a cumulative-effect adjustment to retained earnings (or other appropriate components of equity or net assets) as of the beginning of the adoption fiscal year.

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