



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

June 6, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets (File Reference No. 2023-ED200)*

Dear Ms. Salo:

We appreciate the opportunity to comment on the proposed ASU, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60) Accounting for and Disclosure of Crypto Assets*. We believe this project represents an important first step toward improving the accounting for this emerging and evolving asset class.

Following the completion of this project, we encourage the Board to consider taking on other aspects of the accounting for crypto and other digital assets as expeditiously as appropriate due process permits. In particular, we believe the general intangible asset derecognition guidance in Section 350-10-40 that applies to the derecognition of crypto intangible assets is not appropriately designed for that purpose, causing unnecessary complexity and often producing counter-intuitive outcomes. We encourage the Board to consider developing derecognition guidance specific to crypto assets at the conclusion of this current project. We believe there are viable options for such guidance and would be happy to discuss our ideas with the Board and its staff.

While we strongly support the proposed ASU, including measurement of in-scope crypto assets at fair value post-acquisition and recognition of fair value changes in current-period net income, there are two primary improvements we believe the Board could make to the proposed guidance to enhance its operability and consistency in application. The first relates to the scope of the proposed guidance, and the second relates to income statement presentation for gains and losses on these assets.

Scope: crypto assets that give the holder the right to in-scope crypto assets

We do not believe crypto assets should be excluded from the scope of the proposed Subtopic *solely* because they provide the holder rights to another in-scope crypto asset. We believe the most relevant measurement basis for those crypto assets remains fair value. In our view, this is especially the case for crypto assets that have (1) their own active market (i.e. can be sold on exchanges for fiat currency or crypto assets other than the one to which it grants the holder a right) and (2) substantive use cases distinct from the other crypto asset to which the holder has rights (e.g. can be used to purchase goods or services without first converting to the other crypto asset or in DeFi, staking or other protocols unavailable to holders of the underlying crypto asset). In that case, we believe recognizing that substantive crypto intangible asset and measuring it at its fair value is the most useful and representationally faithful financial reporting.

In addition, we believe that the alternative accounting that would likely apply in many circumstances if, instead of the above, one accounts for these crypto assets merely as a right to receive the other in-scope crypto asset would be to record a crypto asset receivable and an embedded derivative. Although this alternative accounting may not result in materially different net assets or liabilities or earnings, it may be more complex to apply while providing a balance sheet depiction that may be inconsistent with how the entity views and uses the crypto asset.

Wrapped tokens

We believe the Board should not, as indicated by paragraph BC17, exclude all wrapped tokens from the scope of the proposed Subtopic, nor refer to them, effectively, as a single crypto asset class in the final ASU. We believe the final ASU should be silent about wrapped tokens and let the facts and circumstances of each (which often differ significantly, despite the ‘wrapped’ characterization) determine whether it is in scope.

This is principally because ‘wrapped token’ is not defined in GAAP and there is not a *generally accepted* definition thereof. We believe this term is applied differently by different stakeholders. As one example, we have observed ‘stablecoins’ referred to as a type of wrapped token in certain forums, while they are not typically referred to as such in our experience. Consequently, we believe any scope exclusion for wrapped tokens will not be applied consistently because entities will reach diverse conclusions about whether a crypto asset is or is not a wrapped token.

In addition, we believe paragraph BC17 may not be read consistently by all stakeholders. Some may read that paragraph as excluding all wrapped tokens from the proposed scope; however, others may read BC17 as reflecting an intent only to exclude those wrapped tokens that provide the holder with a right to another asset (including an in-scope crypto asset). In the latter case, we believe entities may reach diverse conclusions about whether a wrapped token represents a right to another crypto asset. For example, an entity may not identify the wrapped token as a right to the underlying crypto asset and may instead view the exchange of the underlying crypto asset for the wrapped token as a substantive exchange of one crypto asset for a different one if:

- the entity perceives the principal purpose of the wrapped token to enable use cases not possible with the underlying crypto asset (e.g. to permit the holder to transact or participate in protocols on other blockchains); and
- the economic benefits of the wrapped token are realizable in a variety of ways unrelated to solely redeeming the underlying crypto asset, but consistent with many other crypto assets; for example, through sale for fiat currency or crypto assets other than the underlying crypto asset, to purchase goods or services (i.e. without first redeeming the underlying crypto asset) or use in DeFi protocols to generate new economic benefits (e.g. to earn staking rewards or transaction fees).

The preceding notwithstanding, if the Board ultimately concludes that wrapped tokens as a class should be outside the scope of the proposed Subtopic, we believe this scope exclusion should appear in the final Codification amendments instead of solely in the Basis for Conclusions and that the Board should consider defining wrapped tokens in the ASC Master Glossary to enhance consistency.

Income statement presentation of crypto asset gains (losses) as operating or nonoperating

The proposed ASU states only that gains and losses *from changes in fair value* of in-scope crypto assets shall be presented in net income. It does not specify whether such gains and losses should be presented within operating or nonoperating income, nor does it refer to gains and losses that arise from the sale or

transfer of those assets. Note that we believe gains and losses may still arise from sales/transfers of in-scope crypto assets, despite the proposed fair value measurement requirement. This is because, for example, entities may sell an in-scope crypto asset in a market (e.g. on an exchange) that is not its principal market or may sell the asset for a price that is not its Topic 820 fair value.

With respect to sale/transfer gains and losses, Topic 606 and Subtopic 610-20 (one or the other applies to the sale of the nonfinancial crypto asset; which one depends on whether selling in-scope crypto assets is an ordinary activity of the entity) both require that the revenue and cost of goods sold or net sale gain/loss be presented within an entity's *operating* income (loss) subtotal.¹ We believe it would generally not be appropriate for an entity to present sale/transfer gains and losses in operating income (loss), but present unrealized gains and losses from fair value changes in nonoperating income (loss). Therefore, if the Board is willing to accept nonoperating income (loss) presentation for unrealized gains and losses under some facts and circumstances, we believe the Board should require sale/transfer gains and losses to be presented in nonoperating income (loss) under those same facts and circumstances, which we believe would necessitate a Codification amendment.

The paragraph BC39 discussion about income statement presentation of fair value change gains and losses on in-scope crypto assets may be read by some to suggest a corollary to how such gains and losses on equity securities are presented. SEC Regulation S-X, Rule 5-03(b) prescribes nonoperating presentation of those gains or losses for SEC registrants, but GAAP does not have a similar requirement for other entities. Given that, we believe the Board should clarify, subject to our comments in the preceding paragraph, its intent with respect to the income statement presentation of gains and losses on in-scope crypto assets within the authoritative Codification amendments.

* * * * *

Appendix A provides our responses to the Questions for Respondents.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Scott Muir at (312) 813-1711 or smuir@kpmg.com or Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com.

Sincerely,



KPMG LLP

¹ See ASC paragraph 610-20-45-1.

Appendix A – Responses to Questions for Respondents

Scope

Questions 1 and 2:

Are the proposed scope criteria understandable and operable? Please explain why or why not and, if not, what changes you would make.

Is the population of crypto assets identified by the proposed scope criteria appropriate? Please explain why or why not.

Aside from the suggestions in our cover letter, we believe the proposed criteria are generally understandable and operable and will appropriately capture those crypto assets that most stakeholders believe should be subject to the proposed requirements.

Further with respect to scope, we strongly support *not* creating different (potentially conflicting) guidance around transactions for which there is already established GAAP solely because the asset or instrument is ‘tokenized’ or otherwise recorded on a blockchain, or the transaction (e.g. an IP license or services arrangement) is effected through a blockchain-based smart contract versus another form of contract. For example, we believe the proposed ASU would exclude from its scope (1) stablecoins that meet the GAAP definition of a financial asset and (2) non-fungible tokens (NFTs), most of which (at least currently) grant holders rights to goods and/or services for which there is established GAAP (e.g. the revenue recognition guidance in Topic 606). We agree that these should be excluded from the scope of the proposed Subtopic so as not to create accounting differences for equivalent financial assets, goods or services not issued or contracted for via blockchain.

Question 3:

The amendments in this proposed Update would apply to all entities, including private companies, not-for-profit entities, and employee benefit plans. Do you agree with that proposal? Please explain why or why not.

Yes. To the extent the proposal will provide more economically representative, decision-useful information about entities’ in-scope crypto asset activities, we do not believe that would differ for public versus private, or for-profit versus not-for-profit, entities. Further, we agree with the Board’s decisions to permit certain entities applying industry-specific GAAP that is substantially similar to the key proposed requirements to continue following select provisions therein in lieu of the corresponding proposed requirements (e.g. aspects of financial statement presentation and treatment of transaction costs).

Measurement

Questions 4 and 5:

The proposed amendments would require that an entity subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. Do you agree with that proposed requirement? Please explain why or why not.

The Board rejected an alternative that would have prohibited an entity from recognizing an unrealized gain but would still require recognition of losses for a crypto asset measured at fair value in an inactive

market and would have required that the entity disclose the current fair value. Would this approach provide more decision-useful information than requiring that an entity recognize those unrealized gains in net income? Please explain why or why not. How would you define an inactive market for this asset class?

We agree with the proposal for all in-scope crypto assets to be measured at fair value under Topic 820 after initial recognition as a requirement, not an option, and with the Board's basis for this conclusion in paragraph BC25 of the proposed ASU. We believe any complexities associated with measuring crypto assets that are not actively traded and whose fair values may not be readily determinable are not unique to those assets.

In contrast, we believe any alternative measurement model may give rise to complexity that does *not* already exist in GAAP, such as new judgments about when a crypto asset shifts from the alternative measurement model to fair value (or vice versa). Additionally, the alternative model(s) may not be as well-established in GAAP as Topic 820 fair value, leading to additional questions and complexity around, and potential diversity in, implementing and applying it(them). Therefore, we do not support an alternative measurement model for any in-scope crypto assets.

Question 6:

The proposed amendments would require that transaction costs to acquire crypto assets, such as commissions and other related transaction fees, be expensed as incurred unless an entity capitalizes those costs in accordance with industry-specific guidance (for example, investment companies within the scope of Topic 946, Financial Services—Investment Companies). Do you agree with that proposed requirement? Please explain why or why not.

We believe reasonable arguments can be made either to expense transaction costs as incurred (except where industry-specific GAAP applies) or to capitalize such costs.

While the proposal to expense transaction costs would, in our view, permit a more precise reflection of realized and unrealized gains and losses, unobscured by the effect of initial transaction costs, we understand the conceptual basis behind the view that these costs should be capitalized in the initial measurement of the acquired crypto asset (principally, that the Board has decided that in-scope crypto assets will remain intangible assets, and costs to acquire an intangible asset outside of a business combination are capitalized under Subtopic 350-30).² Wherever the Board ultimately lands on this question, we do not believe expensing or capitalizing these costs upon initial recognition of the crypto asset should be an accounting option.

With respect to entities following industry-specific GAAP on transaction costs (e.g. investment companies applying Topic 946, broker-dealers applying Topic 940), we agree that there is no compelling reason to change the accounting for these costs for those entities.

Presentation

Question 7:

The proposed amendments would require that an entity separately present crypto assets from other intangible assets in the balance sheet and, similarly, separately present changes in the fair value of those

² ASC paragraph 350-30-30-1, which incorporates ASC paragraphs 805-50-15-3 and 805-50-30-1 – 30-4.

crypto assets from amortization or impairment of other intangible assets in the income statement. Do you agree with the proposed presentation requirements? Please explain why or why not.

We believe financial statement users are best positioned to communicate to the Board the benefits of the proposed presentation requirement; in particular, whether this separate presentation will be useful to them.

However, as a conceptual matter, we believe in-scope crypto assets are economically different from other intangible assets and, if the proposed ASU were to be finalized, would be subject to a different subsequent measurement model than other intangible assets. This would, in our view, support balance sheet and income statement gain/loss presentation separate from other intangible assets (which we believe would include any crypto intangible assets that fall outside the scope of the proposed ASU).

In addition, we are unaware of any entities with material holdings of in-scope crypto assets for whom this separate presentation requirement would create significant incremental costs.

Question 8:

The proposed amendments would require that for crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash, an entity would classify the cash received as an operating activity in the statement of cash flows. Do you agree with that proposed requirement? Please explain why or why not.

Yes. We believe the near immediate conversion to cash of in-scope crypto assets received as noncash consideration for goods or services in the ordinary course of business appropriately reflects an operating cash flow activity.

We also appreciate the Board expressly articulating its intent with respect to ‘nearly immediately’ in proposed paragraph 230-10-45-27A and paragraph BC44. We agree with that timeframe and view it as consistent with the Board’s reasons for requiring such cash inflows to be classified as cash flows from operations.

We observe that ‘nearly immediately’ in the context of paragraphs 230-10-45-21A and 958-230-55-3, applicable to not-for-profit entities (NFPs), derives from ASU 2012-05.BC8. That paragraph states “*nearly immediately* is synonymous with *promptly* and should generally be considered to be within days rather than months.” However, proposed paragraph 230-10-45-27A appears to suggest a shorter time window: “within *hours or a few days*, rather than *weeks*” [emphasis added]. We do not believe these two characterizations of ‘nearly immediately’ would be applied in a materially different manner based on our experience with entities applying the existing guidance; however, given that paragraph 958-230-55-3 is being proposed for consequential amendment, the Board may wish to consider further discussing in paragraph BC44 whether it intends to create a difference between the two descriptions of ‘nearly immediately’ such that it might apply differently to NFPs converting donated crypto assets to cash than to other entities converting crypto assets received as noncash consideration for goods or services to cash.

Disclosure

Question 9:

The proposed amendments would require that an entity disclose the cost basis of crypto assets separately for each significant crypto asset holding. The Board decided not to provide specific guidance on how an entity should determine the cost basis of its crypto assets, including its determination of the basis used to calculate and disclose realized gains and losses. Do you agree with this aspect of that proposed requirement? Please explain why or why not.

Given the proposed requirement for entities to disclose their chosen method and, as described in paragraph BC51 of the proposed ASU, that multiple cost basis methods are acceptable in other sections of GAAP (e.g. Topic 330 on inventory, Subtopic 946-320 on investment company accounting for debt/equity securities), we agree that the Board does not need to prescribe a particular method for determining the cost basis of in-scope crypto assets.

Question 10:

Are the proposed disclosure requirements operable in terms of systems, internal controls, or other similar considerations related to the required information? Please explain why or why not.

We believe this question is best answered by the financial statement preparers that will need to produce the proposed disclosures. However, we have observed many entities that currently provide substantially similar disclosures despite not being required to do so under GAAP. This suggests the proposed disclosures would generally be operable for most entities.

That said, we understand it is complex for entities with rapid and high-volume turnover of crypto assets (e.g. an entity that generally buys and sells crypto assets on the same day) to meet the existing indefinite-lived intangible asset impairment disclosure requirements.³ It is complex operationally, and not necessarily meaningful, to distinguish for crypto assets bought and sold nearly immediately the portion of the total net gain related to impairment that occurred during the entity's short holding period. For example, if Entity A buys Crypto Asset Z for \$100 at 2:00pm and sells it for \$110 at 5:00pm, Entity A has a net gain of \$10. However, if the lowest fair value for Crypto Asset Z between 2:00pm and 5:00pm was \$95, Entity A would be required to disclose that \$5 impairment, even if the impairment charge would be presented in the same line-item as the gain on sale (or together with the adjusted cost basis derecognized in cost of goods sold).

As outlined in our cover letter, we believe that sale/transfer gains and losses may still result separately from fair value change gains and losses under the proposed requirements and proposed paragraph 350-60-50-3 items (c) and (d) appear to perpetuate a requirement for entities to capture fair value change gains and losses separately from sale/transfer gains and losses. Assuming the fair value of Crypto Asset Z in the preceding paragraph is \$108 immediately before its sale for \$110, it appears that in the reconciliation, Entity A would include the \$100 addition, \$108 disposition and \$8 unrealized gain. It would also include the \$10 realized gain in the total realized gains (losses) disclosure required by proposed paragraph 350-60-50-4(b).

We do not believe capturing the \$8 unrealized gain separate from the \$10 realized gain for Entity A is meaningful and question the cost-benefit of any requirement to do so. We encourage the Board to consider whether an exemption from this requirement to separately capture the unrealized gain (loss)

³ See ASC paragraph 350-30-50-3(b).

should exist for crypto assets purchased (or otherwise acquired – e.g. as payment for goods or services) and then sold nearly immediately (perhaps, leveraging this newly defined term). We believe such an exemption might be similar in nature and cost-benefit basis to the exemption the Board provided in Topic 842 from disclosing short-term lease cost for leases with a term of one month or less.⁴

Question 11:

Should additional disclosures, such as those described in paragraph BC60 in the basis for conclusions, be required? If so, what additional information should be disclosed? How would that information influence investment and capital allocation decisions?

We are not aware of any additional disclosures that should be required.

Question 12:

The proposed amendments would require that an entity annually disclose a reconciliation of the opening and closing balances of crypto assets, which would include additions, dispositions, gains, and losses during the reporting period. Would this proposed disclosure provide decision-useful information? Please explain how and for what purpose that information would be used or why it would not be useful. Should that information also be required on an interim basis? Please explain your response.

We believe it is implicit that the proposed reconciliation would provide additional decision-useful information; however, we believe financial statement users are best positioned to comment on the extent of the *incremental* informational benefit this reconciliation would provide when considered together with the other proposed disclosures.

We observe that reconciliations (i.e. of lease liabilities and right-of-use assets) were proposed and/or deliberated extensively as part of ASU 2016-02, *Leases (Topic 842)*. Ultimately, the Board decided not to require reconciliations of either the entity's lease liabilities or right-of-use assets in Topic 842 because sufficient information to address users' needs could be provided in a more cost-effective manner.⁵ The Board mandated disclosure of that information in lieu of full reconciliations. To that same end with this proposed reconciliation, if the Board learns that preparing it may be cost-prohibitive or require systems that necessitate prohibitive implementation time, it may wish to consider whether there is select information *from* the proposed reconciliation that is of particular importance to financial statement users that could be more cost-effective to provide than the full reconciliation.

Implementation Guidance and Illustrations

Question 13:

The Board concluded that Topic 820 and Topic 850, Related Party Disclosures, provide sufficient guidance for an entity to measure the fair value of crypto assets and evaluate and disclose related party transactions that involve crypto assets. Is that guidance operable and sufficient as it relates to crypto assets? Please explain why or why not.

⁴ See ASC paragraph 842-20-50-4(c).

⁵ See ASU 2016-02.BC286.

Yes. Entities with material crypto asset holdings are already applying Topic 820, without crypto-specific requirements or implementation guidance, when applying either (1) the Subtopic 350-30 cost-less-impairment crypto asset measurement model or (2) the fair value measurement required by industry-specific GAAP (e.g. Subtopic 946-325). Even for entities currently subject to the cost-less-impairment measurement model, the different *use* of Topic 820 fair values in measuring their crypto asset holdings (i.e. to identify all fair value changes, not solely impairments) should not, in our view, make its application more difficult. Because entities are already successfully applying Topic 820 to crypto assets, and we do not believe the proposed amendments make such application more difficult, we do not believe incremental guidance is necessary.

With respect to Topic 850, we do not believe related party crypto asset transactions are so unique as compared to other related party transactions that additional or different guidance is necessary.

Transition and Effective Date

Question 14:

The proposed amendments would require that an entity apply the amendments as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets). Do you agree with the proposed transition guidance? Please explain why or why not.

We believe the proposed transition approach is reasonable. However, we believe it would also be reasonable to *permit* entities to adopt any final ASU on a fully retrospective basis. All things being equal, we believe fully retrospective financial statement information is typically most decision-useful to financial statement users. Further, we can envision some entities electing this option with the intent to ‘normalize’ comparative years presented. For example, entities may desire:

- not to show large impairment charges in comparative periods when only a portion of those will be recovered in the adoption year (i.e. because the crypto assets’ fair value largely recovered *before* the adoption date); and
- to re-name financial statement line-items (e.g. ‘Impairment of digital assets’) that are no longer appropriate in the adoption year, but would continue to accurately reflect the comparative periods if the amendments are not applied retrospectively.

Question 15:

How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your response.

We believe preparers are best positioned to address how long they would need to implement a final ASU that is substantially consistent with the proposed amendments.

We support permitting entities to early adopt any final ASU, including in financial statements not yet issued (or made available for issuance) at the time the final ASU is issued. We believe the proposed requirements would represent a significant improvement to GAAP, and therefore, entities should be permitted to apply them as soon as they are able to do so.

Benefits

Question 16:

Would the proposed requirement to subsequently measure crypto assets at fair value and the accompanying disclosures benefit investors by providing them with more decision-useful information? If so, how would that information influence investment and capital allocation decisions? If not, please explain why.

We believe financial statement users are best positioned to inform the Board about whether the proposed accounting and disclosures would provide them with more decision-useful information than what they receive today, including how they would make use of such information. That said, we believe the proposed fair value measurement model will provide a more economically representational picture of entities' financial position when they hold in-scope crypto assets.

Costs and Auditability

Question 17:

To the extent not previously discussed in response to the proposed amendments above, what effect would the proposed amendments have on costs? If those proposed amendments are expected to impose significant incremental costs, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs. If those proposed amendments are expected to reduce costs, please explain why.

We believe financial statement preparers are best positioned to describe what, if any, incremental costs they would expect to incur if the proposed amendments are finalized.

Question 18:

Would the financial reporting and disclosure requirements included in the proposed amendments be auditable? Please explain why or why not.

We do not have concerns about the auditability of the proposed amendments to measure in-scope crypto assets at fair value, nor are we aware of constraints that would limit our ability to audit the proposed disclosures. We believe that auditors have developed and established the expertise necessary to evaluate the relevance and reliability of information used in the measurement of crypto assets at fair value.

The current models of accounting for crypto assets, whether cost-less-impairment or reporting at fair value (e.g. by investment companies), have required entities to design processes and internal controls to establish the cost basis of crypto assets and determine estimates of fair value for those crypto assets at subsequent dates. As a result, auditors have experience auditing those cost bases and fair value measurements, including applying the standards related to auditing accounting estimates and the use of specialists, and evaluating entities' processes and controls around estimates and use of specialists.

Preparers are best positioned to comment on any operational challenges they would expect to incur to enhance or revise processes and related internal controls over financial reporting to comply with the proposed guidance. However, if an entity has appropriately developed such processes and controls, we believe auditors can cost-effectively audit them.