



Crypto intangible assets

Issues In-Depth

Accounting by
investment companies



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An evolving landscape

Digital asset use cases and offerings continue to evolve and proliferate but there remains only limited US GAAP that explicitly addresses the accounting for digital assets. In this publication, we provide our perspectives on accounting for crypto intangible assets (a subset of all digital assets) by investment companies. This publication is supplemented by our other digital assets publications (see [Additional resources](#)).

The issues and considerations we identify herein are not exhaustive, and our views and observations may not reflect the only acceptable ones in practice in this evolving area. Our perspectives may change as practice continues to develop, if the FASB expands on or amends its US GAAP guidance on the accounting for crypto intangible assets, or if the SEC staff expresses new or amended views. We encourage investment companies to discuss their accounting for crypto intangible assets (and other digital assets) and their specific facts and circumstances with their auditors or other accounting advisors.

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About this publication

The purpose of this Issues In-Depth is to assist investment companies in accounting and reporting for 'crypto intangible assets' ([chapter 1](#) explains what this population of assets encompasses).

Organization of the text

Our commentary is referenced to the FASB's Accounting Standards Codification® and to other literature, where applicable. The following are examples:

- 350-60-15-1 is paragraph 15-1 of ASC Subtopic 350-60 (crypto assets)
- ASU 2023-08.BC13 is paragraph 13 of the basis for conclusions to Accounting Standards Update 2023-08
- CON 8.E17 is paragraph E17 of FASB Concepts Statement No. 8
- SAB 121 is SEC Staff Accounting Bulletin 121
- AICPA DAG Q10 is Question 10 of [AICPA Practice Aid: Accounting for and Auditing of Digital Assets](#) (hereafter, the AICPA Guide)
- AICPA ICEP 09/2021 refers to the September 2021 meeting minutes of the AICPA's investment companies expert panel

June 2024 edition

The June 2024 edition is the inaugural edition of this Issues In-Depth; it builds upon and supersedes the previous Executive Summary, *Accounting for crypto assets by investment companies*. Future editions of this publication may refer to additional US GAAP or SEC staff guidance and/or include new and/or updated interpretive guidance.

Always check [KPMG Financial Reporting View](#) for the latest news on financial reporting developments and to ensure you are using the current version of this Issues In-Depth.

Pending content

This publication reproduces amendments to US GAAP made by ASU No. 2023-08, *Accounting for and disclosure of crypto assets*. Although these amendments are not mandatorily effective until fiscal years beginning after December 15, 2024, they are reproduced and discussed as if they are current content. See [chapter 8](#) for further effective date and transition information.

Future developments

Subtopic 350-60 (crypto assets), created by ASU 2023-08, constitutes the first US GAAP explicit to the accounting for and reporting of crypto intangible assets. For investment companies, because of the industry-specific guidance in Topic 946 that already applies to crypto intangible assets, the impact of Subtopic 350-60 is more limited than for most other entities. Subtopic 350-60 will most

notably affect investment companies' disclosures, and potentially financial statement presentation, around crypto intangible assets in its scope.

Because the scope and breadth of Subtopic 350-60 is limited (i.e. to only a subset of crypto intangible assets and to certain aspects of their accounting and reporting, respectively), additional guidance from the FASB that is more impactful to investment companies may be forthcoming in the future. Additionally, the SEC staff may provide future guidance that affects investment companies. Lastly, because the accounting and reporting for crypto intangible assets is an evolving area, some of our positions in this publication (or those referred to herein) may change, and positions on new or previously unidentified issues may emerge.

Abbreviations

We use the following abbreviations in this publication:

BTC	Short for bitcoin, the native crypto token of the Bitcoin blockchain
CBDC	Central Bank Digital Currency
DeFi	Short for decentralized finance
ETH	Short for ether, the native crypto token of the Ethereum blockchain
NFP	Not-for-profit entity
NFT	Nonfungible token
USDC	Short for USD Coin, a 'stablecoin' whose value is pegged to the U.S. Dollar and that is fully backed by highly liquid cash and cash equivalent assets
USDT	Also known as Tether, a 'stablecoin' pegged to the U.S. Dollar
WETH	'Wrapped' ETH
WBTC	'Wrapped' BTC

In a snapshot

This Issues In-Depth outlines the accounting and reporting for crypto intangible assets by investment companies. Crypto intangible assets are a subset of digital assets more broadly (this is explained in [chapter 1](#)).

See [Additional resources](#) for other KPMG publications on topics such as accounting for crypto intangible assets by commercial and not-for-profit entities, accounting for NFTs and applying SAB 121.

Accounting for crypto intangible assets

Most crypto intangible assets (e.g. bitcoin, ether, solana, cardano and polkadot) are accounted for by investment companies as 'other investments' under Subtopic 946-325 (investment companies-other investments) because they are not securities under US GAAP and they meet the US GAAP definition of an intangible asset. Subtopic 946-325 is a 'catch-all' for all investments that are not a security under US GAAP, an equity method investment or a joint venture. As an 'other investment' subject to Subtopic 946-325, crypto intangible assets are initially recorded at their 'transaction price' (which includes commissions and other charges to complete the purchase). They then are subsequently measured at fair value each period while they are held by the investment company.

Sales of crypto intangible assets by investment companies are generally subject to the nonfinancial asset sale guidance in Subtopic 610-20 (gains and losses from the derecognition of nonfinancial assets) because they are nonfinancial assets and no Subtopic 610-20 scope exception applies. Realized gains or losses are generally determined by investment companies on a specific identification or average cost basis.

Income from crypto intangible asset activities such as staking is generally subject, or accounted for by analogy, to Topic 606 (revenue from contracts with customers).

In December 2023, the FASB issued ASU 2023-08, which codified new ASC Subtopic 350-60 (crypto assets). ASU 2023-08 did not amend Topic 946 in any way, nor did it change how entities, in general, account for sales of crypto intangible assets or recognize income earned from crypto asset activities such as mining or staking. Therefore, investment companies' *accounting* for crypto intangible assets is generally unchanged by the new ASU.

Subtopic 350-60 does, however, establish prescriptive financial statement presentation and significant new disclosure requirements that apply to *all* entities, including investment companies to the extent those requirements would provide incremental or more disaggregated financial information. Therefore, we expect some investment companies will have different financial statement presentation and disclosure requirements for 'in-scope crypto intangible assets' (see [chapter 1](#)) upon the adoption of ASU 2023-08, which is required for all fiscal years (including interim periods therein) beginning after December 15, 2024. Investment companies, like other entities, *may* find that it takes considerable effort to comply with the new disclosure requirements.

Other digital assets

Central bank digital currencies (CBDCs) are not crypto intangible assets, and neither are other digital assets that meet the US GAAP definition of a financial asset, financial instrument or security (e.g. *some* 'stablecoins'). And in the case of nonfungible tokens (NFTs), an entity must generally look *through* the token to its underlying rights and obligations (and account for those just as it would if those rights or obligations arose other than via an NFT).

1. What is a 'crypto intangible asset'?

Detailed contents

- 1.1 Overview**
- 1.2 'Digital assets'**
- 1.3 'Crypto intangible assets'**
- 1.4 In-scope vs out-of-scope crypto intangible assets**

1.1 Overview

This chapter explains this publication's use of the following terms:

- 'digital asset'
- 'crypto intangible asset'
- 'in-scope crypto intangible asset'
- 'out-of-scope crypto intangible asset'.

1.2 'Digital assets'

The definition of 'digital asset' is crucial to defining a crypto intangible asset. Accepting that there is no US GAAP or 'generally accepted' definition of the term 'digital asset', for purposes of this publication, we use the term digital asset to mean any asset that both:

- is created or resides on a distributed ledger based on blockchain (or similar) technology; and
- is secured through cryptography.

Digital assets therefore include all of the following (not exhaustive):

- 'cryptocurrencies' like bitcoin and ether;
- stablecoins that meet the US GAAP definition of a financial asset (e.g. USDC);
- CBDCs;
- NFTs; and
- various 'tokenized' securities (e.g. a digital token representing a fractionalized share of an underlying corporate bond).

Crypto intangible assets are a subset of digital assets.





1.3 'Crypto intangible assets'

Crypto intangible assets are digital assets (as defined above) that also meet the US GAAP definition of an intangible asset (see [section 2.1.20](#)).

Many of the digital assets most commonly associated with the digital asset ecosystem (e.g. BTC, ETH, litecoin [LTC], bitcoin cash [BCH], solana [SOL], cardano [ADA]) meet this definition. This, in effect, happens by default because: [\[ASC Master Glossary\]](#)

- they do not meet the definitions of 'cash' or 'cash equivalents', 'financial assets' or 'financial instruments', or 'inventory' (see table that follows); and
- the definition of an 'intangible asset' is broad.

For an investment company, crypto intangible asset holdings represent an 'other investment' under Subtopic 946-325, and are initially and subsequently measured under that Subtopic when those assets are held solely for returns from capital appreciation, investment income or both.

Classification	Meet the definition?	Rationale
Cash or cash equivalent		These digital assets do not meet the definition of cash because they are not legal tender issued by a government. They also do not meet the definition of a cash equivalent because they have no maturity date at which they are readily convertible to a known amount of cash.
Financial instrument or financial asset		These digital assets are not cash (see preceding row) and do not give the holder either (1) an ownership interest in another entity, or (2) a contractual right to receive cash or another financial asset or instrument.
Inventory		A digital asset is not a tangible asset, so does not meet the definition of inventory.
Intangible asset		These digital assets generally meet the definition of an intangible asset as an asset (other than a financial asset or goodwill) that lacks physical substance and meets the asset recognition criteria in the FASB's Conceptual Framework. [350-30-25-4]

1.4 In-scope vs out-of-scope crypto intangible assets

In-scope crypto intangible assets are crypto intangible assets that meet all of the scoping criteria in Subtopic 350-60 (see [chapter 2](#)).

Conversely, out-of-scope crypto intangible assets are crypto intangible assets that do not meet one or more of the scoping criteria in Subtopic 350-60 (see [chapter 2](#)).

2. Scope

Detailed contents

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2.2 Applicability of Subtopic 350-60 to investment companies

2.3 Applicability of Subtopic 350-60 to digital assets

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- 2.3.20 Do CBDCs meet the Subtopic 350-60 scoping criteria?
- 2.3.30 Do stablecoins meet the Subtopic 350-60 scoping criteria?
- 2.3.40 Do 'wrapped tokens' meet Subtopic 350-60 the scoping criteria?

2.1 Topic 946 scoping matters

If an entity qualifies as an investment company under Topic 946, then that Topic governs much of how the entity accounts for its crypto intangible asset holdings.

2.1.10 Investment company designation



Excerpt from ASC 946-10

> Assessment of Investment Company Status

15-4 An entity regulated under the Investment Company Act of 1940 is an investment company under this Topic.

15-5 An entity that is not regulated under the Investment Company Act of 1940 shall assess all the characteristics of an investment company in paragraphs 946-10-15-6 through 15-7 to determine whether it is an investment company. The entity shall consider its purpose and design when making that assessment.

15-6 An investment company has the following fundamental characteristics:

- a. It is an entity that does both of the following:
 1. Obtains funds from one or more investors and provides the investor(s) with investment management services
 2. Commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both.
- b. The entity or its affiliates do not obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income.

15-7 An investment company also has the following typical characteristics:

- a. It has more than one investment.
- b. It has more than one investor.
- c. It has investors that are not related parties of the parent (if there is a parent) or the investment manager.
- d. It has ownership interests in the form of equity or partnership interests.
- e. It manages substantially all of its investments on a fair value basis.

15-8 To be an investment company, an entity shall possess the fundamental characteristics in paragraph 946-10-15-6. Typically, an investment company also has all of the characteristics in paragraph 946-10-15-7. However, the absence of one or more of those typical characteristics does not necessarily preclude an entity from being an investment company. If an entity does not possess one or more of the typical characteristics, it shall apply judgment and determine, considering all facts and circumstances, how its activities continue to be consistent (or are not consistent) with those of an investment company.

15-9 The implementation guidance in Section 946-10-55 is an integral part of assessing investment company status and provides additional guidance for that assessment.

55 Implementation Guidance and Illustrations

General

> Fundamental Characteristics of an Investment Company

• > Business Purpose and Substantive Activities

55-4 An investment company should have no substantive activities other than its investing activities and should not have significant assets or liabilities other than those relating to its investing activities, subject to the exception in the following paragraph.

55-5 An investment company may provide investing-related services (for example, investment advisory or transfer agent services) to other entities, directly or indirectly through an investment in an entity that provides those services, as long as those services are not substantive. However, an investment company may provide substantive investing-related services, directly or indirectly through an investment in an entity that provides those services, if the substantive services are provided to the investment company only.

• > Evidence of an Entity's Business Purpose and Substantive Activities

55-6 Evidence of the entity's business purpose and substantive activities may be included in the entity's offering memorandum, publications distributed by the entity, and other corporate or partnership documents that indicate the investment objectives of the entity. Evidence of the entity's business purpose and substantive activities also may include the manner in which the entity presents itself to other parties (such as potential investors or potential investees). For example, an entity that presents its business to its investors as having the objective of investing for capital appreciation has characteristics that are consistent with the business purpose and substantive activities of an investment company. Alternatively, an entity that presents itself as an investor whose objective is jointly developing, producing, or marketing products with its investees has characteristics that are inconsistent with the business purpose and substantive activities of an investment company.

55-7 An entity's investment plans also provide evidence of its business purpose and substantive activities. Accordingly, an investment company whose business purpose and substantive activities include realizing capital appreciation should have an exit strategy for how it plans to realize the capital appreciation of its investments. Although the entity may not yet have determined the specific method or timing of disposing of an investment, the fact that it has identified potential exit strategies through which it can realize capital appreciation provides evidence that its business purpose and substantive activities are consistent with those of an investment company. The entity need not document specific exit strategies for each individual investment held for the purpose of realizing capital appreciation but should identify potential exit strategies for different types or portfolios of investments held with the purpose of realizing capital appreciation. Disposal of investments only during liquidation or to satisfy investor redemptions are not exit strategies.

Therefore, an entity should have a plan to dispose of its investments before liquidation when its business purpose and substantive activities include realizing capital appreciation. An investment company whose business purpose and substantive activities are to invest for returns only from investment income does not require an exit strategy for its investments.

- > Returns or Benefits from Investments

55-8 An entity would not be an investment company if the entity or its affiliates obtain or have the objective of obtaining returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income. Examples of relationships and activities that would be inconsistent with the characteristics of an investment company include any of the following:

- a. The entity or its affiliates acquire, use, exchange, or exploit the processes, assets, or technology of an investee or its affiliates. This includes the entity or its affiliates having disproportionate or exclusive rights to acquire assets, technology, products, or services of an investee or its affiliates (for example, by holding an option to purchase an asset from an investee if the asset's development is deemed successful).
- b. There are other arrangements between the entity or its affiliates and an investee or its affiliates to jointly develop, produce, market, or provide products or services.
- c. An investee or its affiliates provide financing guarantees or assets to serve as collateral for borrowing arrangements of the entity or its affiliates to provide returns or with the objective of providing returns other than capital appreciation or investment income. The guidance in this paragraph does not prohibit an investment company from using its investments in its investees as collateral for any of its borrowings.
- d. An affiliate of the entity holds an option to purchase from the entity ownership interests in an investee at an amount other than fair value.
- e. There are transactions between the entity or its affiliates and an investee or its affiliates that meet any of the following:
 1. They are on terms that are unavailable to entities that are not affiliates of the investee.
 2. They are not at fair value or are not conducted at arm's length.
 3. They represent a substantive portion of the investee's or the entity's business activities, including business activities of affiliates of the entity or affiliates of the investee.

Subtopic 946-10 outlines when an entity is an 'investment company' under US GAAP. [\[946-10-15-4 – 15-9\]](#)

Assessing whether an entity is an investment company under Topic 946 often involves judgment and careful consideration of whether it has the fundamental characteristics of an investment company (unless the entity is registered under the Investment Company Act of 1940, in which case it is automatically in scope of Topic 946). Under this characteristics-based analysis, to be an investment company an entity should not: [\[946-10-55-4 – 55-5, 55-8\]](#)

- have substantive activities other than investing for capital appreciation, investment income or both;

- in general, have significant assets or liabilities unrelated to its investing activities; and
- obtain, or have the objective of obtaining, returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests or that are other than capital appreciation or investment income (this prohibition also applies to the entity's affiliates).

Question 11 of [the AICPA guide](#) further expands on these considerations in the context of digital assets. It states explicitly that “an entity's purchases of digital assets with the objective of selling them for capital appreciation would be considered investing activities consistent with those of an investment company.”

Questions about investment company designation begin to arise when the entity undertakes other crypto asset activities, such as mining or staking of crypto assets. The remainder of this section addresses considerations around whether an entity that invests in crypto assets *and* undertakes mining or staking activities is an investment company.

Mining

Mining involves the active operation of computer hardware and software to perform complex calculations as a means to validate transactions on a ‘proof of work’ (PoW) blockchain. The Bitcoin blockchain is an example of one that employs this ‘proof of work’ consensus mechanism (or consensus protocol). Other examples include the dogecoin and litecoin blockchains.

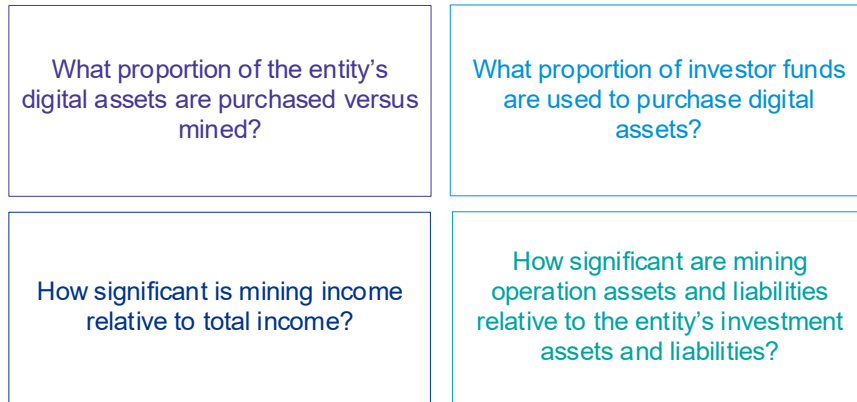
An entity must use judgment and consider all relevant evidence to determine whether a mining operation is a ‘*substantive activity other than investing activities*’. Such an activity would disqualify the entity from investment company designation, even if it had previously qualified as one before undertaking the mining operation. [\[946-10-55-4\]](#)

This evaluation is not limited to just the entity, but also includes a subsidiary or an affiliate that performs mining operations on behalf of the entity. This is because an entity must also evaluate whether it or its affiliates obtain, or have the objective to obtain, returns or benefits from an investee (or its affiliates) that are (1) not normally attributable to ownership interests or (2) other than capital appreciation or investment income. [\[946-10-55-8\]](#)

Question 11 of [the AICPA guide](#) differentiates mining activities from the purchase and sale of crypto assets for capital appreciation. “An entity's activities in devoting resources to mining, such as procuring and operating significant computer and networking equipment in order to obtain digital assets in return for providing computing resources to a blockchain, *would generally be considered ‘other than investing activities’ that are inconsistent with those of an investment company.*” [emphasis added]. [\[AICPA DAG Q11\]](#)

Therefore, it is necessary to evaluate whether the entity's mining activities are ‘substantive’. Question 11 suggests entities consider, along with the guidance in Subtopic 946-10, the framework established by Q&A section 6910.36 of the AICPA's [Technical Questions and Answers](#). That Q&A section examines whether loan origination activities are a substantive non-investment activity. [\[946-10-55-6 – 55-7, AICPA DAG Q11\]](#)

Appendix A of Q&A section 6910.36 is a list of factors to consider in determining whether loan origination represents a substantive activity of the entity. The following reflect considerations we believe are relevant to evaluating whether mining activities are substantive, derived from the factors in that appendix.



The more relatively significant the mining income, mined crypto assets and mining operation assets and liabilities (e.g. equipment and related debt or lease obligations), the less likely the entity is to be an investment company.

 **Observation**
Mining by investment companies

To date, we have not observed investment companies (including investees or affiliates) undertaking substantive mining activities. Further to our experience, entities undertaking substantive mining activities are not purporting, or aspiring, to be investment companies.

Therefore, we do not discuss accounting for mining activities in this publication.

Staking

Staking involves locking (or 'bonding') an entity's crypto assets, in effect, as collateral to a 'proof of stake' (PoS) blockchain, such as Ethereum, Solana or Polkadot. While PoW blockchains (e.g. Bitcoin or Dogecoin) award the right to validate a transaction to the miner that first solves a complex mathematical calculation, PoS blockchains award those rights to stakers of the blockchain's native crypto asset. In general, the more of those tokens an entity stakes, the more opportunities it receives to validate transactions and earn staking rewards (i.e. generally, newly minted tokens). An entity's staked tokens are at risk of being 'slashed' (i.e. taken from the entity) for errors or malicious behavior on the blockchain network.

While an entity can decide to procure and operate the equipment and software necessary to operate its own validator 'node,' unlike mining, staking does not *require* an entity to do so. This is because many PoS blockchains permit their

native token holders to ‘delegate’ their stake to a trusted ‘validator’; ‘delegators’ earn staking rewards from validation activities without operating a node themselves. The validator to whom they entrust their stake procures and operates the equipment and undertakes the transaction validation activities; in turn, the validator earns a share of the staking rewards attributable to the delegator’s stake.

If the entity is a...	Investment company considerations
Validator	<p>We believe the considerations about whether the entity qualifies as an investment company are broadly consistent with those for an entity that undertakes mining activities.</p> <p>While the nature and amount of computing and networking equipment necessary to validate transactions on a PoS blockchain is typically much less than what is required on a PoW blockchain, that will generally factor into whether the entity’s staking activities are substantive instead of whether those activities are ‘other than investing activities’.</p>
Delegator	<p>We believe it is reasonable to analogize delegated staking to securities lending when considering whether that staking is an investing activity. Like securities lending, delegated staking, in substance, lends to a trusted validator the right to use the entity’s owned assets and gives rise to investment income for the entity. Therefore, like securities lending, staking as a delegator (even if substantive) can be considered an investing activity that does not preclude the entity being an investment company. [AICPA ICEP 07/2021]</p> <p>To-date, we have only observed investment companies engage in staking as a delegator.</p>

See [section 4.3](#) for accounting for staking activities.

2.1.20 Crypto intangible assets under Topic 946

Crypto intangible asset holdings are classified by investment companies as an ‘other investment’ under Subtopic 946-325, and are initially and subsequently measured under that Subtopic when those assets are held solely for returns from capital appreciation, investment income or both. [\[946-325-05-1\]](#)

The following questions address whether certain classes of digital assets (see [section 1.2](#)) are crypto intangible assets (see [section 1.3](#)), and therefore other investments for investment companies. Digital assets that are not crypto intangible assets may be accounted for by investment companies under other Subtopics in Topic 946 depending on their classification under US GAAP (e.g. Subtopic 946-320 on debt and equity securities or Subtopic 946-310 on receivables).



Question 2.1.10

Are NFTs crypto intangible assets?

Interpretive response: It depends. In general, an entity does not classify an NFT itself as a crypto intangible asset or otherwise. Instead, an entity looks through the NFT to account for its underlying rights and obligations (e.g. a right to use – i.e. a license to – another entity’s IP, a right to a future service or a right to attend a future event). The nature of those rights and obligations will determine whether the underlying goods or services to which the NFT holder has rights should be accounted for under Subtopic 946-325, elsewhere under Topic 946 or under other US GAAP outside Topic 946.

See KPMG Issues In-Depth, [Accounting for nonfungible tokens \(NFTs\)](#), for guidance on accounting for NFTs.



Question 2.1.20

Are CBDCs crypto intangible assets?

Interpretive response: Generally, no. This is because CBDCs are, in general, a digital, tokenized version of a country’s fiat currency (i.e. merely a digital representation of cash).



Question 2.1.30

Are stablecoins crypto intangible assets?

Background: Stablecoins ‘peg’ their value, typically, to a fiat currency (e.g. the US dollar) or commodity (e.g. gold or oil) and, in this way, differ substantially from digital assets like BTC or ETH. This peg has the goal of minimizing price volatility of the digital asset and is usually accomplished by the stablecoin issuer holding an appropriate reserve of the pegged asset. Examples of digital assets commonly considered stablecoins include USDT, USDC and PAX Gold. Stablecoins are not the same as CBDCs (see [Question 2.1.20](#)) because they are not issued and regulated by a government’s central bank or other monetary authority.

Interpretive response: It depends. Not all stablecoins are the same; a stablecoin *may*, depending on its specific attributes, be a crypto intangible asset. In that case, it would be accounted for as an ‘other investment’ by an investment company. Alternatively, a stablecoin may, for example, meet the definition of a financial asset or financial instrument (and, if so, it may also meet the definition of a security), in which case it would be accounted for under another Subtopic (e.g. Subtopic 946-320 on debt and equity securities).

Understanding the rights and obligations of the stablecoin holder and issuer and the other relevant facts and circumstances is vital to determining the appropriate classification (e.g. as a crypto intangible asset or financial asset) of, and therefore the accounting model to apply to, a stablecoin. Question 22 of [the AICPA guide](#) provides factors an entity might consider when making this determination for a particular stablecoin. Those include all of the following (not exhaustive). [AICPA DAG Q22]



 **Question 2.1.40**
Are 'wrapped tokens' crypto intangible assets?

Interpretive response: It depends. There is no generally accepted definition of 'wrapped token' such that there are diverse opinions about what are or are not wrapped tokens. In addition, there are substantive differences among digital assets often characterized as wrapped tokens.

Like stablecoins (see [Question 2.1.30](#)), which themselves are often characterized as wrapped tokens, not all digital assets that may be considered wrapped tokens are the same. Therefore, the specific attributes of the digital asset in question will determine whether it is a crypto intangible asset or something else.

If a wrapped token is a crypto intangible asset, it is accounted for by the investment company under Subtopic 946-325. If the wrapped token is *not* a crypto intangible asset, its specific attributes will determine whether it is accounted for as an other investment, accounted for under another ASC 946 Subtopic (e.g. Subtopic 946-320) or under other US GAAP.

2.2 Applicability of Subtopic 350-60 to investment companies



Excerpt from ASC 350-60

> Entities

15-2 The guidance in this Subtopic applies to all entities that hold crypto assets.

Subtopic 350-60 applies to all entities (i.e. public, private, not-for-profit and across all industries). It requires digital assets in its scope to be measured at fair value, with remeasurement gains or losses charged to net income. It further establishes prescriptive financial statement presentation and significant new disclosure requirements. [350-10-15-2, 350-30-15-1, 350-60-15-2]

However, when enacting Subtopic 350-60, the FASB did not amend Topic 946. Therefore, some of Subtopic 350-60's requirements do not apply to investment companies.

- Investment companies should generally (see [Question 6.1.10](#)) continue to present amounts related to crypto intangible assets in their financial statements as prescribed by Subtopic 946-205 (investment companies – presentation of financial statements) – see [chapter 6](#) (presentation). [ASU 2023-08.BC27]
- Investment companies are required to comply with the disclosure requirements in Subtopic 350-60 for in-scope crypto intangible assets (see [section 2.3](#)). However, in general, investment companies are not required to duplicate financial statement disclosures made elsewhere *in the financial statements* under Topic 946 – see [chapter 7](#) (disclosures). [ASU 2023-08.BC62]



Observation

Topic 946 vs Subtopic 350-60

While Subtopic 350-60 applies to all entities, so do Subtopics 350-10 and 350-30, which together:

- governed all crypto intangible assets pre-ASU 2023-08;
- continue to govern out-of-scope crypto intangible assets post-adoption of ASU 2023-08; *and*
- continue to govern specific aspects of the accounting for in-scope crypto intangible assets (e.g. recognition, initial measurement and derecognition) post-adoption of ASU 2023-08.

Therefore, ASU 2023-08 notwithstanding, we believe crypto intangible assets, whether in or out of scope of Subtopic 350-60, remain subject to Topic 946 for investment companies, instead of Subtopic 350-60, for those aspects of their accounting and reporting for which Topic 946 has guidance (e.g. initial and subsequent measurement in Subtopic 946-325). Subtopic 350-60 applies where

it requires information for financial statement users incremental to that required by Topic 946. See Questions [6.1.10](#) and [7.1.10](#).

2.3 Applicability of Subtopic 350-60 to digital assets

Understanding which crypto intangible assets are in scope versus out of scope of Subtopic 350-60 is important because the Subtopic's prescriptive financial statement presentation and disclosure requirements expressly apply only to in-scope assets.

2.3.10 In general



Excerpt from ASC 350-60

> Overall Guidance

15-1 The guidance in this Subtopic applies to holdings of assets that meet all of the following criteria:

- a. Meet the definition of **intangible assets** as defined in the Codification
- b. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
- c. Are created or reside on a distributed ledger based on blockchain or similar technology
- d. Are secured through cryptography
- e. Are fungible
- f. Are not created or issued by the reporting entity or its **related parties**.

20 Glossary

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Assets in the scope of Subtopic 350-60 are those that meet all of the following criteria. [\[350-60-15-1\]](#)

- a. Definition of intangible asset criterion: asset meets the US GAAP definition of an intangible asset
- b. Other goods or services criterion: asset does not provide the asset holder with enforceable rights to or claims on underlying goods, services or any other asset(s)
- c. Distributed ledger criterion: asset resides or is created on a distributed ledger (i.e. blockchain or similar technology)
- d. Security criterion: asset is secured through cryptography
- e. Fungibility criterion: asset is fungible

- f. Source criterion: asset is not created or issued by the reporting entity or its related parties.

If a digital asset does not meet one or more of these criteria, it is outside the scope of Subtopic 350-60.

These scoping criteria appear to have been designed principally to capture crypto intangible assets like BTC and ETH. However, we believe these criteria will also capture many other lesser-known and smaller (by market capitalization) crypto intangible assets, such as (not exhaustive): cardano (ADA), polkadot (DOT), solana (SOL), litecoin (LTC) and bitcoin cash (BCH).

2.3.20 Specific cases

The questions and observations in this section address specific classes of digital assets.



Question 2.3.10

Do NFTs meet the Subtopic 350-60 scoping criteria?

Interpretive response: No. NFTs are outside the scope of Subtopic 350-60 because they fail the fungibility criterion and, frequently, the other goods or services criterion. For example, NFTs may convey to the holder a license to IP or a right to a future service or to attend a future event. [350-60-15-1(b), 15-1(e)]

See KPMG Issues In-Depth, [Accounting for nonfungible tokens \(NFTs\)](#), for guidance on accounting for NFTs.



Question 2.3.20

Do CBDCs meet the Subtopic 350-60 scoping criteria?

Interpretive response: Generally, no. This is because CBDCs will generally not meet the US GAAP definition of an 'intangible asset' (criterion (a)) because they are simply a digital, tokenized version of a country's fiat currency (i.e. merely a digital representation of cash). [350-60-15-1(a)]



Question 2.3.30

Do stablecoins meet the Subtopic 350-60 scoping criteria?

Interpretive response: It depends. If a stablecoin is not a crypto intangible asset (see [Question 2.1.30](#)), it will not meet the first Subtopic 350-60 scoping criterion. And even if a stablecoin is a crypto intangible asset, its specific attributes may affect whether it meets all six Subtopic 350-60 scoping criteria.

Therefore, there is no 'one-size-fits-all' conclusion about whether stablecoins are in the scope of Subtopic 350-60. [350-60-15-1(a)]



Question 2.3.40

Do 'wrapped tokens' meet the Subtopic 350-60 scoping criteria?

Background: The proposed ASU stated that wrapped tokens may be outside the scope of the new Subtopic based on the other goods or services criterion. To many, this suggested that the FASB intended to scope out all wrapped tokens from the new Subtopic. However, there is no reference to wrapped tokens in Subtopic 350-60, nor are they discussed elsewhere in ASU 2023-08 (e.g. the basis for conclusions). We understand that the proposed ASU's basis for conclusions discussion was removed from the final ASU because stakeholders informed the FASB that:

- there is no generally accepted definition of a 'wrapped token' (i.e. such that there are diverse opinions thereon); and
- there are substantive differences among digital assets characterized as wrapped tokens.

Interpretive response: It depends. The absence of any guidance around the scoping of wrapped tokens in Subtopic 350-60 (or even any discussion elsewhere in ASU 2023-08) means those tokens are simply subject to the same Subtopic 350-60 scoping criteria as all other digital assets.

Some digital assets identified as wrapped tokens (noting that there is no generally accepted or consistently applied definition thereof) may not meet the US GAAP definition of an intangible asset (criterion (a)) and/or may not be fungible (criterion (e)) and therefore would be outside the scope of Subtopic 350-60. [350-60-15-1(a), 15-1(e)]

We believe whether a wrapped token meets the other Subtopic 350-60 scoping criteria will often hinge on the other goods or services criterion (criterion (b)). That is, the scoping conclusion may ultimately depend on whether the wrapped token is determined to afford the holder an enforceable right to or enforceable claim on its underlying digital asset(s), in which case it would fail scope criterion (b), which may or may not be the case depending on the facts and circumstances. [350-60-15-1(b)]



Observation

Tokens created or issued by an investment company

The sixth Subtopic 350-60 scoping criterion (criterion (f)) requires that a crypto intangible asset not be created or issued by the reporting entity or its related parties. [350-60-15-1(f)]

We are not aware of investment companies undertaking activities to create or issue crypto intangible or other digital assets, and do not believe this criterion

would typically come into play for investment companies. This is because activities to create a digital asset, and those that frequently accompany its creation, would likely call into question the entity's investment company designation. As outlined in [section 2.1.10](#), an investment company should not have substantive activities other than investing; nor, in general, should it have significant assets or liabilities unrelated to its investing activities.

3. When you buy or otherwise acquire

Detailed contents

3.1 Initial measurement under Subtopic 946-325

- 3.1.10 Purchased for cash
- 3.1.20 Received as an investor contribution
- 3.1.30 Purchased using another crypto intangible asset
- 3.1.40 Staking rewards
- 3.1.50 Right to receive a crypto intangible asset in the future
- 3.1.60 Purchased directly into a custodial wallet

Question

- 3.1.10 How is the accounting ownership of 'custodied' digital assets determined?

Example

- 3.1.10 Omnibus custodial wallets

3.1 Initial measurement under Subtopic 946-325

The recognition and initial measurement of a crypto intangible asset differs depending on how it is acquired.

3.1.10 Purchased for cash



Excerpt from ASC 946-325

30-1 An investment company shall initially measure its other investments at their transaction price. The transaction price shall include commissions and other charges that are part of the purchase transaction.

An investment company that purchases a crypto intangible asset (e.g. through an exchange using investor funds) initially measures that asset at the 'transaction price', which includes any commissions and other charges or fees incurred. [\[946-325-30-1\]](#)

3.1.20 Received as an investor contribution

An investment company that accepts crypto intangible assets as a contribution from an investor generally initially measures both the asset received and the contribution of equity at fair value. [\[946-20-25-7, AICPA ICEP 11/2021\]](#)

3.1.30 Purchased using another crypto intangible asset

An entity may pay for a crypto intangible asset with another crypto intangible asset (e.g. purchase BTC using ETH). The reason for the transaction may be for the entity to acquire the new asset (e.g. BTC), instead of to sell/transfer the asset (e.g. ETH) it is giving up. Despite this, unless the counterparty is a customer (if so, see section 3.2.20 of KPMG Issues In-Depth, [Crypto intangible assets](#)), Subtopic 610-20 on *sales* of nonfinancial assets governs: [\[350-10-40-1\]](#)

- whether and when to derecognize the crypto intangible asset relinquished; and
- initial measurement of the crypto intangible asset acquired – i.e. at its contract inception date fair value.

3.1.40 Staking rewards

An investment company may obtain a crypto intangible asset through staking activities. A crypto intangible asset earned through staking is initially measured at its fair value as of the Topic 606 contract inception date.

See [section 2.1.10](#) and [section 4.3](#) for investment company designation and accounting considerations around staking activities, respectively.

3.1.50 Right to receive a crypto intangible asset in the future

An investment company may obtain a right to receive a crypto intangible asset in the future (i.e. a crypto intangible asset receivable). It may be entitled to that asset but not yet have received it. The arrangement to receive the crypto intangible asset in the future is evaluated under Topic 815 (derivatives and hedging) to determine whether it is, or includes, a derivative (see KPMG Handbook, [Derivatives and hedging](#)).

In general, we believe a nonfinancial, crypto intangible asset receivable is, like a crypto intangible asset, accounted for under Subtopic 946-325 as an other investment.

3.1.60 Purchased directly into a custodial wallet

Entities, including investment companies, frequently purchase crypto intangible (and other digital) assets in such a manner (e.g. on an exchange or through a custodian) that the purchase settles directly into a crypto wallet for which the entity does not control the private cryptographic keys (a “custodial” wallet).

An investment company purchasing crypto intangible assets in this manner evaluates whether it has, in fact, acquired (i.e. owns) them for accounting purposes.

- If so, the investment company accounts for the crypto intangible assets in the same manner it would any such assets it self-custodies and the ‘custodian’ (i.e. for purposes herein, the entity that controls the private cryptographic key information, whether or not legally a custodian) is solely a custodial service provider.
- If not, the investment company instead has a crypto intangible asset receivable for which the custodian is the obligor (see [section 3.1.50](#)). The custodian records the crypto intangible asset as its own and a liability to transfer that asset to the entity in the future. The entity’s crypto intangible asset receivable and the custodian’s return obligation are both evaluated under Topic 815 to determine whether they are, or include, a derivative (see KPMG Handbook, [Derivatives and hedging](#)).



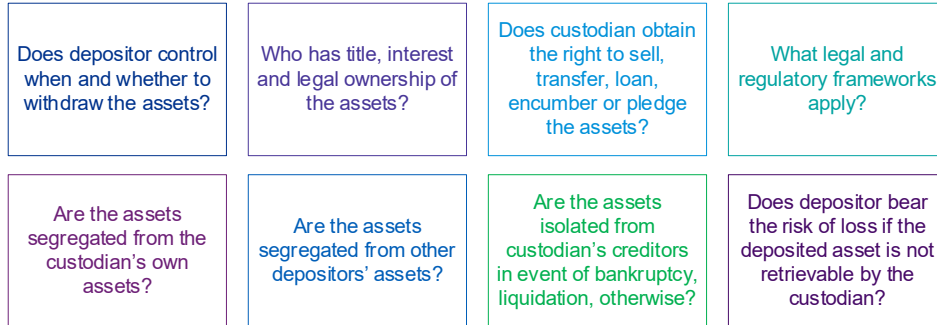
Question 3.1.10

How is the accounting ownership of ‘custodied’ digital assets determined?

Interpretive response: Currently, no explicit US GAAP exists on determining the accounting ownership of custodied digital assets. Therefore, entities generally look to the nonauthoritative guidance in Question 10 of [the AICPA guide](#), regardless of whether the digital asset is a crypto intangible asset. Question 10 states that to make the accounting ownership determination, an entity generally evaluates which party – i.e. the investment company (or ‘depositor’) or the custodian:

- ‘controls’ the asset under the Topic 606 principle of control (i.e. which party has the ability to direct the use of the asset and obtain substantially all the remaining benefits therefrom); and [606-10-25-25]
- has a digital asset that meets the essential characteristics of an asset as described in the FASB’s Conceptual Framework. [CON 8.E17]

In addition, Question 10 provides factors intended to assist entities in making this accounting ownership determination, including those that follow (not exhaustive). [AICPA DAG Q10]



Although legal ownership does not necessarily determine accounting ownership, Question 10 highlights that legal ownership and other legal considerations may affect the determination. Accordingly, advice from legal counsel may be necessary.

Additional considerations

Beyond those enumerated above in Question 10 of the AICPA guide, we have observed the following considerations (not exhaustive) also affect and/or assist in making the above-outlined accounting ownership determination in practice. These additional, practical considerations are intended to supplement, and generally work in concert with, those outlined above; however, judgment and the specific facts and circumstances will continue to affect the accounting ownership evaluation.

- **Protective rights.** The agreement between the depositor and the custodian may include provisions that ostensibly limit the depositor’s right to withdraw or transfer the digital assets. For example, the custodian may have the right to (not exhaustive):
 - restrict the size of certain transactions (e.g. the depositor could be precluded from withdrawing all of its digital assets in one transaction immediately);
 - reject transactions that conflict with or violate applicable laws/regulations; and
 - refuse transactions in response to a subpoena or other government order.

We have also observed broader contractual language, such as “The custodian reserves the right to cancel or reject any trade order, in whole or in part, for any reason.”

Entities should consider whether provisions like these are protective rights of the custodian – e.g. to protect itself and its personnel from legal liability

or reputational damage – or, instead, *significantly* restrict the ability of the depositor to exercise control over the custodied digital assets. In isolation, protective rights generally do not suggest custodian control of custodied digital assets.

- **Holding the private keys is not determinative.** When considering the effect on the accounting ownership evaluation of holding the private cryptographic keys (private key information) necessary to execute transactions from the wallet in which the digital assets are held, we believe an entity should *not* substantively weight that the custodian could, by virtue of holding the private keys, decline to execute a valid transaction requested by the depositor. Instead, an entity would look at the rights and obligations of the parties to execute transactions and assume both parties to the custodial agreement will abide by its terms and conditions.
- **Omnibus wallet considerations.** In a segregated wallet structure, the deposited digital assets are held in a separate wallet (or wallets) – i.e. with its (their) own cryptographic keys – from those of other depositors. In an omnibus wallet structure, the depositor’s digital assets are (1) commingled with those of other depositors in one or more wallets, and (2) typically acknowledged by both parties to be fungible with those of other depositors.

A segregated or omnibus wallet structure to the custodial arrangement is not, in our view, determinative to the accounting ownership evaluation. A segregated wallet does not necessarily mean the depositor controls the custodied assets, and an omnibus wallet does not necessarily mean the custodian controls them. We do believe, however, that some additional considerations come into play in an omnibus wallet scenario when determining accounting ownership. These include whether (not exhaustive):

- the custodial agreement requires a clear segregation of the depositor’s assets from other depositors’ digital assets and those proprietary assets of the custodian (if any); and
- the custodian maintains a balance of digital assets (by type of digital asset deposit) greater than or equal to the total of its depositors’ digital asset balances in its custodial accounts. This may be legally required of digital asset custodians in some jurisdictions.

Either of these increases the likelihood that the depositor is the accounting owner of the custodied digital assets.

- **Legal isolation of the depositor’s digital assets.** Question 10 of [the AICPA guide](#) includes as a factor to consider whether the depositor’s digital assets would be isolated from the custodian’s creditors in the event of bankruptcy, liquidation or otherwise – *note: this factor was not necessarily intended to be applied consistent with the legal isolation requirements in Topic 860 (transfers and servicing)*. In addition to the potential for the conclusion to differ by legal jurisdiction, relevant statutory and case law may be undeveloped (or immature). Consequently, we have observed some entities decide to obtain legal advice when assessing this factor.
- **Control is binary.** The Question 10 framework, centered on the notion of control in Topic 606, *applies to both the depositor and the custodian even though Topic 606 only applies to the vendor in a sale transaction*. Topic 606

defines control as the ability to direct the use of, and obtain substantially all the remaining benefits from, an asset. This includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, that asset. By the nature of this definition, control is a binary concept when there are only two parties involved and both parties are subject to it. It is not possible for two unrelated parties to simultaneously control a single asset like a digital asset (or fractional unit thereof). In the context of this evaluation undertaken by both parties, either the depositor controls the asset, or the custodian does; not both.

Therefore, in situations where it is unclear whether one of the parties controls the digital asset, it may often be relevant to evaluate the position of the *other* party. For example, if evaluating whether a depositor controls a digital asset, and there is some measure of contradictory or conflicting evidence, it may be useful to take the perspective of the custodian and consider instead what evidence supports that the *custodian* controls the digital asset. When evaluating the issue this way, it may become clear that the other party does not control the digital asset, or at least the evaluation could indicate where the preponderance of the evidence lies in this binary evaluation.



Example 3.1.10 Omnibus custodial wallets

ABC Bitcoin Trust (ABC) acquires a material amount of BTC through Custodian to be held in a custodial account. ABC's BTCs are held in multiple omnibus wallets for which Custodian holds the private cryptographic keys, and ABC's BTCs are commingled with those of other custodial customers.

The following are additional relevant facts.

- a. **Legal ownership.** The custodial agreement indicates that ABC is the legal owner of the BTC; title and interest reside with ABC.
- b. **Transfer and other rights.** Under the custodial agreement, only ABC is permitted to sell, transfer, loan, encumber or pledge the deposited BTC; Custodian has no such rights.
- c. **Cryptographic keys.** Custodian holds the private cryptographic keys to the custodial wallets; this means it must execute, and has the *capability* to reject, transactions requested by ABC. However, under the custodial agreement, Custodian can only reject valid transaction instructions from ABC if they are improper; for other specified protective reasons to Custodian; or for practical, operational reasons (e.g. transaction size limitations).
- d. **Access.** ABC can withdraw or sell/transfer its BTC at any time and for any reason. Custodian can only reject such requests as described in (c). ABC accesses a brokerage portal to submit transactions.
- e. **Risks and rewards.** ABC bears all risk of loss associated with the BTC, except losses caused by Custodian's fraud, willful misconduct or gross negligence. ABC bears all risk and reward from fluctuations in the market

price of BTC. ABC pays a fee for each purchase or sale of BTC processed by Custodian.

- f. **Tracking.** While ABC's BTCs are held across multiple omnibus wallets, Custodian is required under the custodial agreement to maintain a separate ledger for each custodial depositor, including ABC.
- g. **Fungibility of BTC.** Each BTC owned by ABC and held in Custodian's omnibus custodial wallets is identical to and has the same fair value as any other BTC. Custodian is only obligated to return the same number of BTCs owned by the depositor; it is not obligated to return the same specific BTCs that were initially deposited by ABC.
- h. **Legal advice.** ABC has obtained legal advice from qualified counsel that under the terms of the custodial agreement and in the jurisdiction governing that agreement, counsel (1) expects that ABC's BTC would be isolated from Custodian's creditors in the event of Custodian bankruptcy or receivership, and (2) believes Custodian is effectively required to maintain sufficient BTC holdings to cover all depositors' BTC holdings on a one-to-one basis.

Accounting analysis

ABC evaluates whether it controls the BTCs held in the custodial wallets to determine whether it:

- recognizes those BTCs; or
- recognizes a BTC receivable from Custodian that could potentially contain an embedded derivative under Topic 815.

ABC considers all of the facts presented and concludes that it, and not Custodian, 'controls' the custodied BTC in its name. In reaching this conclusion, ABC places the most emphasis on facts (b) and (d), which most directly align to the definition of control (i.e. ability to direct the use of, and obtain substantially all the remaining benefits from, the asset). Accordingly, ABC recognizes the BTC as a crypto intangible asset.

4. While you hold a crypto intangible asset

Detailed contents

4.1 Subsequent measurement

Questions

- 4.1.10 What challenges commonly arise when determining the principal market for a crypto intangible asset?
- 4.1.20 Do entity-specific restrictions affect the fair value measurement of a crypto intangible asset?
- 4.1.30 Can an entity measure its crypto intangible assets as of a cut-off time earlier than the close of the financial reporting period?

4.2 Transfers to custodial wallets

Question

- 4.2.10 Should an entity derecognize a crypto intangible asset transferred to a custodial wallet?

4.3 Staking crypto intangible assets

4.4 Stablecoins

4.1 Subsequent measurement



Excerpt from ASC 946-325

35-1 An investment company shall subsequently measure its other investments at fair value.

Under Subtopic 946-325, after acquisition (see [chapter 3](#) for initial measurement), *all* crypto intangible assets – regardless of their scoping in or out of Subtopic 350-60 – are measured at their fair value as determined under Topic 820, with fair value changes recorded in current period earnings (see [section 6.2](#) for income statement presentation of fair value remeasurement gains and losses). No exceptions, such as for assets without a readily determinable fair value or for assets not actively traded, apply. [\[946-325-35-1\]](#)

Determining the fair value of a crypto intangible asset involves judgment, typically more so for newer or more obscure assets. Judgments include (1) determining whether a principal (or most advantageous) market exists and (2) assessing the reliability of the information therefrom. For widely held crypto intangible assets, there is typically a principal market accessible to the entity, such as a large cryptocurrency exchange, from which the entity can obtain reliable, quoted prices for identical assets to establish the fair value of its own crypto intangible assets.

Neither Subtopic 946-325, nor Subtopic 350-60, includes any specialized fair value measurement guidance or illustrative examples for crypto intangible assets. KPMG Handbook, [Fair value measurement](#), provides guidance broadly on applying Topic 820.



Question 4.1.10

What challenges commonly arise when determining the principal market for a crypto intangible asset?

Background: A fair value measurement ordinarily assumes sale of the crypto intangible asset in its principal market (if one exists), or the most advantageous market if a principal market does not exist. The principal market is that with the greatest volume and level of activity. The most advantageous market is that in which the entity would maximize its sale proceeds, net of any transaction or transportation costs. [\[820-10-35-5\]](#)

Absent evidence to the contrary, the market that an entity normally transacts in for the relevant asset is presumed to be its principal market (or most advantageous market in the absence of a principal market). An exhaustive search of all possible markets is not necessary, but an entity should consider all information that is reasonably available. [\[820-10-35-5A\]](#)

If there is a principal market it should be used in the fair value measurement, even if the price in a different market is more advantageous at the measurement date. [820-10-35-6]

For a market to be considered the principal (or most advantageous) market, the entity must be able to access it at the measurement date. Because of this, the principal (or most advantageous) market for the same asset may vary from entity to entity. [820-10-35-6A]


Interpretive response: As stated, principal (or most advantageous) market assessments can vary from entity to entity, including for the same crypto intangible asset (e.g. bitcoin, ether), and be challenging for crypto intangible assets because of one or more of the items in the following table. This table lists the most common challenges we have observed entities encounter and how we believe entities should generally respond to each one.

Challenge	Response
<p>An entity may 'normally transact' in, and therefore have readily available pricing information for, a market (e.g. a cryptocurrency exchange) that is smaller – i.e. has a lower trading volume and level of activity for the relevant crypto intangible asset – than other markets the entity can access.</p>	<p>Topic 820 permits an entity to presume its primary transactional market is its principal market for an asset unless there is reasonably available information to the contrary. [820-10-35-5A]</p> <p>Because exchange volume and activity data for at least the more common crypto intangible assets (e.g. bitcoin, ether) is generally reasonably available, we believe an entity would typically not <i>presume</i>, without undertaking further evaluation, that any cryptocurrency exchange on which it primarily transacts is its principal market.</p> <p>Inappropriately relying on the presumption may lead to incorrect fair value measurements. In practice, we have observed that an entity's primary transactional market for a crypto intangible asset is often not the entity's principal market under Topic 820 for that asset.</p>
<p>An entity may 'normally transact' in multiple markets for the same crypto intangible asset, such that no one exchange qualifies as the market in which the entity normally transacts.</p>	<p>An entity may not have a market to which to apply the presumption described above if it regularly transacts in multiple markets for the same crypto intangible asset.</p> <p>If there is not readily available information about other markets accessible to the entity, and</p>


Challenge	Response
	<p>therefore the entity would usually conclude its primary transactional market is its principal market, we believe it may be appropriate to consider:</p> <ul style="list-style-type: none"> — which of the markets in which the entity normally transacts has a greater volume and level of trading activity for the asset; and — if all of the markets in which the entity normally transacts are of a similar size (or the relative size of those markets is not known), which market it would intend to access for a hypothetical sale of its entire holding of the asset on the measurement date.
<p>An entity may primarily (or exclusively) transact through a single third-party liquidity provider, but not have visibility into which market(s) the third party is regularly accessing.</p>	<p>In this case, due to the lack of visibility, we believe the entity would assess its principal market without consideration as to where the third-party liquidity provider transacts.</p>
<p>Accurate volume and activity data may be difficult to obtain and/or be of questionable reliability. Conflicting volume data often exists, and the cryptocurrency market has been fraught with fraudulent trading and volume data.</p>	<p>An entity will need to exercise judgment in determining the appropriate sources for, and reliability of, digital asset volume and activity data. It may want to ensure it obtains market data from multiple sources when assessing the principal market for a crypto intangible asset, and that those sources are substantially corroborative of each other.</p> <p>In the absence of reliable volume and activity data, we believe an entity would generally revert to the presumption that its primary transactional market for the asset is its principal market.</p> <p>Entities should develop and maintain a rational, repeatable and sustainable process to assess whether, and if so what, market information is available, relevant and reliable.</p>

Challenge	Response
<p>An entity may not be able to access a particular market for a crypto intangible asset, even if reasonably reliable volume and activity data suggests it has the greatest trading volume or level of activity for the asset.</p> <p>For example, a US entity may not be permitted to access an exchange because the exchange does not accept US individual or entity customers. In addition, there may be other factors that individually or in combination preclude an entity from legally or practically accessing a particular market.</p>	<p>The principal market for an asset under Topic 820 must be accessible to the entity as of the measurement date. Therefore, an entity needs to consider any legal, practical and/or economic restrictions on its ability to access a particular market. All relevant facts and circumstances should be considered; accessibility does <i>not</i>, however, consider an entity’s intent to trade in a particular market.</p> <p>Consistent with the example provided in the Challenge column, an entity may not be able to access the market with the greatest volume and level of activity for the crypto intangible asset. In that case, the principal market is the one with the greatest volume and level of activity <i>that the entity can access at the measurement date</i>.</p> <p>Applied differently, the accessibility requirement also means that if an entity has determined that it cannot access a market, it is not necessary to obtain data about the market’s trading volume and level of activity because, regardless, that market cannot be the entity’s principal market.</p>
<p>The crypto market is growing and changing at a rapid pace; the principal market for a crypto intangible asset may change between measurement dates.</p>	<p>An entity should revisit its principal (or most advantageous) market conclusion whenever facts or circumstances change that could affect that conclusion; for example, if:</p> <ul style="list-style-type: none"> — the entity begins to transact for the crypto intangible asset in other markets; — available data evidences that the existing principal market has shrunk, or that alternative markets accessible to the entity have emerged with a greater

Challenge	Response
	volume and level of activity than the existing principal market; or — a previously inaccessible market becomes accessible to the entity (e.g. an exchange obtains the license or other regulatory approvals necessary to now operate in the entity’s jurisdiction).

 **Question 4.1.20**
Do entity-specific restrictions affect the fair value measurement of a crypto intangible asset?

Interpretive response: No. Entity-specific restrictions – e.g. on sale or transfer because of the entity’s election to stake its crypto assets – do not affect the fair value measurement of a crypto intangible asset. In contrast, any asset-specific restrictions would affect its fair value measurement (see Question C30 of KPMG Handbook, [Fair value measurement](#)).

 **Question 4.1.30**
Can an entity measure its crypto intangible assets as of a cut-off time earlier than the close of the financial reporting period?

Interpretive response: Consistent with Question 20 in [the AICPA guide](#), because crypto asset markets often operate continuously without close, we believe an investment company may adopt an accounting policy to use the market prices of its crypto intangible assets at a time other than the close of its reporting period. For example, it may elect to use the close of business on the period-end date, close of the stock market (i.e. 4:00 pm eastern time in the United States) or some other reasonable and consistent time convention. [[AICPA DAG Q20](#)]

However, as also expressed in Question 20 of [the AICPA guide](#), when that time precedes the close of the reporting period, the entity needs to consider transactions that occur after the elected measurement cut-off time but before the close of the reporting period, and, in general, adjust its fair value measurement based on the last observed price before the close of the reporting period, if that price materially differs from the entity’s measurement based on its elected cut-off time (see also Question G140 of KPMG Handbook, [Fair value measurement](#)). [[820-10-35-41C](#), [AICPA DAG Q20](#)]

An adjustment to a quoted market price (e.g. to a security price after market close) would normally affect the levelling of the measurement within the Topic 820 fair value hierarchy – e.g. making what had been a Level 1 measurement a Level 2 measurement. However, using an updated market price for a crypto intangible asset – available because the crypto intangible asset market does not close – may not have such an effect.

4.2 Transfers to custodial wallets

An investment company may transfer a crypto intangible asset it has previously recognized to a third-party custodian to hold. In that case, the question arises about whether the entity should derecognize the transferred crypto intangible asset.

- If not (i.e. because the entity remains the accounting owner), the entity continues to account for the crypto intangible asset as its own, in the same manner as any owned crypto intangible assets it self-custodies, and the custodian is solely a custodial service provider.
- If so (i.e. because the custodian becomes the accounting owner), the entity has, in effect, transferred accounting ownership of the crypto intangible asset to the custodian. In place of the transferred asset, the entity records a crypto intangible asset receivable for which the custodian is the obligor. The custodian records the crypto intangible asset as its own and a liability to transfer that asset to the entity in the future. The entity's crypto intangible asset receivable and the custodian's return obligation are both evaluated under Topic 815 to determine whether they are, or include, a derivative (see KPMG Handbook, [Derivatives and hedging](#)).



Question 4.2.10

Should an entity derecognize a crypto intangible asset transferred to a custodial wallet?

Interpretive response: Subtopic 946-325 does not include derecognition guidance. Therefore, Subtopic 610-20 governs whether to derecognize a crypto intangible asset, including in this scenario. [350-10-40-1, 40-3; 946-10-15-1]

Subtopic 610-20 relies on the control transfer guidance in Topic 606 to determine when to derecognize an asset in its scope. Under Topic 606's control transfer guidance, control over an asset does not transfer when the transferor (i.e. the depositor in this scenario) has the substantive right to repurchase that asset (or a substantially equivalent asset – e.g. a fungible digital token). [606-10-55-66, 55-68; 610-20-25-6 – 25-7]

In the case of a custodial arrangement, by design, the depositor has the substantive right (other than for 'protective' reasons) to withdraw the digital assets placed in custody (see [Question 3.1.10](#) for discussion of custodian protective rights). Therefore, even *if* the custodian can direct the use of the entity's crypto intangible asset while in its custody, we believe the entity would

not derecognize the custodied crypto intangible asset because its right to withdraw that asset is, in effect, a call option (i.e. a repurchase right) that prevents the custodian from obtaining control of the asset.

4.3 Staking crypto intangible assets

KPMG Hot Topic, [Accounting for staking rewards](#), provides considerations around the staking of crypto intangible assets. These include:

- whether to derecognize crypto intangible assets that are staked;
- whether, in delegated staking, the validator or the delegator is the principal to the validation activities on the blockchain; and
- how to recognize staking revenue under Topic 606 (revenue from contracts with customers), whether directly or by analogy (e.g. if the counterparty to the entity's validation activities is not a 'customer').

As observed therein, staking continues to evolve and not all staking scenarios are comparable. Therefore, we recommend that entities discuss their particular staking activities and related accounting with their auditors or other accounting advisors.



Observation

Investment company staking activities

An entity's accounting, investment company or otherwise, for staking rewards depends on whether it is a validator or a delegator.

- A **validator** operates its own 'node' (i.e. equipment and software) to validate blockchain transactions. In general, the validator is the principal to the transaction validation activities giving rise to the staking rewards and, therefore, records the entire amount earned as its revenue and the portion it remits to its validators as a cost (**gross basis**).
- A **delegator** 'lends' the use of its crypto intangible assets to a trusted validator, while undertaking no validation activities itself; the delegator and the validator share the staking rewards. In contrast to the validator, the delegator, in effect, provides a service of lending the use of its staked crypto intangible assets to the validator for the purpose of increasing the number of validations the validator gets selected to complete. Therefore, the delegator records staking rewards revenue only for the portion of the staking rewards that will be remitted to it (**net basis**).

To date, we have only observed investment companies engage in staking as a delegator; as observed in [section 2.1.10](#), staking as a validator *may* give rise to questions about investment company designation. Those entities have presented staking revenue as a component of investment income.

4.4 Stablecoins

Because stablecoins may not be crypto intangible assets (see [Question 2.1.30](#)), they may not follow the accounting considerations outlined in the preceding sections of this chapter.

Investment companies that invest in stablecoins that are not crypto intangible assets need to account for their stablecoin holdings in a manner consistent with their classification under US GAAP (e.g. as financial assets or securities, if applicable). This Issues In-Depth does not address an investment company's accounting for stablecoins, or other digital assets, that are not crypto intangible assets.

5. When you sell or otherwise transfer

Detailed contents

5.1 In-scope *and* out-of-scope crypto intangible assets

Unit of account for realized gains (losses)

5.1.10 Sales of crypto intangible assets

5.1.20 Other transfers

5.1.30 Gain or loss presentation in statement of operations

Question

5.1.10 What guidance governs the timing of crypto intangible asset sale recognition for investment companies?

5.2 Loaned crypto intangible assets

5.3 Other digital assets

5.1 In-scope *and* out-of-scope crypto intangible assets



Excerpt from ASC 350-60

05-2 This Subtopic does not address the initial measurement, recognition, and derecognition of crypto assets. Reporting entities shall account for the initial measurement, recognition, and derecognition of crypto assets in accordance with other generally accepted accounting principles (GAAP).



Excerpt from ASC 350-10

> Transfer or Sale of Intangible Assets

40-1 An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a **contract** with a **customer** shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

40-3 If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do any of the following, as applicable:

- a. Report the nonfinancial asset in its financial statements
- b. Recognize amortization expense as a period cost for those assets with a finite life
- c. Apply the impairment guidance in Section 350-30-35
- d. For crypto assets accounted for in accordance with Subtopic 350-60, recognize gains and losses from remeasurement.

5.1.10 Sales of crypto intangible assets

Subtopic 946-325 does not include derecognition guidance. Further, selling crypto intangible assets to 'customers' is generally not an 'ordinary activity' of an investment company; this means those sales are not subject to Topic 606.



Question 5.1.10

What guidance governs the timing of crypto intangible asset sale recognition for investment companies?

Background: Subtopic 946-320 (investment companies—investments in debt and equity securities) stipulates that investment companies record *security* sales as of the trade date (i.e. the date on which the investment company agrees to sell the security). [\[946-320-25-1\]](#)

By contrast, Subtopic 946-325 on other investments does not include derecognition or sale recognition guidance.

Therefore, the question arises about whether it is appropriate (or acceptable) for an investment company to analogize to the trade date securities sale guidance in Subtopic 946-320 for sales of crypto intangible assets or, instead, whether the general nonfinancial asset sale guidance in Subtopic 610-20 should apply (note: selling crypto intangible assets to customers is generally not an ordinary activity of an investment company and, therefore, Topic 606 generally would not apply).

Subtopic 610-20 applies the principles in Topic 606 to recognize and measure the gain or loss. Thereunder, the sold crypto intangible asset would be derecognized, the realized gain or loss recognized and any unrealized gain or loss reversed at the point in time when control of the crypto intangible asset transfers to the purchaser, which may differ from the trade date. [\[610-20-25-5 – 25-7\]](#)

Chapter 17 of KPMG Handbook, [Revenue recognition](#), provides in-depth guidance on applying Subtopic 610-20.

Interpretive response: Paragraph 946-10-15-1 states that Topic 946 only provides *incremental* industry-specific guidance for investment companies and that investment companies also must comply with applicable guidance not included in Topic 946. Since Subtopic 946-325 does not include incremental asset derecognition or sale recognition guidance, this suggests that it would be appropriate for an investment company to apply the guidance in Subtopic 610-20 to determine the timing of crypto intangible asset sale recognition. Given the near-instantaneous (i.e. seconds or minutes) nature of most crypto intangible asset sale transactions, we would generally not expect a significant difference in the timing of crypto intangible asset sale recognition from applying the guidance in Subtopic 610-20 versus using the trade date (i.e. by analogy to the guidance in Subtopic 946-320).

We observe that Subtopic 946-320 does not include measurement guidance; therefore, even if an investment company were to follow trade date *recognition* of the sale (e.g. on the basis that there is not a material difference between recognition at that date versus the point in time when control of the crypto intangible asset transfers to the purchaser under Subtopic 610-20), it would still need to *measure* the gain or loss on the crypto intangible asset sale under Subtopic 610-20. [\[350-10-40-1, 40-3; 946-10-15-1\]](#)

Unit of account for realized gains (losses)

Under Subtopic 946-320, investment companies have an accounting policy election to determine the cost basis of investment securities sold using either a specific identification or average cost method. [946-320-40-1]

While Subtopic 946-325 on other investments is silent in this regard, we believe that an investment company's policy election under Subtopic 946-320 should be applied consistently to its crypto intangible assets accounted for under Subtopic 946-325. If an investment company does not have an accounting policy under Subtopic 946-320 – e.g. because it is a fund holding only crypto intangible assets – we believe the entity can elect either a specific identification or average cost method by analogy to Subtopic 946-320.

5.1.20 Other transfers

Entities, including investment companies, may also transfer crypto intangible assets in transactions that are, objectively, not 'sales'. For example, an entity may transfer crypto intangible assets to a custodian in a wrapping transaction (see [Question 2.1.40](#) and [Question 2.3.40](#)) or when participating in certain DeFi protocols (e.g. a decentralized lending protocol).

Under Subtopic 350-10, an entity derecognizes the transferred crypto intangible asset in such scenarios if it transfers control of the asset under Subtopic 610-20. In making this evaluation about whether to derecognize the transferred asset, we believe in many cases it may be reasonable to consider, and analogize to, the views of the SEC staff with respect to crypto intangible asset lending (see [section 5.2](#)). However, when it is or is not appropriate to do so is not, at present, a settled question. Therefore, we recommend entities consult their auditors or other accounting advisors. [350-10-40-1]

5.1.30 Gain or loss presentation in statement of operations

There may be a difference between the cash or noncash consideration received and the carrying amount (i.e. fair value – see [section 4.1](#)) of the crypto intangible asset sold/transferred. This difference will factor into the investment company's realized and unrealized gain or loss on the crypto intangible asset investment.

See [section 6.3](#) for guidance on presentation in the statement of operations for sales of crypto intangible assets.

5.2 Loaned crypto intangible assets

The SEC staff has provided explicit views about whether and when a lender of crypto intangible assets should derecognize those assets. KPMG Hot Topic, [Lenders' accounting for crypto intangible asset loans](#), details the SEC staff's views, and provides additional guidance on lenders' accounting for these loans.



Observation

Investment company crypto lending

To date, we have not observed investment companies engaging in significant crypto intangible asset lending.

However, if an investment company were to do so, it should consider Q&A section 6910.36 of the AICPA's [Technical Questions and Answers](#). That Q&A section examines whether loan origination activities are a substantive non-investment activity that could call into question an entity's investment company designation.

5.3 Other digital assets

For sales of digital assets that are *not* crypto intangible assets, US GAAP other than Subtopic 610-20 may apply (see [Question 5.1.10](#)). For example, the sale and derecognition of a digital asset that meets the definition of a financial asset will fall under Topic 860 (transfers and servicing). KPMG Handbook, [Transfers and servicing of financial assets](#), provides guidance on applying that Topic.

6. Financial statement presentation

Detailed contents

6.1 Overview

- 6.1.10 Applicability of Subtopic 350-60 requirements
- 6.1.20 Topic 350 requirements: in-scope vs out-of-scope crypto intangible assets

Question

- 6.1.10 Does Subtopic 350-60 require any changes to investment companies' financial statement presentation of crypto intangible assets?

6.2 Statement of assets and liabilities & schedule of investments

Questions

- 6.2.10 Are investment companies required to include crypto intangible assets in the schedule of investments?
- 6.2.20 Are crypto intangible assets a type of investment to be categorized separately in the schedule of investments?
- 6.2.30 Should in-scope and out-of-scope crypto intangible assets be categorized separately in the schedule of investments?
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6.3 Statement of operations

- 6.3.10 Gains and losses
- 6.3.20 Staking rewards
- 6.3.30 Expenses

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- 6.3.10 Are investment companies required to present unrealized crypto intangible asset gains and losses separately from other investment unrealized gains and losses?

6.4 Statement of cash flows

- 6.4.10 Subtopic 350-60 requirements
- 6.4.20 Investment company considerations

6.1 Overview

This chapter does not outline all financial statement presentation requirements that apply to investment companies; instead, this chapter outlines *key* considerations specific to crypto intangible assets.

6.1.10 Applicability of Subtopic 350-60 requirements



Excerpt from ASU 2023-08

BC27. Although industry-specific guidance, such as guidance for investment companies, currently permits or requires accounting for crypto assets at fair value, the Board decided that it is beneficial to include those entities within the scope of the amendments in this Update primarily because investors will benefit from enhanced disclosures. Subtopic 946-205, Financial Services—Investment Companies—Presentation of Financial Statements, requires presentation of a statement of net assets, which includes a schedule detailing an entity’s investments on a more disaggregated basis, and provides guidance on the presentation of changes in the fair value of investments in an investment company’s statement of operations. The Board decided that investment companies should continue to present amounts related to crypto assets in their financial statements in accordance with that industry-specific guidance.

ASU 2023-08 does not amend Topic 946. In fact, the basis for conclusions to ASU 2023-08 states that “investment companies should continue to present amounts related to crypto assets in their financial statements in accordance with that industry-specific guidance.” [\[ASU 2023-08.BC27\]](#)



Question 6.1.10

Does Subtopic 350-60 require any changes to investment companies’ financial statement presentation of crypto intangible assets?

Interpretive response: We believe the last sentence in paragraph BC27 of ASU 2023-08, which is non-authoritative, speaks to the Board’s view that the financial statement presentation requirements in Topic 946 are *generally* consistent with those in Subtopic 350-60 and with *the objectives of ASU 2023-08*.

However, Topic 946 only provides incremental industry-specific guidance for investment companies. Investment companies must still comply with applicable guidance not in Topic 946. [\[946-10-15-1\]](#)

Therefore, we believe an investment company does not need to change aspects of its financial statement presentation that are consistent with those in Subtopic 350-60 but *does* have to follow the presentation requirements in

Subtopic 350-60 if they require, for example, a more disaggregated or specific presentation.

The sections that follow outline the financial statement presentation requirements for investment companies under Topic 946 and Subtopic 350-60.

6.1.20 Topic 350 requirements: in-scope vs out-of-scope crypto intangible assets

The financial statement presentation requirements in Subtopic 350-60 differ for in-scope and out-of-scope crypto intangible assets.

- In-scope crypto intangible assets are subject to the presentation requirements in Subtopic 350-60.
- Out-of-scope crypto intangible assets remain (as all crypto intangible assets are before the adoption of Subtopic 350-60) subject to the general intangible asset presentation requirements in Subtopic 350-30.

For out-of-scope crypto intangible assets, investment companies are not required to consider the Subtopic 350-60 presentation requirements (see [Question 6.1.10](#)).

6.2 Statement of assets and liabilities & schedule of investments



Excerpt from ASC 350-30

> Statement of Financial Position

45-1 At a minimum, all **intangible assets** shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.



Excerpt from ASC 350-60

> Statement of Financial Position

45-1 Crypto assets shall be presented separately from other **intangible assets** in the statement of financial position. An entity is permitted to present crypto assets on a more disaggregated basis (for example, by individual crypto asset holding or **intangible asset class**).



Excerpt from ASC 946-210

> Reporting Financial Position

45-1 Investment companies report financial position by presenting either a statement of assets and liabilities or a statement of net assets.

45-2 A statement of net assets includes a schedule of investments (see Section 946-210-50). Details of related-party balances and other assets and liabilities shall be presented in the statement of net assets or in the notes to financial statements.

Under Subtopic 946-210 (investment companies—balance sheet), the statement of assets and liabilities includes a ‘schedule of investments’, presented as a separate financial statement, to provide information about the investment company’s investments. [\[946-210-45-2\]](#)

Among other things, Topic 946 requires an investment company to: [\[946-210-50-1, 50-6\]](#)

- categorize investments in the schedule of investments by “type of investment (such as common stocks, preferred stocks,...fixed income securities,...options purchased, options written,... and so forth)”; and
- present “each investment (including short sales, written options, futures contracts, forward contracts, and other investment-related liabilities) whose fair value constitutes more than 1 percent (registered investment companies) or 5 percent (nonregistered investment companies) of net assets”.



Question 6.2.10

Are investment companies required to include crypto intangible assets in the schedule of investments?

Interpretive response: Yes. We believe that digital assets should be included in the schedule of investments if the investment company acquired them as part of a capital appreciation strategy (instead of for use as a medium of exchange or payment with which to purchase goods and services used in operations). [\[AICPA ICEP 09/2021\]](#)

Consistent with the requirements in paragraphs 946-210-50-1 and 946-210-50-6, respectively, each crypto intangible asset investment (e.g. holdings of BTC or ETH) whose fair value exceeds more than 1% (registered investment companies) or 5% (nonregistered investment companies) of the investment company’s net assets should be presented separately on the schedule.



Question 6.2.20

Are crypto intangible assets a type of investment to be categorized separately in the schedule of investments?

Interpretive response: Yes. We believe crypto intangible assets are a separate 'type of investment' under paragraphs 946-210-50-1(b)(1) and 946-210-50-6(a)(1).



Question 6.2.30

Should in-scope and out-of-scope crypto intangible assets be categorized separately in the schedule of investments?

Background: We believe Subtopic 350-60 intentionally creates a distinction between in-scope and out-of-scope crypto intangible assets. Specifically, when paragraph 350-60-45-1 states that "Crypto assets shall be presented separately from other intangible assets in the statement of financial position," we believe the reference to 'crypto assets' is limited to in-scope crypto intangible assets, while out-of-scope crypto intangible assets would be considered 'other intangible assets'.

Interpretive response: Yes. While we believe it is likely a matter of judgment whether in-scope and out-of-scope crypto intangible assets would be considered different 'types of investments' under paragraph 946-210-50-1(b)(1), Subtopic 350-60 requires separate balance sheet (i.e. statement of assets and liabilities or statement of net assets) presentation of these two classes of assets (see [Question 6.2.50](#)).

We acknowledge in taking this position that, contrary to most *non*-investment companies, *both* in-scope and out-of-scope crypto intangible assets are measured at fair value under Subtopic 946-325 (see [section 4.1](#)). Therefore, the Board's enumerated basis for requiring separate balance sheet presentation does not exist. However, the basis for conclusions to ASU 2023-08 is not authoritative such that we believe separate presentation of in-scope and out-of-scope crypto intangible assets remains required and that this would translate to separate categorization in the schedule of investments. This view was discussed and affirmed at the May 2024 meeting of the AICPA's investment companies expert panel. [ASU 2023-08.BC42]



Question 6.2.40

Should investment companies present crypto intangible assets separately from any crypto intangible asset receivables in the schedule of investments?

Interpretive response: Yes. We believe crypto intangible assets that are controlled by the investment company should be disclosed separately from any crypto intangible asset receivables (e.g. from a custodian). [946-210-50-1(b)(1), 50-6(a)(1); 946-320-S99-5D; S-X Rule 12-13D]



Question 6.2.50

Are investment companies required to separately present crypto intangible assets on the statement of assets and liabilities (exclusive of the schedule of investments)?

Interpretive response: No. Because the schedule of investments is considered part of the statement of assets and liabilities, we believe separate presentation in the schedule of investments, but not on the statement of assets and liabilities, meets this requirement. [946-210-45-2, 50-1]

6.3 Statement of operations

6.3.10 Gains and losses



Excerpt from ASC 350-60

> Income statement

45-2 Gains and losses from the remeasurement of crypto assets shall be included in net income and presented separately from changes in the carrying amount of other intangible assets.



Excerpt from ASC 946-220

> Statement of operations

45-6 The following amounts related to gain or loss from investments and foreign currency transactions shall be presented as follows:

- a. Net realized gain or loss from investments and foreign currency transactions.

1. Investments. Net realized gains or losses resulting from sales or other disposals of investments shall be reported net of brokerage commissions. The net realized gains or losses from investments and net realized gains or losses from foreign currency transactions may be reported separately or may be combined.
2. ...
- b. Net increase (decrease) in unrealized appreciation or depreciation on investments and translation of assets and liabilities in foreign currencies, which comprises both of the following:
 1. Investments. Changes in net unrealized appreciation or depreciation during the period shall be presented in the statement of operations. The major components of unrealized appreciation or depreciation shall be presented in a manner that is consistent with the guidance provided in (a). Either combining the net unrealized gains or losses from investments with net unrealized gains or losses from foreign currency transactions or reporting them separately is permissible. Any provision for deferred taxes shall be reported separately.
 2. ...
- c. Net realized and unrealized gain or loss from investments and foreign currency. The sum of the net realized gain or loss and change in unrealized gain or loss on investments and foreign-currency-denominated assets and liabilities shall be presented in the statement of operations as a net gain or loss on investments and foreign currency.



Question 6.3.10

Are investment companies required to present unrealized crypto intangible asset gains and losses separately from other investment unrealized gains and losses?

Background: Subtopic 350-60 requires remeasurement gains (losses) on in-scope crypto intangible assets to be presented separately from amortization and impairment of other intangible assets. [\[350-60-45-2\]](#)

The basis for conclusions to ASU 2023-08 states that the Board decided to enact the remeasurement gains (losses) separate presentation requirement because of the difference between (1) those gains (losses) stemming from changes in fair value measurement and (2) amortization expense and impairment losses on assets *not* measured at fair value. [\[ASU 2023-08.BC47\]](#)

Subtopic 350-60 does not provide any other income statement presentation guidance.

Interpretive response: No. We do not believe (1) unrealized gains (losses) on in-scope crypto intangible assets must be presented separately from such gains (losses) on out-of-scope crypto intangible assets *or* (2) that unrealized gains (losses) on crypto intangible assets must be presented separately from those of other investments.

- With respect to (1), investment companies remeasure all crypto intangible assets at fair value on a recurring basis under Subtopic 946-325 (see [section 4.1](#)); therefore, there are no crypto intangible assets subject to amortization and impairment.
- With respect to (2), Subtopic 946-220 does not create any requirement to separately present unrealized gains (losses) on crypto intangible assets from those of other investments and neither does Subtopic 350-60. [\[946-220-45-6\]](#)

However, if not presented separately, Subtopic 350-60 requires annual disclosure of the statement of operations line item in which in-scope crypto intangible asset gains and losses are included. [\[350-60-50-2\(b\)\]](#)

6.3.20 Staking rewards

Neither Subtopic 350-60, nor Subtopic 946-220, specifies statement of operations presentation for staking rewards, which generally are earned as a delegator by investment companies (see [section 4.3](#)). In our experience to date, most investment companies present staking revenue as a component of investment income.

6.3.30 Expenses

Subtopic 946-220 denotes a series of expenses that are ‘commonly reported separately’. Among those are ‘custodian fees’, which includes digital asset custodian fees we typically see investment companies incur. [\[946-220-45-3\]](#)

6.4 Statement of cash flows

6.4.10 Subtopic 350-60 requirements



Excerpt from ASC 350-60

> Statement of Cash Flows

45-3 For guidance related to the presentation of cash receipts arising from the sale of crypto assets that are received as noncash consideration in the ordinary course of business (or as a **contribution**, in the case of a **not-for-profit entity**) and are converted nearly immediately into cash, see paragraphs 230-10-45-21A and 230-10-45-27A.



Excerpt from ASC 230-10

> Acquisition and Sales of Certain Securities, Loans, and Crypto Assets

45-21A Cash receipts resulting from the sale of donated **financial assets** (for example, donated debt or equity instruments) or crypto assets accounted for in accordance with Subtopic 350-60 by NFPs that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash shall be classified as operating cash flows. If, however, the donor restricted the use of the contributed resource to a long-term purpose of the nature of those described in paragraph 230-10-45-14(c), then those cash receipts meeting all the conditions in this paragraph shall be classified as a financing activity.

> Crypto Assets Received as Noncash Consideration

45-27A If crypto assets accounted for in accordance with Subtopic 350-60 are received as noncash consideration in the ordinary course of business (for example, in exchange for goods and services transferred to a customer) and converted nearly immediately into cash, the cash received shall be classified as operating activities. In this context, the term *nearly immediately* refers to a short period of time that is expected to be within hours or a few days, rather than weeks.



Excerpt from ASC 958-230

> Implementation Guidance

• > Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes

55-3 When an NFP reports cash received (or cash receipts from the sale of donated **financial assets** or crypto assets accounted for in accordance with Subtopic 350-60 that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash as discussed in paragraph 230-10-45-21A) with a **donor-imposed restriction** that limits its use to long-term purposes in conformity with paragraph 958-210-45-6, an adjustment to the change in net assets to reconcile to net cash flows from operating activities is necessary when using the indirect method of reporting cash flows in order to present those cash receipts as cash inflows from financing activities as required by paragraph 230-10-45-14(c).

Subtopic 350-60 and the Codification amendments enacted by ASU 2023-08 give the following statement of cash flows guidance. [230-10-45-21A, 45-27A, 350-60-45-3, 958-230-55-3]

— Cash inflows from the sale of in-scope crypto intangible assets received as noncash consideration in the ordinary course of business and converted ‘nearly immediately’ into cash are classified as cash inflows from operating activities.

‘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).

— Cash receipts from the near immediate liquidation of crypto intangible assets received by NFPs as donations are classified as:

- *financing activities* if the donation is subject to donor-imposed restrictions for long-term or capital use; and
- *operating activities* if no donor-imposed restrictions exist.

Beyond that excerpted and summarized above, no further statement of cash flows guidance was enacted or amended by ASU 2023-08; entities are simply instructed to follow the general statement of cash flows guidance in Topic 230. Our guidance on digital asset activities in the statement of cash flows can be found in section 23.4 of KPMG Handbook, [Statement of cash flows](#). [ASU 2023-08.BC54]

6.4.20 Investment company considerations

Investment companies holding digital assets may often be eligible to omit a statement of cash flows from the financial statements because they only hold investments classified as Level 1 or Level 2 under the Topic 820 fair value hierarchy, have little or no debt and provide a statement of changes in net assets. [230-10-15-4(b)(c)]

For those investment companies not eligible to omit, or that otherwise elect to present, a statement of cash flows, they are subject to the same Topic 230 requirements as other entities.



Observation

Crypto intangible assets converted nearly immediately to cash by investment companies

As outlined in [section 6.4.10](#), cash inflows from the sale of in-scope crypto intangible assets received as noncash consideration in the ordinary course of business and converted 'nearly immediately' into cash are classified as cash inflows from operating activities.

Investment companies may nearly immediately convert to cash crypto intangible assets received as 'in-kind' contributions or as staking rewards (however, we believe most in-kind contributions remain held by the investment company). The cash received would be classified as cash flows from operating activities under [paragraph 230-10-45-27A](#).

7. Disclosures

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- 7.1.20 What constitutes a realized gain (loss) on the sale of a crypto intangible asset?
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- 7.1.40 How does the reconciliation disclosure compare to information investment companies already provide about their investments?

Example

- 7.1.10 Calculating remeasurement gain (loss) for the rollforward disclosure and realized gain (loss)

7.2 Other disclosure requirements

- 7.2.10 Fair value
Fair value levelling

7.2.20 Other

7.1 Subtopic 350-60 disclosure requirements



Question 7.1.10

How do the disclosure requirements in Subtopic 350-60 affect investment companies?

Interpretive response: Investment companies are required to provide all of the Subtopic 350-60 disclosures in their financial statements. The FASB did not exclude investment companies from the scope of Subtopic 350-60 (see [section 2.2](#)) expressly to ensure investment company financial statement users ‘benefit from the enhanced disclosures’. [ASU 2023-08.BC27]

Therefore, while many of the Subtopic 350-60 required disclosures are already being provided by investment companies (e.g. in the schedule of investments and existing note disclosures), upon adoption of ASU 2023-08 (see [chapter 8](#)), investment companies will need to ensure they incorporate any incremental, not previously provided Subtopic 350-60 disclosures into their financial statements.

7.1.10 Disclosures required in interim and annual reporting periods



Excerpt from ASC 350-60

50-1 At interim and annual reporting periods, an entity shall disclose the following for each significant (as determined by the **fair value**) crypto asset holding:

- a. Name of the crypto asset
- b. Cost basis
- c. Fair value
- d. Number of units held.
- e. An entity shall disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant.

50-6 For interim and annual reporting periods, an entity shall disclose the following information for crypto assets subject to contractual sale restrictions at the balance sheet date:

- a. The fair value of the crypto assets that are subject to contractual sale restrictions
- b. The nature and remaining duration of the restriction(s)
- c. Circumstances that could cause the restriction(s) to lapse.

50-7 In providing the required disclosures in paragraph 350-60-50-6, an entity with multiple crypto assets subject to contractual sale restrictions shall consider all of the following:

- a. The level of detail necessary to satisfy the required disclosures
- b. How much emphasis to place on each of the required disclosures
- c. How much aggregation or disaggregation to undertake

Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

The preceding excerpt details the disclosures required by Subtopic 350-60 for in-scope crypto intangible assets in both interim and annual reporting periods. [Section 7.1.20](#) excerpts additional disclosures required only in annual reporting periods.



Observation

'Significant' crypto asset holdings

While the FASB specified that the significance of crypto intangible asset holdings should be assessed based on the fair value thereof, it rejected defining a quantitative significance threshold (e.g. 1%, 5%, 10%) on the basis that any 'bright line' established might not be suitable for all entities. Instead, the FASB concluded that it was appropriate for entities to apply judgment in determining which crypto intangible assets must be disclosed to satisfy the significant crypto assets holding disclosure in paragraph 350-60-50-1. [\[ASU 2023-08.BC61\]](#)

For investment companies, we believe this judgment is most likely to come into play in deciding whether any in-scope crypto intangible assets not included in the schedule of investments (see [section 6.2](#)) require disclosure under paragraph 350-60-50-1. As a practical matter, investment companies may decide to simply include any such investments in the schedule of investments despite not being required to do so under Subtopic 946-210.



Observation

Duplicate disclosure

In the basis for conclusions to ASU 2023-08, the FASB observed that an entity is not required to duplicate the significant holdings disclosure if that information is disclosed by the entity elsewhere *in the financial statements*. If an entity only provides that information outside the financial statements, it must provide the Subtopic 350-60 prescribed disclosures in the financial statements. [\[ASU 2023-08.BC62\]](#)

7.1.20 Disclosures required only on an annual basis



Excerpt from ASC 350-60

50-2 At annual reporting periods, an entity shall disclose both of the following:

- a. The method used to determine its cost basis for computing gains and losses (for example, first-in, first-out; specific identification; average cost; or other method used)
- b. If not presented separately, the line item in which gains and losses are reported in the income statement.

50-3 At annual reporting periods, an entity shall provide a reconciliation, in the aggregate, of activity from the opening to the closing balances of crypto assets, separately disclosing changes during the period attributable to the following:

- a. Additions.
- b. Dispositions.
- c. Gains included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net gain from remeasurement as included in net income for the period shall be included in the gains line.
- d. Losses included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net loss from remeasurement as included in net income for the period shall be included in the losses line.

50-4 An entity shall disclose the following information about the reconciliation in paragraph 350-60-50-3:

- a. A description of the nature of activities that result in additions (for example, purchases, receipts from **customers**, or mining activities) and dispositions (for example, sales or use as payment for services)
- b. Total amount of cumulative realized gains and cumulative realized losses from dispositions that occurred during the period.

50-5 An entity that receives crypto assets as noncash consideration in the ordinary course of business (or as a **contribution**, in the case of a **not-for-profit entity**) that are converted nearly immediately into cash need not include that activity in the disclosures required by paragraphs 350-60-50-3 through 50-4.

The above excerpt details the disclosures required by Subtopic 350-60 for in-scope crypto intangible assets only in annual reporting periods. [Section 7.1.10](#) excerpts additional disclosures required in both interim and annual reporting periods.



Question 7.1.20

What constitutes a realized gain (loss) on the sale of a crypto intangible asset?

Background: An entity is required to disclose the total amount of cumulative realized gains and cumulative realized losses from dispositions of in-scope crypto intangible assets under Subtopic 350-60. [350-60-50-4(b)]

Interpretive response: Realized gain or realized loss refers to the difference between the disposal price and the cost basis of the asset sold (see *Unit of account for realized gains (losses)* in section 5.1.10). Therefore, realized gains and losses disclosed under paragraph 350-60-50-4(b) may not equal remeasurement gains and remeasurement losses presented in the reconciliation (i.e. rollforward) disclosure. [ASU 2023-08.BC67]



Example 7.1.10

Calculating remeasurement gain (loss) for the rollforward disclosure and realized gain (loss)

ABC Corp. purchases an in-scope crypto intangible asset for \$100 on December 15, Year 1. At December 31, Year 1, the fair value of the crypto asset has increased to \$115. On January 15, Year 2, the crypto asset is sold at its then-current fair value of \$105.

In its rollforward disclosure for Year 2, ABC includes a remeasurement loss of \$10 (the difference between the fair value of the crypto asset as of the beginning of Year 2 and its final pre-sale fair value). However, when disclosing the cumulative amount of its crypto asset realized gains for Year 2, ABC includes only a realized gain of \$5 (the difference between the sale price and the original cost of the crypto intangible asset) in that amount.

7.1.30 Investment company considerations



Question 7.1.30

How does the restricted crypto intangible assets disclosure compare to those historically provided by investment companies?

Background: Subtopic 350-60 requires an entity to disclose specific details regarding in-scope crypto intangible assets that are bound by contractual sale restrictions as of the applicable reporting date (interim or annual). This includes disclosing the fair value of those assets, as well as the nature, remaining duration and potential circumstances that could lead to the lifting of those restrictions. [350-60-50-6]

Interpretive response: In general, investment companies are used to providing these disclosures related to their investment holdings. The requirements for the

restricted in-scope crypto intangible assets disclosure generally align with those already required of, and provided by, investment companies for equity securities under Topic 820. [820-10-50-6B]

While these contractual sale restriction disclosures are not *required* for out-of-scope crypto intangible assets or other digital assets that are not equity securities, we believe it is appropriate for investment companies to provide these disclosures for those digital assets.

Despite the absence of an explicit disclosure requirement for crypto intangible assets, investment companies have generally been disclosing crypto intangible assets restricted as to immediate sale because of staking. Staking has been, to date, the most common reason a crypto intangible asset sale restriction exists for an investment company holding such assets.



Question 7.1.40

How does the reconciliation disclosure compare to information investment companies already provide about their investments?

Background: Subtopic 350-60 requires an entity to prepare a reconciliation (roll-forward), in aggregate, of in-scope crypto intangible asset activity for the current annual reporting period. In this reconciliation, the entity discloses changes from the opening to the closing balance of in-scope crypto intangible assets attributable to (1) additions, (2) dispositions, (3) gains and (4) losses. [350-60-50-3]

Crypto intangible assets received as noncash consideration in the ordinary course of business and converted nearly immediately (see [section 6.4.10](#)) into cash need not include that activity in the reconciliation. [350-60-50-5]

Interpretive response: The reconciliation disclosure is similar to that required for Level 3 investments under Topic 820. However, because thus far we have generally not observed investment companies investing in crypto intangible assets that are not actively traded, and therefore *not* Level 3 investments, we do not believe investment companies have been providing a reconciliation related to their crypto intangible asset investments to date. Therefore, the reconciliation requirement in Subtopic 350-60 related to crypto intangible assets is likely to be a new disclosure for at least most investment companies with in-scope crypto intangible asset investments. [820-10-50-2G]

7.2 Other disclosure requirements

7.2.10 Fair value

In addition to those required by Subtopic 350-60, all entities, including investment companies, holding crypto intangible assets are required to provide the disclosures required by Topic 820. Chapter N of KPMG Handbook, [Fair value measurement](#), discusses Topic 820's disclosure requirements in detail. [ASU 2023-08.BC57]

Fair value levelling

Topic 820 requires entities to disaggregate and disclose the estimated fair value of relevant assets and liabilities by their level within the fair value hierarchy. See chapter H of KPMG Handbook, [Fair value measurement](#). Section 4.1 discusses measuring fair value.

For crypto intangible assets like BTC, ETH, SOL and DOT (not exhaustive) commonly held and traded by investment companies, there are generally quoted prices for identical crypto assets (e.g. identical, fungible BTC or SOL tokens) that can be observed in the investment company's principal market. If the entity uses the quoted price for the crypto asset in its principal market without adjustment, that would generally represent a Level 1 fair value measurement, provided the market has sufficient volume and frequency to be considered 'active' (see Question H10 in KPMG Handbook, [Fair value measurement](#)).

7.2.20 Other

Investment companies should also consider whether other disclosures are necessary or warranted based on the nature of their crypto intangible asset activities and holdings. The following are examples (not exhaustive).

- **Accounting policies.** Topic 235 (notes to financial statements) requires all significant accounting policies to be disclosed. The term 'accounting policy' broadly includes accounting principles, methods and techniques, and an accounting policy is 'significant' if it has a material impact, either quantitatively or qualitatively, on the financial statements presented. See section 6.2 of KPMG Handbook, [Financial statement presentation](#), for further guidance.
- **Significant risks and uncertainties.** Entities should consider making disclosures under Topic 275 (risks and uncertainties) related to their involvement with and holdings of crypto intangible assets. For example, these might include disclosure about the nature of the entity's relevant activities, risks arising from significant concentrations (i.e. in terms of holdings or counterparties) or estimates used in determining fair value. See chapter 7 of KPMG Handbook, [Financial statement presentation](#), for further guidance.

8. Effective date and transition for Subtopic 350-60

Detailed contents

8.1 Effective date

8.2 Transition

8.2.10 Transition method

8.2.20 Transition disclosures

8.1 Effective date



Excerpt from ASC 350-60

> Transition Related to Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*

65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*:

- a. The pending content that links to this paragraph shall be effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). If an entity adopts the pending content that links to this paragraph in an interim period, it must adopt the content as of the beginning of the fiscal year that includes that interim period.

Effective date	All entities
Annual and interim periods – Fiscal years beginning after	December 15, 2024
Early adoption permitted?	Yes, in any interim or annual period for which an entity’s financial statements have not been issued (or made available for issuance) as of the beginning of the entity’s fiscal year.

8.2 Transition

8.2.10 Transition method



Excerpt from ASC 350-60

> Transition Related to Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*

65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2023-08, *Intangibles—Goodwill*

and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets: ...

- b. An entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an 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 the entity first applies the pending content that links to this paragraph.
- c. The adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) shall be calculated as the difference between the carrying amount of crypto assets as of the end of the prior annual reporting period and the **fair value** of those crypto assets as of the beginning of the annual reporting period in which the entity first applies the pending content that links to this paragraph.

Subtopic 350-60 must be adopted on a modified retrospective basis. This approach will 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, calculated as the difference between the carrying amount of in-scope crypto assets as of the beginning of the annual reporting period in which the entity adopts the Subtopic and the carrying amount of those crypto assets as of the end of the prior annual reporting period. [350-60-65-1]



Observation

Effects of transition for investment companies

Given that investment companies already measure in-scope crypto intangible assets at fair value, we would generally not expect there to be any cumulative-effect transition adjustment for those companies.

8.2.20 Transition disclosures

In addition to the ongoing disclosures required by Subtopic 350-60, an entity generally provides the transition disclosures required for accounting changes. [250-10-50-1 – 50-3]

Before the effective date, SEC registrants are required to disclose the potential material effects of issued accounting standards that have not yet been adopted. When assessing whether the effect of a new or updated standard is material, companies must consider the full scope of the standard, including recognition, measurement, and *presentation and disclosure requirements*. For at least some investment companies, the adoption of ASU 2023-08 may have a material effect on their financial statement presentation and/or disclosures (see [chapter 6](#) and [chapter 7](#), respectively).

KPMG Hot Topic, [SAB 74 reminders](#), outlines the requirements of, and highlights important reminders about, SAB 74 for ASUs issued but not yet adopted. [SAB Topic 11.M]

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See KPMG Handbook, [Revenue recognition](#), for in-depth guidance on applying Topic 606 and Subtopic 610-20, including scoping considerations.

See KPMG Handbook, [Fair value measurement](#), for guidance on determining fair value under US GAAP and IFRS.

See KPMG Handbook, [Financial statement presentation](#), for financial statement presentation matters.

See KPMG Handbook, [Statement of cash flows](#), for guidance on the statement of cash flows.

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