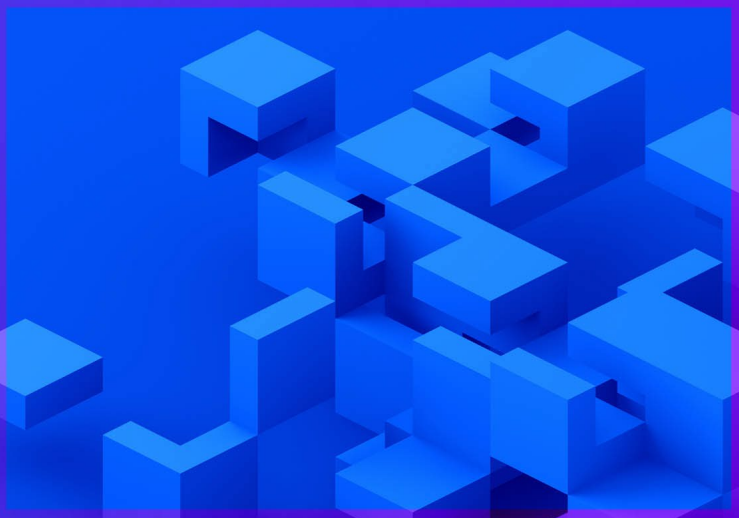
HOT TOPIC

Digital assets

Accounting for staking activities

April 2026[1]



This Hot Topic explores the accounting for crypto intangible asset staking activities.

Introduction

Two KPMG publications address the accounting for digital assets that meet the definition of an intangible asset (hereafter, 'crypto intangible assets') under US GAAP:

- KPMG Handbook, Crypto assets; and
- KPMG Issues In-Depth, Accounting for crypto intangible assets – investment companies.

In this Hot Topic, we discuss the accounting for crypto intangible asset staking (also discussed in section 7.4 of KPMG Handbook, Crypto assets).

There is currently no explicit US GAAP that directly addresses the accounting for crypto intangible asset staking. In addition, the accounting for staking and many other digital asset-related activities, as well as the activities themselves, continue to evolve and can differ by blockchain. Therefore, updates herein notwithstanding, the views we express may not be the only acceptable views, or the only views currently being applied in practice. Our perspectives may change, and we may continue to update this Hot Topic for such changes and new issues as practice evolves, the FASB establishes US GAAP in relation to staking, or the SEC staff provides additional guidance. We recommend that entities discuss the specific facts of their staking activities and related accounting with their auditors or other accounting advisors.

[1] Earlier editions of this Hot Topic were issued in August 2022 and December 2024. Sections or items added or substantially updated or revised in this April 2026 edition are identified with ** and #, respectively. The updates in this edition come from our experiences with companies undertaking staking activities, discussions with industry and peer groups, and consultations with the SEC staff.

Applicability

All entities that stake or are involved in others' staking of crypto intangible assets, including:

- validators;
- delegators; and
- validator infrastructure providers.

Key concepts

The following key concepts underlie this Hot Topic.

Concept	Application in this Hot Topic
Crypto intangible asset	A crypto intangible asset: • is created or resides on a distributed ledger based on blockchain (or similar) technology; • is secured through cryptography; and • meets the US GAAP definition of an intangible asset.
Proof of stake	A blockchain consensus mechanism (or consensus protocol) in which only holders of the blockchain's native digital asset are permitted to validate transactions on the blockchain.
Staking	The act of posting digital assets as collateral to a proof-of-stake (PoS) blockchain network either as (1) a 'validator' or (2) a 'delegator'.
Liquid staking	Liquid staking permits participants to engage in staking, but retain liquidity and the ability to participate in other decentralized finance (DeFi) activities at the same time. Participants transfer the native token of the blockchain (e.g. ETH) to a liquid staking provider and receive a liquid staking 'receipt' token in exchange. The liquid staking token can be transferred or further deployed in other DeFi activities.
Node	A device connected to the blockchain that maintains a full or partial copy of the blockchain. The node operator is the blockchain participant (e.g. individual or entity) that operates the node.
Validator address**	On some blockchain networks (e.g. Ethereum), a node may host multiple (often many) 'identities' that are each recognized by the blockchain as a separate validator, and each operated by their own validator signing key. We refer to these as 'validator addresses' within to differentiate them from the node and the validator *entity* operating the node hosting those validator addresses.
Validator	A blockchain participant (e.g. an individual or entity) that undertakes validation activities on a PoS blockchain. Validators generally must be node operators to undertake validation activities.

Concept	Application in this Hot Topic
Delegator	An individual or entity that stakes its digital assets with a trusted validator instead of operating a node and validating blockchain transactions itself.
Burning	The act of permanently removing a digital asset token from circulation.
Bonding (unbonding) period	On some blockchain networks, a bonding period may be required before a staking entity can earn staking rewards; the bonding period establishes the entity's commitment to the network before the entity can begin to earn staking rewards. When an entity elects to de-stake digital assets, an unbonding period may apply. During this period, the entity typically no longer earns staking rewards on the de-staked digital assets, but cannot sell (or otherwise transfer) those tokens. A delegator may, depending on the blockchain, be permitted to redelegate its de-staked tokens during the unbonding period. Some blockchains use different, but analogous, terms to refer to bonding or unbonding periods – e.g. warm-up or cooldown periods, respectively. By contrast, on some other blockchains, warm-up and cooldown periods may be different from bonding or unbonding periods.
Transaction fees	Transaction fees are paid by the transaction initiator. For example, if Participant A wants to send 100 crypto units to Participant B, A may need to post more than 100 crypto units (e.g. 101 or 102 units) to pay the transaction fee and have B receive 100 crypto units. Transaction fees vary by blockchain, both in (1) terms of amount and (2) how they are distributed. In some blockchain networks, the transaction validator receives the entire fee. In others, the validator may receive only some or none of the fee because the blockchain's protocols (1) burn all or a portion of the fee, (2) use all or a portion of the fee to pay staking rewards or (3) distribute both transaction fees and inflationary rewards to delegators *and* validators.
Staking rewards	This term generally refers to tokens, typically of the blockchain's native token, awarded to those participating in validating transactions on the blockchain. Staking rewards may be comprised of either, or both, newly minted tokens (often referred to as inflationary rewards) or transaction fees.
Slashing	Slashing refers to losing a portion of one's staked digital assets on a PoS blockchain for misbehavior. Examples of misbehavior include excessive downtime (i.e. the validator is unavailable to validate transactions) and double signing (i.e. signing two blocks simultaneously). In some validator-delegator arrangements, the validator agrees to reimburse any slashed tokens of its delegators.
Epoch	On a blockchain network, a defined period of time (which may be described in terms of a number of activities or actions, instead of a time interval) used to specify when blockchain events occur, such as when new validators are assigned or staking rewards distributed. The epoch duration varies by blockchain but is often a few days. 'Era' is another term used by some blockchains that has a similar meaning.

Accounting for staking activities

The main body of this Hot Topic is divided into the following sections aligned to key accounting issues.

- Whether to derecognize staked crypto intangible assets (staked tokens)
- Determining the principal to validation activities
- Staking rewards income statement classification
- Applying Topic 606 – Staking entity continues to recognize its staked tokens
- Applying Topic 606/Subtopic 610-20 – Delegator derecognizes its staked tokens in liquid staking

Whether to derecognize staked crypto intangible assets (staked tokens)

When staking, the question arises about whether the staking entity, validator or delegator, should continue to recognize staked tokens as its own assets on its balance sheet.

Accounting guidance to apply

As intangible assets, staked tokens are subject to Section 350-10-40 for derecognition. Under that guidance, intangible assets are derecognized when the criteria in Subtopic 610-20 (gains and losses from the derecognition of nonfinancial assets) are met, unless a scope exception applies. [350-10-40-1, 40-3; 610-20-15-4]

- In most staking scenarios, none of the scope exceptions in Subtopic 610-20 are expected to apply (section 17.2.50 of KPMG Handbook, Revenue recognition, details these scope exceptions).
- Subtopic 610-20 relies on the transfer of control guidance in Topic 606 (revenue from contracts with customers) to determine when and whether to derecognize a nonfinancial asset, such as a crypto intangible asset (sections 7.2 and 7.5 of KPMG Handbook, Revenue recognition, detail the Topic 606 transfer of control guidance). [606-10-25-25, 25-30; 610-20-25-6 – 25-7]

In addition to the above, we believe SEC staff guidance with respect to derecognizing loaned crypto intangible assets (see KPMG Hot Topic, Lenders' accounting for crypto intangible asset loans) is also relevant to consider by analogy in the context of staked tokens.

Derecognition evaluation

In general, staked tokens are not derecognized by the staking entity. This is because, regardless of whether the staked tokens continue to reside in the staking entity's digital wallet, no other entity obtains the right or ability to direct their use (e.g. the right or ability to sell, pledge, lend or otherwise transfer or use those crypto intangible assets) or to obtain their remaining economic benefits (e.g. the right to sell them for their current market value or realize any appreciation in such value). Therefore, the derecognition requirements in section 350-10-40 are not met and the conditions outlined by the SEC staff for loaned crypto intangible asset derecognition do not exist.

Therefore, the staked tokens remain recognized assets of the staking entity and the staking entity continues to account for them in the same manner as its other held crypto intangible assets (see chapter 4 of KPMG Handbook, Crypto assets).

Liquid staking

We have observed an exception arise in 'liquid staking' (see Key concepts). As illustrated below, the staking entity derecognizes its staked tokens in this scenario.

In place of the staked tokens, the staking entity recognizes the liquid staking 'receipt' tokens received in exchange and accounts for those in the same manner as it does any other acquired crypto intangible asset, which includes determining whether the receipt token is in the scope of Subtopic 350-60 (see Questions 2.2.40 and 2.2.50 in KPMG Handbook, Crypto assets). A receipt token, in general and by design, entitles the holder to redeem the crypto intangible asset(s) for which it was exchanged. Therefore, we would expect it to fail the 'other goods and services criterion' in paragraph 350-60-15-1(b), and thus be outside the scope of Subtopic 350-60, unless there is a basis to assert that the redemption right is not enforceable (which is a *legal*, rather than an accounting, determination).

Custodians and other third-party wallet service providers **

Some crypto custodians and other third-party wallet service providers (e.g. certain exchanges) permit digital asset owners to elect to stake (as delegators) the crypto intangible assets they hold. In general, if the digital asset owner controls when and whether to stake and de-stake its crypto intangible assets, we do not believe this ability to stake through the custodian or wallet service provider changes the conclusion about whether that entity is the accounting owner of the crypto intangible assets and, therefore, whether the digital asset owner recognizes the crypto intangible assets on its balance sheet. Questions 4.2.10 and 4.5.10 in KPMG Handbook, Crypto assets, address whether a digital asset owner is the accounting owner of third-party held crypto intangible assets.

By contrast, additional evaluation may be necessary if the custodian or other third party holding the crypto intangible assets controls when and whether the held crypto intangible assets are staked or de-staked. However, we have not, to date, encountered this scenario in practice.

Example: Liquid staking derecognition

Scenario

ABC Company decides to participate in Liquid Staking Protocol (Liquid). ABC deposits units of crypto intangible asset X into the Liquid smart contract and receives an equal number of LX tokens issued by the smart contract in return. LX is a crypto intangible asset 'receipt token' that entitles the holder to redeem each LX token for one X token. While the X tokens are deposited, ABC cannot sell, pledge, loan or otherwise use or deploy them.

The Liquid smart contract distributes deposited X tokens to trusted validators with whom Liquid has an arrangement. Liquid alone has the right and ability to deploy the X tokens to its chosen validators until ABC redeems its LX receipt tokens. Liquid distributes a share of the staking rewards earned from validating blockchain transactions using those X tokens to LX holders in the form of additional LX tokens, which, at all times, maintain a 1:1 value with X tokens, just like those received when ABC originally deposited its X tokens.[a]

> **Note a**: Some liquid staking protocols distribute receipt tokens that do *not* maintain a 1:1 value with the deposited staked crypto intangible assets. In these cases, the protocol users (like ABC) do not receive additional receipt tokens over time. Instead, the receipt token(s) obtained upon deposit of the staked crypto intangible assets 'inflate' in value over time such that on redemption, each receipt token is worth *more* than one native token (e.g. one LX token in this example may be worth 1.1 X tokens).
>
> *This difference in type of receipt token received does not, in our view, affect the derecognition evaluation that follows.*

Evaluation

ABC concludes it should derecognize its deposited X tokens based on the following considerations.

- Liquid has the unilateral right and ability to deploy the X tokens until ABC redeems its LX receipt tokens. Liquid solely determines which validators to permit into its ecosystem and how to delegate X tokens that have been deposited into the Liquid smart contract.
- While held in the Liquid smart contract or with a Liquid validator, ABC cannot sell, pledge, loan or otherwise use or deploy X tokens it has deposited; therefore, it does not have any present rights to the economic benefits associated with the deposited X tokens until it redeems its LX tokens.
- ABC is exposed to non-performance risk related to the return of its staked X tokens. This is because there is no written contract between ABC and Liquid, or between ABC and any validator that receives all or a portion of ABC's X stake. ABC is therefore at risk of losing its staked X tokens if the Liquid smart contract is hacked or otherwise fails. ABC would either have no recourse (because there is not a contract) or, if it had recourse, that recourse would be subject to the counterparty's ability to fulfill that responsibility.

ABC records the LX tokens at fair value (see section 4.3 of KPMG Handbook, Crypto assets) as of when it concurrently receives the LX tokens and derecognizes the deposited X tokens. There is no written contract that obligates ABC to deposit X tokens with Liquid; therefore, contract inception for purposes of measuring the LX tokens' fair value is the point in time ABC actually deposits the X tokens.

Determining the principal to validation activities

When no delegators are involved

When a validator's stake – i.e. that which earned it the right to participate in validation – does not include delegated tokens, the validator is the only party involved in the validation activities that give rise to the staking rewards. This is often referred to as 'solo staking'. Therefore, it must be the principal to those validation activities. [606-10-55-36, ASU 2016-08.BC7]

The validator records the entire amount of the staking rewards to which it is entitled for the validation activities as its own revenue (see Staking rewards income statement classification).

Involvement of third-party infrastructure providers **

We have observed that some entities contract for the use of third-party validator infrastructure (e.g. hardware, consensus client software). These entities may not consider themselves to be 'delegators' merely because they use a third party's, rather than owned, validator infrastructure. Hence, the question arises about whether such entities are, in fact, delegators merely by their use of a third party's validator infrastructure or are still *solo staking* validators, merely using third-party infrastructure in the same manner a software-as-a-service (SaaS) provider may use a cloud service provider's infrastructure to host its customer-facing software.

We believe the entity's analysis here would still look to the principal-agent guidance in Topic 606, and the entity would, in effect, be 'solo staking' (i.e. staking its *own* validator node or address), *despite the use of third-party infrastructure*, if it, rather than the infrastructure provider, is the principal to the validation services. We believe the analysis would follow that outlined later in this Hot Topic as to whether a single delegator is the principal to the validation services provided to the blockchain network. We believe the

considerations would not differ from those that apply to a scenario in which a single delegator stakes a node or validator address.

If the entity concludes it is the principal to the validation services, despite using the third party's infrastructure:

- the entity records the entire staking reward earned as its revenue, and records service fees owed to the infrastructure provider as a cost of that revenue (**gross basis**); while
- the infrastructure provider records as revenue only the service fees it earns from the entity for providing the validator infrastructure (**net basis**).

Lease and software licensing considerations

If a validator uses third-party validator infrastructure, it should consider whether it is leasing any of the hardware and/or licensing any of the software that comprises that infrastructure. Chapter 3 of KPMG Handbook, Leases, and Section 2.5 of KPMG Handbook, Software and website costs, provide guidance on identifying leases (including embedded leases not explicitly identified as such) and software licensing arrangements, respectively.

When delegators are involved

Accounting guidance to apply

We believe an entity should look to the principal-agent guidance in Topic 606 to determine which party is the principal to the validation services provided to the blockchain network (chapter 9 of KPMG Handbook, Revenue recognition, explains this guidance in detail). Applying the principal-agent guidance requires judgment and consideration of all relevant facts and circumstances.

Identifying the customer **

The principal-agent guidance applies when there are multiple parties 'involved in providing goods or services to a customer.' We believe the 'customer' for the validation services is the blockchain network. It is the blockchain network – via its participants and the protocol – that pays the staking rewards (i.e. transaction fees and/or inflationary rewards) shared by the parties (i.e. the delegator and validator) involved in providing the validation services necessary for the blockchain network to operate. [606-10-55-36]

Specified service(s) **

Under Topic 606, an entity determines whether it is a principal or an agent for each 'specified good or service' provided to the end customer. In staking, we believe the specified service is undertaking the validation activities (e.g. block proposals, attestations) necessary for the blockchain's consensus protocol to operate (i.e. to process network transactions). It is this validation service for which the blockchain network pays staking rewards; if no validation activities are performed, no staking rewards are earned or paid. [606-10-55-36]

Are there multiple specified services?

We are aware of a view, in contrast to the *single* specified validation service described in the preceding paragraph, that the blockchain network may receive *multiple* specified services – i.e. the delegator provides a 'security service' to the blockchain network merely by locking up its staked tokens that is separate and distinct from the validator's service of undertaking the validation activities. Under this view, the delegator and the validator are each the principal to *their* specified service, and *each is a service provider to the blockchain network*. However, we understand that the SEC staff has objected to this view that there is a separate and distinct security service being provided to the blockchain network by the delegator.

Determining the principal to the specified validation service

When a validator's stake includes the staked tokens of delegators, the question arises about which entity, the validator or the delegator, is the principal to the specified validation service. Is the validator providing this specified validation service or, instead, is the delegator providing it (i.e. with the validator, in effect, serving as a subcontractor)? The entity's accounting for the staking rewards will differ based on that determination. [606-10-55-36, ASU 2016-08.BC7]

- If the **validator** is determined to be the principal to the validation activities on the blockchain:
  - the validator records the entirety of the staking rewards earned for the validation services as its revenue in the same manner as it records (or would record) staking rewards earned on its owned tokens, and records the portion to which the delegator is entitled as a cost of that revenue (**gross basis**); while
  - the delegator records only the portion of the staking rewards to which it is ultimately entitled (e.g. net of the fee or commission to which the validator is entitled) as staking revenue (**net basis**).
- If the **delegator** is determined to be the principal to the validation activities on the blockchain:
  - the validator records staking revenue only for the portion of the staking rewards (i.e. the fee or commission) to which it is entitled (**net basis**); while
  - the delegator records the entire staking reward to which its stake is entitled, *inclusive of the fee or commission that the validator will earn for operating the node*, as staking revenue (or income), and the portion to which the validator is entitled as a cost of that revenue (**gross basis**).

This accounting reflects that: [606-10-55-36, ASU 2016-08.BC13]

- *If the **validator** is the principal to the blockchain network*, its customer is the blockchain network, while the **delegator's** customer for its delegation service of 'lending' its staking rights is the validator (i.e. the validator benefits from the delegator's stake in terms of obtaining additional validation opportunities); and
- *If the **delegator** is the principal to the blockchain network*, its customer is the blockchain network, while the **validator's** customer for the service of operating the validator node or validator address (and undertaking the requisite validation activities – e.g. proposing and attesting to blocks) is the delegator.

The conclusion about which party is the principal to the specified validation service *may* differ depending on whether the validator node or address recognized by the blockchain network as performing the validation activities is staked by multiple delegators or by only a single delegator.

Multiple delegators (i.e. pooled staking)

When multiple delegators stake a single validator, we believe the validator is generally the principal to the specified validation service for the reasons that follow.

- The *validator*, not the delegator, operates the node (i.e. the hardware and software) that completes the validation activities and makes the important node (or validator address) configuration decisions, such as (not exhaustive): which hardware to use, which consensus client software to use, whether to employ maximum extractable value (MEV) strategies (and if so, which ones), and validator signing key management.
- It is the node or validator address, operated by the validator, that is selected by the blockchain protocol (algorithmically) to validate a given transaction and is recognized for completing the validation activities. At no point after this assignment and before the assigned validation occurs can

any delegator withdraw its delegation and then assign the transaction validation obligation of the node or validator address to another validator. [606-10-55-40]

- The validator owns (or leases/licenses) the equipment and software necessary to operate the node; therefore, the validator has investment risk in the form of these costs it generally must recoup by earning staking rewards. The delegator has no equivalent cost risk in relation to providing the specified validation service.
- It is unclear how any single delegator in these scenarios could be deemed to control the specified validation service given the blockchain network views the combined delegators' stake as a single pool/unit when assigning validation activities, and no single delegator appears to have control over how the validator node or address is configured and operates.

In addition, in some validator-delegator staking relationships, the validator may agree to accept the risk of slashing from its node operations; that is, the validator may agree to compensate its delegators should they be slashed because of the validator's action(s) or inaction(s). In those cases, the fact that the validator assumes the responsibility for the acceptability of the validation activities provides additional evidence that the validator is the principal to the specified validation service.

Single delegator **

More judgment may be involved in scenarios where a node, or more commonly a validator address (common in Ethereum network staking), recognized by the blockchain network as the validator of record, is staked by only a single delegator.

In most cases, we believe entities will reach the same conclusion (i.e. that the validator is the principal to the specified validation service), and for substantially the same reasons, as that outlined above for multiple delegator scenarios.

However, we believe it *may* be appropriate to conclude the delegator is the principal to the specified validation service, by virtue of controlling the validator node or validator address, when *all* of the following facts are present.

- The blockchain network recognizes the specific validator address (identified via its unique validator signing key) – which may be one of many operated by a single node – as the validator of record (i.e. as the 'entity' primarily responsible for each validation activity undertaken, as opposed to the node hosting that validator address or the entity operating that node).
- Because the single delegator stakes the validator address fully, it initiates the validator; the validator address does not exist from the network's perspective before the delegator stakes it. Further, when the delegator withdraws its stake, the validator address will cease undertaking validation activities and never again undertake such activities (i.e. the validator signing key, unique to that validator address, can never be re-used).
- The delegator makes the most important decisions – i.e. those that most substantively affect the staking rewards that will be earned (e.g. which consensus client software to use; which, if any, MEV strategies to employ; whether the validator address automatically restakes earned rewards) or slashing penalties incurred – about how its sole-staked validator address is configured.

Accordingly, the delegator's customer is the blockchain network, while the validator's customer is the delegator, to whom it provides validator operating services.

We do not believe a scenario with the specific facts and circumstances outlined above has yet been presented to the FASB or SEC staffs. Therefore, unless or until more explicit guidance is provided by the FASB, its staff or the SEC staff, we recommend that entities with these facts and circumstances (and

similar) consult with their auditors or other accounting advisors, and potentially also the SEC staff, about their specific facts and circumstances.

Unimpactful factors – single and multiple delegator scenarios

Consistent with other principal-agent evaluations, the factors that follow generally do not affect the principal-agent analysis for staking activities, regardless of whether one is evaluating a multiple or single delegator scenario.

- **How staking rewards are remitted (direction of funds flow)** – Staking rewards may be remitted by the blockchain protocol (1) entirely to the validator (and then distributed by the validator to its delegators); (2) directly to the validator *and* its delegators for their respective shares simultaneously; or (3) entirely to the delegator (i.e. gross of the validator's 'commission').[2] Direction of funds flow is generally not indicative of which party controls a specified service before it is provided, and often runs *contrary* to the conclusion reached about which party involved in providing a specified service is the principal.
- **Gross revenue margin** – Gross revenue recognition as a principal often results in small margins; validator margins (gross staking rewards minus the portion that must be remitted to delegators) in staking are also often thin (e.g. 5% or less). Margin size generally does not indicate whether an entity controls a specified service.

Roles other than delegator and validator involved

In some circumstances, there may be additional parties involved in the validation activities beyond the delegator(s) and the validator. For example:

- In liquid staking (see Example: Liquid staking derecognition), the delegator(s), the liquid staking protocol and a validator are all involved.
- A custodian or other third-party wallet service provider may serve, in effect, as an 'intermediate delegator' – e.g. a custodian may delegate the stake of its custodial customers to unrelated third-party validators. In these cases, the delegator(s), the intermediate delegator and the validator are all involved.

In these and other staking scenarios that may involve parties other than the delegator(s) and the validator, there is likely a question not only about (1) which party is the principal to the specified validation service that is provided to the blockchain network (see Determining the principal to the specified validation service), but also (2) which party, if the validator is the principal for the validation service, is the principal to lending the use of the staked tokens to the validator (i.e. providing a specified *delegation* service to the validator).

Liquid staking #

In liquid staking, it is the liquid staking protocol that enlists and allocates delegator staked tokens to validators that meet the protocol's requirements. Therefore, we would generally expect a delegator to the protocol to view the liquid staking protocol as its customer and, therefore, to recognize staking revenue only in the amount to which it is entitled from the liquid staking protocol (i.e. net of any protocol fees).

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[2] In ASU No. 2016-08, the Board removed the 'commission indicator', which stated that an entity's consideration being in the form of a commission was an indicator of agency, because it was deemed unrelated to the control principle underlying the principal-agent analysis in Topic 606. [ASU 2016-08.BC18(c)]

Intermediate delegation **

We have observed more variety in intermediate delegation fact patterns. In some scenarios, it is the intermediate delegator that enlists and decides to which validators to allocate delegators' staked tokens. In those scenarios, we would generally view the intermediate delegator as the principal for the specified delegation service. Therefore, the delegator's customer is the intermediate delegator, and the delegator would recognize staking revenue only in the amount to which *it* is ultimately entitled (i.e. net of any fees owed to the intermediate delegator and the validator).

However, in other scenarios, to varying degrees, delegators may have the right and ability to select a third-party validator. In those cases, all of the entities involved should carefully evaluate the facts and circumstances to determine whether the delegator or the intermediate delegator is the principal for the specified service of delegation to the validator. Considerations may include (not exhaustive, and not individually determinative):

- whether the intermediate delegator controls which validators are eligible to be selected by the delegator;
- which entity (the delegator or the intermediate delegator) has the contractual relationship with the validator (if both, do both or does only one of those relationships meet the contract existence criteria in paragraph 606-10-25-1); and
- whether the intermediate delegator can require the delegator to change validators (e.g. if the intermediate delegator terminates its relationship with the validator).

If the delegator has selected, and has a contractual relationship with, the validator and the intermediate delegator cannot override the delegator's validator election, we believe it would generally be appropriate to conclude the *delegator* is the principal to the service of delegation to the validator. Any fee or commission earned by the intermediate delegator for connecting those two parties would, therefore, be recognized net by the intermediate delegator, and as a cost of staking rewards revenue (or income) for the delegator.

Staking rewards income statement classification

Revenue or Income

We believe staking rewards are typically 'revenue', instead of 'income', for validators. This is because node operation is usually an ongoing major or central activity for these entities.

More judgment may be involved in making this determination for delegators.

- We believe staking rewards earned by a delegator are 'revenue' if participating in staking is an 'ongoing major or central activity' for the delegator. Judgment may be required to determine if the revenue earned is Topic 606 revenue or 'other revenue' (see Revenue from a contract with a customer or 'other revenue'). [ASC Master Glossary]
- If engaging in delegated staking is not revenue for the delegator, classification as other operating or nonoperating income outside of revenue would typically be appropriate (see Question 4.5.10 in KPMG Handbook, Financial statement presentation, for considerations around classifying other income as operating or nonoperating).

However the staking rewards are classified in the income statement, we believe it will typically be appropriate to apply the Topic 606 revenue guidance, either directly (if the rewards are revenue from a

contract with a customer) or by analogy (if the rewards are other revenue or other income), to recognize and measure staking revenue (income) earned.

Delegators – Staked tokens are derecognized

If a delegator concludes that it should derecognize its staked tokens (see 'Liquid staking' discussion in Whether to derecognize staked crypto intangible assets (staked tokens)) it will need to determine whether the transfer is a sale to a customer.

- If so, the gross proceeds from the transfer (e.g. a noncash crypto intangible asset receipt token) are recorded as Topic 606 revenue.
- If not, a net gain (loss) resulting from the derecognition (i.e. any difference between the gross proceeds received and the carrying amount of the staked tokens) is recorded as an item of operating income (loss) under Subtopic 610-20 (see Question 5.2.40 in KPMG Handbook, Crypto assets).

This determination depends on the specific facts and circumstances. In the liquid staking scenario illustrated earlier (see Example: Liquid staking derecognition), while derecognition of the staked tokens was determined to be appropriate, the exchange of the staked tokens for the receipt tokens was concluded not to reflect a 'sale' in any conventional sense. The staking entity had a clear intent (not just right) to redeem the receipt tokens and there were significant restrictions on how the liquid staking protocol could deploy the staked tokens (i.e. as compared to how a purchaser would be permitted to deploy acquired crypto intangible assets in a conventional sale). The transfer of the staked tokens was more akin, economically and practically, to a loan of those tokens. Based on these considerations, net gain (loss) recognition was deemed appropriate.

Revenue from a contract with a customer or 'other revenue'

This section assumes the staking entity has already appropriately concluded its staking rewards should be classified as revenue instead of as other income. At that point, we believe revenue classification as revenue from a contract with a customer or 'other' revenue may be affected by which party is the staking entity's customer.

The 'customer' for an entity earning staking rewards can be any one of the following.

- **The transaction initiator:** The transaction initiator is the entity that typically is paying the transaction fees in a blockchain transaction. The transaction initiator is a customer of the entity concluded to be the principal to the specified validation service (see section Determining the principal to the specified validation service).
- **The blockchain network:** The network as a whole pays any inflationary staking rewards. The blockchain network is a customer of the entity that is concluded to be the principal to the specified validation service (see section Determining the principal to the specified validation service).
- **The validator:** The validator is the delegator's customer if the validator is concluded to be the principal to the specified validation service (see section Determining the principal to the specified validation service).
- **The delegator:** The delegator is the validator's customer if the delegator is concluded to be the principal to the specified validation service (see section Determining the principal to the specified validation service).

When multiple parties are involved (see Roles other than delegator and validator involved), additional entities can be the customer.

- **The liquid staking protocol:** When a liquid staking protocol is involved, the governing body of the protocol (often, a decentralized autonomous organization, or DAO) is the customer of:
  - the delegator if the protocol is determined to be the principal to a specified delegation service provided to the validator; or
  - *both* the delegator and the validator if the delegator is determined to be the principal to the specified delegation service provided to the validator (i.e. providing an agency service to both).
- **An intermediate delegator:** If an intermediate delegator is involved, it is the customer of:
  - the delegator if the intermediate delegator is determined to be the principal to a specified delegation service to the validator; or
  - *both* the delegator and the validator if the intermediate delegator is determined to be the principal to the specified delegation service provided to the validator.

Transaction initiators, validators, delegators and intermediate delegators

We would generally expect 'revenue' earned from these customers to qualify as revenue from contracts with customers and, therefore, to be directly in scope of Topic 606. This is because these customers are typically entities that meet the conventional notion of a customer.

Blockchain networks

As similarly concluded for block rewards earned on a proof-of-work (PoW) blockchain like Bitcoin (see Question 27 of the AICPA Guide), whether revenue earned from a blockchain network is revenue from a contract with a customer under Topic 606 or 'other revenue' (which is required to be presented or disclosed separately from Topic 606 customer revenue) is based on the facts and circumstances, including the blockchain's protocols, and frequently involves judgment. Often, we have observed entities conclude that a decentralized blockchain network cannot, as a non-entity, be a customer and, therefore, the staking rewards are most appropriately characterized as 'other revenue'. However, even if staking rewards revenue is classified as other revenue, we believe analogizing to the revenue recognition guidance in Topic 606 is typically appropriate. [606-10-50-4(a), AICPA Digital Asset Guide Q27]

DAOs

DAOs are organizations that usually operate primarily via smart contracts on a blockchain, where governance rules are embedded in those smart contracts and voting of the members happens on-chain. If a DAO is a registered legal entity, then we generally believe it would be appropriate for revenue earned to be treated as revenue from a contract with a customer under Topic 606.

By contrast, if the DAO is *not* a legal entity, classification of revenue earned from that DAO either as revenue from a contract with a customer or as other revenue may be appropriate, depending on the facts and circumstances. We recommend that entities in this scenario speak with their auditors or other accounting advisors about their intended revenue classification.

Applying Topic 606 – Staking entity continues to recognize its staked tokens

Applying Topic 606 (whether directly or by analogy) to staking rewards requires an evaluation of the specific facts and circumstances and often requires judgment. Its application may differ from one blockchain to another. This is because blockchains' staking protocols differ in ways that may affect how

Topic 606 is applied (e.g. how staking rewards are calculated, when staking rewards are paid out and the existence and duration of bonding/unbonding or warm-up/cooldown periods). Delegators' revenue recognition may also be affected by the terms of their arrangements with validators (e.g. a staking service provider agreement).

The following, each discussed further below, also create complexity when applying Topic 606 to staking rewards:

- staking rewards are typically paid in the native token of the blockchain (i.e. noncash consideration); and
- the amount of the staking rewards to which an entity is entitled for validation activities is often variable.

Noncash consideration

Noncash consideration is measured at its contract inception date fair value under Topic 606; therefore, staking rewards revenue should be measured based on the contract inception fair value of the tokens to which the entity is entitled. The amount of revenue recognized is not affected by the difference between the tokens' fair value at (1) contract inception and (2) the date of reward receipt, availability for withdrawal/transfer date, or any other date. For example, if an entity earns 1 token as a staking reward, with a fair value of $100 at contract inception and a fair value of $90 when it is remitted to the entity (e.g. at the end of the epoch), its staking rewards revenue is $100. The $10 difference does not affect recorded revenue; instead, it is recorded in the same manner as any other impairment (if the token earned is a crypto intangible asset outside the scope of Subtopic 350-60) or fair value remeasurement (if the token earned is in scope of Subtopic 350-60). See section 5.6 of KPMG Handbook, Revenue recognition, on noncash consideration. [606-10-32-21, 32-23]

Contract inception may differ depending on the blockchain (and for a delegator, also its validator arrangement). For example, if the entity can de-stake its tokens at any time, a new contract may be deemed created with each validation activity the entity is assigned. By contrast, if the entity is obligated to remain staked for a defined period of time (e.g. an epoch) and is subject to slashing or other penalties for unresponsiveness or misbehavior throughout that period, the contract may be deemed to exist for that entire committed period; this would mean contract inception occurs at the start of each committed staking period instead of upon each assigned validation activity.

Recognition

Ignoring accounting conventions based on materiality, staking entities may frequently conclude that they should recognize staking rewards revenue when the amount of the staking rewards to which they are entitled becomes known or calculable (i.e. using inputs upon which the amount depends, such as the total number of tokens staked or the total circulating supply of native tokens).

This amount may not be known or calculable by an entity at the time a validation activity entitling it to a staking reward is completed. For example, inputs or actions on which the amount depends may be outside of the entity's control. When this is the case, the staking rewards may be constrained under the Topic 606 guidance on variable consideration. While variable consideration is constrained, it is excluded from the 'transaction price' and therefore *not recognized as revenue* (see section 5.3 of KPMG Handbook, Revenue recognition, on variable consideration; section 5.3.40 specifically discusses the variable consideration constraint).

The specific facts and circumstances will affect whether and how the constraint applies to different staking scenarios. On one hand, if the amount of staking rewards to which the entity is entitled depends on inputs or actions that are (1) outside of the entity's control and (2) subject to significant variability, all of the staking rewards may be constrained until those inputs or actions become known or knowable to the

entity. On some blockchains, this may not occur until well after the validation activity to which the reward relates is completed (e.g. the end of the 'epoch' or 'era' during which the validation activity occurs or even a subsequent epoch or era). However, just because the staking rewards are variable does not automatically mean the entirety of those rewards should be constrained until they become known or calculable; it may be that relevant experience (e.g. during earlier epochs or eras) or limited variability permits the entity to estimate with sufficient reliability at least a minimum amount of such rewards to which it will be entitled. In that case, that minimum amount should be included in the transaction price when estimated and only any amount above that minimum constrained.

Applying Topic 606/Subtopic 610-20 – Delegator derecognizes its staked tokens in liquid staking

As outlined earlier, we believe a delegator will generally derecognize its staked tokens when engaging in liquid staking. The delegator's accounting during the period it remains staked may depend on the nature of the receipt tokens it obtains from the liquid staking protocol.

Some liquid staking protocols distribute additional receipt tokens to protocol users as staking rewards are earned by the protocol. Other protocols do not do so; instead, the receipt token(s) obtained upon deposit of the staked tokens 'inflate' in value over time such that, on redemption, each receipt token is worth more than it was when initially received.

Additional receipt tokens distributed

When a delegator receives additional receipt tokens for its share of the protocol staking rewards, those tokens are generally treated as variable noncash consideration *stemming from the initial transfer of the staked tokens*. This is because there is no ongoing performance or service provided by the delegator during the staking period (i.e. not redeeming the staked tokens does not constitute ongoing performance or providing a service); the delegator's only performance was the initial transfer of the staked tokens to the protocol.

At the time of initial staked token transfer, the delegator will not know or be able to calculate precisely the staking rewards to which it will be entitled. Therefore, the delegator will have to consider the Topic 606 guidance on variable consideration (which also applies to transfers of nonfinancial assets under Subtopic 610-20), including the constraint on such consideration. Consistent with the discussion under Applying Topic 606 – Staking entity continues to recognize its staked tokens, whether and how the constraint applies in these scenarios will be affected by the facts and circumstances; however, it may not be acceptable to constrain *all* such variable staking rewards. For example, relevant experience may suggest it is 'probable' that the staking entity will not redeem its staked tokens for a minimum period of time and that a minimum level of rewards can be estimated for that time period without the risk of a significant reversal.

Contract inception for the measurement of those noncash staking rewards is likely when the staked token(s) were transferred. Consequently, staking rewards – regardless of when included in/added to the transaction price (and therefore recognized) – would be measured at their fair value as of when the staked tokens were transferred to the liquid staking protocol.

No additional receipt tokens distributed **

In these liquid staking scenarios, we believe the staking entity must first assess whether the liquid staking receipt tokens are in or out of the scope of Subtopic 350-60 (see Questions 2.2.40 and 2.2.50 in KPMG Handbook, Crypto assets).

- If the receipt tokens the delegator obtains at initial deposit in these scenarios are ***not*** **in the scope of Subtopic 350-60**, then the entity cannot remeasure them to fair value as they inflate in value. This, together with the fact that the entity will not receive any *additional* consideration (i.e. any additional receipt tokens or other cash or non-cash consideration) during the staking period related to its initial transfer of the staked tokens, means the entity cannot recognize any staking rewards revenue (or income) until it redeems the receipt tokens.

  Upon the receipt tokens' redemption, we believe the delegator should recognize staking rewards revenue (or income – see Staking rewards income statement classification) as, generally, a *portion* of the total gain (i.e. the difference between the fair value of the native tokens it receives on redemption and the exchange date carrying amount of the receipt tokens) it will recognize on the redemption exchange. We generally believe that only the portion of the gain attributable to the increase in the number of native tokens received in the redemption, as compared to the number of such tokens originally staked, measured at the fair value of the native token at the time of transfer to the liquid staking protocol represents staking rewards revenue (or income). The portion of the total gain attributable to either (1) changes in the fair value of the native token since initial protocol transfer, or (2) recovering impairment charges on the receipt tokens during the staking period do not reflect staking rewards revenue (or income).

  > *By way of example, assume an entity stakes 1 ETH with a staking date fair value of $2,500 and ultimately redeems an xETH with a redemption date carrying amount of $2,000 for 1.05 ETH with a fair value of $3,150. Therefore, the total gain on redemption is $1,150. Of that $1,150, staking rewards revenue equals $125 (.05 ETH rewards earned × $2,500). The remainder of the total gain is recognized as a component of operating income (loss) for the period.*

If the receipt tokens the delegator obtains at initial deposit in these scenarios ***are*** **in the scope of Subtopic 350-60**, the entity will remeasure the receipt tokens it receives upon initial transfer of its staked tokens to fair value each period and through the point in time it redeems them. In this case, we believe that only the portion of the fair value remeasurement attributable to the increase in the exchange rate (e.g. each receipt token can now be redeemed for 1.1 native tokens versus 1.0 native tokens at the time of initial transfer to the protocol) represents staking rewards revenue (or income), while any portion attributable to other factors (e.g. changes in the fair value of the native token) should be recorded in the same manner as any other remeasurement gain or loss under Subtopic 350-60 (see section 5.3.10 of KPMG Handbook, Crypto assets).

For further information

This document highlights issues specific to the accounting for crypto intangible assets.

See KPMG Handbook, Crypto assets, and KPMG Issues In-Depth, Accounting for crypto intangible assets – investment companies.