KPMG

Crypto assets

Handbook

US GAAP

April 2026

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Contents

An evolving landscape

The accounting for crypto assets is not monolithic; both the guidance that applies and how that guidance applies can be quite different depending on the nature and characteristics of the crypto asset and transaction involving the asset. Organized in a Q&A format, with examples and observations to assist in application, this book is intended to help entities compare and contrast the accounting for the different types of crypto assets and different types of crypto asset-related transactions.

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 or amends US GAAP on the accounting for crypto intangible assets, or if the SEC staff expresses new or changed views. We encourage entities to discuss their accounting for crypto assets and their specific facts and circumstances with their auditors or other accounting advisors.

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Acknowledgments

This Handbook has been produced by the Department of Professional Practice (DPP) of KPMG LLP in the United States.

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We would also like to acknowledge the members of DPP who contributed significantly to this Handbook: Kimber Bascom, Valerie Boissou, Rivka Grund-Sender, Mahesh Narayanasmi, Mark Northan, Joan Rood, Angie Storm.

About this publication

The purpose of this Handbook is to assist you in understanding and applying the accounting for crypto assets under US GAAP.

Organization of the text

This Handbook includes excerpts from the *FASB Accounting Standards Codification*® (ASC) and overviews of the relevant requirements. Our in-depth guidance is explained through Q&As that reflect the questions we are encountering in practice. We include observations and examples to explain key concepts.

Our commentary is referenced to the ASC and other literature, where applicable. The following are examples:

- 350-60-15-1 is paragraph 15-1 of ASC Subtopic 350-60
- 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
- AICPA Digital Asset Guide Q10 is Question 10 of AICPA Practice Aid: Accounting for and Auditing of Digital Assets (the AICPA Guide)

Future developments

On October 29 and November 19, 2025, the FASB added projects to its technical agenda to address:

- when certain crypto assets may be classified as cash equivalents;
- whether the scope of Subtopic 350-60 should be expanded to accommodate 'wrapped tokens' and 'receipt tokens'; and
- when control of a crypto intangible asset has transferred and, therefore, the asset should be derecognized by the transferring entity.

As of the date of this publication, the FASB has not yet made any tentative decisions or issued any proposals under these projects.

Pending content

The Codification amendments in ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets, are presented in this Handbook's Codification excerpts as current content, meaning they are not labeled as pending content. They are effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years.

Codification amendments from the following two ASUs are also presented in this Handbook's Codification excerpts as current content.

- ASU 2024-02, Codification Improvements – Amendments to Remove References to the Concepts Statements. These amendments are effective

for public business entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years, and for all other entities for fiscal years beginning after December 15, 2025, including interim periods within those fiscal years.

- ASU 2023-05, Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement. These amendments are effective for all joint ventures with a formation date on or after January 1, 2025.

The Codification excerpts in this Handbook do not reflect the Codification amendments made by ASU 2024-03, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. These amendments will be reflected in subsequent editions.

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
FLOW	The native crypto token of the Flow blockchain
IP	Intellectual property
NFP	Not-for-profit entity
NFT	Nonfungible tokens
SOL	The native crypto token of the Solana blockchain
SSP	Stand-alone selling price
USDC	USD Coin, a 'stablecoin' whose value is pegged to the US Dollar and that is fully backed by highly liquid cash and cash equivalent assets
USDT	Also known as Tether, a 'stablecoin' pegged to the US Dollar
WETH	Wrapped ETH
WBTC	Wrapped BTC

1. Understanding crypto assets and the blockchain

Detailed contents

1.1 The evolution of crypto

The origins of 'digital cash' concepts can be traced back to the 1990s, but cryptocurrencies began to take off in 2008 with the publication of Satoshi Nakamoto's Bitcoin white paper and the launch of the Bitcoin network. While Nakamoto's identity remains a mystery, they are credited with inventing BTC and the revolutionary idea of a decentralized currency, meaning a currency that is not controlled by any single person, entity or government. It was Nakamoto's design that first combined a secure, peer-to-peer payment system with a tamper-proof public ledger (the blockchain) and a built-in incentive (BTC) to achieve decentralization without a trusted intermediary.

In the Bitcoin white paper, Nakamoto described a "purely peer-to-peer version of electronic cash" that would let two parties transact directly online, without the need for banks or payment processors. Nakamoto's goal was two-fold:

- enable people anywhere in the world to send value online as easily as sending an email, without censorship or geographic restrictions; and
- create scarcity analogous to gold by capping the total bitcoin supply at 21 million and thereby have bitcoin protect against inflationary money-printing.

It took several years, but on May 22, 2010, a pivotal moment in bitcoin's history took place. Laszlo Hanyecz, a programmer, purchased two large pizzas for 10,000 BTC, which were valued at approximately $41 at the time. This transaction, arranged through a post on the Bitcoin Talk forum, is recognized as the first real-world use of BTC. It showcased BTC's potential as a medium of exchange and initiated its journey to becoming a widely recognized digital asset, despite lacking an integrated online payment system like modern cryptocurrencies. This event is now celebrated annually as 'Bitcoin Pizza Day'.

Although BTC was conceived as digital cash, its primary use has shifted considerably over time. A few years after the infamous Bitcoin Pizza Day, cryptocurrency exchange platforms began to emerge, providing a user-friendly on-ramp for the buying, selling and custody of BTC. This crucial infrastructure began to shift BTC's image from a niche interest to investable asset. In 2013, BTC's price broke $1,000 for the first time, drawing media attention and early institutional interest.

As BTC's price surged (and fell), market participants increasingly viewed it as a speculative store of value rather than a medium of exchange. Merchants that had experimented with BTC as a form of payment began de-prioritizing it as such amid this high price volatility. BTC's original ambition – to enable pure peer-to-peer digital cash – has largely given way to its value as a scarce, all-digital store of value.

Nakomoto's whitepaper not only led to the creation of BTC but also inspired a revolution in the world of financial technology. In the 15-plus years since the whitepaper was published, there has been an explosion of new cryptocurrencies, with over 10,000 distinct crypto assets in existence today. This proliferation has led to specialized applications, use cases and consensus mechanisms.

Beyond individual crypto assets, a full-blown financial ecosystem has emerged in parallel to traditional financial systems. Today's crypto ecosystem is

extremely complex, with its own jargon, specialized transactions and key players, laying the groundwork for new accounting and regulatory challenges.

In the remainder of this chapter, we explain this ecosystem in greater detail, introducing you to a whole new set of technology and terminology.

1.2 The blockchain

Crypto assets are made possible by a combination of technologies that together enable secure, decentralized and tamper-proof digital value transfers. At the core lies the blockchain – a distributed digital ledger that records transactions. While blockchain technology is complicated, the concept is straightforward – it is simply a very secure database. Although it is primarily used today for crypto asset transactions, blockchain technology can be used to track and store any type of information, such as health records, real estate ownership or even high scores at an arcade. There are two foundational concepts of blockchain technology: it is (1) decentralized and (2) immutable.

Decentralization

The blockchain runs over a peer-to-peer network of computers. Each computer on the network that holds a copy of the database is referred to as 'node'. When a user creates a transaction (e.g. by sending a crypto asset to another user), the blockchain technology broadcasts that transaction to every node on the network. This allows each node, or a combination of nodes, to validate the transaction.

In validating the transaction, the nodes are performing many of the same steps that your bank would perform when you swipe your credit card (e.g. checking that you authorized the transaction and that you have sufficient funds to make the purchase). However, instead of this process being performed by a single, central authority (e.g. your bank), it is performed by the decentralized network of nodes. This decentralized topology removes single points of failure, ensuring the system remains operational even if many nodes go offline, thereby improving resilience.

To agree on which transactions are valid and in what order they get processed, blockchains use 'consensus mechanisms' that align incentives and deter bad actors. A consensus mechanism is a system that allows nodes in a blockchain to agree on the validity of transactions and the state of the database. It ensures that all participating nodes come to a common agreement on a piece of data before it's permanently added to the database, thereby preventing fraudulent records and maintaining integrity.

The way a consensus mechanism generally works is that one node on the blockchain will validate the transaction or group of transactions (referred to as a 'block') and then the rest of the nodes will vote on whether they agree on the block's validity. There are two dominant consensus mechanisms that determine which node on the blockchain initially validates a transaction: Proof-of-Work and Proof-of-Stake. Both mechanisms achieve the same goal – secure, decentralized consensus – but they take radically different approaches.

- **Proof-of-Work (PoW):** PoW is the original blockchain consensus mechanism introduced by the Bitcoin network; it is also used by blockchains like Litecoin and Dogecoin. Under this consensus mechanism, all of the nodes, referred to as 'miners', compete to solve a cryptographic puzzle. The first miner to solve the puzzle earns the right to validate the block and add it to the blockchain database.

The 'puzzle' essentially involves identifying a random number, which may require trillions of guesses, to 'unlock' the blockchain so that new information can be added to it. This brute force work serves two purposes: (1) it makes attacking or rewriting the database prohibitively expensive and (2) it fairly randomizes which miner wins the right to validate the next block. Once the puzzle has been solved, the other nodes can easily check it to confirm the work was done correctly. Imagine trying to randomly guess the combination of a lock – it may take a significant amount of time to figure out the right combination, but once you do, someone else can easily verify it by entering the same combination you uncovered and making sure the lock opens using it.

- **Proof-of-Stake (PoS):** PoS is an alternative consensus mechanism used by blockchains such as Ethereum and Solana. Under this consensus mechanism, rather than competing to solve puzzles like with PoW, one node (or validator address)[1] on the network is selected to forge (or "build") the block and propose it for addition to the blockchain. The node or validator address selected for this task is selected based on the amount of crypto assets locked up in the network as collateral in its name. Other validators (i.e. operating other nodes or addresses) on the network attest to the validity of the new block proposed, only after which it gets added to the blockchain. While staked, an entity cannot sell or transfer its staked crypto assets. The more crypto assets staked to a node (or validator address), the more likely it is that that node (or validator address) gets chosen to undertake validation activities (e.g. proposing the new block or attesting to a block proposed by another node or validator address) that earn it rewards for doing so, similar to a lottery. Once selected, the validator checks that transactions in a proposed block follow the rules and then attests to the validity of the block. If a validator tries to cheat – e.g. by approving double-spends or invalid transactions – its stake can be 'slashed', meaning a portion of its crypto asset stake is partially or fully forfeited to the blockchain network.

[1] On most PoS blockchain networks each node corresponds to a single validator identity. However, on others – Ethereum most prominently – a node may operate many validator identities. The validator identity is the "validator of record" from the perspective of the blockchain network. Section 7.4 discusses this distinction, and its accounting effects, in further detail.

Under both PoW and PoS consensus mechanisms, node operators incur real costs. These include buying or leasing specialized computing hardware and licensing software (or otherwise incurring similar costs such as to a cloud service provider), paying significant energy bills or locking up large amounts of crypto assets as collateral. The node operators (and those that delegate their stakes to the validator addresses they operate) do this because they are rewarded for their effort and risk.

Whichever node (or validator address) proposes the new block and adds it to the blockchain database earns both (1) newly minted crypto assets (e.g. newly issued ETH) and (2) any transaction fees that were paid for the transactions within the block; those who have delegated their stake to the relevant validator address are entitled to an agreed – often significant – portion of those staking rewards. Beyond direct monetary compensation, node operators, as well as the network as a whole, also benefit from a healthier network – greater stake and

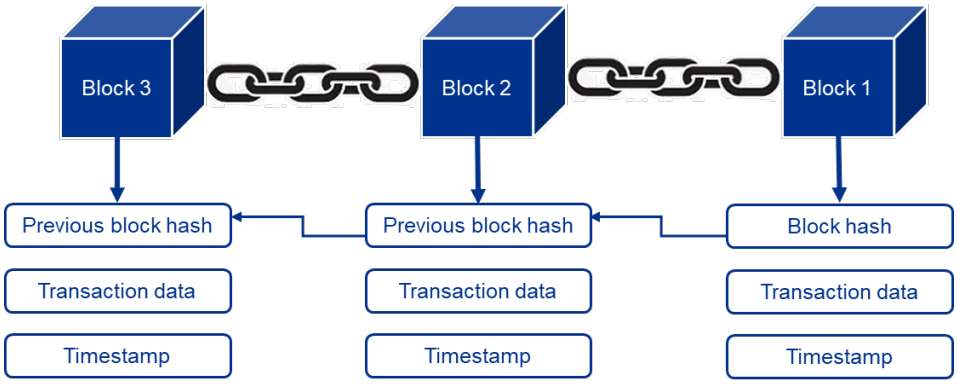
more decentralization mean stronger security and reliability, and a higher cost to try to hijack the network for nefarious purposes – and often share in the philosophical satisfaction of supporting an open, trustless system.

Immutability

The blockchain's immutability, meaning its resistance to tampering once data is recorded, comes from two interconnected features: hashing and linking.

- **Hashing:** Every block's data – i.e. its list of transactions, timestamp and a pointer to the previous block – is fed into a cryptographic function referred to as 'hashing'. Hashing takes an input of any size and produces a fixed-length output (i.e. the 'hash') that looks like a random string of characters. Essentially, hashing creates a unique ID for each block on the blockchain. For example, the hash of the first block on the Bitcoin network was 000000000019d6689c085ae165831e934ff763ae46a2a6c172b3f1b60a8ce26f.
- **Linking:** Because the hash of each block is based, in part, on the hash of the previous block, the blocks become 'linked'. This means Block 3 is linked to Block 2, which is linked to Block 1, forming a continuous, cryptographically secured chain. If anyone tries to alter a past block – e.g. to change a transaction amount – their tampering changes that block's hash, or unique ID. Because each subsequent block is linked to the one being tampered with, all those later links break and the network immediately rejects the altered chain.

A simplified visualization of these concepts is illustrated below.



To successfully rewrite history, an attacker would need to (1) recompute the correct hashes for the block they are attempting to alter and every block that follows and (2) accomplish this before the other nodes on the network detect those changes, which is practically impossible on a well-secured network. Coupled with the consensus mechanisms discussed above, these cryptographic safeguards ensure that once a block is validated, it remains permanently and provably immutable.

1.3 Types of crypto assets

A crypto asset refers to a digital or virtual asset that uses cryptography for security. While there are many different types of crypto assets, there is no universal definition or taxonomy of crypto assets. However, one important differentiation of crypto assets is whether they operate on, or are 'native to', their own blockchain.

1.3.10 Cryptocurrencies vs tokens

We refer to crypto assets that operate on their own independent blockchains and underpin their networks' security and consensus mechanisms as 'cryptocurrencies'. The most widely known cryptocurrency is BTC, which operates on the Bitcoin blockchain, but other examples include ETH, Litecoin, Solana and XRP (or Ripple). Cryptocurrencies function as a medium of exchange, a store of value and, in certain blockchain networks, as a means to pay for transaction processing thereon. Because cryptocurrencies secure and fuel their native blockchains, their issuance schedules and total supply caps (if any) are hard coded into the blockchain protocol, giving them unique economic and technical characteristics compared to crypto assets that are built atop other networks.

We refer generally to crypto assets that are created atop another blockchain network as 'tokens'. Tokens are smart-contract–based assets issued on an existing blockchain, rather than on a stand-alone network. Tokens leverage the host blockchain's security and consensus (most commonly ETH, Binance Smart Chain or Solana), meaning their creation, transfers and storage depend on the underlying blockchain's infrastructure rather than on a separate protocol, which simplifies their creation. There are many different types of tokens, including stablecoins, governance tokens, utility tokens, non-fungible tokens (NFTs), and meme coins, each of which are explained in greater detail below.

Distinguishing cryptocurrencies from tokens, and one type of token from another, is critical because their valuation, risk profile, regulatory status and accounting treatment (as explained in chapter 2) can vary widely.

1.3.20 Stablecoins

While there is no universally accepted definition of 'stablecoin', we use the term to refer to tokens designed to maintain a stable value relative to a fiat currency, most commonly the US dollar. In practice, there are three primary types of stablecoins.

1. **Fiat-backed stablecoins:** This is the most common and straightforward model. For every stablecoin issued, a central entity (the issuer) holds an equivalent amount of reserve assets. These reserves are typically cash or other highly liquid, low-risk assets like US Treasury bills. This 1-to-1 backing gives holders confidence that they can redeem their stablecoin for fiat currency on demand.

2. **Crypto-backed stablecoins:** These maintain a stable value, but through collateralization by other crypto assets instead of the types of reserves held for fiat-backed stablecoins. They are typically managed by decentralized smart contracts rather than by a central issuer. To account for the volatility of the underlying crypto collateral, these systems are generally 'over-collateralized' – meaning the value of the crypto assets locked in reserve is significantly higher than the value of the stablecoins issued. If the collateral's value drops, the smart contract can automatically liquidate it to maintain the stablecoin's pegged value.
3. **Algorithmic stablecoins:** These are not backed by reserves; they rely on computer algorithms to maintain their stable value. Because they are generally not backed by reserve assets, they are generally at a higher risk of de-pegging than stablecoins backed by reserve assets.

The two largest stablecoins by market cap are fiat-backed stablecoins, each dwarfing the value of the third and fourth largest stablecoins, which are crypto-backed stablecoins. Algorithmic stablecoins are much less popular than either of the other two types.

We acknowledge that many view tokens designed to peg their value to a commodity like gold or oil as another form of stablecoin. However, we discuss tokens of this nature in section 1.3.30 because, in general, these tokens represent actual physical assets and grant the holder the right to redeem the token for the physical commodity (e.g. gold or silver).

Section 8.4 addresses accounting considerations related to stablecoins.

1.3.30 Tokenization of 'real world assets'

At its core, tokenization is the process of creating a digital representation of ownership of a real-world asset on a blockchain. The real-world asset could be anything from a parcel of real estate, a share (or fractionalized share) of stock or an ounce of gold. By memorializing these rights into a digital token, the token holder retains the benefits of owning the underlying asset while gaining the native benefits of a crypto asset – i.e. it can be traded 24/7 on a global basis, transferred nearly instantly and often used in decentralized finance applications. In substance, tokenization is a record-keeping innovation such that these digital tokens are not a new asset class; instead, tokenization allows legal or economic interests in an off-chain asset to be issued, held and transferred in token form. When accounting for a real-world asset token, the entity will generally account for the underlying asset, not the token.

One of the most significant categories of tokenized assets is security tokens. A security token is the digital representation of an investment product that is legally classified as a security, such as a share of stock in a company, a bond or a fractional ownership interest in a real estate property. The primary advantage of tokenizing a security is the potential to increase liquidity for traditionally illiquid assets (like private equity or real estate), automate compliance through smart contracts and streamline processes like dividend payments or shareholder voting.

A second major category is tokenized physical commodities. In this model, a token represents a direct ownership claim on a specific quantity of a real-world commodity, such as gold, oil or platinum. The underlying physical asset is held in a verified and audited reserve by a central custodian. This allows individuals to invest in and trade physical commodities with the ease and divisibility of a digital token and avoid the storage and transfer complexities typically associated with holding the physical goods directly. A prominent example is a gold-backed token, where each token represents legal title to one troy ounce of gold held in a secure vault.

While commodities like gold or financial instruments like bonds are fungible (meaning each unit is identical and interchangeable), many real-world assets are unique, or 'non-fungible'. The tokenization of these unique real-world assets may be accomplished using an NFT (see section 1.3.40).

1.3.40 NFTs

NFTs are unique tokens that exist on a blockchain, memorializing data reflecting the NFT holder's ownership of or rights to use a specific item – such as artwork, music or virtual real estate. Essentially, an NFT is a digital 'proof of ownership', not unlike having title to inventory or a deed to property. While an NFT can be used to tokenize a real-world asset (see section 1.3.30), most NFTs are tokenized rights to use or evidence of ownership of virtual assets, like digital art or media, in-game items (e.g. virtual goods) or access rights (e.g. to an event).

Every NFT is identified by a unique token ID that gets embedded inside its smart contract. The token ID is paired with the contract address to create a unique and identifiable asset on the blockchain that cannot be replicated. Therefore, unlike cryptocurrencies and stablecoins, NFTs are distinguishable from one another, meaning each NFT carries its own identity and cannot be exchanged on a one-to-one basis with another NFT. This uniqueness enables provable scarcity and a verifiable origin, as buyers can trace an NFT's entire transaction history on the blockchain. Common use cases of NFTs include:

- selling digital art or media
- licensing digital art or media
- licensing avatars and related upgrade features (e.g. new skins)
- selling or licensing virtual goods for gaming (e.g. weapons, clothing)
- selling tickets to virtual or real-world events
- tokenizing ownership of physical items (e.g. collectible sneakers)
- offering exclusive or early access to future NFTs or events
- registering ownership of virtual and tangible assets on the blockchain.

Chapter 6 discusses the accounting for NFTs.

1.3.50 Meme coins

Meme coins are tokens that are built around internet memes or humorous themes, deriving their value almost entirely from community hype and social-

media virality rather than intrinsic utility. Meme coins are often the most volatile type of crypto asset, experiencing large swings in value in very short time frames.

Meme coins can become more than a passing fad, however. Dogecoin and Shiba Inu are examples of crypto assets that started as jokes but gained traction through celebrity endorsements and viral trends resulting in such tokens today being among the largest crypto assets by market capitalization and trading volumes.

1.3.60 Receipt tokens

There is no uniform US GAAP or other definition of 'receipt token'. However, it generally refers to a crypto asset received in exchange for transferring (or depositing) a crypto asset to (with) a DeFi protocol – e.g. a lending, trading or liquid staking protocol. For example, an entity receives an stETH receipt token for each ETH it stakes with the Lido liquid staking protocol and receives an aWETH receipt token for each WETH it lends through the Aave lending protocol.

Receipt tokens generally exist to permit an entity to redeem its transferred (deposited) crypto assets. They also often accrue rewards or interest (in the form of increased value of the receipt token or through the receipt of additional tokens), and/or can be transferred or used as collateral in other DeFi protocols or applications.

1.3.70 Wrapped tokens

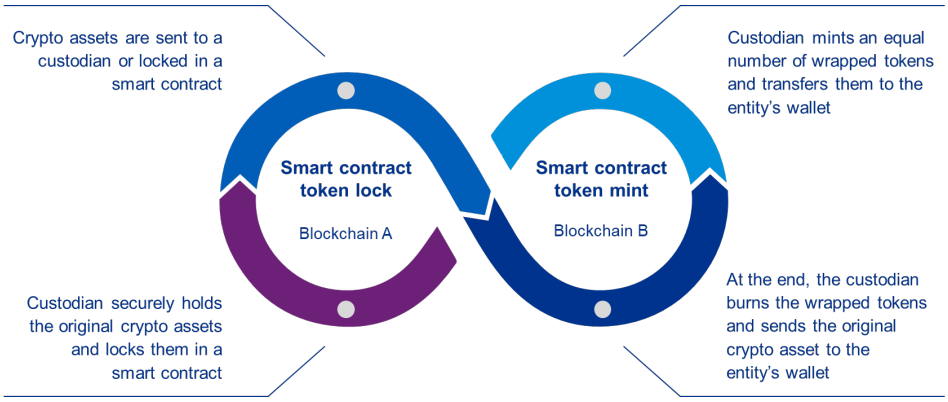
Like receipt tokens, there is no US GAAP or otherwise generally accepted definition of what constitutes a 'wrapped token'. However, we believe the term generally refers to a crypto asset that is pegged to the value of a different crypto asset and exists to permit the wrapped token holder to access either a different blockchain (i.e. on which the underlying crypto asset is not native) or additional functionalities on the same blockchain.

Wrapped tokens generally exist to resolve the challenge that different blockchains, like BTC and ETH, operate as separate, independent networks. They cannot naturally communicate or share assets with one another. This creates a problem, for example, for entities that own BTC but want to use its value to participate in DeFi applications that are built on the Ethereum network. Crypto wrapping solves this problem by acting as a 'bridge' between two blockchain networks. Crypto wrapping also solves *intra*-blockchain issues. For example, Wrapped BTC (WBTC) is a token minted on the Ethereum blockchain that is pegged to the value of BTC, which is native to the Bitcoin blockchain. Having WBTC instead of BTC means the holder can access the Ethereum ecosystem, while still holding the equivalent value of BTC. Wrapped ETH (WETH) is pegged to the value of ETH; while both are native to the Ethereum blockchain, WETH is a specialized Ethereum-based token (ERC-20) that permits the holder to access and use decentralized finance applications (dApps) on the

Ethereum blockchain that cannot be accessed or used with ETH (which is not ERC-20 compliant).

Therefore, the core purpose of crypto asset wrapping is interoperability, allowing the value of one crypto asset to be employed in manners its programming would not otherwise permit, all while maintaining the holder's value in the original crypto asset.

In general, crypto asset wrapping happens by an entity transferring a crypto asset either to a third-party custodian or a smart contract that holds it in reserve and, in turn, mints a new, 'wrapped' token. This newly minted token—the wrapped token—is a tokenized representation of the original crypto asset, collateralized 1-to-1 by the asset held in reserve. The following diagram illustrates the wrapping process.



2. Determining which accounting model to apply

Detailed contents

2.1 How the standards work

In December 2023, the FASB released ASU 2023-08 (codifying Subtopic 350-60), marking the establishment of the first explicit US GAAP specifically addressing the accounting and reporting for crypto assets. Notwithstanding the issuance of this long-awaited guidance, many crypto assets do not actually fall in its scope. This is because the Subtopic's scoping criteria are *designed* and *intended* to exclude crypto assets that, among other things, grant their holders enforceable rights to, or claims on, underlying goods, services or other assets (including other crypto assets).

This scoping provision is fundamental because it establishes that the appropriate accounting for an asset is not affected by its form (e.g. as a crypto asset token), but instead by the rights it conveys. Therefore, the first and most critical step in determining which accounting standard to apply is to identify the specific rights and obligations conveyed by the crypto asset.

If the crypto asset provides no enforceable rights to other goods, services or assets, then the unit of account is the crypto asset itself, which will generally be accounted for as an intangible asset. Conversely, if the crypto asset merely memorializes an underlying right (e.g. to a service, a financial asset or instrument or a real-world asset) on the blockchain, then the unit of account is the underlying right and it is accounted for based on its nature, irrespective of the crypto asset form via which that right is conveyed.

This section provides a practical framework to help entities determine whether the crypto asset is the unit of account and, if not, what other US GAAP applies.

2.2 Applying the Subtopic 350-60 scoping criteria to identify the unit of account

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**.

Excerpt from ASC Master Glossary

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity
b. Exchange other financial instruments on potentially favorable terms with the second entity

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.)

Related Parties

Related parties include:

a. Affiliates of the entity
b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
d. Principal owners of the entity and members of their immediate families
e. Management of the entity and members of their immediate families
f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Assets in the scope of Subtopic 350-60 are those that: [350-60-15-1]

a. meet the US GAAP definition of an intangible asset (notably, this excludes any asset that meets the US GAAP definition of a financial asset);

b. do not provide the asset holder with enforceable rights to or claims on underlying goods, services or any other asset(s) (*the 'other goods or services criterion'*);

c. reside or are created on a distributed ledger (i.e. blockchain or similar technology);

d. are secured through cryptography;

e. are fungible; and

f. are not created or issued by the reporting entity or its related parties (*the 'creator/issuer criterion'*).

The scoping criteria in Subtopic 350-60 should not be viewed as a broad catch-all for every crypto asset. Rather, they appear to have been specifically designed to capture only those crypto assets where the token itself is the unit of account. In other words, the framework is intended to apply only when the holder's entire economic interest is tied to the token, without enforceable rights or claims to underlying goods, services or other assets. Cryptocurrencies like BTC, ETH, cardano (ADA), polkadot (DOT), solana (SOL), litecoin (LTC) and bitcoin cash (BCH) are prime examples of this principle in action.

This is achieved primarily through the 'other goods or services criterion' (criterion b), which is structured to scope out any crypto token that provides its holder with enforceable rights to or claims on other goods, services, or assets.

The remainder of this section explores the individual scoping criteria in more detail, beginning with the other goods or services criterion, which is key to determining the appropriate unit of account. If the unit of account is the crypto asset itself (i.e. because it does not meet the other goods or services criterion), then the remaining scoping criteria are applied to determine if that crypto asset is accounted for under Subtopic 350-60 or Subtopic 350-30.

2.2.10 The 'other goods or services criterion'

The first step in determining the appropriate accounting for a crypto asset is to look through the form of the crypto asset to its underlying rights and obligations. In general, a different accounting outcome should not result simply because a right (or set of rights) has been 'tokenized', meaning it has been memorialized in a blockchain-based token instead of via a 'paper' contract.

In some cases, a crypto asset may not give the holder the enforceable right to any underlying goods, services or other assets. Instead, the economic benefits

available to the holder stem solely from the intrinsic value of the crypto asset in the marketplace. Many cryptocurrencies (see section 1.3.10) fit this description; for example, crypto assets like BTC, ETH and SOL do not grant enforceable rights to their holder for any other goods, services or underlying assets. Assuming the remaining scoping criteria are met (see section 2.2.20), these crypto assets are accounted for under Subtopic 350-60.

Conversely, crypto assets that provide the holder with an enforceable right to goods, services or other assets are outside the scope of Subtopic 350-60. However, this does not mean that such crypto assets are automatically accounted for as intangible assets under Subtopic 350-30 simply because they obviously lack physical substance. Instead, the accounting is determined by the substance of the enforceable rights they convey to their holder. Identifying the nature of those rights and the appropriate accounting model can be complex and may require considerable judgment. The following table summarizes the predominant types of rights provided by crypto assets we have observed in practice (non-exhaustive) and cross-references to the relevant Question where the accounting for each is discussed.

Nature of enforceable rights	Accounting model
Ownership of an underlying asset	See Question 2.2.10
Right to receive goods or services	See Question 2.2.20
Right to cash or a financial asset	See Question 2.2.30
Right to or claim on another crypto asset	See Question 2.2.40

Question 2.2.10 What is the unit of account for a crypto asset that merely serves as a digital representation of ownership of an underlying asset?

Interpretive response: Some crypto assets merely serve as a digital representation of an ownership interest in an underlying asset (e.g. real estate, IP, a consumer good or a share of stock). That is, the entity's ownership or other rights are simply evidenced in the form of a token maintained on a blockchain instead of in a traditional contract, or in a traditional registry or deed. Examples of such crypto assets include, but are not limited to, certain NFTs and tokenized real-world assets.

In such cases, the unit of account (i.e. the asset the entity records) is the underlying asset, not the crypto asset itself. Therefore, the entity accounts for the underlying asset under the accounting guidance that would apply absent the tokenized form, such as Topic 360 (for ownership of property, plant and equipment) or Subtopic 350-30 (for ownership of, or licenses to, IP).

Question 2.2.20 What is the unit of account for a crypto asset that represents a right to receive future goods or services?

Interpretive response: This category of crypto asset acts as a proof of prepayment for a future good or, more commonly, a service to be provided in the future by the issuer. In such cases, the unit of account is the *right* to receive the good or service. In general, such crypto assets are accounted for under Topic 340 as prepaid assets (i.e. the entity does not account for the crypto token conveying or evidencing the right).

Examples of such crypto assets include, but are not limited to, certain NFTs (see chapter 6 for more on NFTs).

Question 2.2.30 What is the unit of account for a crypto asset that gives the holder a contractual right to redeem the asset for a known amount of cash or a financial asset?

Interpretive response: Some crypto assets provide the holder with a contractual right to redeem the asset for a known amount of cash or a financial asset. For example, many stablecoins entitle the holder to redeem the stablecoin for a known amount of cash. We are also aware of other crypto assets that entitle the holder to redeem the crypto asset for a physical security (e.g. a share certificate).

In such cases, the unit of account is the *right* to the cash or other financial asset. Despite this, we have observed that many entities separately present these types of crypto assets (e.g. certain stablecoins) on their balance sheet and/or in their crypto asset disclosures. Notwithstanding that, we believe these crypto assets are a *type* of financial asset instead of something *other than* a financial asset, and are accounted for accordingly.

Question 2.2.40 What is the unit of account for a crypto asset that gives the holder the right to redeem the asset for a different crypto asset?

Background: Some crypto assets give the holder the enforceable right (see Question 2.2.50) to redeem the asset for a different crypto asset. This may reasonably describe many 'receipt' and 'wrapped' tokens (see sections 1.3.60 and 1.3.70, respectively).

For purposes of this question, a crypto asset that provides the holder with such redemption rights is referred to as a 'wrapped/receipt token'. The crypto asset to which the holder has a claim is referred to as the 'underlying crypto asset'.

These wrapped/receipt tokens generally:

- have their own, distinct functionality (or functionalities) from the underlying crypto asset (e.g. the ability to be deployed in DeFi protocols or on different blockchains to earn yield, or to be posted as collateral); and/or
- are traded independently of the underlying crypto asset (e.g. on exchanges or in over-the-counter markets).

Interpretive response: We believe the unit of account is the *wrapped/receipt token itself* (i.e. not the underlying crypto asset to which the holder has a claim via the wrapped/receipt token). The appropriate accounting for the wrapped/receipt token depends on the nature of the underlying crypto asset.

Enforceable right to underlying crypto intangible asset(s)

If the holder's enforceable right to redeem the wrapped/receipt token is for an underlying crypto intangible asset, the receipt/wrapped crypto asset is outside the scope of Subtopic 350-60 and generally accounted for under Subtopic 350-30 instead. This is true even if the underlying crypto intangible asset would otherwise be in the scope of Subtopic 350-60.

Enforceable right to underlying crypto financial asset(s)

If the holder's right to redeem the wrapped/receipt token is for an underlying crypto financial asset, the receipt/wrapped token is accounted for as a financial asset.

Other variations

We are also aware of wrapped/receipt tokens that give the holder a choice as to whether they receive a crypto financial asset, a crypto intangible asset or some combination thereof, upon redemption. Other variations may exist or may arise in the future as the crypto asset ecosystem continues to evolve. Entities should consult with their auditors or other accounting advisors when determining the accounting model to apply to crypto assets that provide the holder with various redemption options into different types of crypto assets.

Question 2.2.50 What is the effect of enforceability on the other goods or services criterion and how is enforceability assessed?

Interpretive response: Since the inception of Subtopic 350-60, we have observed entities question whether the right to redeem certain crypto assets for other crypto assets (see Question 2.2.40) is *enforceable*. If the crypto asset does not give the holder an *enforceable* right to, or claim on, the underlying crypto asset(s), it does not fail the other goods or services criterion and the entity evaluates the remaining Subtopic 350-60 scoping criteria outlined in section 2.2.20.

Determining whether a crypto asset holder's rights to or claims on other goods, assets or services are enforceable may require significant judgment. Enforceability is generally a matter of law and, therefore, an entity may need to

consult with legal counsel when assessing whether the other goods or services criterion is met for a particular crypto asset.

Future developments FASB project to revisit the other goods or services criterion

On November 19, 2025, the FASB added a project to its technical agenda to consider expanding the scope of Subtopic 350-60 to include wrapped and receipt tokens. Based on the public discussion at that meeting, the amendments to Subtopic 350-60 would likely come in the form of a change to the other goods or services criterion.

As of the date of publication of this Handbook, the FASB has not yet made any decisions or issued any proposals related to this project. We will continue to monitor this project and update this Handbook accordingly when and if the FASB issues a new ASU.

2.2.20 Remaining Subtopic 350-60 scoping criteria

Importantly, crypto assets, as that term is used in this Handbook, will always meet scoping criteria (c) and (d) of paragraph 350-60-15-1. Therefore, once an entity concludes that the unit of account is the crypto asset itself (see section 2.2.10), the crypto asset has passed three of the six Subtopic 350-60 scoping criteria – (b), (c) and (d). The crypto asset satisfies the remaining three criteria, and is therefore in scope of Subtopic 350-60, if it is: [350-60-15-1(a), (e)-(f)]

- an 'intangible asset';
- fungible; and
- not created or issued by the reporting entity or its related parties (i.e. satisfies the 'creator/issuer criterion').

Question 2.2.60 If a crypto asset itself is the unit of account, is it an intangible asset?

Interpretive response: Yes. When the crypto asset itself is the unit of account (see section 2.2.10), we believe it meets the US GAAP definition of an intangible asset as it (1) lacks physical substance and (2) it is not a financial asset. [ASC Master Glossary 'intangible asset']

Question 2.2.70 When is a crypto intangible asset considered fungible?

Interpretive response: For purposes of assessing whether a crypto intangible asset is fungible, an entity considers whether each unit of the crypto intangible asset is interchangeable and identical such that one unit can be exchanged for another of the same kind, quantity and quality without any loss of value or

distinct rights. Therefore, as an example, by definition, NFTs would not meet the fungibility criterion (see Question 2.2.100).

Question 2.2.80 How is the creator/issuer criterion applied?

Interpretive response: The creator/issuer criterion is met if the crypto intangible asset was not created or issued by the reporting entity or its related parties. For purposes of assessing whether the asset was created or issued by a related party, we believe an entity considers the US GAAP definition of 'related parties'. Chapter 8 in KPMG Handbook, Financial statement presentation, provides additional guidance on identifying related parties and accounting and reporting for related party transactions.

This criterion means that the same crypto intangible asset may be accounted for differently by different entities. That is, the issuer/creator would not account for the crypto intangible asset under Subtopic 350-60, whereas another holder of the same crypto intangible asset would if all of the other scoping criteria are met. [350-60-15-1(f)]

By way of example, a gaming company may create its own crypto intangible asset. That crypto intangible asset may meet all six scoping criteria for another entity but fail the sixth criterion for the gaming company.

Question 2.2.90 Does a crypto intangible asset *forever* fail the creator/issuer criterion for the creator/issuer and its related parties?

Interpretive response: Yes. We believe a crypto intangible asset will always fail the creator/issuer criterion for the creator/issuer and its related parties. However, if an entity stops being a related party of the creator/issuer, we believe the crypto intangible asset can then pass this criterion for that entity (i.e. the former related party).

Using the gaming company example in Question 2.2.80 to illustrate some situations we believe may arise, we believe none of the following facts affect that the crypto intangible asset fails the creator/issuer criterion for the gaming company in perpetuity:

- how long the gaming company has held the crypto asset;
- whether it is actively traded (e.g. on major crypto exchanges); or
- how the gaming company obtained the token (e.g. whether it is a newly minted token or instead one that the gaming company received from a customer as payment for a good or service).

2.2.30 Specific application questions

This section addresses specific questions that cross multiple of the earlier step-by-step sections.

Question 2.2.100 What accounting standard applies to NFTs?

Interpretive response: NFTs are outside the scope of Subtopic 350-60 because they inherently fail the fungibility criterion. In addition, they also frequently fail the other goods or services criterion (e.g. 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)]

In general, entities should look through an NFT and account for the underlying rights and obligations stemming therefrom. Correctly identifying the rights conveyed and obligations conferred by the NFT is necessary to properly identify the US GAAP that applies to those rights and/or obligations. For example, if an NFT grants the holder a license to IP, the IP license is accounted for under Subtopic 350-30. Conversely, if an NFT grants the holder a right to a future service, the right to the future service is accounted for as a prepaid expense under Topic 340.

See chapter 6 on accounting for NFTs.

Question 2.2.110 What accounting standard applies to CBDCs?

Interpretive response: It depends. CBDCs will generally not meet the US GAAP definition of an 'intangible asset' 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 2.2.120 What accounting standard applies to stablecoins?

Interpretive response: It depends. Depending on its specific attributes, a stablecoin may be a crypto intangible asset, a financial asset or another type of asset. If it is a financial asset, it *may* also qualify as a cash equivalent. See section 8.4 for further guidance on the scoping and accounting for stablecoins.

3. Accounting for crypto intangible assets under Subtopic 350-60

Detailed contents

3.1 How the standard works

This chapter addresses the accounting for crypto intangible assets in the scope of Subtopic 350-60. For guidance on determining whether a crypto intangible asset is in the scope of Subtopic 350-60, see chapter 2.

Subtopic 350-60 requires that crypto assets be subsequently measured at fair value, with changes in fair value recognized in net income. In addition to these measurement requirements, the Subtopic mandates specific financial statement presentation requirements and introduces additional disclosures, which may necessitate substantial compliance effort (see chapter 5).

Subtopic 350-60 does not provide explicit guidance on recognition, initial measurement or derecognition of crypto intangible assets. Instead, entities are required to apply the general accounting principles for intangible assets under Topic 350.

Recognition	See section 4.2
Initial measurement	See section 4.3
Derecognition	See section 4.5

3.2 Recognition

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 350-30

> Transactions

15-4 The guidance in this Subtopic does not apply to the following: …

e. Crypto assets accounted for in accordance with Subtopic 350-60, except for recognition and initial measurement of crypto assets.

Subtopic 350-60 does not contain explicit guidance on the recognition of crypto intangible assets. Instead, entities apply the guidance in Subtopic 350-30 (relating to intangible assets in general) to determine when crypto intangible assets should be recognized in the financial statements. [350-60-05-2, 350-30-15-4(e)]

Section 4.2 contains detailed guidance on applying the recognition guidance in Subtopic 350-30, which applies equally to crypto intangible assets in the scope of Subtopic 350-30 and Subtopic 350-60.

3.3 Measurement

3.3.10 Overview

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).

35-1 An entity shall measure crypto assets at **fair value** in the statement of financial position. Gains and losses from the remeasurement of crypto assets shall be included in net income.

Subtopic 350-60 does not contain explicit guidance on the *initial* measurement of crypto intangible assets. Therefore, when an entity first recognizes a crypto intangible asset, it applies other US GAAP to determine how to measure the crypto asset, which may be different depending on how it acquired the crypto asset (e.g. by purchasing it, recognizing it as part of a business combination,

etc.). See section 4.3 for additional guidance on initially measuring crypto intangible assets, including Subtopic 350-60 crypto intangible assets.

However, regardless of how a crypto intangible asset is initially measured, Subtopic 350-60 requires that it be subsequently measured at fair value on the balance sheet, with any changes in fair value recognized in net income. Fair value is determined by applying the guidance in Topic 820 (fair value), which is discussed in section 3.3.20. [350-60-35-1]

Therefore, from a practical perspective, the distinction between the initial and subsequent measurement of a Subtopic 350-60 crypto intangible asset only affects computation of remeasurement gains or losses in the income statement. That is, Subtopic 350-60 crypto intangible assets will *always* be reported on the balance sheet at fair value, regardless of how they were initially measured (including those initially recognized on the last day of the reporting period). To the extent a Subtopic 350-60 crypto intangible asset is initially measured at something other than its fair value, an immediate unrealized gain or loss will exist on the recognition date.

Question 3.3.10 When is a crypto intangible asset initially measured at something other than its fair value?

Interpretive response: A crypto intangible asset (in or out of scope of Subtopic 350-60) will be initially measured at something other than its fair value if:

- the entity purchases that asset at a premium or discount to fair value;
- the crypto intangible asset is purchased in a market other than the entity's 'principal market';
- the entity incurs transaction costs to acquire the crypto intangible asset (see Question 4.3.10);
- the crypto intangible asset is acquired as part of a group of assets in a transaction accounted for as an asset acquisition (i.e. in which case it may be initially measured at a *relative* fair value amount); or
- the entity acquires the crypto intangible asset in a nonmonetary exchange subject to Topic 845 (nonmonetary exchanges) – under Topic 845, the asset obtained is often measured at either the fair value or the carrying amount of the asset *given up* (see Question 4.3.60).

Observation Fair value measurement applies to all Subtopic 350-60 crypto intangible assets

During the project that created Subtopic 350-60, some FASB stakeholders recommended that Topic 820 fair value measurement not apply to all crypto intangible assets in its scope. Specifically, for those crypto intangible assets without readily determinable fair values or that are not traded in active markets, suggestions included: [ASU 2023-08.BC30]

- retaining the historical cost less impairment measurement approach in Subtopic 350-30 (see section 4.4);
- using net realizable value; or
- simply assigning a carrying amount of $0.

The FASB declined, observing that the existing guidance in Topic 820 is sufficient to permit fair value measurement even for those crypto intangible assets. [ASU 2023-08.BC32]

3.3.20 Determining the fair value of crypto intangible assets

Excerpt from ASC 820-10

20 Glossary

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

• > The Transaction

35-3 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

35-5 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a. In the **principal market** for the asset or liability
b. In the absence of a principal market, in the **most advantageous market** for the asset or liability.

35-5A A reporting entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. In the absence of evidence to the contrary, the market in which the reporting entity normally would enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

35-6 If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

35-6A The reporting entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within

those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the reporting entity, thereby allowing for differences between and among entities with different activities.

35-6B Although a reporting entity must be able to access the market, the reporting entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market. …

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price, not an entry price (i.e. the price to sell an asset rather than the price to buy that asset). Further, fair value is a market-based measurement, not an entity-specific measurement, and therefore is measured using assumptions that market participants use in pricing the asset or liability, including assumptions about risk. [820-10 Glossary]

One of the key requirements in Topic 820 is that an entity assumes it will sell an asset in either its 'principal market', or in the absence of a principal market, the 'most advantageous market' for that asset. The principal or most advantageous market can vary from entity to entity, even for the same asset.

Principal market	Most advantageous market
The market with the greatest volume and level of activity for the asset or liability. [820-10 Glossary]	The market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transportation costs. [820-10 Glossary]

Question 3.3.20 What challenges commonly arise when determining the principal market for a crypto asset?

Interpretive response: As stated above, principal (or most advantageous) market assessments can vary from entity to entity, including for the same crypto asset (e.g. BTC, ETH). The following table lists the most common challenges we have observed entities encounter in making these assessments for crypto intangible assets and how we believe entities should generally respond to each one.

Challenge	Response
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 asset – than other markets the entity can access.	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] Because exchange volume and activity data for at least the more common crypto assets (e.g. BTC, ETH) *is* generally reasonably available, we believe an entity

Challenge	Response
	would typically not *presume*, without undertaking further evaluation, that any cryptocurrency exchange on which it primarily transacts is its principal market. 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 asset is often not the entity's principal market under Topic 820 for that asset.
An entity may 'normally transact' in multiple markets for the same crypto asset, such that no one exchange qualifies as the market in which the entity normally transacts.	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 asset. If there is not readily available information about other markets accessible to the entity, and therefore the entity would usually conclude its primary transactional market is its principal market, we believe it may be appropriate to consider: • 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.
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.	In this case, due to the lack of visibility, we believe the entity would assess its principal market without consideration to whether or where the third-party liquidity provider transacts.
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.	An entity will need to exercise judgment in determining the appropriate sources for, and reliability of, crypto 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 asset, and that those sources are substantially corroborative of each other. 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. Entities should develop and maintain a rational, repeatable and

Challenge	Response
	sustainable process to assess whether, and if so what, market information is available, relevant and reliable.
An entity may not be able to access a particular market for a crypto asset, even if reasonably reliable volume and activity data suggests it has the greatest trading volume or level of activity for the asset. 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 legally or practically accessing a particular market.	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 *not*, however, consider an entity's intent to trade in a particular market. 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 asset. In that case, the principal market is the one with the greatest volume and level of activity *that the entity can access at the measurement date*. 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, it cannot be the entity's principal market.
The crypto asset market is growing and changing at a rapid pace; the principal market for a crypto asset may change between measurement dates.	An entity should revisit its principal (or most advantageous) market conclusion whenever facts or circumstances change that could affect that conclusion – e.g. if: • the entity begins to transact for the crypto 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 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 3.3.30 Do entity-specific restrictions affect the fair value measurement of a crypto asset?

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

3.4 Derecognition

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.

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).

Subtopic 350-60 does not provide guidance on derecognizing crypto intangible assets. Consequently, entities either:

- follow the general derecognition guidance in Subtopic 350-10, under which they derecognize the asset only if it they transfer control of it under Subtopic 610-20; or
- follow the transfer of control guidance in Topic 606 if selling the crypto intangible asset to a 'customer'.

See section 4.5 for additional guidance on derecognizing crypto intangible assets, including those in and out of the scope of Subtopic 350-60.

Observation Equal revenue and cost of sales on sales of crypto intangible assets accounted for under Subtopic 350-60

Because crypto intangible assets accounted for under Subtopic 350-60 are required to be measured at fair value (see section 3.3.20) until they are sold, sales of those assets may frequently result in no gross margin (if Topic 606 is applied to the sale). For example, if an entity sells a crypto intangible asset at fair value in its principal market, because it remeasures the asset to fair value until the point in time it is sold in accordance with the transfer of control guidance in Topic 606 (see section 7.5 in KPMG Handbook, Revenue recognition), there would be no gross margin on the sale.

3.5 Comprehensive example

Example 3.5.10 Accounting for crypto intangible assets under Subtopic 350-60

XYZ Corp., a calendar year company, purchases and sells Xcoin, a Subtopic 350-60 crypto intangible asset, from time to time. Xcoin is traded on three different crypto exchanges and information about each exchange as of December 31, Year 5 is included below.

	Exchange A	Exchange B	Exchange C
Annual trading volume	400,000	110,000	220,000
Trades per month	450	110	250
Price	50	48	52

XYZ exclusively transacts for Xcoin on Exchange C. However, exchange volume and activity data for Exchanges A and B are publicly available and XYZ has access to each exchange. Despite only transacting on Exchange C, XYZ identifies Exchange A as the principal market for Xcoin on the basis of its exchange volume and activity data.

Acquisition of Xcoin

On December 31, Year 5, XYZ acquires 1,000 units of Xcoin on Exchange C for a total cost of $54,000 (inclusive of $2,000 in transaction costs). XYZ records the following journal entry for its purchase of Xcoin.

	Debit	Credit
Crypto intangible assets[1]	54,000	
Cash		54,000
To recognize purchase of crypto intangible assets.		

Note:
1. 1,000 units of Xcoin × $52, plus $2,000 of transaction costs, which are initially capitalized under paragraph 350-30-30-1.

However, under Subtopic 350-60, Xcoin is required to be subsequently measured at its Topic 820 fair value, which is based on Xcoin's market price in XYZ's principal market (Exchange A). Therefore, XYZ records the following journal entry at close on December 31, Year 5 to remeasure its holdings of Xcoin. For simplicity, this example assumes XYZ's entire holdings of Xcoin consist of the 1,000 units it purchased on December 31, Year 5.

	Debit	Credit
Unrealized loss on crypto intangible assets[1]	4,000	
Crypto intangible assets		4,000
To remeasure crypto intangible assets at period-end.		

Note:
1. Equal to the difference between 1,000 units × $50 (fair value in XYZ's principal market, reflective of the last trading price on December 31, 20X5) and the carrying amount of the Xcoin ($54,000). In this case, the adjustment results in an unrealized loss being recognized in XYZ's income statement.

Quarter-end remeasurement

Assume that on March 31, Year 6, XYZ still owns the 1,000 Xcoin, has not purchased any additional Xcoin during the period, and the market price of Xcoin on Exchange A is now $60. Also assume Exchange A appropriately remains XYZ's principal market for Xcoin under Topic 820.

XYZ records the following journal entry to remeasure its holdings of Xcoin to fair value as required by Subtopic 350-60.

	Debit	Credit
Crypto intangible assets[1]	10,000	
Unrealized gain on crypto assets		10,000
To remeasure crypto intangible assets at period-end.		

Note:
1. Equal to the difference between 1,000 units × $60 (fair value in XYZ's principal market, reflective of the last trading price on March 31, 20X6) and the carrying amount of the Xcoin ($50,000). In this case, the adjustment results in an unrealized gain being recognized in XYZ's income statement.

Sale of Xcoin

Assume that XYZ sells all of its Xcoin on April 15, Year 6 on Exchange C for a price of $64 per unit. However, the price of Xcoin on Exchange A, XYZ's principal market, immediately before the sale was $62 per unit. Further assume that selling crypto assets is not part of XYZ's ongoing major or central activities (i.e. such that the sale of the Xcoin is *not* revenue for XYZ).

XYZ therefore records the following journal entries to, first, remeasure its holdings of Xcoin under Subtopic 350-60 and then derecognize and record the crypto assets under Subtopic 610-20.

	Debit	Credit
Crypto intangible assets[1]	2,000	
Unrealized gain on crypto assets		2,000
To remeasure crypto intangible assets prior to sale.		
Cash	64,000	
Crypto intangible assets		62,000
Realized gain (loss) on crypto assets[2]		2,000
To recognize sale of crypto intangible asset.		

Notes:

1. XYZ must remeasure its Xcoins to their fair value immediately prior to their sale. The remeasurement is equal to the difference between 1,000 units × $62 (the market price in XYZ's principal market of Exchange A) and XYZ's carrying amount of the crypto intangible assets ($60,000). In this case, the remeasurement results in an unrealized gain being recognized in XYZ's income statement.
2. Although Xcoin is remeasured to its Topic 820 fair value immediately before the sale, a gain still results on the transaction because XYZ sold Xcoin on an exchange that is not its principal market. Therefore, the difference between the proceeds received and the Topic 820 fair value of Xcoin results in a realized gain of $2,000 on sale. In accordance with Question 5.4.20, and considering that the proceeds from the sale are not revenue, XYZ presents this realized gain as an item of operating income in its income statement.

4. Accounting for crypto intangible assets under Subtopic 350-30

Detailed contents

Questions

Question 4.4.10 Is it acceptable to co-mingle multiple units of a crypto intangible asset for purposes of assessing impairment?

Question 4.4.20 What are acceptable methods to determine the cost basis and/or carrying amount of Subtopic 350-30 crypto intangible assets?

Example

Example 4.4.10 Multiple purchased tranches of a crypto intangible asset – impairment and sale

4.5 Derecognition

Question

Question 4.5.10 Is a crypto intangible asset derecognized when it is transferred to a third-party wallet?

4.1 How the standard works

This chapter addresses the accounting for crypto intangible assets accounted for under Subtopic 350-30 (Subtopic 350-30 crypto intangible assets). See chapter 2 for scoping guidance.

Recognition and initial measurement

Subtopic 350-30 requires that crypto intangible assets be recognized and initially measured at cost, plus any transaction costs or fees. This is the case regardless of whether the asset is in the scope of Subtopic 350-30 or Subtopic 350-60.

Subsequent measurement

Subsequent measurement under Subtopic 350-30 first depends on whether the crypto intangible asset has a finite or indefinite useful life. Crypto intangible assets are typically determined to have indefinite useful lives because there are no legal, regulatory, contractual, competitive, economic or other factors that limit their useful life to the holder. Indefinite-lived intangible assets are not amortized, but rather tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the carrying amount of the asset exceeds its fair value, an impairment loss is recognized in the income statement.

Derecognition

Subtopic 350-30 does not provide explicit guidance on derecognizing crypto intangible assets. Therefore, entities must apply the general derecognition guidance in Subtopic 350-10, regardless of whether the crypto intangible assets are in the scope of Subtopic 350-60 or Subtopic 350-30. That guidance requires entities to apply the derecognition guidance in Subtopic 610-20, unless a scope exception applies, such as when the counterparty to the sale or transfer is a customer (in which case, Topic 606 applies).

4.2 Recognition

Excerpt from ASC 350-30

25-1 An intangible asset that is acquired either individually or with a group of other assets shall be recognized.

25-4 Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination, an acquisition by a not-for-profit entity, or a joint venture upon formation may qualify for recognition even though they do not meet either the contractual-legal criterion or the separability criterion for being an **identifiable** asset (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

Crypto intangible assets are recognized under Subtopic 350-30 when acquired, whether individually or with a group of other assets (other than through a business combination, an acquisition by a not-for-profit entity, or a joint venture upon formation). This recognition principle applies to crypto intangible assets in the scope of Subtopic 350-30 or Subtopic 350-60. [350-30-25-1, 25-4]

However, an entity recognizes crypto intangible assets only if it is the accounting owner of such assets. The ownership issue arises when (as is frequently the case), the crypto intangible assets are held by third-party custodians (see Question 4.2.10, which follows).

Question 4.2.10 How is the accounting ownership of third-party held crypto assets determined?

Background: Entities frequently purchase crypto intangible assets directly into a crypto wallet for which the entities do not control the private cryptographic keys (e.g. on an exchange or through a custodian). An entity purchasing crypto intangible assets in this manner evaluates whether it has, in fact, acquired (i.e. owns) the assets for accounting purposes.

- If so, the entity accounts for the crypto intangible assets in the same manner it would any such assets it self-custodies, and the third party responsible for holding the crypto intangible assets is solely a custodial service provider.
- If not, the entity instead has a crypto intangible asset receivable for which the third party is the obligor. The third party records the crypto intangible asset as its own and a liability to transfer that asset to the entity in the future. The entity's right to receive the crypto asset in the future and the third party's obligation to transfer that asset to the entity in the future are both evaluated under Topic 815 to determine whether they are, or include, a derivative (see KPMG Handbook, Derivatives and hedging).

Interpretive response: Currently, no explicit US GAAP exists on determining the accounting ownership of such crypto assets. Therefore, entities generally look to the nonauthoritative guidance in Question 10 of the AICPA guide, regardless of whether the crypto asset is a crypto intangible asset. Question 10 states that to make the accounting ownership determination, an entity (the 'depositor' as referred to in Question 10) generally evaluates whether it or the third party (or 'custodian' as referred to in Question 10):

- 'controls' the asset under the Topic 606 principle of control (i.e. which party has the ability to direct the use of and obtain substantially all the remaining benefits therefrom); and [606-10-25-25]
- has a crypto 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 Digital Asset Guide Q10]

Does the entity control when and whether to withdraw the assets?	Who has title, interest and legal ownership of the assets?	Does the third party obtain the right to sell, transfer, loan, encumber or pledge the assets?	What legal and regulatory frameworks apply?
Are the assets segregated from the third party's own assets?	Are the assets segregated from the entity's other assets?	Are the assets isolated from the third party's creditors in event of bankruptcy, liquidation, or otherwise?	Does the entity bear the risk of loss if the deposited assets are not retrievable by the third party?

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, we have observed the following additional considerations (not exhaustive) that also affect and/or assist in making the 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 entity and the third party may include provisions that ostensibly limit the entity's right to withdraw or transfer the crypto assets. For example, the third party may have the right to (not exhaustive):
  - restrict the size of certain transactions (e.g. the entity could be precluded from withdrawing all of its crypto 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 third party – e.g. to protect itself and personnel from legal liability or reputational damage; or, instead
— *significantly* restrict the ability of the entity to exercise control over the crypto assets.

In isolation, protective rights generally do not suggest the third party controls the crypto assets.

- **Holding the private keys is not determinative:** We believe an entity should *not* substantively weight that the third party could, by virtue of holding the private keys, decline to execute a valid transaction requested by the entity. Instead, an entity looks at the rights and obligations of the parties to execute transactions and assumes both parties to the custodial service agreement will abide by its terms and conditions.
- **Omnibus wallet considerations:** In a segregated wallet structure, the deposited crypto 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 entity's crypto 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 service arrangement is not, in our view, determinative to the accounting ownership evaluation. A segregated wallet does not necessarily mean the depositor controls the crypto assets, and an omnibus wallet does not necessarily mean the third party holder 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 service agreement requires a clear segregation of the entity's assets from other depositors' crypto assets and those proprietary assets of the third party (if any); and

  — the third party maintains a balance of crypto assets (by type of crypto asset deposit) greater than or equal to the total of its depositors' crypto asset balances in its custodial accounts. This may be legally required of crypto asset custodians in some jurisdictions.

  Either of these increases the likelihood that the entity is the accounting owner of the crypto assets.

- **Legal isolation of the entity's crypto assets:** Question 10 of the AICPA guide includes as a factor to consider whether the entity's crypto assets

would be isolated from the third party's creditors in the event of bankruptcy, liquidation or otherwise. 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:** In the context of the evaluation of which party controls the crypto asset, control is a binary concept. That is, either the entity controls the crypto asset, or the third party does; not both. Therefore, in situations where it is unclear whether one of the parties controls the crypto asset, it may often be relevant to evaluate the position of the *other* party. For example, if evaluating whether a depositor controls a crypto asset, and there is some measure of contrary or conflicting evidence, it may be useful to take the perspective of the third party holding the crypto asset and consider instead what evidence supports that *it* controls the crypto asset. When evaluating the issue this way, it may become clear that the third party does not control the crypto asset, or at least the evaluation could indicate where the preponderance of the evidence lies in this binary evaluation.

Example 4.2.10 Omnibus custodial wallets

ABC Corp. 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 service 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 service 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 service 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 service 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 service 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. to 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.

4.3 Initial measurement

Excerpt from ASC 350-30

30-1 An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4.

Excerpt from ASC 805-50

> Transactions

15-3 The guidance in the Acquisition of Assets Rather than a Business Subsections applies to a transaction or event in which assets acquired and liabilities assumed do not constitute a **business**.

Acquisition of Assets Rather than a Business

> Determining Cost

30-1 Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the **fair value** of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or **in substance nonfinancial assets** within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, the assets acquired shall be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

30-2 Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or **equity interests** issued) and no other generally accepted accounting principles (GAAP) apply (for example, Topic 845 on nonmonetary transactions or Subtopic 610-20), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20, the assets acquired shall be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

> Allocating Cost

30-3 Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in the preceding two paragraphs. The cost of a group of assets acquired in an asset acquisition shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to **goodwill**. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall be determined based on its relative fair value. See paragraph 805-50-55-1 for an illustration of the relative fair value method to assets acquired outside a business combination.

30-4 See paragraphs 740-10-25-49 through 25-55 for guidance on the accounting for acquired temporary differences in certain purchase transactions that are not accounted for as **business combinations**.

Crypto intangible assets are usually recognized at cost, which generally includes transaction costs (see Question 4.3.10). However: [350-30-25-1, 30-1]

- Subtopic 350-30 provides an exception for intangible assets acquired in a business combination, where the guidance in Topic 805 applies and the assets are measured at fair value (See KPMG Handbook, Business combinations, for guidance on accounting for assets acquired in a business combination).
- In addition, there are other scenarios whereby a crypto intangible asset is not initially measured at cost. The table that follows presents a non-exhaustive list of such scenarios and the corresponding initial measurement guidance applicable to each acquisition method, regardless of whether the crypto intangible asset is in the scope of Subtopic 350-30 or Subtopic 350-60.

Acquisition scenarios	Initial measurement guidance
Received as payment for a good or service	Topic 606 or Subtopic 610-20 (See Question 4.3.30)
Purchased using another crypto intangible asset	Subtopic 610-20 (See Question 4.3.40)
Acquired as part of a group of assets that is not a business	Subtopic 805-50 (See Question 4.3.50)
Received in a nonmonetary exchange subject to Topic 845	Topic 845 (See Question 4.3.60)
Received as payment for a financial asset (including a crypto financial asset)	Topic 860 (See Question 4.3.70)

Question 4.3.10 How are transaction costs accounted for in measuring crypto intangible assets?

Interpretive response: Subtopic 350-30 applies to the initial measurement of all crypto intangible assets, whether in scope of Subtopic 350-30 or Subtopic 350-60. Paragraph 350-30-30-1 therefore applies to all such assets, and this paragraph – by reference to paragraphs 805-50-30-1 – 30-2 – generally requires transaction costs incurred to acquire intangible assets to be capitalized. Transaction costs is not a defined term in US GAAP but is widely understood to refer to direct costs to acquire assets, and exclude indirect costs, such as G&A expenses (see Question 3.2.10 in KPMG Handbook, Asset acquisitions).

However, because fair value under Topic 820 is an 'exit price', we observe that capitalized transaction costs (an element of an '*entry* price') will generally be immediately written off when a Subtopic 350-60 crypto intangible asset is first remeasured to fair value or a Subtopic 350-30 crypto intangible asset is impaired to its fair value.

Question 4.3.20 Are 'gas fees' and other similar costs 'transportation costs'?

Background: Under Topic 820, transportation costs are not considered transaction costs (see Question E40 in KPMG Handbook, Fair value measurement). Examples of transportation costs include trucking, shipping, rail, pipeline, cartage and other costs incurred in the *physical movement* of an asset.

'Gas fees' generally refer to fees paid on a blockchain network to process and record a transaction, such as the transfer of a crypto asset or the execution of a smart contract. Despite Topic 820 not governing the initial measurement of crypto intangible assets, some have questioned whether gas fees in particular can or should be excluded from the initial measurement of an acquired crypto intangible asset on the basis of being transportation, rather than transaction, costs.

Interpretive response: No. We do not believe 'gas fees' or other similar costs are or should be analogized to transportation costs, because they are not incurred in the *physical movement* of an asset. Instead, we believe 'gas fees' and other similar costs are transaction costs and should, therefore, be capitalized as part of the initial measurement of a crypto asset (see Question 4.3.10). [820 Glossary, 820-10-35-9C]

Question 4.3.30 How is a crypto intangible asset initially measured if it is received as a payment for a good or service?

Interpretive response: An entity that receives a crypto intangible asset from another entity as payment for a good or service, including as payment for a crypto intangible asset, applies either:

- Topic 606 if the good or service is being sold/provided to a 'customer' (a counterparty that has contracted with the entity to obtain a good or service that is an output of the entity's 'ordinary activities'); or
- Subtopic 610-20 if the recipient of the good or service is *not* a customer.

See section 2.2 in KPMG Handbook, Revenue recognition, for guidance on identifying whether a recipient of a good or service is a customer.

In either case, the crypto intangible asset received in exchange for the good or service is initially measured at its contract inception date fair value. Changes in the fair value of a crypto intangible asset after contract inception do not affect the amount of revenue (Topic 606) or gain (Subtopic 610-20) recognized for the sale of the good or service. [606-10-32-21, 32-23, 610-20-32-3]

Question 4.3.40 How is a crypto intangible asset initially measured when it is purchased with a different crypto intangible asset?

Interpretive response: 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.

Regardless of whether Topic 606 (if the counterparty is a customer) or Subtopic 610-20 (if the counterparty is not a customer) applies, the acquired crypto intangible asset is initially measured at its contract inception date fair value. Changes in the fair value of a crypto intangible asset after contract inception do not affect the amount of revenue (Topic 606) or gain (Subtopic 610-20) recognized for the sale of the good or service. [606-10-32-21, 32-23, 610-20-32-3]

Section 4.5 addresses derecognition considerations related to the sold/transferred crypto intangible assets.

Question 4.3.50 How is a crypto intangible asset initially measured when it is acquired as part of a group of assets that is not a business?

Background: Subtopic 805-50 applies to the acquisition of a group of assets that do not constitute a business (an 'asset acquisition'). Our response below derives from section 4.6.10 and Question 4.6.10 in KPMG Handbook, Asset acquisitions, which contains an in-depth explanation on how to apply Subtopic 805-50's asset acquisition guidance.

Interpretive response: The cost of the acquired group of assets and liabilities assumed may differ from their combined fair value. However, unlike business combinations, asset acquisitions do not involve the recognition of goodwill or a bargain purchase gain. Instead, the total cost of the acquisition is allocated to the individual assets acquired, including the crypto intangible asset, based on their relative fair values.

When the cost of the group of assets is greater than the fair value of the group, goodwill is not recorded. The acquirer first confirms that all assets have been identified and allocated value. Once all assets have been recognized, the excess cost is allocated to the nonfinancial assets acquired. However, we do not believe that any of the excess cost should be allocated to indefinite-lived intangible assets, including crypto intangible assets, because that could result in an immediate impairment, which would be inconsistent with the general principle that there should be no immediate gain or loss recognized as part of an asset acquisition.

Similar to situations in which there is excess purchase cost, when the fair value of the net assets acquired exceeds the purchase consideration, a bargain purchase gain is not recorded. We believe an acquirer should generally allocate a bargain purchase amount in the same manner as excess cost except that the bargain purchase should also be allocated to indefinite-lived intangible assets,

including crypto intangible assets. We believe the difference for indefinite-lived intangible assets in this excess fair value situation (i.e. versus excess purchase cost) is appropriate because it would not result in an immediate recognition of an impairment loss.

Question 4.3.60 How is a crypto intangible asset initially measured when it is acquired in a Topic 845 nonmonetary exchange?

Background: In our experience, we have not encountered crypto intangible asset transactions accounted for under Topic 845. We believe this is because the scope of Topic 845 is generally narrow. That said, we believe it is possible that a crypto intangible asset exchange *could* be in the scope of Topic 845, as also acknowledged in the AICPA guide. [845-10-30-1, AICPA Digital Asset Guide Q9]

Interpretive response: It depends. Under Topic 845, the cost of the nonmonetary asset obtained in the exchange is measured at the fair value of the asset transferred to obtain it unless the fair value of the asset received is more 'clearly evident' than the fair value of the asset transferred. [845-10-30-1]

However, the acquired asset is measured at the carrying amount (after reduction for impairment, if any) of the asset transferred if: [845-10-30-3]

- the fair value of the assets exchanged is not determinable within reasonable limits;
- the transaction is an exchange of an asset held for sale in the ordinary course of business for an asset to be sold in the same line of business to facilitate sales to customers that aren't involved in the exchange; or
- the transaction lacks commercial substance.

Question 4.3.70 How is a crypto intangible asset initially measured when it is received as payment for a financial asset?

Interpretive response: A crypto intangible asset obtained from another entity as payment for a financial asset, including a crypto financial asset (e.g. a stablecoin that meets the definition of a financial asset) is initially measured at its fair value. Later changes in the fair value of the crypto intangible asset do not affect the gain or loss recognized on the sale of the financial asset. [860-20-30-1]

Chapter 7 of KPMG Handbook, Transfers and servicing of financial assets, provides in-depth guidance on sales of financial assets.

4.4 Subsequent measurement

4.4.10 Finite vs indefinite useful life

Excerpt from ASC 350-30

20 Glossary

Useful Life

The period over which an asset is expected to contribute directly or indirectly to future cash flows.

> Determining the Useful Life of an Intangible Asset

35-1 The accounting for a recognized intangible asset is based on its **useful life** to the reporting entity. An intangible asset with a finite useful life shall be amortized; an intangible asset with an indefinite useful life shall not be amortized.

35-4 If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term indefinite does not mean the same as infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon—that is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity. Such intangible assets might be airport route authorities, certain trademarks, and taxicab medallions.

The holder of a Subtopic 350-30 crypto intangible asset must determine whether that asset has a finite or indefinite useful life. This concept does not apply to crypto intangible assets in the scope of Subtopic 350-60 because such assets are always measured at fair value post-acquisition.

When a crypto intangible asset is determined to have a finite useful life, it is amortized over its 'useful life'. Useful life is the estimated period over which the asset is expected to contribute directly or indirectly to the entity's future cash flows.

However, crypto intangible assets are typically determined to have an indefinite useful life because there are no legal, regulatory, contractual, competitive, economic or other factors that limit their useful life to the holder. This has generally been the conclusion reached for holdings of common crypto intangible assets like BTC and ETH. [350-30-35-4]

If a Subtopic 350-30 crypto intangible asset is determined to have an indefinite useful life, it is not amortized. It is tested for impairment in accordance with the guidance that applies to all indefinite-lived intangible assets (see section 4.4.20). [350-30-35-1, 35-15]

4.4.20 Impairment

Excerpt from ASC 350-30

• > Intangible Assets Not Subject to Amortization

35-18 An intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

35-19 The quantitative impairment test for an indefinite-lived intangible asset shall consist of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an entity shall recognize an impairment loss in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis.

35-20 Subsequent reversal of a previously recognized impairment loss is prohibited.

> Unit of Accounting for Purpose of Testing for Impairment of Intangible Assets Not Subject to Amortization

35-21 Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another.

35-24 Indicators that two or more indefinite-lived intangible assets shall not be combined as a single unit of accounting for impairment testing purposes are as follows:

a. Each intangible asset generates cash flows independent of any other intangible asset (as would be the case for an intangible asset licensed to another entity for its exclusive use).
b. If sold, each intangible asset would likely be sold separately. A past practice of selling similar assets separately is evidence indicating that combining assets as a single unit of accounting may not be appropriate.
c. The entity has adopted or is considering a plan to dispose of one or more intangible assets separately.
d. The intangible assets are used exclusively by different asset groups (see the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10).
e. The economic or other factors that might limit the useful economic life of one of the intangible assets would not similarly limit the useful economic lives of other intangible assets combined in the unit of accounting.

The following table summarizes the impairment model that applies to Subtopic 350-30 crypto intangible assets that are determined to have an indefinite useful life.

Area	Application
Measuring impairment	The indefinite-lived intangible asset impairment model is a one-step comparison of the asset's carrying amount to

Area	Application
	its fair value determined under Topic 820. Any excess is recognized as an impairment loss. [350-30-35-19] Determining the fair value of a crypto intangible asset involves judgment, typically more so for newer or obscure assets. Section 3.3.20 provides guidance on determining the fair value of crypto intangible assets. That guidance applies to Subtopic 350-30 crypto intangible assets solely for purposes of identifying and measuring impairments.
When to test	Indefinite-lived intangible assets, including Subtopic 350-30 crypto intangible assets, are required to be tested for impairment annually. However, impairment testing may occur more frequently if impairment indicators ('triggers') are identified between annual testing dates. [350-30-35-18, 35-18B] For Subtopic 350-30 crypto intangible assets, consistent with SEC staff comments we have observed, entities should write them down to fair value whenever there is an observable transaction in which an identical asset is bought/sold in the entity's principal market at a price less than its carrying amount. This is true even if that lower price is an 'intra-day' price that recovers later that same day. Therefore, an entity that holds Subtopic 350-30 crypto intangible assets needs to carefully monitor for observable transactions in its principal market throughout the entire reporting period (including 'intra-day' transactions) to determine whether a Subtopic 350-30 crypto intangible asset has been impaired.
Reversing an impairment loss	Reversing an impairment loss is prohibited, even if the crypto intangible asset's fair value recovers by the end of the reporting period in which the impairment was identified. [350-30-35-20]
Unit of account	In general, each unit (or fractional unit) of a crypto intangible asset held by the entity is its own unit of account. This is because entities can usually sell or otherwise dispose of each unit (fractional unit) separately. [350-30-35-24] Question 4.4.10 and Example 4.4.10 discuss unit of account in further detail.
Presenting an impairment loss in the income statement	See section 5.4.10 on income statement presentation.

Question 4.4.10 Is it acceptable to co-mingle multiple units of a crypto intangible asset for purposes of assessing impairment?

Interpretive response: In general, no. Each unit (or fractional unit) of a Subtopic 350-30 crypto intangible asset held by an entity is its own unit of account for

assessing impairment. This is because entities can usually sell or otherwise dispose of each unit (fractional unit) separately. [350-30-35-24]

This means it is not appropriate to evaluate different crypto intangible assets or multiple units (or fractional units) of a single crypto intangible asset that have different carrying amounts for impairment as a group. Simply put, an average costing approach, which may offset an indicated loss in one crypto intangible asset unit (fractional unit) with an indicated gain in another, is not allowed.

Nevertheless, co-mingling multiple units (or fractional units) of a single crypto intangible asset for impairment testing purposes will have no practical effect on the testing outcome if those units have the same adjusted carrying amount at the impairment testing date. Multiple units may have the same carrying amount at an impairment testing date if they were purchased at the same price, or if they have previously been impaired down to the same adjusted carrying amounts. There may be some recordkeeping or other administrative benefit to recognizing all units of a crypto intangible asset purchased at the same time and for the same price as a single unit of account instead of maintaining a record of each unit separately. Similarly, if an entity changes accounting systems, there may be a recordkeeping or migration benefit to recording a single asset for all units of a crypto intangible asset that have the same carrying amount at that dates. Example 4.4.10 illustrates (1) assessing impairment for multiple tranches of an acquired crypto intangible asset, and (2) selling a portion of an entity's holdings thereof.

Question 4.4.20 What are acceptable methods to determine the cost basis and/or carrying amount of Subtopic 350-30 crypto intangible assets?

Interpretive response: US GAAP is not specific to what methods are allowed. However, we believe the first-in, first out (FIFO) and specific identification methods would typically be acceptable. Whatever method used should be applied consistently.

We do *not* believe the average cost method is acceptable to determine the cost basis or carrying amount for Subtopic 350-30 crypto intangible assets unless permitted by industry-specific US GAAP (e.g. Topic 946 for investment companies – see section 5.1.10 in KPMG Issues In-Depth, Accounting for crypto intangible assets by investment companies). This is because, consistent with the discussion in Question 4.4.10, entities can usually separately acquire, sell or otherwise dispose of each crypto intangible asset (or fractional unit thereof) such that each such asset (or fractional unit) is its own unit of account under Subtopic 350-30. [350-30-35-21 – 35-24, AICPA Digital Asset Guide Q8]

Example 4.4.10 Multiple purchased tranches of a crypto intangible asset – impairment and sale

ABC Corp. acquires multiple units of a crypto intangible asset, which does not meet the scoping criteria in Subtopic 350-60, at the dates indicated in the table

below. The current, total carrying amount of each tranche reflects its original cost less any impairments taken to date.

Tranche	Purchase date	Number of units	Carrying amount/unit	Total carrying amount
1	January 15, Year 1	125	19,500	2,437,500
2	July 1, Year 1[1]	30	33,500	1,005,000
3	July 15, Year 1[1]	20	33,500	670,000
4	April 15, Year 2	100	63,000	6,300,000
5	October 1, Year 2	75	53,500	4,012,500
		350[2]		14,425,000[2]

Notes:

1. The July 1 and July 15 units were initially purchased at $40,000 and $41,000 per unit, respectively. These units were impaired to their current carrying amounts because of a previous impairment, taken after the purchase dates.
2. The weighted average carrying amount per unit is $41,214 ($14,425,000 ÷ 350).

Scenario 1: Indicated impairment

On November 15, Year 2, ABC observes a precipitous drop in the quoted price of the crypto intangible asset in its principal market (a large cryptocurrency exchange) to $50,000 per unit.

ABC records a total impairment loss on that date of $1,562,500 ($1,300,000 on the 100 Tranche 4 units and $262,500 on the 75 Tranche 5 units). It is not relevant that the weighted average carrying amount per unit of the crypto intangible asset is $41,214 – i.e. less than the $50,000 fair value of a BTC on that date.

The November 15 impairment recorded by ABC is not reversed, even if the fair value of the crypto intangible asset recovers before the end of ABC's current reporting period (December 31, Year 2).

Scenario 2: Sale of 150 units

After recording the impairment in Scenario 1, ABC sells 150 units of the crypto intangible asset on December 15, Year 2 at a price of $51,000 per unit. There were no indications of impairment between November 15 (Scenario 1 impairment date) and December 15.

Because there is no way to specifically identify one unit of the crypto intangible asset from another, ABC must apply a reasonable, rational and consistent method to derecognize 150 units and calculate the gain on sale. ABC elects to use a first-in, first-out (FIFO) method in this respect. This means that ABC derecognizes all 125 Tranche 1 units and 25 Tranche 2 units. Consequently, ABC recognizes a gain on the sale of $4,375,000, calculated as follows (note: ABC concludes that selling crypto intangible assets is not one of its 'ordinary activities', and therefore the sale is subject to Subtopic 610-20 instead of Topic 606).

Tranche	Number of units sold	Ext. carrying amount (A)	Sale proceeds (B)	Gain on sale (B) – (A)
1	125	2,437,500	6,375,000	3,937,500
2	25	837,500	1,275,000	437,500
		3,275,000	7,650,000	4,375,000

4.5 Derecognition

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.

Entities apply the general derecognition guidance in Subtopic 350-10 to sales and transfers of crypto intangible assets, regardless of whether the crypto intangible assets are in the scope of Subtopic 350-60 or Subtopic 350-30. That guidance requires entities to apply the derecognition guidance in Subtopic 610-20, unless a scope exception applies, such as when the counterparty to the sale or transfer is a customer (in which case, Topic 606 applies). Question 9 of the AICPA guide expresses this same view. [350-10-40-1, 40-3]

Many entities that hold crypto intangible assets for investment purposes will conclude that sales of some or all their holdings are not sales to customers and, therefore, will recognize the gain (loss) on sale under Subtopic 610-20. However, applying Subtopic 610-20 instead of Topic 606 affects only income statement presentation – i.e. gross (revenue and cost of sales) versus net (gain

or loss). The timing and measurement of the sale should not be affected because the recognition and measurement principles are the same under Subtopic 610-20 and Topic 606.

Subtopic 610-20 relies on the transfer of control guidance in Topic 606 (see KPMG Handbook, Revenue recognition, for in-depth guidance thereon) 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 has the substantive right to repurchase that asset (or a substantially equivalent asset). This is because the transferee is constrained in its ability to direct the use of, and obtain substantially all the remaining benefits from, the asset because of the transferor's repurchase right. [606-10-55-66, 55-68, 610-20-25-6 – 25-7; ASU 2014-09.BC424]

In practice, it can be challenging to determine whether an entity's right to 'reobtain' a transferred crypto intangible asset (e.g. in crypto intangible asset lending, liquid staking, and certain third-party wallet scenarios) precludes derecognition. Section 8.3 and Question 8.3.50 address, respectively, the SEC staff's guidance on derecognizing loaned crypto intangible assets and when it is appropriate to analogize to that guidance (e.g. in liquid staking scenarios). Question 4.5.10 below addresses derecognition in the context of third-party wallet scenarios.

Question 4.5.10 Is a crypto intangible asset derecognized when it is transferred to a third-party wallet?

Background: An entity (i.e. often and herein referred to as a depositor) may transfer a crypto intangible asset it has appropriately recognized on its balance sheet to a third party to hold. For example, an entity may transfer a crypto intangible asset it has recognized on its balance sheet from an exchange wallet to a third party. In that case, the question arises about whether the entity should derecognize the transferred crypto intangible asset.

Interpretive response: In the case of a custodial service arrangement, by design, the depositor typically has the substantive right (other than for 'protective' reasons – see Question 4.2.10) to withdraw the crypto assets held by the third party. We understand there to be diversity in views about the effect of the depositor's return right on this question.

View 1: The return right precludes control transfer

The depositor's return right is, in effect, a call option (i.e. a repurchase right) such that the third party *cannot* obtain control of the crypto intangible asset, *even if* the third party can direct the use of the entity's crypto intangible asset while in its custody. Therefore, the depositor does not derecognize the crypto intangible asset. [606-10-55-66, 55-68, 610-20-25-6 – 25-7]

View 2: The return right alone does* not *preclude control transfer

The depositor's return right is substantively no different than a crypto intangible asset lender's return right in a callable loan, which the SEC staff concluded was

not akin to a call option or any other repurchase agreement of the nature contemplated in Topic 606 (see section 8.3). Therefore, the return right, on its own, does not mean the depositor should continue to recognize the crypto intangible asset.

Instead, the depositor should consider:

- the guidance in Question 4.2.10 around determining the accounting ownership of crypto assets purchased directly into a third-party wallet; and
- the SEC staff's views on when to derecognize loaned crypto intangible assets (see section 8.3).

Consideration of the two views

It remains an open question just how broadly and when entities can or *should* analogize to the SEC staff's crypto intangible asset lending guidance in scenarios that are not explicitly crypto intangible asset loans (see Question 8.3.50). We are not aware of the SEC staff opining on, or of a consensus in practice about, analogizing to that guidance in this question's scenario. Therefore, entities should consult with their auditors or other accounting advisors about the views expressed above. In the absence of further guidance from the FASB or from the SEC staff, we believe either View 1 or View 2 is acceptable if applied consistently.

However, as a practical matter, we believe that as long as the third party entrusted to hold the crypto intangible asset does *not* have the right to rehypothecate or otherwise direct the use of the asset, the depositor would generally not derecognize it under either view. It is only when the third party *does* have such rights that we believe a difference in accounting result could arise between the views.

5. Presentation and disclosure

Detailed contents

5.1 How the standards work

All crypto intangible assets are subject to general presentation and disclosure requirements regardless of whether they are in the scope of Subtopic 350-30 or Subtopic 350-60.

In addition, there are specific presentation and disclosure requirements that apply based on the Subtopic that applies to the crypto intangible asset.

- Subtopic 350-60 crypto intangible assets are subject to the specific presentation and disclosure requirements outlined in Subtopic 350-60.
  - Gains and losses from remeasuring crypto intangible assets to fair value are to be presented separately from changes in the carrying amounts of other intangible assets (e.g. impairment charges).
  - Required disclosures are extensive and include identifying the assets' cost basis and explaining in detail changes in the opening versus closing balance of the crypto assets balance sheet line item, among other disclosures.
- Subtopic 350-30 crypto intangible assets are subject to the general intangible asset presentation and disclosure requirements outlined in Subtopic 350-30.
  - The total amount of intangible assets not subject to amortization is disclosed by major asset classes.
  - For impairment losses, a description of the impaired asset, the events or changes in circumstances that led to the impairment, the amount of the loss, the method used to determine fair value, the financial statement line item in which the loss is presented, and the segment in which the asset is reported under Topic 280.

This chapter provides a summary of those requirements.

5.2 General presentation and disclosure requirements

5.2.10 Balance sheet

Excerpt from ASC 210-10

20 Glossary

Current Assets

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

Operating Cycle

The average time intervening between the acquisition of materials or services and the final cash realization constitutes an operating cycle.

> Classification of Current Assets

45-3 A one-year time period shall be used as a basis for the segregation of current assets in cases where there are several operating cycles occurring within a year. However, if the period of the operating cycle is more than 12 months, as in, for instance, the tobacco, distillery, and lumber businesses, the longer period shall be used. If a particular entity has no clearly defined operating cycle, the one-year rule shall govern.

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 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.

Question 5.2.10 Are crypto intangible assets classified as current or noncurrent assets?

Interpretive response: Neither Subtopic 350-30 nor Subtopic 350-60 address classification of crypto intangible assets as current or noncurrent on the balance sheet. Therefore, entities apply the general guidance in Topic 210 (balance sheet) to determine how to classify them. Section 3.3.30 in KPMG Handbook, Financial statement presentation, provides guidance on balance sheet classification of assets. [ASU 2023-08.BC43]

While intangible assets are *generally* classified as noncurrent assets on a classified balance sheet (see Question 3.3.60 in KPMG Handbook, Financial statement presentation), some entities classify crypto intangible assets as current assets.

We have observed the SEC staff question entities' classification of crypto intangible assets as current assets when the entity's basis for that classification is either not disclosed or does not appear anchored to the US GAAP definition of 'current assets'. In the latter case, the SEC staff has questioned current classification when disclosures cite only the intent to liquidate or the liquid nature of the crypto intangible asset(s), without stating whether liquidation is reasonably expected within the normal operating cycle or one year, whichever is longer (see Question 3.3.40 in KPMG Handbook, Financial statement presentation).

Entities should (1) be careful to classify crypto intangible assets as current assets only when they meet the definition thereof, observing that may be all or only a portion of an entity's holdings at the balance sheet date, and (2) ensure their disclosures reflect that. [210-10 Glossary]

Question 5.2.20 Is it acceptable to present crypto intangible assets under Subtopic 350-60 together with those under Subtopic 350-30 on the balance sheet?

Interpretive response: No. We believe that Subtopic 350-60 intentionally creates a distinction between crypto intangible assets accounted under Subtopic 350-60 and Subtopic 350-30. 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 Subtopic 350-60 crypto intangible assets, while Subtopic 350-30 crypto intangible assets would be considered 'other intangible assets'. [350-60-45-1, ASU 2023-08.BC42]

Therefore, we believe Subtopic 350-60 and Subtopic 350-30 crypto intangible assets are prohibited from being presented together on the balance sheet.

Question 5.2.30 Are Subtopic 350-30 crypto intangible assets required to be presented separately from other intangible assets on the balance sheet?

Interpretive response: It depends. Under Subtopic 350-30, an entity can: [350-30-45-1]

- elect to present all of its intangible assets as a single line item on the balance sheet; or
- present individual intangible assets or classes of intangible assets, such as Subtopic 350-30 crypto intangible assets, separately.

Subtopic 350-30 requirements notwithstanding, SEC registrants must comply with the presentation requirements in Rule 5-02 of SEC Regulation S-X, which requires those entities to separately present each class of intangible assets that is more than 5% of total entity assets. Any significant changes to intangible assets presented must be disclosed and explained in the notes to the financial statements.

5.2.20 Income statement

Excerpt from ASC 610-20

45-1 See paragraph 360-10-45-5 for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (**disposal group**).

Excerpt from ASC 360-10

> Long-Lived Assets Classified as Held and Used

• > Presentation of Disposal Gains or Losses in Continuing Operations

45-5 A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (**disposal group**) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

Question 5.2.40 How are gains (losses) from the sale of crypto intangible assets under Subtopic 610-20 presented in the income statement?

Background: A gain or loss may result from the sale (or other transfer) of a crypto intangible asset. For example (not exhaustive):

- **Subtopic 350-60 crypto intangible assets:** Despite the requirement to remeasure these assets to fair value on a recurring basis, including up to the point in time they are sold, a sale of an asset may occur at a price that is not equal to its Topic 820 fair value.

  For example, the sale may occur at a price that is not equal to its Topic 820 fair value either because it occurs outside the entity's principal market or the entity and the buyer may simply agree on a sale price that is not equal to fair value.

- **Subtopic 350-30 crypto intangible assets:** A gain can occur if the sale price (or consideration received in a transfer that is not a sale) (1) equals the asset's fair value but the then-current fair value exceeds the asset's cost-less-impairment based carrying amount (see Question 4.4.20 on appropriate methods for determining the carrying amount of an out-of-scope crypto intangible asset), or (2) exceeds the asset's fair value. A loss can occur if the sale price is less than the carrying amount of the asset.

Interpretive response: As outlined in Question 17.4.10 in KPMG Handbook, Revenue recognition, we believe all gains and losses recognized from the sale of nonfinancial assets (which includes crypto intangible assets) under Subtopic 610-20 should be presented in operating income (loss), if the entity presents a subtotal such as income (loss) from operations.

The SEC staff has stated that a registrant should report gains and losses that result from the disposition of long-lived assets as a component of other general expenses (i.e. in income from continuing operations) under Regulation S-X, with any material items stated separately. Further, the SEC staff has distinguished between other general expenses and selling, general, and administrative expenses, although both line items are included in operating income (loss). [S-X Rule 5-03(b)(6), 605-10-S99-1]

An entity is required to disclose where the gain or loss is reported in the notes to the financial statements if it is not separately stated on the face of the income statement. [360-10-50-3, 50-3A, 610-20-50-1]

5.2.30 Statement of cash flows

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

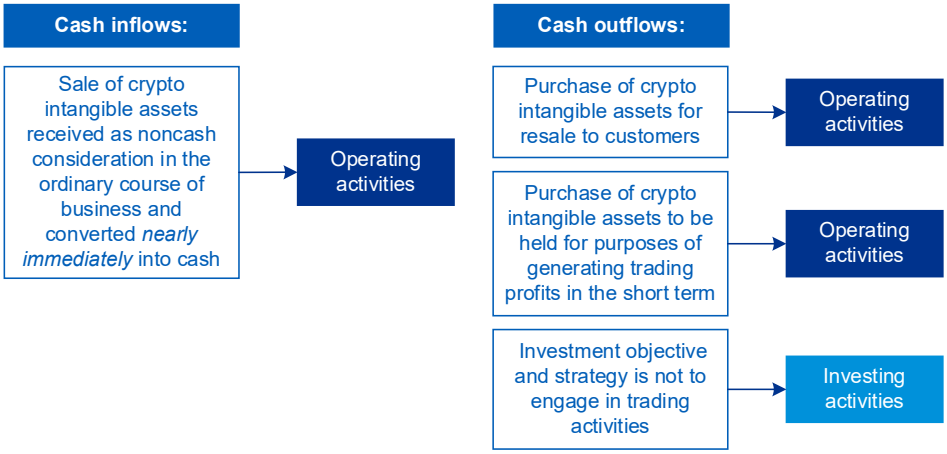
• > Cash Received with a Donor-Imposed Restriction That Limits Its Use to Long-Term Purposes

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).

US GAAP does not explicitly provide statement of cash flows guidance for crypto intangible assets, except for the near-immediate sale of crypto intangible assets received as noncash consideration in the ordinary course of business (e.g. for goods or services) or as donations by NFPs.

Similar to other instances where explicit classification guidance is absent, we believe it is generally appropriate to consider the nature of the activity that gives rise to the cash flows when determining statement of cash flows classification.

The following chart outlines some classification scenarios encountered regarding crypto intangible assets we address in this chapter. The guidance that follows is reproduced from chapter 24 of KPMG Handbook, Statement of cash flows.



Question 5.2.50 How do crypto intangible assets used as a means of payment affect the statement of cash flows?

Interpretive response: As explained in section 2.2, crypto intangible assets do not qualify as cash or cash equivalents. Therefore, purchases paid for with crypto intangible assets are noncash transactions, with the following consequences, depending on the nature of the activity.

- The effect of purchases of goods and services on the determination of net income is presented as a reconciling item in the reconciliation of net income to net cash flows from *operating* activities (see section 3.2 in KPMG Handbook, Statement of cash flows). [230-10-45-28]
- Purchases of PP&E and productive assets (see chapter 8 in KPMG Handbook, Statement of cash flows) are disclosed as *noncash* investing activities (see section 4.7.20 in KPMG Handbook, Statement of cash flows).

  This approach applies similarly to purchases of crypto intangible assets paid for with other crypto intangible assets. These transactions are disclosed as *noncash* investing activities, unless they affect net income, in which case their effect is presented as a reconciling item in the reconciliation of net income to net cash flows from operating activities.

Question 8.3.30 and section 8.3.40 discuss statement of cash flow presentation for crypto intangible asset lending activities of the lender and borrower, respectively.

Question 5.2.60 How are cash flows from sales or for purchases of crypto intangible assets classified by business entities?

Interpretive response:

Near immediate sale of crypto intangible assets in the ordinary course of business

Topic 230 specifies that cash received by business (i.e. for profit) entities from the near immediate sale of crypto intangible assets is classified as cash inflows from *operating* activities when the assets are received as noncash consideration in the ordinary course of business (e.g. for goods or services). [230-10-45-27A]

'Nearly immediately' in the context of cash flows from/for crypto intangible assets refers to a prompt conversion that should be interpreted as a short period of time. For entities other than NFPs (see 'Observation' that follows this Question), this means a matter of days, or even hours, rather than weeks. [ASU 2023-08.BC53]

Other cash flows

US GAAP does not explicitly address the classification of cash proceeds from other sales of, or cash payments to acquire, crypto intangible assets. It provides cash flow classification guidance for productive assets, and intangible assets are frequently treated as 'productive assets'. However, it does not define that term or indicate whether crypto intangible assets are productive assets. [230-10-45-12(c), 45-13(c)]

Therefore, judgment is required, considering all relevant facts and circumstances, when classifying cash flows from sales or for purchases of crypto intangible assets. In the absence of explicit guidance, we believe it is appropriate to consider the nature of the activity that gives rise to the cash flows. As examples, we believe that cash flows from sales or for purchases of crypto intangible assets should be classified as cash flows from (not exhaustive):

- **operating** activities when the crypto intangible assets are acquired for resale to customers, consistent with the classification of cash payments to acquire other goods for resale to customers; [230-10-45-16, 45-17]
- **operating** activities when the crypto intangible assets are held with the intended purpose of generating trading profits in the short term – i.e. with a holding period generally measured in hours and days, consistent with the definition of 'trading' in Topic 320; or [320-10 Glossary]
- **investing** activities when the entity's investment objective and strategy is not to engage in trading activities.

Observation Application of 'nearly immediately' for NFPs

The FASB observed that its description of 'nearly immediately' in paragraph 230-10-45-27A differs from that in ASU 2012-05, which states that "nearly immediately is synonymous with promptly and should generally be considered to be within days rather than months."[1] [ASU 2012-05.BC8]

[1]ASU 2012-05, Statement of Cash Flows (Topic 230)—Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.

Despite this, the FASB's intent is that it should be appropriate for NFPs to apply the same threshold to sale proceeds of donated crypto assets as to sale proceeds of donated financial assets. [ASU 2023-08.BC53]

Question 5.2.70 How are remeasurements and impairments of crypto intangible assets presented in the statement of cash flows?

Interpretive response: Remeasurement gains and losses (for Subtopic 350-60 crypto intangible assets) and impairment charges (for Subtopic 350-30 crypto intangible assets) are presented as reconciling items in the reconciliation of net income to net cash flows from *operating* activities (see section 3.2 in KPMG Handbook, Statement of cash flows). This is because those items are recorded through net income but are noncash items. [230-10-45-28(b)]

5.2.40 Disclosures

Entities are subject to the general disclosure requirements that apply to all intangible assets, regardless of whether they fall under Subtopic 350-60 or Subtopic 350-30.

Entities holding crypto intangible assets must provide the disclosures required by Topic 820. Those disclosures may differ for crypto intangible assets accounted under subtopic 350-60 versus Subtopic 350-30 because the former are remeasured at fair value on a recurring basis, while the latter are only remeasured on a nonrecurring basis. The disclosures required by Topic 820 are more extensive related to recurring fair value measurements. Chapter N in KPMG Handbook, Fair value measurement, discusses Topic 820's disclosure requirements in detail. [ASU 2023-08.BC57]

Entities 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), but this list does not include disclosures specifically required by Subtopic 350-60 (see section 5.3.20) or Subtopic 350-30 (see section 5.4.20).

- **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. Further, an

accounting policy is 'significant' if it has a material effect, either quantitatively or qualitatively, on the financial statements presented. See section 6.2 in 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 the safeguarding of crypto intangible assets for others or estimates used in determining fair value. See chapter 7 in KPMG Handbook, Financial statement presentation, for further guidance.
- **Related to specific classes of transactions:** Lenders of crypto intangible assets should provide the disclosures outlined in Question 8.3.40 and entities that record revenue from selling crypto intangible assets should provide those disclosures required by Topic 606 (see chapter 15 in KPMG Handbook, Revenue recognition).

5.3 Specific requirements of Subtopic 350-60

5.3.10 Presentation

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.

Subtopic 350-60 requires that gains and losses from remeasuring crypto intangible assets to fair value be presented separately from changes in the carrying amounts of other intangible assets (e.g. impairment charges). However, it does not address whether such gains and losses should be presented as operating or nonoperating. The FASB expressly decided *not* to specify operating or nonoperating treatment, observing "that an entity should classify gains or losses from the remeasurement of crypto assets as operating or nonoperating based on its facts and circumstances." [ASU 2023-08.BC48]

Question 4.3.80 in KPMG Handbook, Financial statement presentation, provides guidance to assist entities in determining whether an item for which there is not specific guidance is operating or nonoperating in nature.

5.3.20 Disclosures

Subtopic 350-60 requires entities to provide extensive disclosures related to crypto intangible assets in its scope in both annual and interim periods. The

following table reproduces those requirements *and* indicates whether each is required to be disclosed in interim *as well as* annual periods.

Subtopic 350-60 disclosure requirements	Interim	Annual
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. An entity shall disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant. [350-60-50-1]	✓	✓
An entity shall disclose both of the following: [350-60-50-2] 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.		✓
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: [350-60-50-3] 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.		✓
An entity shall disclose the following information about the reconciliation in paragraph 350-60-50-3: [350-60-50-4] 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.		✓
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. [350-60-50-5]		✓

Subtopic 350-60 disclosure requirements	Interim	Annual
An entity shall disclose the following information for crypto assets subject to contractual sale restrictions at the balance sheet date: [350-60-50-6] 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.	✓	✓
An entity with multiple crypto assets subject to contractual sale restrictions shall consider all of the following: [350-60-50-7] 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 d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.	✓	✓

Question 5.3.10 Is an entity required to duplicate the significant holdings disclosure if the same information is provided elsewhere in the financial statements?

Interpretive response: No. In the basis for conclusions to ASU 2023-08, the FASB observed that an entity is not required to duplicate the significant holdings disclosure required by paragraph 350-60-50-1 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]

Question 5.3.20 What are acceptable methods to determine the cost basis for Subtopic 350-60 crypto intangible assets?

Background: Although the financial statement carrying amount of crypto intangible assets under Subtopic 350-60 is always the asset's fair value (see section 3.3), entities are required to disclose the 'cost basis' of Subtopic 350-60 crypto intangible assets and the method used to determine that cost basis. In addition, entities are required to disclose realized gains and losses on asset sales, which depends in part on the crypto intangible asset's cost basis (see Question 5.2.40). [350-60-50-1 – 50-2, 50-4(b)]

Interpretive response: Subtopic 350-60 expressly refers to first-in, first out; specific identification; and average cost as acceptable methods. It further indicates that other (unspecified) methods may also be acceptable. Whatever

method an entity applies should be applied consistently. [350-60-50-2(a), ASU 2023-08.BC60]

Question 5.3.30 What constitutes a realized gain (loss) on the sale of a crypto intangible asset?

Interpretive response: Realized gain or realized loss refers to the difference between the disposal price and the original cost basis of the asset sold (see Question 5.2.40). 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 5.3.10 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 3. At December 31, Year 3, the fair value of the crypto asset has increased to $115. On January 15, Year 4, the crypto asset is sold at its then-current fair value of $105.

In its rollforward disclosure for Year 4, ABC includes a remeasurement loss of $10 (the difference between the fair value of the crypto asset as of the beginning of Year 4 and its final pre-sale fair value). However, when disclosing the cumulative amount of its crypto asset realized gains for Year 4, 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.

5.4 Specific requirements of Subtopic 350-30

5.4.10 Presentation

Excerpt from ASC 350-30

45-2 The amortization expense and impairment losses for intangible assets shall be presented in income statement line items within continuing operations as deemed appropriate for each entity.

Excerpt from ASC 360-10

Impairment or Disposal of Long-Lived Assets

> Long-Lived Assets Classified as Held and Used

• > Presentation of Impairment Loss for Long-Lived Assets to Be Held and Used

45-4 An impairment loss recognized for a long-lived asset (**asset group**) to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amount of that loss.

Question 5.4.10 How are impairment losses on crypto intangible assets presented in the income statement?

Interpretive response: Crypto intangible assets are subject to the financial statement presentation requirements that apply to intangible assets in general. Question 4.6.50 in KPMG Handbook, Financial statement presentation, outlines that impairment losses on intangible assets may be presented: [350-30-45-2 – 45-3, 35-11, 50-3]

- as a separate income statement caption; or
- together with amortization in the relevant income statement caption based on the use of the asset – e.g. cost of sales if the asset is a patent used in production (see Question 4.6.20 in KPMG Handbook, Financial statement presentation). The amount of the impairment loss and the caption that includes the loss are disclosed.

Question 4.6.50 in KPMG Handbook, Financial statement presentation, also states our view that such impairment losses should be included in operating income (loss), if the entity presents such a subtotal. [360-10-45-4]

5.4.20 Disclosures

Excerpt from ASC 350-30

> Disclosures in the Period of Acquisition

50-1 For **intangible assets** acquired either individually or as part of a group of assets (in asset acquisition, a business combination, acquisition by a not-for-profit entity, or a joint venture formation), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

…

b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.

…

This information also shall be disclosed separately for each material business combination or acquisition by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

> Disclosures for Each Period for Which a Statement of Financial Position Is Presented

50-2 The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

…

b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class

…

Example 13 (see paragraph 350-30-55-39) illustrates these disclosure requirements.

> Disclosures Relating to Impairment Losses

50-3 For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method for determining fair value
c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated
d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280.

50-3A A **nonpublic entity** is not required to disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition.

Subtopic 350-30 requires entities holding crypto intangible assets to provide detailed disclosures in financial statements. This includes:

- the total amount of intangible assets not subject to amortization and the breakdown by major asset classes; and [350-30-50-2]
- for impairment losses, a description of the impaired asset, the events or changes in circumstances that led to the impairment, the amount of the loss, the method used to determine fair value, the financial statement line

item in which the loss is presented, and if applicable, the segment in which the asset is reported under Topic 280. [350-30-50-3]

Question 5.4.20 Is an entity required to provide the disclosures relating to impairment losses for crypto intangible assets only held within one reporting period?

Background: An entity may acquire a crypto intangible asset and hold it for only a short period of time, perhaps only hours, and only within a single reporting period (e.g. within a single fiscal quarter for an SEC registrant).

Consider a scenario under which an entity purchases crypto intangible assets for resale to customers. It holds those assets, in general, only for hours. It records both the cost of those assets and any impairments thereof through the same income statement line item (e.g. cost of crypto assets sold). For example, assume, the entity purchases a crypto intangible asset for $200 at noon on Day 1, sells it for $220 at 3 pm on Day 1, and the lowest fair value of the asset during that three-hour period of time was $190 (at 1 pm). It will therefore record revenue of $220 and cost of crypto assets sold of $200 ($190 carrying amount at 3 pm plus the $10 impairment taken as of 1 pm) in its income statement. The question has arisen about whether the entity must make the Subtopic 350-30 disclosures relating to impairment losses for the $10 decrease in fair value that occurred during the entity's short holding period.

Interpretive response: Based on our observation of comments from the SEC staff, we believe an entity is required to make these disclosures for crypto intangible assets no matter how short the entity's holding period thereof (e.g. even if only hours).

The SEC staff's comments appear to align with the fact that there are no conditions attached to the impairment loss disclosures in Subtopic 350-30. There is nothing in those disclosure requirements that limits their applicability to only some types of intangible asset impairments (e.g. those incurred on intangible assets held for a minimum period of time or those that continue to be held by the entity as of its reporting period-end).

6. Accounting for NFTs

Detailed contents

Question 6.4.20 How is the customer identified when an intermediary is involved in the sale of an NFT?

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6.5 NFT marketplaces

Question

Question 6.5.10 Are there unique issues NFT marketplaces face in applying the principal versus agent guidance?

6.1 How the standards work

There is no US GAAP Topic or Subtopic that specifically addresses the accounting for NFTs. Determining the accounting model that applies to a particular NFT can be challenging and largely depends on two factors: (1) the specific rights and obligations conveyed by the NFT and (2) the role of the entity with respect to the NFT (i.e. as a purchaser, seller or NFT marketplace). In general, an entity's accounting for the sale or purchase of an NFT should not differ from the accounting that would apply if the same transaction had occurred 'off chain' (e.g. via a paper contract).

How this chapter is organized

This chapter addresses the accounting considerations based on the role of an entity with respect to an NFT transaction. Within each section of this chapter, we discuss specific accounting considerations under US GAAP.

6.2 Overview of NFTs

As discussed in section 1.3.40, NFTs are unique, non-fungible crypto assets recorded on a blockchain that represent ownership of a specific item (e.g. artwork, music or virtual real estate). Essentially, an NFT is a digital 'proof of ownership', not unlike having title to inventory or a deed to property.

However, unlike many crypto assets that are fungible and interchangeable (e.g. cryptocurrencies), NFTs are inherently unique and indivisible. This uniqueness enables provable scarcity and a verifiable origin, as buyers can trace an NFT's entire transaction history on the blockchain. Common examples and uses of NFTs include (not exhaustive, and many NFTs combine two or more of these):

- selling digital art or media;
- licensing digital art or media;
- licensing avatars and upgrades (e.g. new 'skins');
- providing virtual goods for gaming (e.g. weapons, clothing);
- selling tickets to virtual or real-world events;
- tokenizing ownership of physical items (e.g. collectible sneakers);
- offering exclusive or early access to future NFTs or events; and
- registering ownership of virtual and tangible assets on the blockchain.

The NFT ecosystem includes a range of participants that interact through blockchain-based platforms to create, buy, sell and trade crypto assets. At the center of this system are three key players: purchasers, sellers (often the creators or current owners of NFTs) and marketplaces. Each plays a distinct role in enabling the NFT ecosystem to function, leveraging smart contracts and decentralized infrastructure to facilitate transactions.

- **NFT purchasers** are individuals or entities who buy NFTs, often to collect digital art (to which they may obtain ownership or solely rights of use via license), participate in games, access exclusive content or invest in assets they believe will appreciate in value. Once an NFT is purchased, ownership of the NFT is recorded on the blockchain, giving the purchaser verifiable and transferable rights. In some cases, owning an NFT also unlocks special privileges for the purchaser like early access to content, participation in community decisions or future airdrops.
- **NFT sellers** can be the original creators of the content sold or licensed via the NFT – such as artists, musicians or developers – or merely owners of the NFT; for example, an NFT seller may have licensed the underlying IP from the creator or current IP owner for the purpose of minting an NFT. An NFT seller may also be a *reseller* of an NFT – i.e. the seller may not be the original seller or original owner of the NFT.

  Sellers often list their NFTs on a marketplace, setting a fixed price or auction terms.
- **NFT marketplaces** serve as digital platforms that bring buyers and sellers together. Examples include OpenSea, Blur and Rarible. Marketplaces often charge a transaction fee or commission, which serves as their principal source of revenue. Some marketplaces also provide wallet services (typically, non-custodial) for marketplace users.

NFTs almost always use smart contracts that automatically execute specific actions when pre-programmed conditions are met or specified events occur. A smart contract is essentially an 'if-then' statement programmed on to the blockchain. For example, an NFT smart contract can be as simple as *if* an NFT purchaser pays 5 ETH, *then* the NFT will transfer to the purchaser's digital wallet. An NFT smart contract may also be programmed such that if the NFT is resold, then 90% of the resale price is transferred to the reseller and 10% is automatically sent to the original creator as a royalty (commonly referred to as a 'sell-on royalty').

NFTs frequently give rise to *multiple* rights and obligations; for example:

- as **purchaser**, *rights* to an IP license and additional services and *obligations* to pay the promised consideration and abide by the terms of the IP license; and
- as **seller**, the *right* to specified consideration (e.g. initial sale price and sell-on royalties) and *obligations* to grant the IP license and provide the additional services.

The rights and obligations underlying an NFT can generally be identified from one or a combination of the following:

- the terms and features of the NFT's smart contract;
- terms and conditions (or terms of service) incorporated into the NFT via its metadata; and
- the protocols of the relevant blockchain on which the NFT was minted and resides (which both parties accept as a condition of transacting thereon).

A seller also needs to consider whether it has made any *implied* promises to its customer when it accounts for an NFT sale under Topic 606 or Subtopic 610-20 (see Question 6.4.50).

Complementary or related goods and services are also frequently part of the NFT transaction and should not be overlooked by either the NFT seller or the NFT purchaser in their accounting. Examples include the following (not exhaustive):

- **Hosting services** – e.g. the seller may promise to host (or pay to have hosted) the IP licensed under the NFT for a period of time to ensure its continued accessibility to the NFT holder;
- **Rights to specified or unspecified future benefits** – e.g. the seller may explicitly or implicitly promise the NFT holder (1) admittance to specified or unspecified future events or (2) early/exclusive access to future NFT releases (or 'drops');
- **Custodial or wallet services** – e.g. the seller may promise to hold (or custody) the NFT; and
- **Storage** – e.g. the seller may promise to store an underlying tangible good, such as an article of designer clothing or a piece of artwork, to which the NFT grants ownership rights for the NFT holder.

Depending on the circumstances, the jurisdiction that will govern the transaction (e.g. the State of New York) may be specified (e.g. in terms and conditions incorporated into the NFT's metadata). If not, judgment may be

involved in determining the laws and regulations that apply, and therefore whether any rights or obligations are created or nullified thereby.

6.3 NFT purchasers

6.3.10 Overview

To properly account for the purchase of an NFT, the purchaser must identify the rights it obtains. Then, it should generally account for those rights – both at and after it acquires them – in the same manner as if it acquired them differently (i.e. not through an NFT). Said differently, the purchaser did not acquire an NFT; instead, it acquired the rights conveyed by that NFT. Therefore, it accounts for those rights just as it would if it had obtained them through a conventional contract or transaction (that is not a business combination).

Below is a summary table of how an NFT purchaser would typically account for different types of rights obtained through an NFT purchase.

Nature of right obtained	Accounting treatment (and guidance)
Ownership of IP	Intangible asset (Topic 350)
License of IP	Intangible asset (Subtopic 350-40 if software; Subtopic 350-30 otherwise)
Virtual goods (including virtual real estate) in a virtual land (metaverse)	In general, we believe this would be accounted for as a software license (Subtopic 350-40)
Rights to unspecified future events or NFTs	Prepaid expense (Topic 340)
Hosting services	Prepaid expense (Topic 340)
NFT custodial services	Prepaid expense (Topic 340)
Ownership of physical, tangible goods (e.g. collectibles or designer clothing items)	Inventory (Topic 330) or PP&E (Topic 360)
Storage services (e.g. of physical goods)	Prepaid expense (Topic 340)

If multiple rights are obtained through the NFT purchase, the purchaser would generally allocate the consideration paid to the various rights on the basis of their relative fair values. Fair value is determined under Topic 820.

However, if the NFT conveys ownership of (or a license to) internal-use software, Subtopic 350-40 *requires* entities to allocate the consideration paid on a relative 'stand-alone price' basis. The stand-alone price of an element is 'the price at which a customer would purchase that component separately'. [350-40 Glossary, 350-40-30-4]

6.3.20 How the NFT is purchased

Question 6.3.10 How is the purchase of an NFT with a crypto intangible asset accounted for?

Interpretive response: NFTs are often purchased with crypto intangible assets (e.g. ETH or SOL) instead of cash. In that case, the transaction is accounted for by the NFT purchaser as the sale of the crypto intangible asset(s) in return for the noncash NFT goods and/or services. Topic 606 applies if selling crypto intangible assets is an ordinary activity for the NFT purchaser; otherwise, Subtopic 610-20 generally applies.

Under either Topic 606 or Subtopic 610-20, the NFT purchaser records goods and/or services it obtains with the NFT at their fair value. If a reasonable estimate of fair value cannot be made, it records the NFT rights and obligations by reference to the SSP(s) of the crypto intangible asset(s) transferred. [606-10-32-21 – 32-22]

Any difference between the amount recorded for the NFT rights and obligations and the carrying amount of the crypto intangible assets transferred results in income or loss at the time of purchase with gross (revenue and cost of goods sold) effect if under Topic 606 or net (gain or loss) effect if under Subtopic 610-20.

Question 6.3.20 How is the purchase of an NFT with a crypto financial asset accounted for?

Interpretive response: If an NFT is purchased with a crypto financial asset stablecoin (like USDC), the transaction is accounted for by the NFT purchaser as the sale of the crypto financial asset in return for the noncash NFT goods and/or services. Therefore, Topic 860 (transfers and servicing of financial assets) applies in determining whether a sale of the financial asset occurs and, if so, how to account for that. *If* a successful sale occurs, the acquired NFT goods and/or services are generally recorded at fair value. [860-20-25-4, 30-1]

KPMG Handbook, Transfers and servicing of financial assets, provides detailed guidance on applying Topic 860.

6.3.30 Purchaser-paid minting costs

In some cases, the NFT purchaser may be required to pay for the costs of minting the NFT.

Question 6.3.30 How does an NFT purchaser account for minting costs it incurs?

Background: In some cases, the NFT purchaser may be required to pay for the costs of minting the NFT. This includes scenarios in which the NFT is not minted until it has been purchased (a process often referred to as 'lazy minting') and the purchaser pays those costs at that time.

Interpretive response: We believe minting costs are no different from any other direct transaction costs incurred to acquire an asset. An acquirer generally includes direct acquisition-related costs in the cost-basis initial measurement of an acquired asset.

Section 3.2 of KPMG Handbook, Asset acquisitions, further discusses the accounting for asset acquisition transaction costs.

6.3.40 Sell-on royalties

Sell-on royalties in the context of an NFT are automatic payments made to the original creator each time the NFT is resold on a secondary market. These royalties are typically enforced by the NFT's smart contract, which directs a percentage of each resale price—often around 5–10%—back to the creator.

Question 6.3.40 How should an NFT purchaser account for sell-on royalties?

Interpretive response: Consistent with Question 3.5.10 in KPMG Handbook, Asset acquisitions, where each sale incurs an additional payment, we believe contingent consideration in the form of a sales-based royalty that is not in the scope of Topic 815 (derivatives and hedging) is generally recognized as a period cost when incurred. Because an NFT sell-on royalty is incurred only on reselling the NFT (and derecognizing any assets – e.g. an IP license – recognized thereunder), we believe a sell-on royalty would generally never be included in the cost basis of any assets recognized from the NFT purchase. Instead, we believe it should be recognized as a cost of the period in which the resale occurs.

6.3.50 NFTs held with third parties

Question 6.3.50 How should an entity account for NFTs held by a third party?

Background: In general, NFTs are digital 'bearer instruments', meaning the rights and obligations associated with the NFT accrue to the individual or entity that can prove ownership of the NFT. In general, crypto asset ownership is recognized on the blockchain by wallet address; that is, from a blockchain

perspective, the blockchain recognizes the owner of the NFT as the owner of the digital wallet to which the NFT was last transferred.

When a third party holds the NFT, the wallet address recognized as the NFT owner by the blockchain may belong to that third party instead of the depositor (i.e. the entity for whom the third party is holding the NFT), especially if the third party stores the NFT in an omnibus wallet.

Interpretive response: When a third party holds an entity's NFT, we believe the question arises about whether the depositor or the third party is the *accounting* owner of the NFT. If the depositor is deemed to be the accounting owner, it accounts for (1) the underlying rights and obligations conveyed by the NFT just as it would if no third party were involved and (2) the custodial/wallet service it receives in the same manner as any other service.

See Question 4.2.10 for further guidance on evaluating which entity (i.e. the depositor or the third party) is the accounting owner of a crypto asset when it is held in a third-party wallet.

Observation Third parties typically are not the accounting owners of NFTs

To date, we have not observed a scenario where a third party holder of an NFT has been determined to be the accounting owner of the NFT, but we believe the third party's and the depositor's accounting may depend on the facts and circumstances, including the specific terms of the third party custodial/wallet service agreement and the nature of the rights and obligations that underlie the NFT. We advise entities that believe they may be in this situation to consult with their auditors or other accounting advisors about their specific facts and circumstances.

6.4 NFT sellers

6.4.10 Overview

The appropriate US GAAP to apply to an NFT sale depends on the enforceable rights and obligations the NFT conveys, so there is not one single model that determinatively applies to all NFT sales. However, in general, most NFT sales we have observed to date are governed by either:

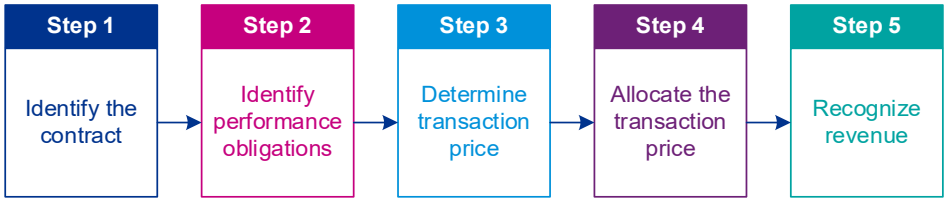
- Topic 606 if the goods and/or services conveyed by the NFT are an output of the seller's 'ordinary activities' (see section 2.2.10 of KPMG Handbook, Revenue recognition); or
- Subtopic 610-20 if they are not.

Our experience notwithstanding, an NFT sale transaction may not be entirely in the scope of either Topic 606 or Subtopic 610-20. For example, an NFT might convey the right to a good (e.g. license) or service in the scope of Topic 606 or Subtopic 610-20 *and* another element, such as a derivative subject to Topic 815 (derivatives and hedging) or a financial asset subject to Topic 860 (transfers and

servicing). Sections 2.4 and 17.2.60 of KPMG Handbook, Revenue recognition, discuss transactions that are only partially in the scope of Topic 606 or Subtopic 610-20, respectively, and partially in scope of another Topic.

As Subtopic 610-20 requires an entity to apply the principles in Topic 606 to determine the gain or loss resulting from the sale of a nonfinancial asset (see section 17.3.10 of KPMG Handbook, Revenue recognition), we do not differentiate in the accounting discussion in this section between NFT sales subject to Topic 606 and those subject to Subtopic 610-20.

In this section, we highlight key considerations around applying the Topic 606 five-step model to NFT sales.



The following are key questions that often significantly affect its application (not exhaustive).

What key questions should you be asking?

- Are you a principal to the sale of the NFT (i.e. instead of an agent)? If so, who is your customer for the sale (e.g. a purchaser or an NFT marketplace)?
- If IP is involved, does the purchaser acquire ownership of the IP or solely a license to that IP? If the latter, is the IP functional or symbolic?
- Is any part of the transaction price variable and, if so, is the variable consideration a sales- or usage-based royalty?
- Is the seller promising to host the underlying IP (e.g. digital media or image) for a period of time? If so, does the customer have the right, and is it feasible for the customer to take possession of a copy of the IP?
- Is the seller promising to provide or arrange for custody of the NFT?
- Is the seller promising, or offering the option, to store a physical good?
- Does the NFT provide the purchaser with any options (e.g. to buy specified or unspecified goods or services in the future) that it would not otherwise have but for the NFT purchase?
- If the NFT contains multiple performance obligations with different revenue recognition patterns (e.g. one performance obligation that is satisfied upfront, another that is satisfied over time or two performance obligations that are satisfied over different periods of time), how will the SSPs (sellers) of promised goods and services be determined?
- Will payments for the NFT be made in crypto intangible assets (e.g. ETH, SOL or FLOW)?

6.4.20 Identify the contract

Question 6.4.10 When does a contract exist under Topic 606 regarding the sale of an NFT?

Interpretive response: A contract likely exists under Topic 606 when the NFT transfers via its smart contract. At that point in time, the parties have fulfilled their respective obligations to trigger execution thereof. Correspondingly, we believe, in general: [606-10-25-1]

- the parties have accepted and approved the conditions of the smart contract necessary to transfer the NFT from the seller to the purchaser;
- the parties have accepted and approved any terms and conditions (or terms of service) incorporated into the NFT;
- the transfer has commercial substance – i.e. the seller now owns the digital assets or fiat consideration paid for the NFT, while the purchaser is now entitled to the rights (e.g. the right to use the underlying IP or to attend the specified event) conveyed by the NFT; and
- collectibility of the NFT transaction price is effectively certain because transfer of the digital asset or fiat consideration is a condition to execute the smart contract (i.e. the consideration transfers concurrently with the transfer of the NFT).

Question 6.4.20 How is the customer identified when an intermediary is involved in the sale of an NFT?

Interpretive response: An NFT issuer is a principal (versus an agent) to the initial sale of an NFT it issues. It is the issuer that decides to mint the NFT and sell the goods and/or services embodied therein. An entity that owns and then resells an NFT is similarly also a principal because it controls the rights conveyed by the NFT before it resells the NFT. [606-10-55-37, ASU 2016-08.BC13]

Therefore, a key question for an NFT seller is whether its customer for Topic 606 purposes is the NFT purchaser or, instead, an intermediary such as an NFT marketplace (if one is involved). When an intermediary such as an NFT marketplace is involved in an NFT sale, we believe the principal versus agent considerations guidance in Topic 606 provides an appropriate framework to make this determination.

If, under that guidance, the intermediary is the principal in the NFT sale to the purchaser, then the seller's customer is the intermediary. If, instead, the intermediary is solely an agent in that sale, then the seller's customer is the purchaser.

- If the purchaser is determined to be the seller's customer, the seller records the entire NFT fee paid by the purchaser as revenue, and any portion of that fee paid to an intermediary generally as an expense (*gross basis*).

- If the intermediary is determined to be the seller's customer, the seller records only the portion of the NFT fee it receives from the intermediary as revenue (*net basis*).

Section 6.5 addresses principal versus agent considerations for NFT marketplaces.

6.4.30 Identify the promised goods or services conveyed by the NFT

The most complex step of the Topic 606 model applied to NFTs is often completely and accurately identifying the performance obligations (i.e. the units of account) arising from the NFT sale.

The first step in completely and accurately identifying the performance obligations in an NFT sale transaction is to completely and accurately identify all of the promises the seller makes to the customer.

It is important to recognize that these promised goods and services typically transfer *with* the NFT, meaning they transfer to all future purchasers (via resale) of the NFT. For example, an original NFT seller's promise to its customer to host the underlying IP or provide online gaming services on which a virtual good licensed via the NFT depends for its utility will typically transfer to all future purchasers (via resale) of the NFT. [606-10-25-18(g), ASU 2014-09.BC92]

In addition to the possibility of 'missing' one or more of these promised goods or and services (or others), an NFT seller may mis-identify one or more of them. For example, an NFT seller may not accurately identify when an NFT only conveys a right to use underlying IP instead of ownership of that IP.

Completely and accurately identifying the promised goods and services conveyed by an NFT can be complicated. In the Questions that follow in this section, we address key points of complexity.

Question 6.4.30 Is the NFT itself a promised good or service?

Interpretive response: The NFT itself is generally *not* a promised good or service (similar to how a written contract is not, itself, a promised good or service). Instead, it is the vehicle that identifies and, in some cases, facilitates the *transfer of* the promised goods and services.

Question 6.4.40 What are commonly identified promised goods or services in NFT-related arrangements?

Interpretive response: The following are goods and services often promised in NFT transactions (not exhaustive).

- Digital art or media (i.e. ownership thereof)
- Licenses to digital art or media
- Licenses to avatars and related upgrade features (e.g. upgraded 'skins')
- Virtual goods used on gaming platforms (e.g. weapons, clothing, enhanced player capabilities)
- Tickets to virtual or real world (IRL) events
- Physical assets such as precious metals, bonds or tangible collectible assets (e.g. character figurines or designer clothing items)
- Hosting services – e.g. the seller promises to host licensed IP for a period of time to ensure its continued accessibility to the NFT holder
- Rights to specified or unspecified future benefits – e.g. the seller may explicitly or implicitly promise the NFT holder (1) admittance to specified or unspecified future events or (2) early/exclusive access to future NFT releases (or 'drops')
- NFT custodial or wallet services – e.g. the seller may promise to hold (or custody) the NFT
- Physical goods storage – e.g. the seller may promise to store a physical good (e.g. artwork or a pair of designer sneakers) sold via an NFT

Question 6.4.50 Are implied promises considered when identifying the goods or services in an NFT?

Background: While promised goods and services are usually explicitly stated in a contract under Topic 606, promised goods and services can be implied. An implied promise exists if a customer has a reasonable expectation – e.g. based on specific statements, established business practices or published policies of the seller – that the seller will provide that good or service. An implied promise does not need to be legally enforceable to trigger seller accounting under Topic 606. [606-10-25-16, ASU 2014-09.BC87]

Interpretive response: Yes. An NFT seller should be cognizant of promises it may imply, for example, by its promotion of the NFTs (e.g. on its website or other forums) or other actions (e.g. a past practice of hosting exclusive NFT holder-only events or giving NFT holders early and/or exclusive access to other NFTs).

Another implied promise may be to provide NFT custodial or non-custodial wallet services, even if there is no fee associated with those services and they are not advertised as an added benefit of transacting with the NFT seller. In an NFT sale, a seller may provide the purchaser with custodial services or a non-custodial digital wallet in which the purchaser can hold NFTs acquired from the seller. Unless the NFT seller also provides such services to noncustomers for free (e.g. individuals or entities that have not purchased an NFT from the seller can transfer their NFTs or other digital assets acquired elsewhere into the provided wallet for no fee), the right to these free services likely gives rise to a material right performance obligation under Topic 606 to which a portion of the

NFT fee must be allocated (see Step 4: Allocate the transaction price). Section 8.5 discusses when an implied promise to provide crypto asset (including NFT) custodial services exists, and whether it grants the NFT owner a material right.

Question 6.4.60 Is the NFT seller's promise to provide the NFT goods or services or to transfer a right to those goods or services?

Interpretive response: When the NFT seller is the original issuer of the NFT (rather than another party), we believe it is generally the party granting the IP license, arranging the event(s) to which the NFT holder has rights, or 'dropping' the future NFTs to which the NFT holder gets early or exclusive access, and establishing the terms and conditions that apply to the NFT (e.g. is the party linked to the terms of service in the NFT's metadata).

By contrast, we believe an NFT reseller will typically conclude that its performance obligation is to transfer its *rights* to the goods and/or services embedded in the NFT, *not* to provide those goods or perform any services itself. In addition, the reseller is generally invisible to the purchaser (by virtue of blockchain anonymity). This contrasts with the NFT issuer that will typically remain visible and known to the resale purchaser as the licensor and service provider – e.g. in the NFT metadata, the NFT issuer remains named regardless of how many times the NFT is resold.

Question 6.4.70 What special considerations apply to determining if an NFT conveys ownership of or a license to IP?

Interpretive response: Ownership of the NFT should not be confused with ownership of the underlying IP (e.g. the digital art, image or video). In our experience, most NFTs only convey a *license* to the underlying IP. They do not convey actual legal ownership of the IP, even though the purchaser *does* own the NFT. For example, the terms and conditions incorporated in an NFT's metadata may state something akin to the following.

> *Subject to any specific terms and conditions provided by SELLER (if any), and subject to your continued compliance with these Terms and continued ownership of the Purchased NFT, we grant you a non-exclusive, non-transferable (except in connection with an ownership transfer of the NFT) license under SELLER's rights in the IP to use and display the IP associated with your Purchased NFTs, solely for your own personal, non-commercial use.*

Careful review of the terms and conditions associated with the NFT may be necessary, including involvement of qualified legal counsel, as we have observed some NFT terms and conditions are unclear about whether the underlying IP remains the legal property of the seller after the NFT sale is complete. Whether IP is sold or licensed is a legal question – i.e. Topic 606

does not have an 'in-substance sale' notion (see section 10.2.10 of KPMG Handbook, Revenue recognition) – and it can significantly affect the following.

- **Timing of revenue recognition:** If the IP is symbolic, an outright sale will be recognized on NFT transfer, while a license will be recognized over the license period (or term).
- **Accounting for any potential follow-on sales- or usage-based royalties:** Sales- and usage-based royalties attributable to a license are not recognized before the triggering sales or usage occur, while royalties attributable to an IP sale follow the general product sale variable consideration guidance, which means they are recognized upfront to the extent they are estimable and not at risk of reversal in future periods when the actual amount becomes known.

Question 6.4.80 How does an entity distinguish between an IP license and a subscription *service*?

Interpretive response: The licensing guidance in Topic 606 incorporates criteria from Subtopic 985-20 to distinguish between a software license and software-as-a-service (SaaS). If the Subtopic 985-20 criteria are not met, a software license does not exist for accounting purposes and the licensing guidance does not apply; instead the entity accounts for a SaaS performance obligation. [606-10-55-54(a), 985-20-15-5]

NFTs may grant rights to software (e.g. virtual goods to be used on online games); however, they more frequently grant rights to other types of IP (e.g. media content or digital images). Although the guidance outlined in the preceding paragraph explicitly refers to software, we believe other entities may find this guidance useful for deciding whether IP licenses exist in other IP hosting contexts (e.g. hosted media content). Question 10.2.30 and associated examples in KPMG Handbook, Revenue recognition, expand on this further.

Many NFT sales include a promise by the seller to host the underlying IP (or pay for its hosting on a distributed file network like Arweave) for a period of time. However, if the purchaser is contractually permitted to download the image, video or other IP onto its device(s), without significant penalty, and it is feasible for them to do so, we believe an IP license exists for Topic 606 accounting purposes. Determining whether a license exists is important when the underlying IP is functional IP (see Question 6.4.90); this is because revenue attributable to a distinct functional IP license is recognized upfront when the license is transferred, while revenue attributable to a service performance obligation is generally recognized over the service period.

Determining whether a license exists in these scenarios is separate from any question about whether that license is distinct from the hosting service; this is discussed in section 6.4.40.

Question 6.4.90 How does the categorization of IP as functional or symbolic affect the timing of NFT revenue recognition?

Background: Topic 606 categorizes IP as either: [606-10-55-59, ASU 2016-10.BC56 – BC57]

- **Functional IP:** IP that has significant stand-alone functionality – e.g. the ability to process a transaction, perform a function or task, or be played or aired – like software and media content; or
- **Symbolic IP:** All IP that is not functional IP; examples include brand, team and trade names, logos and franchise rights.

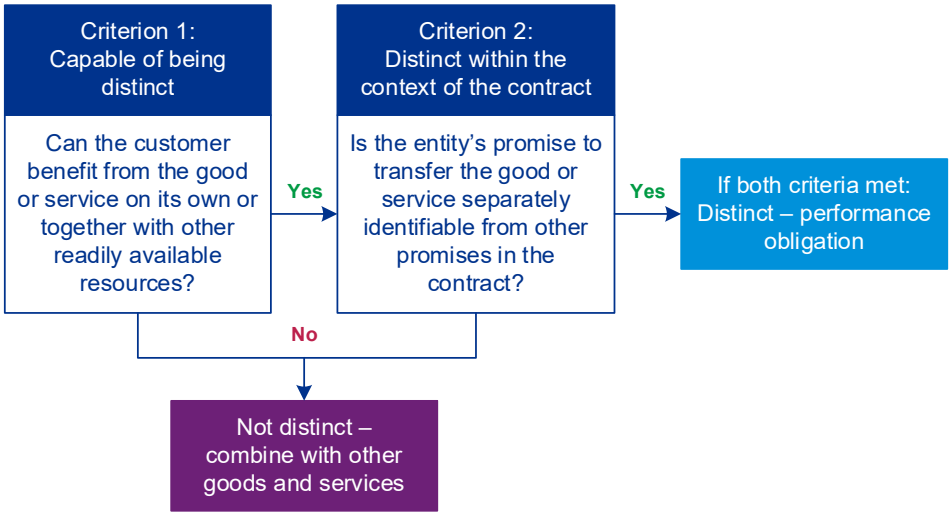
Interpretive response: The IP's categorization as functional or symbolic drives whether revenue allocated to a distinct license of that IP, conveyed by the NFT, is recognized at a point in time or over time. [606-10-55-58A – 55-58C]

- Functional IP license revenue is recognized at the point in time: (1) a copy of the licensed IP has been provided (or otherwise made available) to the customer and (2) the license term has commenced.
- Symbolic IP license revenue is recognized over the license period, unless the license is a perpetual license. In the case of a perpetual symbolic IP license, we would usually expect license revenue to be recognized over the remaining economic life of the licensed IP. However, if the IP has an indefinite economic life (e.g. in the context of NFTs, one might envision a beloved children's character image *could* have such an economic life) additional judgment may be necessary. Question 10.9.20 in KPMG Handbook, Revenue recognition, discusses this further.

6.4.40 Identify the separate performance obligations

After identifying the promised goods and services conveyed by the NFT (see section 6.4.30), a seller determines which of those promised goods and services are separate performance obligations.

Promised goods or services are distinct, and therefore accounted for as separate performance obligations (i.e. separate revenue units of account), when both of the following criteria are met. [606-10-25-19, 25-21]



Question 6.4.100 Are goods and services promised in an NFT sale transaction distinct from each other?

Interpretive response: In our experience, goods and services promised in an NFT sale transaction are frequently distinct from each other and, therefore, accounted for as separate performance obligations under Topic 606. For example:

- Consistent with most software hosting scenarios (see Question C300 in KPMG Handbook, Revenue for software and SaaS), we would generally expect the underlying IP (or a license thereto) to be distinct from any promise by the NFT seller to host that IP for a period of time.
- Most rights to specified or unspecified future events or additional licenses will be distinct from IP (or an IP license) transferred at the time of NFT sale. In our experience, the future events or additional IP rights *add* to those the purchaser obtains upfront rather than *transform* or significantly change or affect them. We believe the additive versus transformative relationship discussion in (1) section 4.3.40 of KPMG Handbook, Revenue recognition, and (2) Question C320 of KPMG Handbook, Revenue for software and SaaS, pertaining to unspecified additional software product rights further explains the basis for this conclusion.
- An article of designer clothing or a physical piece of art sold via the NFT and an associated service of storing that clothing or art for the NFT owner will typically be distinct from each other.

By contrast, NFTs are expanding into online video games and a license to a virtual game item may not be distinct from a promised hosting service if that item only has utility when playing the game online.

The above notwithstanding, determining whether promised goods and services are distinct from each other, especially in many IP licensing scenarios, can be complex and involve judgment based on the facts and circumstances. Chapter 4 of KPMG Handbook, Revenue recognition, and Chapter C of KPMG Handbook,

Revenue for software and SaaS, provide in-depth guidance on determining whether promised goods and services are distinct from one another.

Question 6.4.110 When is it acceptable to account for distinct NFT goods and services as a single performance obligation?

Interpretive response: Topic 606 permits an entity to account for concurrently delivered goods and services as a single performance obligation – and therefore, avoid having to allocate transaction price to each of them – if they have the same pattern of transfer to the customer, even if they are distinct from each other. [ASU 2014-09.BC116, ASU 2016-10.BC47]

For example, an NFT seller may grant the NFT purchaser a license to symbolic IP and promise exclusive access to unspecified future NFT drops. While these two promises are likely distinct from each other, the NFT seller may be able to account for them as a single performance obligation if it concludes (1) the performance period for each of these is the same (e.g. the expected economic life of the licensed IP) and (2) they are both access-type performance obligations for which a time-based revenue recognition pattern is appropriate.

6.4.50 Determine the transaction price

The following can create complexity when determining the 'transaction price' in an NFT sale transaction.

- First, the consideration for the NFT is often in the form of crypto intangible assets (e.g. ETH, WETH, SOL or FLOW) that constitute noncash consideration.
- Second, the transaction price *may* include variable consideration if the NFT's smart contract requires 'sell-on' (or 'sell-through') royalties (i.e. a percentage of any subsequent resale price of the NFT) be paid to the current seller.

Noncash consideration is measured at its contract inception date fair value under Topic 606; therefore, NFT sales revenue earned in crypto intangible assets should be measured based on the fair value at contract inception of the crypto intangible assets to which the entity is entitled. [606-10-32-21]

Variable consideration is ordinarily estimated at contract inception under Topic 606 and included in the total transaction price to the extent that a significant reversal of cumulative revenue is probable (i.e. likely) not to occur. The estimate is then revised as necessary at the end of each period until the amount becomes known.

Question 6.4.120 How does the noncash and variable consideration guidance affect the accounting for sell-on royalties?

Interpretive response: The presence of sell-on royalties may require application of both the noncash consideration guidance (because they are paid in crypto intangible assets) and the variable consideration guidance.

Noncash consideration

Because noncash consideration is measured at its contract inception date fair value, sell-on royalties earned significantly after contract inception may create complexity. For example, an NFT seller may earn a 1 ETH sell-on royalty two years after it initially sold the NFT. Ignoring any immaterial non-GAAP accounting policy the seller may be able to employ, the seller needs to recognize the 1 ETH sell-on royalty at the contract inception date fair value of ETH, not the fair value of that 1 ETH two years later when it earns the royalty. The difference between the ETH's fair value at (1) contract inception and (2) royalty recognition or receipt date does not affect the amount of revenue recognized. For example, if ETH had a fair value of $3,500 at contract inception and a fair value of $4,000 at the royalty earned (and received) date, the NFT seller should recognize revenue of only $3,500; the $500 difference does not affect recorded revenue. [606-10-32-21, 32-23]

Variable consideration

The NFT seller must determine whether:

- the licensing royalties exception, which precludes recognition of sales- or usage-based royalties earned on licenses of IP before the sales or usage giving rise to the royalty occur, applies to the sell-on royalty because a license to IP is the predominant element of the NFT (i.e. versus an associated service or right); or [606-10-55-65 – 55-65B]
- sell-on royalties not subject to the licensing royalties constraint should be constrained based on the general variable consideration constraint factors outlined in Topic 606; for example: [606-10-32-12]
  - — the amount of any such royalties is highly susceptible to outside factors, such as (1) whether the purchaser chooses to resell the NFT and (2) the market for the NFT if the purchaser chooses to do so; and
  - — the NFT seller's experience with NFTs may be limited or of little predictive value (e.g. because of the unique nature of the NFT).

Either of these circumstances would preclude the need for the NFT seller to estimate future royalties at the time of initial NFT sale. Sections 10.11 and 5.3.40 of KPMG Handbook, Revenue recognition, provide in-depth guidance on the license sales- and usage-based royalties exception and general variable consideration constraint, respectively.

In addition, there may be other circumstances where either the (1) variable consideration allocation exception or (2) 'as-invoiced' practical expedient apply. In those cases, like in the two circumstances above, the NFT seller would not

need to estimate future royalties (see sections 6.6 – 6.7 and 7.4.50 of KPMG Handbook, Revenue recognition, respectively).

6.4.60 Allocate the transaction price

Step 4 of the Topic 606 model requires an entity to allocate the transaction price (determined in Step 3) to each separate performance obligation (identified in Step 2) in a manner that depicts the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to the customer (the 'allocation objective'). [606-10-32-28]

The following chart summarizes this process. Chapter 6 of KPMG Handbook, Revenue recognition, outlines the requirements of Step 4 in detail.

<table>
<tr><th colspan="3">Allocation objective:</th></tr>
<tr><td colspan="3">Allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the consideration to which the entity expects to be entitled in exchange for transferring the goods or services (see section 6.2)</td></tr>
<tr><th>1. Determine stand-alone selling prices</th><th colspan="2">2. Allocate the transaction price</th></tr>
<tr><td>General principle: Use an observable price, if available, or estimate (see section 6.3)</td><td colspan="2">General model: Allocate based on relative stand-alone selling prices across all performance obligations (see section 6.4)</td></tr>
<tr><td></td><th>Exception 1:</th><th>Exception 2:</th></tr>
<tr><td></td><td>Discounts (see section 6.5)</td><td>Variable consideration (see section 6.6)</td></tr>
</table>

Question 6.4.130 Are there unique issues created by NFTs in applying the transaction price allocation model in Topic 606?

Interpretive response: In general, no. We do *not* believe NFTs raise unique issues around applying Step 4 of the Topic 606 revenue recognition model.

That said, we acknowledge that determining stand-alone selling prices (SSPs) for many NFT performance obligations could prove challenging. While determining SSPs is often a challenge (i.e. outside of NFT transactions), especially for license and related service performance obligations (e.g. software post-contract customer support, or PCS), some NFT goods and services may be especially new or unique (e.g. exclusive or early access rights to unspecified future NFT 'drops') such that (1) observable prices for them, or similar goods and services, are not available and (2) established practices for estimating the SSPs of those goods and services do not yet exist.

6.4.70 Recognize revenue

An NFT seller recognizes revenue for an NFT good or service in the same manner it would recognize revenue for that same good or service if it was contracted for in another manner (e.g. a paper contract). Chapters 7 and 10 of KPMG Handbook, Revenue recognition, address Step 5 of the Topic 606 revenue recognition model in general and with respect to licenses of IP, respectively.

The questions that follow reflect ones we have observed about applying Step 5 of the Topic 606 model to NFT sales.

Question 6.4.140 What constitutes delivery of sold or licensed IP?

Interpretive response: A copy of the IP sold or licensed via an NFT is generally not transferred together with the NFT. However if the NFT's metadata provides the necessary information to obtain a copy of the IP (e.g. the web or IPFS address) and that IP is available for immediate download when the NFT is transferred, we believe that is no different from the NFT seller physically or electronically delivering a copy of that IP (e.g. the video clip, art or character image) to the purchaser.

Question 6.4.150 Over what time period is virtual goods revenue recognized when those goods are licensed via NFT?

Interpretive response: The transferability of an NFT may affect the revenue recognition period for certain virtual goods sold via NFT for use in an online, hosted gaming environment. In particular, outside of NFT scenarios, gaming entities frequently recognize revenue for virtual goods over an average player life. When a virtual good is sold via an NFT, it is generally transferable from one player to another; this gaming transferability is an important use case for NFTs. When this is the case, it may not be appropriate for an entity to recognize revenue over only a single estimated player life. Instead, it may be more appropriate to recognize virtual good revenue over an estimated economic life of the virtual good.

Question 6.4.160 When is revenue recognized by an NFT reseller?

Interpretive response: As stated in Question 6.4.60, we believe a reseller's performance obligation in an NFT resale is typically to transfer its *rights* to the goods and services embedded in the NFT to the resale purchaser. Regardless of whether an underlying good or service would be transferred over time (e.g. a symbolic IP license or a service), we believe the reseller generally transfers its

right to that good or service at the point in time it transfers the NFT to the resale purchaser.

6.4.80 Accounting for NFT costs

NFTs do not exist until they are 'minted'. Minting is the process of, in effect, 'attaching' digital data to the applicable blockchain. Costs incurred by an issuer to mint an NFT are *not* the same as the costs to develop or acquire IP that will be licensed or sold via an NFT or to acquire a physical good (e.g. a unique article of clothing) the ownership of which will be transferred via an NFT.

Costs to mint an NFT may include (not exhaustive):

- blockchain transaction, or 'gas', fees; and
- costs to code the NFT's smart contract and metadata.

While minting NFTs bears some similarities to producing inventory, NFTs do not meet the US GAAP definition of 'inventory' because they are intangible. [ASC Master Glossary 'inventory']

Question 6.4.170 How does an NFT seller account for NFT minting costs?

Interpretive response: We are aware of different views on the accounting for minting costs. Two views about the guidance that applies to those costs are:

- **External-use software under Subtopic 985-20:** Minting costs are in the scope of Subtopic 985-20 (costs of software to be sold, leased or marketed) because they are incurred to create an externally transferrable software token and its underlying, executable smart contract (which resides externally from the issuer on the blockchain).
- **Non-software costs to which other US GAAP applies:** The guidance in Subtopic 926-20 (film costs) on 'exploitation costs' may apply if the NFT conveys a license to video IP, while the fulfillment costs guidance in Subtopic 340-40 (costs of contracts with customers) would apply if no other specific US GAAP applies (e.g. that on film costs). Those of this view do not believe the external-use software costs guidance applies because, while NFTs and their underlying smart contracts exist on a blockchain and therefore are *software-based*, they do not believe these items constitute 'software products' in the scope of Subtopic 985-20. [985-20-55-1]

In addition to different views about the guidance to apply, we are also aware of different views on what costs may qualify for capitalization under the different guidance. This is an emerging area of debate for which explicit US GAAP does not exist and we are unaware of any positions taken on the accounting for minting costs by the FASB or the SEC staff; therefore, we encourage entities to discuss their specific facts and circumstances with their auditors and other accounting advisors. We believe that the acceptability of one or both views outlined above, or another view, and what costs qualify for capitalization may depend on those facts and circumstances.

KPMG Handbook, Software and website costs, provides detailed guidance on the scope of and the accounting for external-use software development costs under Subtopic 985-20.

Chapter 12 of KPMG Handbook, Revenue recognition, provides guidance on the scope of and accounting for contract costs under Subtopic 340-40.

Question 6.4.180 How do creators of IP to be sold or licensed via NFT account for the IP development costs?

Interpretive response: Creators and owners of IP intended to be sold or licensed via an NFT account for their IP development or acquisition costs in the same manner as any other developer or acquirer of IP. That is, the creator or owner's intent or plan to sell or license its developed or acquired IP via NFT (i.e. versus another method) does not change how the entity accounts for its development or acquisition costs (e.g. under Topic 926 or Topic 928 for film or music costs, respectively).

6.5 NFT marketplaces

In our view, the key accounting question for NFT marketplaces is whether they are a principal or an agent for sales on their platform. Applying the principal versus agent guidance in Topic 606 requires judgment, often significant, and consideration of all relevant facts and circumstances. Chapter 9 of KPMG Handbook, Revenue recognition, provides in-depth guidance on applying the principal versus agent guidance in Topic 606.

Question 6.5.10 Are there unique issues NFT marketplaces face in applying the principal versus agent guidance?

Interpretive response: In general, no. We do not believe the principal versus agent considerations for NFT marketplaces are uniquely different or more complex than for other online or digital selling platforms (e.g. digital advertising platforms or software marketplaces). However, marketplace entities should be careful to properly identify the 'specified good(s) and/or service(s)'. The unit of account for the principal-agent analysis is *each* specified good or service. [606-10-55-36 – 55-36A]

As outlined above, the NFT itself is not a 'specified good or service'. Instead, the specified good(s) or service(s) to be assessed under the principal versus agent guidance are the underlying separate performance obligations (e.g. a distinct IP license or distinct custodial, storage or hosting service) – see sections 6.4.30 and 6.4.40. If the marketplace entity controls the specified good or service or a *right* to the specified good or service to be provided by another party (e.g. the NFT issuer) before that good, service or right embedded in the

NFT transfers to the NFT purchaser, the marketplace is a principal for that specified item. [606-10-55-37 – 55-37A]

Because under Topic 606 an entity assesses whether it is a principal or an agent for each specified good or service in a contract, and an NFT sale transaction may include *multiple* specified goods or services (e.g. NFT or other crypto asset custodial services – see section 8.5), it is possible an NFT marketplace could find itself a principal for one specified good or service and an agent for another. [606-10-55-36 – 55-36A]

7. Crypto mining and staking

Detailed contents

Question 7.4.40 Can an entity still be 'solo staking' if it uses a third-party's validator infrastructure?

Question 7.4.50 What accounting guidance does an entity apply to determine whether it is the principal to validation activities?

Question 7.4.60 Who is the customer for the validation activities undertaken?

Question 7.4.70 What is the 'specified good or service' in staking?

Question 7.4.80 Who is the principal to the specified validation service when multiple delegators stake the node/validator address?

Question 7.4.90 Who is the principal to the specified validation service when only a single delegator stakes the node/validator address?

Question 7.4.100 Are there factors that do not affect a staking principal-agent evaluation?

Question 7.4.110 Who is the principal to a specified delegation service?

Question 7.4.120 Are staking rewards 'revenue' or 'income'?

Question 7.4.130 If the transfer of staked tokens results in their derecognition, how should that be presented in the income statement?

Question 7.4.140 Is staking rewards revenue 'other revenue' or 'revenue from a contract with a customer'?

Question 7.4.150 When staking rewards are noncash consideration, how does that factor into staking rewards revenue (or income) recognition?

Question 7.4.160 How does the variable nature of staking rewards affect staking rewards revenue (income) recognition under Topic 606?

Question 7.4.170 How are additional receipt tokens to be received from a liquid staking protocol accounted for?

Question 7.4.180 How should additional receipt tokens be measured in the delegator's staking rewards revenue (income) recognition?

Question 7.4.190 How is staking rewards revenue (income) recognized when the delegator receives no additional receipt tokens while staked?

Example

Example 7.4.10 Liquid staking derecognition

7.1 How the standards work

There is no US GAAP Topic or Subtopic that specifically addresses the accounting for crypto mining and staking activities. In addition, the accounting for mining, staking and many other crypto asset-related activities, as well as the activities themselves, continue to evolve and can differ by blockchain.

The primary accounting questions that arise in practice relate to revenue recognition. Specifically, the timing and amount of revenue recognition, as well as principal vs. agent considerations when more than one party is involved in performing the mining or staking activities, dominate.

This chapter addresses specific accounting considerations for entities involved in mining and staking activities; see sections 7.3 and 7.4, respectively.

7.2 Background

As explained in chapter 1, blockchain technology relies on 'consensus mechanisms' to validate and add blocks of transactions to a distributed ledger. While different blockchain networks employ a variety of consensus mechanisms to validate transactions and secure their ledgers, the ecosystem is largely dominated by two models (for ease of reference, reproduced from chapter 1).

- **Proof-of-Work (PoW):** PoW is the original blockchain consensus mechanism introduced by the Bitcoin network; it is also used by blockchains like Litecoin and Dogecoin. Under this consensus mechanism, all of the nodes, referred to as 'miners', compete to solve a cryptographic puzzle. The first miner to solve the puzzle earns the right to validate the block and add it to the blockchain database.

  The 'puzzle' essentially involves identifying a random number, which may require trillions of guesses, to 'unlock' the blockchain so that new information can be added to it. This brute force work serves two purposes: (1) it makes attacking or rewriting the database prohibitively expensive and (2) it fairly randomizes which miner wins the right to validate the next block. Once the puzzle has been solved, the other nodes can easily check it to confirm the work was done correctly. Imagine trying to randomly guess the combination of a lock – it may take a significant amount of time to figure out the right combination, but once you do, someone else can easily verify it by entering the same combination you uncovered and making sure the lock opens using it.

- **Proof-of-Stake (PoS):** PoS is an alternative consensus mechanism used by blockchains such as ETH and Solana. Under this consensus mechanism, rather than competing to solve puzzles like with PoW, one node (or validator address)[1] on the network is selected to forge (or "build") the block and propose it for addition to the blockchain. The validator selected for this task is selected based on the amount of crypto assets locked up in the network as collateral in its name. Other validators on the network attest to the validity of the new block proposed by the selected validator, only after which it gets added to the blockchain. While staked, an entity cannot sell or transfer its staked crypto assets. The more crypto assets staked to a node (or validator address), the more likely it is that that node (or validator address) gets chosen to undertake validation activities (e.g. proposing the new block or attesting to the block proposed by another validator) that earn it rewards for doing so, similar to a lottery. Once selected, the validator checks that transactions in a proposed block follow the rules and then attests to the validity of the block. If a validator tries to cheat – e.g. by approving double-spends or invalid transactions – its stake can be 'slashed', meaning a portion of its crypto asset stake is partially or fully forfeited to the blockchain network.

[1] On most PoS blockchain networks each node corresponds to a single validator identity. However, on others – Ethereum most prominently – a node may operate many validator identities. The validator identity is the "validator of record" from the perspective of the blockchain network. Section 7.4 discusses this distinction, and its accounting effects, in further detail.

See chapter 1 for additional information about how blockchain technology works, including consensus mechanisms. The remainder of this chapter focuses on the accounting aspects for entities participating in crypto mining and staking activities on PoW and PoS blockchains, respectively.

7.3 Crypto mining

There is currently no explicit US GAAP that directly addresses the accounting for crypto mining activities, which are generally carried out in one of two ways: via solo mining or pooled mining.

Solo mining has significantly decreased in recent years. This is because the likelihood of mining a new block as a solo miner for major PoW cryptocurrencies like BTC has decreased substantially as solo miners generally have to compete against large mining pools. Therefore, pooled mining is predominant at present.

The primary accounting questions that arise in practice for crypto mining relate to revenue recognition for the transaction fees and block rewards miners earn for their participation in the PoW consensus mechanism, specifically (1) the timing of when revenue should be recognized, (2) measurement of the noncash consideration, in the form of block rewards and transaction fees, received and (3) in the case of mining pools, principal versus agent considerations.

The accounting models applied by miners may differ depending on whether they are solo miners or participate in mining pool arrangements. Therefore, we have organized this section to separately discuss the accounting for:

- solo mining activities (see section 7.3.10); and
- mining pool arrangements (see section 7.3.20).

7.3.10 Solo mining

In solo mining, an individual miner operates independently and competes against the entire network to solve the next block. If the solo miner is successful, they are entitled to the entire block reward and all associated transaction fees. However, the solo miner also bears all the costs associated with the mining process, including investments in hardware and infrastructure.

Question 7.3.10 What accounting guidance applies to transaction fees and block rewards for a solo miner?

Interpretive response: In general, Topic 606 will apply to both transaction fees and block rewards earned by a solo miner; however, some of the considerations differ.

Transaction fees

Transaction fees refer to fees paid by those network participants initiating the blockchain transaction (e.g. Person or Entity X sending five crypto asset units to Person or Entity Y).

Consistent with guidance in the AICPA Guide, we believe solo miners will generally account for transaction fees earned from those initiating transactions on the blockchain as revenue from a contract with a customer under Topic 606, provided mining is an 'ordinary activity' of the miner. Section 2.2.10 of KPMG Handbook, Revenue recognition, discusses what constitute ordinary activities under Topic 606. [AICPA Digital Asset Guide Q27]

If mining is *not* an ordinary activity of the miner, we believe the entity would usually still apply Topic 606 by analogy to recognize the transaction fees earned. Classification of this income as 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.

Block rewards

Block rewards refer to newly minted tokens created with each new block mined. They are therefore created by the blockchain protocol instead of paid by one of the parties to any transaction that is part of the new block.

Block rewards, like transaction fees, are typically recognized as revenue by solo miners. This is because mining is usually an output of the entity's ongoing major and central operations. However, whether that revenue is *Topic 606* revenue often requires further evaluation. This is because the miner is receiving the block rewards directly from the blockchain network, which is not a single 'entity' and, therefore, may not be considered a 'customer'. However, even if block rewards do not qualify as revenue from a contract with a customer, we believe miners would generally apply Topic 606 by analogy. [ASC Master Glossary 'revenue']

If recognized as 'other revenue' (i.e. outside the scope of Topic 606), block rewards revenue is presented separately from transaction fee revenue in the income statement or disclosed separately in the notes to the financial statements. [606-10-50-4a]

Question 7.3.20 How does a solo miner account for transaction fees and block rewards under Topic 606?

Interpretive response: Contract inception and the satisfaction of the miner's performance obligation generally occur simultaneously. That is, the miner's performance obligation is to provide validation services (i.e. which earns the transaction fees and block rewards), which are satisfied at the point in time that a transaction is successfully validated. It is also at this point that we believe the Topic 606 contract identification criteria are generally met. This is because, at this point: [606-10-25-1]

- the parties' enforceable rights and obligations, the transaction price and the payment terms are fixed and identifiable;

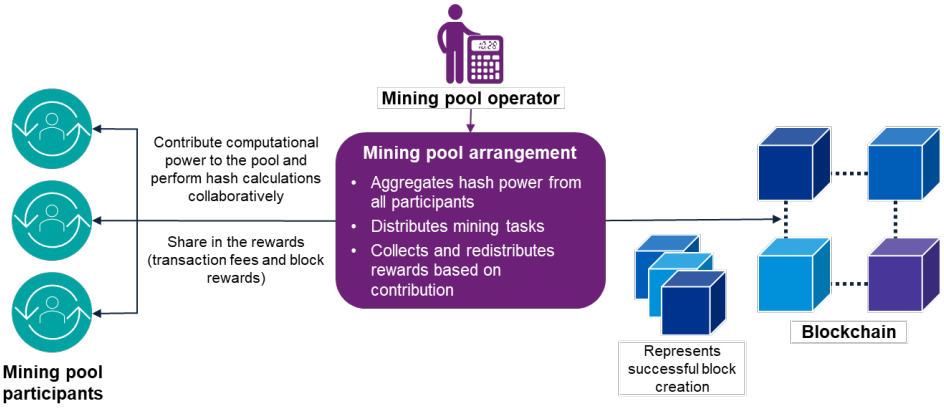
- the transaction is known to have commercial substance; and
- collection of the transaction fees and block rewards is probable (i.e. at the point the block is mined, these amounts have been paid as part of the newly mined block).

The transaction fees and block rewards, both paid in the native crypto asset of the blockchain (e.g. BTC on the Bitcoin blockchain), are noncash consideration and therefore are measured at their estimated fair value at contract inception. [606-10-32-21]

7.3.20 Mining pools

A mining pool is a collective of individual miners who combine their computational power to increase their chances of solving a block. Each mining pool has a 'pool operator' and 'pool participants'. The pool operator is the entity responsible for coordinating the group's effort, which involves distributing computational work to the participants and aggregating their contributions to solve a block on behalf of the entire pool. The participants are the individual miners who connect their hardware to the pool and contribute their computational power to the collective effort as directed by the operator.

When the pool successfully mines a block, the full reward – consisting of the block reward and transaction fees – is sent to the pool operator. The operator then takes a fee (usually, quite small) for managing the service and distributes the remaining rewards to the participants based on the proportion of computational work they contributed.



The specific mechanics of the payouts can vary based on different mining pool payout structures, such as (not exhaustive): the Full-Pay-Per-Share (FPPS), Pay-Per-Share (PPS) or success-based models. Some other models are a hybrid of those described below (e.g. PPS+).

- **FPPS:** Under this payout model, a participant's contribution to the pool is measured in 'shares', which represent its portion of the total computational work done by the pool. A participant receives a guaranteed payout per share, regardless of whether the pool successfully mines a block. The

payout rate is based on both the block reward and the transaction fees, making it a comprehensive 'full' payment for the work performed.

- **PPS:** Similar to FPPS, this payout model provides a guaranteed payment to the participant for every valid share of work, regardless of the pool's success in mining a block. The key difference is that the payout rate is based only on the block rewards and does not include transaction fees.
- **Success-based:** Unlike FPPS and PPS, under this payout model, participants are only compensated if and when the pool successfully mines a block.

Question 7.3.30 What accounting guidance applies to mining pool arrangements?

Interpretive response: It depends. The AICPA Guide describes a multi-step process for determining the appropriate accounting model. [AICPA Digital Asset Guide Q28]

Determine whether the arrangement is, or contains, a lease.

As discussed within this section, crypto mining involves specialized hardware (commonly, an Application-Specific Integrated Circuit, or ASIC, which is a specialized machine built to do only one specific task with extreme speed and efficiency). In the context of mining pools, determining whether a lease exists under Topic 842 involves evaluating if the operator (1) has the right to substantially all the economic benefits from use and (2) can direct the use of the mining pool participant's specialized hardware, considering all contract terms. If a lease is identified, the operator is the lessee and the participant is the lessor.

Typically, most mining pool arrangements do not include a lease because the nature of these arrangements generally does not grant the operator the right to direct the use of any identified hardware asset. Chapter 3 in KPMG Handbook, Leases, provides in-depth guidance on identifying leases.

If the arrangement does not give rise to a lease, determine the principal in providing the validation services.

Because the provision of validation services to the requestor/network in pooled mining involves more than one party (an operator and pool participants), the principal versus agent guidance in Topic 606 is applied to determine which party is the principal. [606-10-55-36]

If the pool participant is determined to be the principal to the validation services, then the participant would conclude it is providing validation services directly to the transaction requestor/network, and the operator would merely be an agent arranging for the participants to provide the validation services to the transaction requestor/network. In this case, the pool participant recognizes the full transaction fees and block reward as its revenue and the portion retained by the pool operator as a cost of that revenue.

Conversely, if the operator is determined to be the principal to the validation services, then the participant would conclude it is providing its services to the

pool operator, while the operator would conclude *it* is providing the validation services to the transaction requestor/network. In this scenario, the pool operator recognizes the full transaction fees and block reward as its revenue and the portion remitted to the pool participant as a cost of that revenue.

See Question 7.3.40 for further guidance on determining the principal in mining pool arrangements.

However, regardless of this determination about which party is the principal to the validation services, the participants and the operator need to assess whether the party to which they are providing services is a customer. If so, they account for the arrangement under Topic 606. If not, they need to assess the appropriate accounting model to apply, which may be Topic 606 by analogy (see Question 7.3.10).

Question 7.3.40 In applying Topic 606 to mining pool arrangements, who is the principal for the validation services?

Interpretive response: Determining the principal to the validation services in mining pool arrangements requires careful judgment and consideration of relevant guidance from Topic 606. The AICPA Guide provides a non-exhaustive list of questions companies might consider. [AICPA Digital Asset Guide Q28]

- Does the operator direct (i.e. assign) the mining pool participants?
- Is the participant or the operator primarily responsible for selecting the transactions to be mined, selecting the activities to be performed, placing the mined block on the blockchain and collecting rewards?
- Does the participant bear the risks and rewards of the mining activities? For example, is the participant compensated on a fixed basis per unit of computing power delivered or, instead, allocated a percentage only of the actual rewards earned based on the results of the mining activities?

In general, we believe the mining pool operator is typically the principal in mining pool arrangements. This is primarily because of the following.

- The pool operator is usually responsible for delegating the work to the participants (e.g. by using software that algorithmically selects individual participants) and directing the participants to contribute their hash calculations in areas selected by the operator.
- Participants usually enter into contracts directly with the operator, and do not have direct contracts with the blockchain network or the transaction requestor. Neither the transaction requestor, nor the blockchain network, will usually know that the pool participant was involved in any particular mining action.
- By contrast, the *pool operator's* wallet is typically recorded on the blockchain as the miner of record, further indicating the operator's primary role.

Question 7.3.50 How does an entity recognize rewards revenue as a mining pool participant?

Background: In this context, consistent with Question 7.3.40, assume that the mining pool operator is the pool participant's customer (i.e. because the operator is the principal in providing validation services to the transaction requestor/network and meets the definition of a customer under Topic 606).

Interpretive response: The following reflect key considerations, not necessarily exhaustive, by step of the Topic 606 revenue recognition model, for revenue recognition in the circumstances outlined in the background.

Step 1: Contract identification and contract term

In practice, mining pool arrangements typically allow each party (i.e. the participant and the operator) to unilaterally terminate the contract at any time without penalty. Consequently, the contract duration under Topic 606 does not extend beyond the period that can be canceled without penalty, which is generally only the period for which the participant actually provided services.

In essence, a mining pool arrangement is an evergreen contract that continuously renews throughout each day by virtue of neither party exercising its termination rights.

Step 2: Identify the performance obligation(s)

When the pool operator is the pool participant's customer (i.e. when the pool operator is the principal to the validation services – see Question 7.3.40), then the nature of the pool participant's performance obligation is a single service of providing computational power to the pool operator.

Step 3: Determine the transaction price

Noncash consideration

Under Topic 606, the crypto intangible asset rewards received by the mining pool participant (transaction fees and block rewards) are noncash consideration.

Under Topic 606, entities must estimate the fair value of noncash consideration as of contract inception. However, given the complexity involved with a constantly renewing pool participation contract (see *Step 1: Contract identification*), we have observed companies use two methods in practice to measure the fair value of the crypto intangible asset in which the rewards are denominated (e.g. BTC).

- Measure it using the spot price of the crypto intangible asset at a specific time of day (e.g. 23:59:59 Coordinated Universal Time) that is consistently used each day the participant provides services to the operator.
- Measure it using the simple average daily spot price of the crypto intangible asset for each day that the entity provides computing power to the operator.

We believe either approach (and possibly others) may be acceptable depending on the terms of the specific mining pool arrangement. Entities should consult

with their auditors or other accounting advisors about the approach they intend to take.

Variable consideration

In addition to being noncash, the rewards consideration is also variable because the share of the noncash rewards to which the participant is entitled depends on several variables. Examples include (not exhaustive):

- the participant's contributed hashrate relative to that of (1) the pool as whole *and* (2) the total blockchain network's implied hashrate (calculated based on network difficulty);
- the fluctuating amount of transaction fees;
- total subsidies expected to be generated on the blockchain network during the given period; and
- in success-based mining pool payout models, the likelihood of successfully mining a block.

Because the rewards consideration is variable, participants must consider the Topic 606 constraint on variable consideration. We believe that when a participant is compensated regardless of whether a block is successfully mined (e.g. in FPPS or PPS mining pool payout structures), it will usually have the ability to estimate at least a portion of the variable consideration to which it will be entitled with reasonable certainty such that the consideration will not be fully constrained until received or otherwise known. However, for success-based payout structures, it may be appropriate to constrain rewards that depend on the successful mining of a block until the block is successfully mined. The determination of when and whether the transaction price, and therefore revenue recognition, needs to be fully or partially constrained often requires significant judgment and depends on the specific facts and circumstances (e.g. the mining pool agreement, the payout structure and pool and/or blockchain protocol specific factors).

Section 5.3.40 of KPMG Handbook, Revenue recognition, provides guidance on applying the Topic 606 variable consideration constraint.

Step 4: Allocating transaction price

Because there is only a single performance obligation being satisfied, this step of the model does not apply.

Step 5: Recognize revenue

In general, rewards revenue is earned as the computational power is provided to the pool; that is, the pool operator benefits from the contributed hashrate at all times (i.e. each minute and second) it is being provided. As such, mining pool participants generally recognize the revenue to which they are entitled for contributing computational power to the pool on the same day such power is provided.

7.4 Crypto staking

There is currently no explicit US GAAP that directly addresses the accounting for crypto intangible asset staking. In addition, the accounting for staking activities, and the activities themselves, continue to evolve and can differ by blockchain. Therefore, the interpretive guidance herein may not provide the only acceptable views, or the only views currently being applied in practice. Our perspectives may change, practice may evolve, the FASB may establish US GAAP in relation to staking or the SEC staff may provide additional guidance. We will continue to update this crypto staking guidance for such developments. We encourage entities to discuss the specific facts of their staking activities and related accounting with their auditors or other accounting advisors.

The following subsections discuss the key accounting issues.

Section	Topic
7.4.10	Key staking concepts
7.4.20	Derecognition of staked crypto intangible assets
7.4.30	Determining the principal to validation activities
7.4.40	Staking rewards income statement classification
7.4.50	Applying Topic 606 – staking entity continues to recognize staked tokens
7.4.60	Applying Topic 606/Subtopic 610-20 – delegator derecognizes its staked tokens in liquid staking

7.4.10 Key staking concepts

The following are key concepts underlying crypto staking.

Concept	Application in this Handbook
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 (see section 1.2 for further information).
Staking	The act of posting crypto assets as collateral to a proof-of-stake (PoS) blockchain network either as (1) a 'validator' or (2) a 'delegator'.
Node	A device connected to the blockchain that maintains a full or partial copy of the blockchain.
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.
Delegator	An individual or entity that stakes its digital assets with a trusted validator instead of operating a node and validating blockchain transactions itself.

Concept	Application in this Handbook
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.
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' to differentiate them from the node and the validator *entity* operating the node hosting those validator addresses.
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 (1) in 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

Concept	Application in this Handbook
	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.

7.4.20 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.

Question 7.4.10 What accounting guidance applies to derecognizing staked tokens?

Interpretive response: 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 section 8.3) is also relevant to consider by analogy in the context of staked tokens.

Question 7.4.20 Are staked tokens derecognized by the staking entity?

Interpretive response: Generally, 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, lend or otherwise transfer 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 (see Question 8.3.10) do not exist.

When staked tokens remain recognized assets of the staking entity, it continues to account for them in the same manner as its other held crypto intangible assets (see section 6.2).

Liquid staking

We have observed an exception arise with respect to derecognition in 'liquid staking' (see section 7.4.10 for a description of liquid staking). As illustrated in Example 7.4.10, the staking entity derecognizes its staked tokens in this scenario.

Custodians and other third-party wallet service providers

Some crypto custodians and other third-party wallet service providers (e.g. certain exchanges) permit crypto asset owners to elect to stake (as delegators) the crypto intangible assets they hold. In general, if the crypto 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 derecognizes the crypto intangible assets from its balance sheet (see Questions 4.2.10 and 4.5.10).

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 encountered this scenario in practice.

Question 7.4.30 What does a staking entity recognize in place of derecognized staked tokens when liquid staking?

Interpretive response: In place of the derecognized 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.

Liquid staking receipt tokens, in general and by design, entitle the holder to redeem the crypto intangible asset(s) for which they were exchanged. Therefore, we would expect them 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). See Questions 2.2.40 and 2.2.50.

Example 7.4.10 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.[1]

[1]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 upon 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) 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.

7.4.30 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 sections 7.4.40 and 7.4.50).

Question 7.4.40 Can an entity still be 'solo staking' if it uses a third-party's validator infrastructure?

Background: We have observed that some entities contract for the use of third-party validator infrastructure (e.g. hardware, consensus client software, etc.). 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, instead, 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.

Interpretive response: We believe the entity's analysis here would look to the principal-agent guidance in Topic 606, and the entity would, in effect, still be 'solo staking' (i.e. staking its *own* validator node or validator 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 in Question 7.4.90; that is, 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 being provided to the blockchain network, 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 delegator(s) are involved

When a validator's stake includes the staked tokens of one or more delegators, the question arises about which entity, the validator or the delegator, is the principal to the 'specified service' of completing the required transaction validation activities (e.g. block proposals, attestations or synching). Is the validator providing this specified 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.

Question 7.4.50 What accounting guidance does an entity apply to determine whether it is the principal to validation activities?

Interpretive response: We believe an entity should look to the principal-agent guidance in Topic 606 to make this determination (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.

Questions 7.4.60 – 7.4.100 that follow address application of the Topic 606 principal-agent guidance to delegated staking.

Question 7.4.60 Who is the customer for the validation activities undertaken?

Background: The principal-agent guidance applies when there are multiple parties 'involved in providing goods or services to a *customer*.' [emphasis added] [606-10-55-36]

Interpretive response: 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.

Question 7.4.70 What is the 'specified good or service' in staking?

Background: 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. [606-10-55-36]

Interpretive response: In staking, we believe the specified service – for which the blockchain network pays staking rewards – 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.

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.

Multiple delegators vs a single 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 undertaking the validation activities is staked by multiple delegators or by only a single delegator.

Question 7.4.80 Who is the principal to the specified validation service when multiple delegators stake the node/validator address?

Interpretive response: 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 service.

- It is unclear how any single delegator in these scenarios could be deemed to control the specified validation service given (1) the blockchain network views the combined delegators' stake as a single pool/unit when assigning validation activities, and (2) no single delegator would appear to have control over how the validator 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.

Question 7.4.90 Who is the principal to the specified validation service when only a single delegator stakes the node/validator address?

Interpretive response: 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 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 blockchain 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 the validator address is configured.

Accordingly, the delegator's customer is the blockchain network, while the validator's customer is the delegator, to whom they provide 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 encourage entities with these facts and circumstances (and similar) to consult with their auditors or other accounting advisors, and potentially also the SEC staff, about their specific facts and circumstances.

Question 7.4.100 Are there factors that do not affect a staking principal-agent evaluation?

Interpretive response: Consistent with other principal-agent evaluations, we believe 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').[1] Direction of funds flow is generally not indicative of which party controls a specified service before it is provided, and in fact often runs *contrary* to the conclusion reached about which party involved in providing a specified service is the principal.

  [1]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)]

- **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. 10% or less, frequently much 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 validation activities beyond the delegator(s) and the validator. For example:

- In liquid staking (see Example 7.4.10), the delegator(s), the validator *and* the liquid staking protocol 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 which party is the principal to the specified validation service that is provided to the blockchain network, but also which party, if the validator is the principal to the validation service (see Question 7.4.90), is the principal to lending the use of the staked tokens to the validator (the "delegation service").

Question 7.4.110 Who is the principal to a specified delegation service?

Background: When the validator is determined to be the principal for the specified validation service provided to the blockchain network, the question arises as to which of the remaining entities is principal to *the specified delegation service provided to the validator*.

Interpretive response: Our response to this question addresses the two scenarios we have encountered in practice to date: liquid staking and intermediate delegation.

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).

Intermediate delegation

We have observed more variety in intermediate delegation fact patterns. In some scenarios, it is the intermediate delegator that enlists validators 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, the delegator 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 delegation service. 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 that the *delegator* is the principal to the specified delegation service. 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 the staking rewards revenue (or income) by the delegator.

7.4.40 Staking rewards income statement classification

Revenue or other income

The question that follows addresses whether staking rewards should be classified as revenue or as other income. Questions 7.4.130 and 7.4.140 address whether staking rewards determined to be revenue should be classified as revenue from a contract with a customer or as 'other revenue'.

Question 7.4.120 Are staking rewards 'revenue' or 'income'?

Interpretive response: 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 Question 7.4.140). [ASC Master Glossary 'revenue']
- If engaging in delegated staking is not revenue for the delegator, classification as 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.

Question 7.4.130 If the transfer of staked tokens results in their derecognition, how should that be presented in the income statement?

Interpretive response: If a delegator concludes that it should derecognize its staked tokens (see Question 7.4.20) 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).

This determination depends on the specific facts and circumstances. In the real-life fact pattern underlying Example 7.4.10 on liquid staking, 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'

The following question assumes the staking entity has already appropriately concluded its staking rewards should be classified as revenue instead of as other income (see Question 7.4.120).

Question 7.4.140 Is staking rewards revenue 'other revenue' or 'revenue from a contract with a customer'?

Background: 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 7.4.30).
- **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 7.4.30).

- **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 7.4.30).
- **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 7.4.30).

Multiple parties involved

When multiple parties are involved (see "Roles other than delegator and validator involved" in section 7.4.30), 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 the specified delegation service provided to the validator (see Question 7.4.110); 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 (see Question 7.4.110) – providing an agency service to both (i.e. to connect them with each other).
- **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 the specified delegation service provided to the validator (see Question 7.4.110); 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 (see Question 7.4.110).

Interpretive response: We believe revenue classification may be affected by which party is the staking entity's customer.

Transaction initiators, validators, delegators and intermediate delegators

We would generally expect 'revenue' (see Question 7.4.120) earned from these customers to qualify as revenue from contracts with customers, and therefore to be directly in the 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 from it 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 encourage entities in this scenario to consult with their auditors or other accounting advisors about their intended revenue classification.

7.4.50 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 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.

Question 7.4.150 When staking rewards are noncash consideration, how does that factor into staking rewards revenue (or income) recognition?

Interpretive response: Noncash consideration is measured at its contract inception date fair value under Topic 606 (see section 5.6 of KPMG Handbook, Revenue recognition, on noncash consideration); 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). [606-10-32-21, 32-23]

Contract inception

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.

Question 7.4.160 How does the variable nature of staking rewards affect staking rewards revenue (income) recognition under Topic 606?

Interpretive response: 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.

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

As outlined in Question 7.4.20, 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, upon redemption, each receipt token is worth more than it was when initially received.

Question 7.4.170 How are additional receipt tokens to be received from a liquid staking protocol accounted for?

Interpretive response: 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 Question 7.4.160 in the preceding section, whether and how the constraint applies in these scenarios will be affected by the facts and circumstances; however, it may not be appropriate to constrain all such variable staking rewards. For example, relevant experience may suggest it *is* 'probable' that the delegator 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 revenue (or income) reversal.

Question 7.4.180 How should additional receipt tokens be measured in the delegator's staking rewards revenue (income) recognition?

Interpretive response: Consistent with any other noncash consideration earned under Topic 606; it is measured at its contract inception date fair value under Topic 606. Therefore, staking rewards revenue paid in the form of additional receipt tokens should be measured based on the fair value of the tokens at contract inception.

Contract inception

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).

Question 7.4.190 How is staking rewards revenue (income) recognized when the delegator receives no additional receipt tokens while staked?

Interpretive response: In these liquid staking scenarios, we believe the delegator 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). That determination then affects the accounting for the staking rewards earned as described in the points that follow. We note that as of the date of this publication, we have not encountered the second scenario.

- 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. We believe 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 delegator 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 section 7.4.40) equal, generally, to a *portion* of the total gain (i.e. the difference between the fair value of the native tokens it receives upon redemption and the exchange date carrying amount of the receipt tokens) on the redemption exchange. We 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 taken on

the receipt tokens during the staking period does 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. the receipt token can now be redeemed for 1.05 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).

8. DeFi and other crypto asset application issues

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8.1 How the standards work

This chapter addresses the accounting for certain issues that arise from DeFi activities, primarily crypto asset lending and crypto asset wrapping. There is no US GAAP standard that specifically addresses the accounting for these types of activities; therefore, more generalized accounting standards and guidance apply (either directly or by analogy). The accounting and the activities themselves continue to evolve and can differ by blockchain.

While crypto asset lending and crypto asset wrapping are distinct activities with different economic objectives, the same fundamental accounting questions apply to both:

- whether to derecognize the loaned/deposited crypto intangible asset; and
- what to recognize in place of the crypto intangible asset, if it is derecognized.

In addition, this chapter addresses other miscellaneous crypto accounting application issues related to stablecoins and crypto custodial performance obligations.

8.2 Background

Decentralized Finance (DeFi) seeks to recreate familiar financial services – such as lending, borrowing and trading – on public blockchains, primarily by using self-executing computer code known as "smart contracts".

Unlike traditional finance, which relies on banks and other centralized entities, DeFi enables participants to lend, borrow, trade and generate returns on crypto assets directly with each other, without the participation of a centralized intermediary. In essence, the role of a centralized institution like a bank, which acts as a trusted intermediary to verify transactions and enforce rules, is replaced by transparent and automated computer code (i.e. the 'DeFi protocol').

However, to build such a system and for it to function effectively, DeFi must first address two fundamental challenges: crypto asset volatility and blockchain interoperability (i.e. crypto assets that are native to one blockchain cannot be used or transferred on another blockchain).

The first of these fundamental challenges, crypto asset volatility, creates *opportunities* for investors (including speculators). However, it often makes these assets unsuitable for the core functions of everyday finance activities. Presently, the primary solution to the volatility problem within the DeFi ecosystem is the stablecoin. As explained in section 1.3.20, a stablecoin is a class of crypto asset specifically designed to maintain a stable value by pegging its worth to an external asset, most commonly a fiat currency like the U.S. dollar. This is typically achieved by holding reserves of equivalent value to back the stablecoins in circulation. By providing a reliable unit of account, stablecoins serve as a foundational layer for DeFi, facilitating key financial functions.

The second challenge enumerated above is that the DeFi ecosystem is not comprised of a single, unified protocol or blockchain network, but rather a collection of distinct blockchain networks and protocols. This fragmentation creates a challenge of interoperability, as a crypto asset native to one blockchain (e.g. BTC) is not directly compatible with protocols on another blockchain (e.g. Ethereum). This effectively "silos" vast amounts of capital, preventing its participation in productive DeFi activities.

Presently, the majority of DeFi protocols operate on blockchains such as Ethereum and Solana that support complex smart contracts. Meanwhile, the Bitcoin network that supports the world's most capitalized and traded crypto asset (i.e. BTC), due to its distinct architecture, does not natively support these types of applications.

To bridge this divide between blockchains, the DeFi ecosystem utilizes 'wrapped tokens'. Section 1.3.70 details this class of crypto asset, but in short, a wrapped token is a crypto asset on one blockchain that represents a claim on an asset from another. For example, WBTC is an ERC-20 (Ethereum DeFi application compliant) token that is backed 1:1 by custodied BTC, while WETH is an ERC-20 token backed 1:1 by ETH held in a smart contract. Crypto wrapping unlocks the value and yield-generating capacity of otherwise non-compatible crypto assets to be utilized as collateral, supplied to lending protocols, staked or traded within a non-native DeFi ecosystem. Because of crypto wrapping, a holder of BTC (via obtaining WBTC or another wrapped

version of BTC) can access a wide array of Ethereum-based yield generating opportunities without liquidating its BTC holdings.

The foundational concepts of stability and interoperability enable a diverse range of DeFi activities. Currently, the DeFi ecosystem is mostly centered around activities mirroring traditional finance, most notably lending and borrowing. (Note: Liquid staking, discussed in section 7.4.10 and also very widely employed, is generally also considered a DeFi activity.)

While the concept of crypto lending and borrowing is straightforward – a lender loans crypto assets to a borrower in return for interest (most commonly, paid in the same crypto asset loaned) – the structure of such arrangements can differ significantly, but generally take one of two *forms*: direct lending and decentralized lending.

- **Direct lending:** A lender and an identified borrower enter into a loan agreement that, like fiat loans, enumerates the terms of the loan, such as the interest rate (or loan fees), duration and collateral requirements. Depending on the loan terms, the crypto asset loan may or may not have a stated maturity date and, in the absence of such a date, the lender generally has the right to call, and the borrower the right to repay, the loan at any time without penalty. From an operational standpoint, this structure closely mirrors traditional lending: one entity extends credit directly to another and the lender's risk is concentrated in the performance of that single counterparty. The lender has a direct receivable from the borrower, secured by specific collateral.
- **Decentralized lending:** Instead of lending to a specific person or entity, a lender contributes its crypto assets to a large, commingled 'liquidity' or 'lending pool' managed automatically by a smart contract. Borrowers then draw from this collective crypto asset pool, not from any single lender. The terms of the loan (including the interest rate, duration and collateral requirements) are not negotiated but, instead, determined algorithmically by the protocol based on supply and demand within the pool.

  When lending through a decentralized lending protocol, the lender does not have a direct receivable from a specific borrower. Instead, the protocol often (but not always) issues a unique crypto asset, referred to as a 'receipt token' (see section 1.3.60), to the lender upon its contribution to the pool. This receipt token represents the lender's claim on crypto assets in the pool and is, in itself, generally a liquid crypto asset that can be held, traded or used by the lender in other crypto transactions. For example, the lender can usually sell the receipt token (after which the new holder of the token obtains the lender's rights to the underlying crypto assets in the pool), post the token as collateral for a loan of its own or stake the token to earn additional yield.

To illustrate how these DeFi activities of crypto wrapping and decentralizing lending work together, assume an entity owns BTC. The entity has two simultaneous objectives: (1) to earn a yield on its BTC holdings, and (2) to gain access to liquid capital (in the form of a stablecoin) without selling its BTC. This can be achieved through the following steps.

- First, the entity brings its BTC to the Ethereum network by wrapping the BTC. It does this by sending its BTC to a custodian and receiving an

equivalent amount of WBTC, an ERC-20 Ethereum application compliant crypto token. WBTC is the key that permits the entity to interact with the yield-generating DeFi protocols it wants to access on the Ethereum network.

- Next, the entity deposits the WBTC into an Ethereum-based lending protocol's lending pool. In return, the protocol's smart contract sends the entity a protocol-specific 'receipt token'. This receipt token represents the entity's claim on its deposited WBTC capital. The entity will earn variable interest (or yield) on its deposited WBTC based on the pool's utilization rate.
- Lastly, the entity posts the receipt token as collateral to obtain a loan (as borrower) of a stablecoin (e.g. USDC). Assume the entity is able to obtain an interest rate on its borrowing that is favorable compared to the interest rate it is earning on its loaned WBTC.

In this manner, the entity is earning net interest (yield), while at the same time obtaining liquidity in the form of the stablecoin it borrowed and not losing the value (or triggering the tax consequences) of liquidating its investment in BTC.

To reverse the process and retrieve its original BTC plus accrued yield:

- First, the entity repays its stablecoin borrowing, unlocking its receipt token collateral.
- Next, the entity sends the receipt token(s) back to the lending protocol into which it deposited its WBTC. The protocol smart contract 'burns' the receipt token(s) and returns the equivalent number of WBTC, which equates to the principal deposit plus interest earned (all in WBTC), to the entity's wallet.
- Lastly, the entity unwraps its WBTC. The WBTC custodian burns the WBTC and releases the equivalent amount of actual BTC from its reserves, which are then returned directly (or through an agent) to the entity.

The net result for the entity is that it now holds more BTC than it had when it first initiated this sequence of transactions. The entity was also able to access liquidity even while participating in the yield-generating activities. The incremental BTC the entity now holds is the entity's yield earned for its participation in the DeFi lending protocol.

8.3 Crypto asset lending

Although US GAAP lacks explicit guidance on crypto asset lending, we believe, based on consultations with and public remarks of the SEC staff, that the lender accounting model differs for direct lending arrangements and decentralized lending protocols in important respects. Further, additional accounting considerations apply if the loaned crypto assets are crypto *financial* assets (see chapter 2). Therefore, we have organized this section to separately discuss accounting for each of the following.

- Direct lending arrangements involving crypto intangible assets (see section 8.3.10)

- Decentralized lending protocols involving crypto intangible assets (see section 8.3.20)
- Crypto financial asset lending (see section 8.3.30)

Regardless of which crypto asset lending activity an entity engages in, the borrower obtains a specific quantity of a crypto asset in exchange for paying interest, which is typically denominated in the same crypto asset borrowed under the loan. While the loan is outstanding, the borrower can generally deploy the assets at its discretion (e.g. by pledging them, selling them, etc.), bears the risk of loss or theft of those assets and otherwise has the ability to direct the use of the crypto assets transferred under such a lending arrangement. The accounting considerations relevant to crypto asset borrowers is discussed in sections 8.3.40 (crypto intangible asset borrowings) and 8.3.50 (crypto financial asset borrowings).

8.3.10 Lender accounting: Direct crypto intangible loans

When accounting for a direct crypto intangible asset loan, a lender determines:

- whether to derecognize the loaned crypto intangible assets (see Question 8.3.10);
- what to recognize in place of derecognized loaned crypto intangible assets (see Question 8.3.20);
- how to account for the loan, including interest, in the periods it remains outstanding (see Question 8.3.20);
- how to present the loan effects in its financial statements (see Question 8.3.30); and
- what disclosures are necessary (see Question 8.3.40).

Question 8.3.10 How does a lender assess whether to derecognize a loaned crypto intangible asset?

Interpretive response: Based on the views of the SEC staff, also outlined in Question 25 of the AICPA Guide, a lender should evaluate whether to derecognize loaned crypto intangible assets based on an evaluation of all relevant control and asset derecognition considerations, which would generally include (not exhaustive) whether:

- the lender has transferred the present rights to the economic benefits associated with the crypto asset for a different right to receive crypto assets in the future;
- the lender cannot sell, pledge, loan, or otherwise use the lent crypto assets while the loan is outstanding, as those rights have been transferred to the borrower;
- inherent in the realization of the economic benefits associated with the crypto asset loan receivable is exposure to credit risk of the borrower; and
- the borrower of the crypto assets can deploy those assets at its discretion for the duration of the lending arrangement and bears the risk of loss or

theft of those assets, and otherwise has the ability to direct the use of the assets transferred.

Consideration of the lender's right to the return of the crypto asset

By its nature, the loan grants the lender a forward (if there is a stated loan period) or a call option (if the loan is callable by the lender) on the loaned crypto assets. Over time, entities have questioned whether this precludes the lender from derecognizing the loaned crypto assets because of the repurchase agreements guidance in Topic 606, which generally precludes derecognition of a nonfinancial asset by a seller/transferor because the acquiree is determined to not obtain control of that asset because of the seller's call option or forward.

The SEC staff addressed this concern at the December 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments by stating their view that a crypto asset lender's right to the return of the loaned crypto intangible assets, on-demand (i.e. in a callable loan) or at the end of a fixed loan period (i.e. in a fixed term loan), is not akin to a call option or forward under Topic 606; and therefore, does not itself preclude derecognition by the lender of the loaned crypto intangible assets. The nature of crypto intangible asset lending arrangements is different than that of a repurchase agreement as described in Topic 606 for fact patterns in which the borrower can deploy the assets at its discretion, bears the risk of loss or theft of those assets and otherwise has the ability to direct the use of the crypto intangible assets transferred under such a lending arrangement.

Question 8.3.20 How does a lender account for a direct crypto intangible loan when it derecognizes the loaned crypto assets?

Background: See Question 8.3.10 for considerations around whether the lender in a crypto intangible asset loan should derecognize the loaned crypto intangible assets. Question 8.3.30 addresses financial statement presentation considerations for a lender, while Question 8.3.40 addresses disclosure requirements.

Interpretive response: At loan commencement, the lender (1) derecognizes the loaned crypto intangible assets and (2) recognizes a right to receive back in the future the loaned assets (a 'crypto asset loan receivable').

The crypto asset loan receivable is recorded at the then-current (i.e. time of transfer) fair value of the loaned crypto intangible assets. Any difference between the fair value of the loaned assets and their pre-transfer carrying amount is recognized as a gain in the income statement. Revenue (and related cost of goods sold) are not recorded on this exchange.

At loan commencement and throughout the loan period, the lender accounts for credit risk of the borrower (i.e. risk the borrower will not return the loaned crypto intangible assets), using the principles in Topic 326 (financial instruments – credit losses) to measure any credit impairment.

During the loan period

While the loan is outstanding, in addition to accounting for credit risk of the borrower (see above), the lender:

- continues to measure its crypto asset loan receivable at the fair value of the loaned crypto intangible assets, recognizing any gains or losses as a component of current period earnings each period the loan remains outstanding. We believe, to be consistent with the presentation of initial gains, gains or losses from changes in fair value should similarly be reflected in operating income (loss); and
- separately present and disclose (see Question 8.3.40) any crypto intangible asset loans with related parties.

While the SEC staff did not provide views on the accounting for loan fees, based on public remarks and other discussions with the SEC staff, we believe one acceptable approach to the accounting for loan fees is to respect the stated nature of the arrangement as a loan for purposes of loan fee recognition. Therefore, the loan fees would be accounted for in a similar manner to interest on a cash loan, even though the loan is of (and the loan fees will be paid in) nonfinancial crypto intangible assets. This approach results in recognizing the loan fee each month as it becomes due.

However, because the SEC staff have not provided official views on loan fee accounting, and crypto intangible (nonfinancial) asset lending arrangements differ from financial asset loans, other views about the appropriate or acceptable accounting for crypto intangible asset loan fees may exist. Lenders should consult with their auditors or other accounting advisors about the approach they intend to take.

End of loan accounting

At the end of the loan and repayment of the crypto asset loan receivable, we believe the lender should derecognize the receivable and re-record the loaned crypto intangible assets at the final, pre-derecognition carrying amount of the crypto asset loan receivable. Because the crypto asset loan receivable is marked to the fair value of the loaned crypto intangible assets until repayment, no gain or loss results from this end-of-loan accounting entry. Assuming the loan is repaid in full, any credit loss allowance related to the loan is also derecognized with a corresponding reduction to bad debt expense.

After re-recording the loaned crypto intangible assets, the lender resumes accounting for those assets in the same manner as those it holds not subject to loan.

Question 8.3.30 How are crypto intangible asset lending arrangements presented in a lender's financial statements?

Interpretive response: The SEC staff did not, in general, provide views on financial statement presentation when it provided its other guidance on crypto intangible asset lending transactions; however, based on the staff's other

expressed views around these transactions, we believe the following would generally apply.

Balance sheet

The lender's crypto asset loan receivable should be presented separately from the lender's recognized crypto intangible assets on the balance sheet, net of any allowance for credit losses. KPMG Handbook, Credit impairment, provides guidance on applying Topic 326.

Income statement

Any gain from the transfer of the loaned crypto assets should be included in operating income (loss). This is because Topic 360 (property, plant and equipment) states that the gain or loss recognized on the disposal of a long-lived asset are to be presented in operating income (loss). In addition, if the lender presents its crypto intangible asset impairment losses in operating income (loss), we believe it would be misleading to present these gains as nonoperating items. [360-10-45-5]

Income stemming from loan fees should be presented in the same manner as the lender presents (or would present) interest income in its income statement.

Statement of cash flows

We believe the exchange of the loaned crypto assets for the crypto asset loan receivable should be disclosed as a noncash activity. Any gain on the exchange (including any loan fee earned) should be presented as a reconciling item in the reconciliation of net income to net cash flows from operating activities (see section 3.2 of KPMG Handbook, Statement of cash flows, for guidance on the reconciliation). [230-10-50-3 – 50-4]

Question 8.3.40 What disclosure requirements apply to crypto intangible asset lending arrangements?

Interpretive response: The SEC staff have expressed that crypto intangible asset lenders should provide clear disclosures about their crypto intangible asset lending activities. Those disclosures should include all of the following, at a minimum:

- the nature and risks of crypto intangible assets lending, including how credit risk is monitored and how the lender manages its credit risk exposure;
- information about the type and amount of collateral held in relation to outstanding loans, change in collateral fair value, and any requirements for borrowers to post additional collateral;
- information about collateral management, including the lender's ability to request (and the logistics around doing so) additional collateral and/or liquidate collateral to recover loan receivables; and

- to the extent applicable:
  - other relevant disclosures considering the principles in Topic 326 (see chapter 24 of KPMG Handbook, Credit impairment), including factors the lender considers in evaluating and managing credit risk, factors and assumptions influencing the lender's estimated expected credit losses, changes in the allowance for credit losses, and information about crypto intangible asset loans past due (including how past due status is determined);
  - borrower concentration risks using the principles in Topic 275 (risks and uncertainties);
  - disclosures about loans with related parties as required by Topic 850 (related party disclosures) and Regulation S-X; and
  - fair value disclosures required by Topic 820 around measuring the crypto asset loan receivable.

Question 8.3.50 When is it appropriate to analogize to the SEC staff's views on derecognizing loaned crypto intangible assets?

Interpretive response: To date, we have observed entities analogize to the SEC staff's views (explained in Question 8.3.10), and we believe it is reasonable for them to do so, with respect to derecognizing loaned crypto intangible assets in the following scenarios:

- when wrapping crypto intangible assets like BTC and ETH);
- when transferring a crypto intangible asset to a DeFi lending or trading protocol (see section 8.3.20); and
- when staking a crypto intangible asset with a 'liquid staking' protocol (see section 7.4.20).

Whether it is appropriate or acceptable to analogize to the SEC staff's views on derecognizing loaned crypto intangible assets in other scenarios remains an unsettled question. Therefore, entities should consult their auditors or other accounting advisors about their specific facts and circumstances before analogizing to the SEC staff's views.

8.3.20 Lender accounting: Decentralized lending

The following Question addresses specific matters related to lending through a decentralized lending protocol. Additional questions will likely be added and addressed in the future if and when specific guidance is issued by the FASB or provided by the SEC staff.

Question 8.3.60 What is recognized in place of a crypto intangible asset derecognized in a decentralized lending transaction that involves receipt tokens?

Interpretive response: Despite analogizing in these scenarios to the SEC staff's views on loaned crypto intangible assets with respect to derecognition (see Question 8.3.10), we understand that the SEC staff would *object* to accounting for the receipt token(s) lenders generally receive in exchange as 'crypto asset loan receivables'. Instead, an entity accounts for the receipt token(s) – see Question 2.2.40 for receipt token scoping considerations.

Like any other noncash consideration received in return for transferring a nonfinancial asset, the (each) receipt token is initially recorded at its fair value as of contract inception. Determining when contract inception occurs may require judgment, but we believe that if the entity was not required to transfer the derecognized crypto intangible assets before actually doing so, contract inception is likely when (i.e. the point in time) the transfer occurs.

Section 4.3 and Question 5.2.40 address (1) whether the exchange transaction should be accounted for under Topic 606 or Subtopic 610-20 and (2) the resulting income statement presentation.

If the receipt token is accounted for under Subtopic 350-30 (see Question 2.2.40), its subsequent measurement (i.e. cost less impairment) will substantially differ from the subsequent measurement of a crypto asset loan receivable that is measured at the fair value of the underlying crypto intangible assets.

Similar scenarios: crypto wrapping and liquid staking

Similarly, we understand the SEC staff would also object to accounting for the receipt or wrapped tokens obtained in wrapping and liquid staking transactions as crypto asset loan receivables, despite – as per Question 8.3.50 – derecognizing the underlying crypto intangible assets in those transactions by analogy to the SEC staff's views on derecognizing loaned crypto intangible assets. The following table outlines the receipt or wrapped token that we have observed an entity recognize in each of these other two scenarios.

Scenario	Receipt token recognized
Wrapping transaction	The wrapped token (e.g. WBTC and WETH obtained in exchange for a BTC and ETH, respectively)
Staking the crypto intangible asset with a liquid staking protocol	The liquid staking receipt token received in return for the staked crypto intangible asset (see section 7.4)

8.3.30 Lender accounting: Direct crypto *financial* asset loans

Question 8.3.70 How does a lender determine whether to derecognize a loaned crypto financial asset?

Interpretive response: Unlike loans involving crypto intangible assets, the SEC staff has not publicly opined on a derecognition model for loaned crypto financial assets (e.g. certain stablecoins).

In the absence of more explicit guidance, we believe it is appropriate for entities engaged in lending crypto financial assets to apply the derecognition framework in Topic 860 (transfers and servicing). Under Topic 860, an entity can only derecognize a transferred financial asset from its balance sheet if it has surrendered control of the asset, which occurs when the asset has been legally isolated from the transferor, the recipient has the right to pledge or exchange the asset, and the transferor does not maintain effective control through a repurchase agreement. For further guidance on applying the derecognition framework in Topic 860, see KPMG Handbook, Transfers and servicing of financial assets.

However, we understand the SEC staff have not objected to an entity lending USDC analogizing to the SEC staff's views on derecognizing loaned crypto intangible assets (see Question 8.3.50); and therefore, *not* evaluating the transfer of the USDC under Topic 860. It is presently unclear whether, and if so when, it may be acceptable to further analogize to the SEC staff's views in other crypto financial asset lending scenarios. However, we understand the SEC staff does not presently intend for this to reflect a broad exception to Topic 860 for all loaned crypto financial assets. Given the lack of explicit guidance and the evolving nature of these crypto financial asset lending transactions, we encourage entities to consult with their accounting advisors, auditors and potentially the SEC staff itself to determine the appropriate accounting for their specific facts and circumstances.

8.3.40 Borrower accounting: Crypto intangible asset lending arrangements

Question 8.3.80 How does a borrower account for a crypto intangible asset loan?

Interpretive response: Question 26 in the AICPA Guide provides guidance that we believe most crypto intangible asset borrowers follow when accounting for such loans. As stated therein, this question assumes the borrower has obtained control of the borrowed crypto intangible assets because it can transfer, encumber or pledge the assets.

Consistent with the interpretive guidance in Question 26, we believe the borrower should recognize the borrowed crypto intangible assets at fair value on its balance sheet when it obtains control of those assets. Subsequently, it applies the recognition, measurement, presentation and disclosure guidance provided in chapters 3 through 5, depending on whether the borrowed assets are in Subtopic 350-60 or Subtopic 350-30 crypto intangible assets. See chapter 2 for scoping guidance.

The borrower also recognizes an obligation to return the crypto intangible assets to the lender, initially measured at the fair value of the borrowed assets. This liability should be viewed as a hybrid instrument under Topic 815, comprising a debt host contract and an embedded derivative indexed to the fair value of the borrowed crypto intangible assets.

To the extent the embedded derivative is bifurcated pursuant to Topic 815 and the borrowed crypto assets are accounted for under Subtopic 350-30, the borrower may, potentially, designate the bifurcated derivative as a fair value hedge. In this case, both the bifurcated embedded derivative and the borrowed crypto intangible assets would be subsequently measured at fair value. See KPMG Handbook, Derivatives and hedging, for guidance on accounting and reporting for embedded derivatives and hedging transactions.

8.3.50 Borrower accounting: Crypto financial asset lending arrangements

In general, we do not believe a borrower accounts for a crypto financial asset loan any differently than it would account for any other loan of a non-crypto financial asset. This Handbook does not address borrowers' accounting for such loans. See KPMG Handbook, Transfers and servicing of financial assets.

8.4 Stablecoins

As discussed in section 1.3.20, stablecoins are crypto assets usually designed to maintain a stable value relative to a fiat currency, most commonly the US dollar. The operational integrity of fiat-backed stablecoins hinges on a simple principle; for every stablecoin issued, a central entity (the issuer) holds an equivalent amount of reserve assets, which are typically cash or other highly liquid, low-risk assets like US Treasury bills. This results in a 1-to-1 backing for every stablecoin created.

The lifecycle of a fiat-backed stablecoin begins with its creation, or 'minting'. When a user wishes to acquire these stablecoins, it transfers fiat currency, such as US dollars, directly to the stablecoin issuer. Upon receipt of the funds, the issuer places the customer's fiat currency into segregated reserve accounts. Simultaneously, the issuer interacts with a smart contract on the blockchain to mint a corresponding number of new stablecoin tokens, which are then sent to the user's crypto wallet.

The redemption process works in the exact reverse. When a holder wishes to convert its stablecoins back into fiat currency, it sends the tokens back to the

issuer. The issuer then 'burns' these tokens or otherwise removes them from circulation. Once the tokens are burned, the issuer redeems an equivalent amount of fiat currency from its reserves and transfers it back to the user's bank account. This constant process of minting and burning, tied directly to the flow of fiat reserves, is what maintains the stablecoin's peg.

In a significant development for the cryptocurrency sector, the GENIUS Act was signed into law in July 2025, marking the first instance of crypto legislation in US history. This bipartisan law established a comprehensive regulatory framework specifically for 'payment stablecoins' – generally defined as crypto assets redeemable at a fixed monetary value and used for payments or settlement. For more information on the GENIUS Act, see KPMG Regulatory Alert, Crypto and Digital Assets: Final GENIUS Act and Other Actions.

Question 8.4.10 Is a stablecoin a financial asset?

Background: US GAAP defines a financial asset as follows.

Excerpt from ASC Master Glossary

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity
b. Exchange other financial instruments on potentially favorable terms with the second entity.

Interpretive response: It depends on the specific nature and structure of the stablecoin.

To be considered a *financial asset*, the stablecoin must convey to its holder a contractual right to receive cash or another financial instrument. In general, we believe a stablecoin will meet the definition of a financial asset if the following conditions exist.

- The holder has a contractual right to redeem the stablecoin directly from the issuer or has the ability to obtain such right without facing significant barriers.
- The issuer is obligated to settle its redemption obligation only with cash or another financial asset. The issuer cannot have the option to settle by delivering a crypto intangible asset or any other non-financial asset.
- The issuer cannot have the unilateral right to refuse a redemption request from a holder that has complied with all established procedures.

If the stablecoin does not meet all of these conditions, then it would likely be accounted for as a *crypto intangible asset*. An entity would then need to assess whether it meets all of the scoping criteria in Subtopic 350-60 (see section 2.2).

Question 8.4.20 Do stablecoins meet the definition of a cash equivalent?

Background: US GAAP defines cash equivalents as follows.

Excerpt from ASC Master Glossary

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

a. Readily convertible to known amounts of cash
b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

In addition, Topic 230 clarifies that not all investments that meet the definition of a cash equivalent are required to be treated as such. Instead, an entity must establish a policy concerning which short-term, highly liquid investments that satisfy the definition of cash equivalents are treated as cash equivalents. [230-10-45-6]

Interpretive response: It depends on the specific nature and structure of the stablecoin. In general, we believe a stablecoin meets the definition of a cash equivalent if:

- it meets the definition of a financial asset (see Question 8.4.10);
- it is designed to maintain a 1:1 peg to a fiat currency;
- it is fully backed by an equivalent amount of liquid assets, which would otherwise be considered cash equivalents; and
- either:
  - — it is puttable to the issuer on demand, and the issuer is obligated to redeem it for cash without significant penalty; or
  - — the holder can sell the stablecoin in an active market with available quoted prices for the stablecoin that can rapidly absorb the quantity held by the entity without significantly affecting the price.

The SEC staff has not objected to the classification of a US dollar-pegged stablecoin as a cash equivalent, in a fact pattern whereby the following exist: [AICPA Conf 2025]

- A specific agreement with the stablecoin issuer, separate from the general terms and conditions of the issuer, provides the holder a guaranteed 1:1 redemption of the stablecoin to US dollars within two business days.
- The issuer is subject to regulation that requires all stablecoin issued to be fully backed by an equivalent amount of specified liquid assets, limited to financial instruments that otherwise would be considered cash equivalents.

The characterization of a stablecoin as a cash equivalent does not affect its measurement, which is based on the form of the instrument, or the required disclosures related to the instrument as applicable under other Topics.

However, entities are required to present the change in the aggregate balances of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. Therefore, purchases and redemptions of stablecoins classified as cash equivalents will not be reported as cash outflows or inflows in the statement of cash flows.

Question 8.4.30 How does an issuer of fiat-backed stablecoins account for the issuance of stablecoins and the assets held in reserve?

Interpretive response: In general, we believe an issuer of fiat-backed stablecoins should recognize (1) the reserve assets (i.e. the fiat currency received from the customer, which the issuer may have invested in short-term, highly liquid investments) and (2) an offsetting financial liability for its obligation to redeem the stablecoin in the future. This view is premised on the following facts that we have observed in practice.

- The issuer generally holds legal title to the segregated accounts holding the reserve assets.
- The issuer manages the reserve assets; that is, the issuer has discretion in deciding how to invest the reserve assets (e.g. hold in segregated bank accounts, invest in treasuries, etc.).
- The issuer is entitled to the economic benefits generated from the reserve assets (e.g. interest). This is true regardless of whether the issuer has agreed to share some, or all, of these economic benefits with a third party.
- The issuer is the sole obligor to redeem the stablecoins in the future by transferring cash to the holder.

Question 8.4.40 How does an issuer of fiat-backed stablecoins account for payments to and from a commercialization partner?

Background: A stablecoin issuer may enter into a strategic alliance with another entity (a "commercialization partner") to bring a stablecoin to market. The issuer's primary role is to serve as the financial and technical infrastructure provider; it is solely responsible for minting and burning the stablecoin and,

most critically, for holding and managing the reserve assets that back the stablecoin's value. The commercialization partner's role, in contrast, is to drive market adoption, user engagement and the overall utility of the stablecoin by leveraging its established brand, user base and existing ecosystem for payments and transfers. Under these arrangements, the issuer is often referred to as providing "stablecoin-as-a-service."

In these arrangements, the stablecoin issuer earns interest on, or from investing, the fiat reserves that it manages under the arrangement and generally agrees to share a portion of this interest with its commercialization partner. While the terms of these arrangements vary, we have observed two general types of arrangements in practice:

- The stablecoin issuer agrees to pay a specified percentage of the interest earned on the fiat reserves to the commercialization partner (which may vary depending on the amount of fiat reserves under management).
- The stablecoin issuer agrees to pay the entire amount of interest earned on the fiat reserves to the commercialization partner and the commercialization partner agrees to pay a fee to the stablecoin issuer (which may vary depending on the amount of fiat reserves under management). Typically, such obligations are net settled, with the stablecoin issuer making a single payment to the commercialization partner equal to the interest earned, net of the fee to which it is entitled.

Interpretive response: We believe an issuer of fiat-backed stablecoins should recognize (1) the interest earned on the fiat reserves and (2) the payment made to the commercialization partner on a gross basis. This means that if the entity classifies fiat reserve interest as 'revenue', we believe the stablecoin issuer accounts for the interest earned as revenue and the payment made as an operating expense (or a cost of revenue if the entity presents such a line-item).

Gross presentation is consistent with the conclusion that the fiat reserves are assets of the stablecoin issuer that it recognizes on its balance sheet (see Question 8.4.30). Because the stablecoin issuer is earning interest income from investing its own assets, that interest should be presented on a gross basis. Meanwhile, payments made to the commercialization partner should be accounted for consistent with payments made to other vendors. In the arrangements subject hereto, the commercialization partner is the stablecoin issuer's vendor, providing a marketing (or similar) service to the stablecoin issuer to drive individuals and entities, and thereby their fiat reserves, to the issuer's stablecoin (i.e. instead of an alternative stablecoin).

In the second type of arrangement described in the background, we believe the stablecoin issuer records the fee it earns from the commercialization partner as a reduction of the marketing (or similar) expense recorded for the commercialization partner's service. In the scenarios that we have encountered to date, such fees have not reflected a payment for a distinct good or service; and therefore, under Subtopic 705-20, those payments are recorded as a reduction (i.e. contra-expense) of the expense for the marketing services the commercialization partner provides. [705-20-25-1]

8.5 Custodial performance obligation considerations

The following Questions address how entities providing digital asset custodial services account for their provision of those services.

Question 8.5.10 When is custody of digital assets a promised good or service?

Interpretive response: As evidenced by the fact that many entities offer digital asset custodial services for a fee, and many entities engage for such services in explicit custodial service agreements, digital asset custodial services have value to individuals and entities. In those arrangements, custodial services are clearly a promised service to the entity (the customer) engaging for them.

However, in many scenarios, an entity (e.g. an exchange, a marketplace) will hold a customer's digital asset acquired thereon on an ongoing basis for no consideration beyond the transaction fee (or digital asset purchase price, if the entity is determined to be the principal to the digital asset sale) charged on the digital asset transaction. The customer has the right to withdraw the digital asset (e.g. from the exchange platform) without substantive penalty at any time.

The customer's right to continue holding the digital asset with the entity in these scenarios may constitute a 'material right' to obtain free custodial services, to which a portion of the earned transaction fee (or purchase price of the digital asset) must be allocated under Topic 606 by the custodial entity.

- **No material right:** Some exchanges or marketplaces offer digital asset custodial services to noncustomers for free; customers can transfer their digital assets acquired *elsewhere* into the exchange's/marketplace's custody before, and irrespective of whether, the customer enters into a purchase or sale transaction that generates revenue for the exchange/marketplace. When that is the case, we believe the customer's right to free custodial services exists independently of the contract to acquire the digital asset, and the right to the free custodial services is *not* a material right under Topic 606. [TRG 4-16.54]
- **Material right:** By contrast, if custodial services are *only* offered to customers for digital assets acquired on the exchange/marketplace, or only to customers that have already transacted thereon, the right to free custodial services will generally be a material right. As such, the exchange/marketplace allocates a portion of its transaction fee (or digital asset) revenue to the material right.

Chapter 8 in KPMG Handbook, Revenue recognition, discusses the identification of and accounting for material rights in further detail.

Question 8.5.20 Are custodial services distinct from other promised goods and services in crypto asset transactions?

Interpretive response: Material rights (to crypto asset custodial services or otherwise) are always distinct, and never 'immaterial in the context of the contract'. [606-10-25-16B, 55-42]

For the following reasons, a promised crypto asset custodial service is generally distinct from other promised goods and services in a contract.

- Crypto asset custodial services are generally 'capable of being distinct' as evidenced by the fact that there are numerous entities that sell, or offer for free, these services such that they are 'readily available'. [606-10-25-20]
- A promise to provide crypto asset custodial services is generally 'separately identifiable' because: [606-10-25-21, 55-150C]
  - it and the other promises with which it is typically bundled (e.g. a promise to execute a crypto asset transaction, a promise to transfer a crypto asset) can be fulfilled independently of each other; and
  - neither the custodial service, nor the goods or services with which it is bundled, significantly modify or customize the other, or give rise to a combined, integrated output.

Section 4.3 in KPMG Handbook, Revenue recognition, discusses identifying distinct performance obligations in detail.

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