Accounting for and Disclosure of Crypto Assets

This paper has been prepared for discussion at a public education meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS® Accounting Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Accounting Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB Update. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.
Proposed Update Summary – Issued March 23, 2023

Proposed Update included the following provisions:

- Crypto assets that meet the definition of an intangible asset, do not provide enforceable rights to other assets, reside on a distributed ledger, are secured through cryptography, fungible, and not created or issued by the reporting entity or its related party.

- Beginning of period retained earning adjustment for transition to FV in year of application.

- Early adoption permitted.

- Improved accounting guidance:
  - Subsequent fair value (FV) measurement replacing historical cost with impairment model.

- Transition guidance for implementing the proposed amendments.

- Enhanced disclosure requirements:
  - Significant crypto asset holdings.
  - Restrictions on crypto assets.
  - Reconciliation of activity in a period.
  - Historical realized gains and losses.
Comment Letter Feedback

General Feedback
- Good first step
- Relevant and reflects economics
- Low cost to apply and reduces complexity
- Auditable

Strong Support for
- Measurement at fair value through net income
- Detailed disclosure about holdings
- Early adoption

Requests for More Guidance
- Expand scope for changing technology and economically similar crypto assets
- Incremental guidance on income statement classification
- Additional guidance for crypto assets with donor-imposed restrictions
Redeliberations - Scope

Crypto assets must meet all of the following:

<table>
<thead>
<tr>
<th>Meet the definition of intangible asset as defined in the Codification Master Glossary</th>
<th>Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services or other assets</th>
<th>Are created or reside on a distributed ledger based on blockchain or similar technology</th>
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</thead>
<tbody>
<tr>
<td>Are secured through cryptography</td>
<td>Are fungible</td>
<td>Are not created or issued by the reporting entity or its related parties</td>
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</table>
# Redeliberations - Measurement

<table>
<thead>
<tr>
<th>Measurement Guidance</th>
<th>How is this an Improvement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure at fair value</td>
<td>Better reflects the economics</td>
</tr>
<tr>
<td>Increases and decreases reflected in net income</td>
<td>Provides transparency into volatility</td>
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<td>No specific recognition guidance for costs to acquire crypto assets, such as commissions</td>
<td>Standardizes information that some currently provide voluntarily</td>
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<td>Reduces costs</td>
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## Redeliberations - Presentation

<table>
<thead>
<tr>
<th>Balance Sheet</th>
<th>Income Statement</th>
<th>Statement of Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crypto assets separate from other intangible assets measured using other measurement bases</td>
<td>Gains and losses in net income separate from amortization and impairment of other intangible assets</td>
<td>Crypto received in ordinary course of business and converted nearly immediately into cash, shall be classified as operating activities</td>
</tr>
<tr>
<td></td>
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<td><strong>NFP that nearly immediately liquidates crypto assets received with donor-imposed restrictions shall classify as financing activities</strong></td>
</tr>
</tbody>
</table>
Redeliberations - Disclosure

- Significant crypto asset holdings (annual and interim)
- Restrictions on crypto assets held (annual and interim)
- Historical realized gains and losses (annual)

Reconciliation of activity between the beginning and end of the period, which need not include activity related to crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash (annual)
Transition and Effective Date

Transition

• In year of application, adjust beginning of annual period retained earnings for transition to fair value

Effective Date

• Guidance will be effective for fiscal years beginning after December 15, 2024, including interim periods, for all entities
• Early adoption will be permitted

Final ASU expected in Q4 2023