KPMG

FASB issues ASU

Accounting for and disclosure of certain crypto assets

December 13, 2023

ASU 2023-08 introduces fair value measurement, separate presentation and new disclosures for in-scope crypto assets.

Source and applicability

- ASU 2023-08, Accounting for and Disclosure of Crypto Assets
- Applies to entities with investments in crypto or other digital assets.

Fast facts, impacts, actions

The ASU introduces Subtopic 350-60 (crypto assets), which applies to:

- all digital assets in its scope ('in-scope crypto assets'), which we believe include bitcoin, ether and many smaller (by market capitalization) crypto assets (e.g. cardano, litecoin, polkadot); and
- all entities (public and private); however, certain provisions do not apply to entities applying industry-specific US GAAP (e.g. Topic 946 on investment companies).

Crypto assets held by their issuer or creator (or related parties) are not in the scope of the new Subtopic.

The ASU does not address initial measurement (including accounting for transaction costs), recognition or derecognition of crypto assets. The ASU also does not address how to account for certain crypto assets that do not neatly fit into existing US GAAP (e.g. 'wrapped tokens') or how to classify (i.e. as operating or nonoperating) gains and losses from selling or remeasuring crypto assets.

The main provisions of the ASU are as follows.

Subsequent measurement	In-scope crypto assets are subsequently measured at fair value under Topic 820 with fair value changes recorded in net income.
Presentation	In-scope crypto assets are presented separately from other intangible assets on the face of the balance sheet. Similarly, gains and losses from remeasurement of in-scope crypto assets are presented separately from impairments or other changes in carrying amount (e.g. amortization) of other intangible assets.
Disclosures	Enhanced disclosures about in-scope crypto asset holdings and activity are required.

Background

In-scope crypto assets are currently accounted for as indefinite-lived intangible assets. Under the indefinite-lived intangible asset accounting model, crypto intangible assets are not amortized. Instead, they are written down (impaired) to fair value whenever their fair value falls below their carrying amount. These impairments are never reversed, even if the fair value of the asset recovers during the same reporting period. Certain entities that follow specialized industry guidance (e.g. investment companies under Topic 946 or broker-dealers under Topic 940) are currently required to measure crypto assets at fair value.

In July 2021, the FASB issued its 2021 Invitation to Comment (ITC), *Agenda Consultation*. This ASU responds to stakeholder comments on the ITC that the current accounting model does not provide decision-useful information to investors or appropriately reflect the economics of a holder's investment in crypto assets like bitcoin or ether.

Scope of the ASU

The ASU applies to all entities (i.e. public, private, not-for-profit and across all industries), even though some of its requirements do not apply to entities that apply certain industry-specific US GAAP (e.g. Topic 946 on investment companies or Topic 958 on not-for-profit entities). See Financial statement presentation and Disclosures.

In-scope crypto assets are those that:

- meet the US GAAP definition of an intangible asset;
- 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');
- reside or are created on a distributed ledger (i.e. blockchain or similar technology);
- are secured through cryptography;
- are fungible; and
- are not created or issued by the reporting entity or its related parties.

This scope principally intends to capture crypto assets like bitcoin and ether. However, we believe the above scoping criteria will also capture many other lesser-known and smaller (by market capitalization) crypto assets, such as (not exhaustive): cardano, polkadot, litecoin and bitcoin cash.

What is out of scope?

Nonfungible tokens (NFTs) are outside the scope of the new ASU because they fail the required fungibility criterion and, typically, also fail the other goods or services criterion (see KPMG Issues In-Depth, Accounting for nonfungible tokens (NFTs)). Also, out of scope are crypto assets that meet the definition of a financial asset, rather than an intangible asset (e.g. certain 'stablecoins').

Wrapped tokens

The basis for conclusions to the *proposed* ASU stated that wrapped tokens may be out of scope of the new Subtopic based on the other goods or services criterion. However, this discussion is not in the final ASU due to stakeholder comments suggesting that (1) there is no generally accepted definition of what constitutes a wrapped token and (2) differences between crypto assets that may be characterized as such may give rise to different scoping conclusions from one such token to another.

The final ASU's absence of guidance about wrapped tokens means questions that currently exist in practice about their accounting are likely to continue and new questions about whether any such tokens are in scope of the new Subtopic are likely to arise.

Measurement of in-scope crypto assets

Initial measurement

The new Subtopic does not prescribe the initial measurement basis (e.g. cost, fair value) for acquired in-scope crypto assets. Therefore, other US GAAP will apply (e.g. the general intangibles guidance in Subtopic 350-30 for purchased crypto intangible assets, Topic 805 for crypto assets acquired in a business combination or Topic 606/Subtopic 610-20 for crypto assets received in exchange for goods or services).

Further, the ASU does not provide guidance on how to recognize or present commissions, transaction fees and other charges incurred to acquire crypto assets. Lastly, the ASU does not amend industry-specific US GAAP guidance that addresses such costs (e.g. investment companies or broker-dealers that apply Topic 946 or Topic 940, respectively).

The decision to not provide guidance on transaction costs represents a change from the proposed ASU, which would have required those costs to be expensed as incurred (unless industry-specific US GAAP applies). In the absence of new or industry-specific guidance, the general intangible assets guidance in paragraph 350-30-30-1 applies, which generally requires capitalization of transaction costs by way of reference to Subtopic 805-50.

Subsequent measurement

After acquisition, all in-scope crypto assets are measured at fair value under Topic 820, with fair value changes recorded in current period earnings. No exceptions apply.

For crypto assets without readily determinable fair values or that are not traded in active markets, some stakeholders suggested retaining the current historical cost less impairment measurement approach, using net realizable value or even 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 these crypto assets.

Financial statement presentation

The ASU requires all entities to follow specific financial statement presentation provisions, except investment companies subject to Topic 946 and not-for-profit entities (NFPs) subject to Topic 958, who will generally continue to present their financial statements in accordance with those Topics.

Balance sheet	The aggregate amount of in-scope crypto assets is presented separately from other intangible assets. An entity can choose to present in-scope crypto assets on a more disaggregated basis (e.g. by individual holding or 'intangible asset class'). The final ASU does not address classification of in-scope crypto assets as current or noncurrent assets on the balance sheet. Entities should apply the existing guidance in Topic 210 (balance sheet) to determine whether in-scope crypto assets should be classified as current or noncurrent.

Income statement	Gains and losses from remeasuring in-scope crypto assets are recorded in net income, separately presented from impairments or other changes to carrying amounts of other intangible assets. The final ASU does not address classification of income statement gains and losses related to in-scope crypto assets as operating or nonoperating items (see Observation that follows this table).
Statement of cash flows	Other than as described below, the ASU does not provide statement of cash flows guidance; entities are to simply follow the guidance in Topic 230. • Cash inflows from the sale of in-scope crypto assets received as noncash consideration in the ordinary course of business and converted 'nearly immediately' into cash are classified as cash inflows from operating activities. 'Nearly immediately' refers to a prompt conversion that should generally be interpreted as a short period of time (e.g. a matter of days, or even hours, rather than weeks). • Cash receipts from the near immediate liquidation of crypto assets received by NFPs as donations are classified as: – *financing activities* if the donation is subject to donor-imposed restrictions for long-term or capital use; and – *operating activities* if no donor-imposed restrictions exist.

Because the final ASU does not address operating versus nonoperating income statement classification, existing US GAAP may apply differently to (1) gains (losses) from *remeasuring* in-scope crypto assets to fair value versus (2) gains (losses) resulting from *selling* in-scope crypto assets (e.g. because the sales price differs from fair value). We believe that under existing US GAAP:

- *selling* gains and losses should be presented in operating income (loss) based on the presentation guidance in Subtopic 610-20; whereas
- *remeasurement* gains and losses should be presented as operating or nonoperating items based on the entity's facts and circumstances.

Disclosures

To address stakeholder concerns over the availability of decision-useful information, new Subtopic 350-60 requires several disclosures. These requirements apply equally to public and private entities, including those that follow industry-specific guidance (e.g. Topic 940 or Topic 946) to the extent the new disclosures would not be duplicative.

The following disclosures are required in entities' interim and annual financial statements.

- For each significant (as determined by fair value) crypto asset holding (e.g. bitcoin, ether):
  - the cost basis;
  - fair value; and
  - number of units held.

- For crypto asset holdings that are not individually significant, the aggregate cost basis and fair value of those holdings
- For crypto assets subject to contractual sale restrictions as of the balance sheet date:
  - their fair value;
  - the nature and remaining duration of the restriction(s); and
  - what conditions must be met to remove the restriction(s).

The following disclosures would be required only in entities' annual financial statements:

- the disclosures required by Topic 820;
- the method used to determine the cost basis of the entity's crypto asset holdings (e.g. FIFO, specific identification, average cost);
- the line item in which gains and losses are reported in the income statement, if not separately presented;
- a rollforward (reconciliation) of the entity's crypto asset holdings (*other than crypto assets received as noncash consideration in the ordinary course of business - e.g. as consideration for the entity's goods or services*) in the aggregate, showing additions, disposals (by sale or otherwise), and remeasurement gains and losses, along with disclosure about the nature of the additions (e.g. purchases, mining or staking rewards) and/or disposals; and

The ASU requires remeasurement gains (losses) from changes in fair value to be shown in the rollforward on a gross basis for each crypto asset holding, using the same notion thereof as for the new significant crypto asset holding disclosure (e.g. bitcoin, ether).

- the total amount of (1) cumulative realized gains and (2) cumulative realized losses from disposition during the period.

Realized gain or realized loss refers to the difference between the disposal price and the original cost basis of the asset sold. Therefore, realized gains and losses disclosed may not equal remeasurement gains and remeasurement losses presented in the rollforward disclosure.

Example: Disclosing realized gains and losses

An entity purchases an in-scope crypto asset for $100 on December 15, 20X3. At December 31, 20X3, the fair value of the crypto asset has increased to $115. On January 15, 20X4, the crypto asset is sold at its then-current fair value of $105. In its rollforward for 20X4, the entity will disclose a remeasurement loss of $10 (the difference between the fair value of the crypto asset as of the preceding annual balance sheet date and its final pre-sale fair value). However, when disclosing the cumulative amount of its crypto asset realized gains for 20X4, the entity includes only a gain of $5 (the difference between the sale price and the original cost of the crypto asset) in that amount.

Effective dates and transition

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

Transition

The ASU requires entities to adopt the new Subtopic on a modified retrospective basis. This approach will result in a cumulative-effect adjustment to retained earnings (or other appropriate components of equity or net assets) as of the beginning of the adoption fiscal year, calculated as the difference between the carrying amount of in-scope crypto assets as of the beginning of the annual reporting period in which the entity adopts the ASU and the carrying amount of those crypto assets as of the end of the prior annual reporting period.

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