In depth

National Office

FASB issues guidance on accounting for crypto assets

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What's inside

Background and scope....1

Measurement..................2

Presentation....................3

Balance sheet…......…….3

Income statement...........3

Statement of cash flows……………….......4

Disclosure.......................4

Interim and annual periods............................4

Annual periods only……..4

Effective date and transition…………………5

At a glance

On December 13, the FASB issued guidance requiring all entities holding crypto assets that meet certain requirements to subsequently measure those in-scope crypto assets at fair value, with the remeasurement recorded in net income. The new standard requires separate presentation of in-scope crypto assets from other intangible assets on the balance sheet. Remeasurement of those crypto assets is also required to be recorded separately from amortization or impairment of other intangible assets in the income statement. Additional disclosures are required, including significant crypto asset holdings as well as a reconciliation of the beginning and ending balances of crypto assets.

Before the ASU, in-scope crypto assets were generally accounted for as indefinite-lived intangible assets, which follow a cost-less-impairment accounting model.

The new guidance should be applied using a modified retrospective transition method with a cumulative-effect adjustment recorded to the opening balance of retained earnings as of the beginning of the year of adoption. All calendar year-end entities with holdings in crypto assets are required to adopt the new standard in 2025, with early adoption permitted.

Background and scope

Under current GAAP, crypto assets that meet the definition of an indefinite-lived intangible asset are recognized at cost and subsequently measured using the impairment model in ASC 350-30, *Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill*. That model only reflects decreases, but not increases, in the fair value of crypto asset holdings until sold.

In response to the 2021 FASB Invitation to Comment, *Agenda Consultation*, stakeholders indicated that applying the cost-less-impairment accounting model to crypto assets does not provide the most relevant, decision-useful information to users of financial statements. Those stakeholders indicated that a fair value model leveraging ASC 820, *Fair Value Measurement*, would better represent the economics of holdings in crypto assets.

ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, applies to all entities with holdings in crypto assets that meet the criteria outlined in ASC 350-60-15-1.

ASC 350-60-15-1

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.

If an entity holds a crypto asset that meets the definition of an intangible asset but does not meet all of the criteria in ASC 350-60-15-1, it will continue to be accounted for as an indefinite-lived intangible asset under ASC 350-30.

The identification of in-scope crypto assets requires a detailed understanding of the specific nature of the crypto asset in question, especially when assessing "wrapped tokens," which represent a wide array of technological solutions, contractual rights, and other characteristics. Sometimes, holders of wrapped tokens are not afforded contractual rights to require delivery of the underlying token; in those instances, they may be in scope of the ASU (assuming all of the remaining criteria are met) because they do not provide the holders an enforceable right to other assets. In other cases, holders of wrapped tokens are provided with enforceable rights to other assets, including other in-scope crypto assets; such wrapped tokens would not be within the scope of this ASU and instead, depending on facts and circumstances, may be accounted for under other GAAP (e.g., as a receivable with an embedded derivative).

See Section 3.1.2 of PwC's *Crypto assets* guide for additional information.

Measurement

The new guidance does not address the recognition, initial measurement, or derecognition of crypto assets. Therefore, because an in-scope crypto asset meets the definition of an intangible asset, we believe entities should continue to follow the guidance in ASC 350, ASC 610-20, and associated interpretations, including views expressed by the SEC staff and published by the AICPA on crypto lending.

See Sections 2.1, 2.3, and 3.4 of PwC's *Crypto assets* guide for additional information.

Further, because the new ASU does not address the accounting for transaction costs incurred to acquire crypto assets, we believe a reporting entity will generally capitalize transaction costs based on the guidance in ASC 350-30-30-1 and ASC 805-50-30-1 through ASC 805-50-30-4 for crypto assets acquired individually or in a group. However, the accounting for transaction costs may differ depending on the manner in which the crypto assets were acquired (e.g., for crypto assets acquired in a business combination, transaction costs would be expensed in accordance with ASC 805).

The new ASU addresses the subsequent measurement of crypto assets in ASC 350-60-35-1. An entity that holds in-scope crypto assets is required to subsequently measure those assets at fair value, with the gain or loss associated with remeasurement of the crypto assets reported in net income. This guidance applies to holdings of all in-scope crypto assets, regardless of whether they have quoted prices in an active market.

ASC 820-10-35-36B specifies that a reporting entity must use a quoted price in an active market (that is, a Level 1 input) without adjustment when measuring fair value if it is available.

ASC 820-10-35-54C through ASC 820-10-35-54H addresses valuations in markets that were previously active, but are inactive in the current reporting period. Section 4.6 of PwC's *Fair value measurements* guide covers fair value measurements when transactions occur in markets deemed to be inactive.

For in-scope crypto assets, the fair value estimate should generally be based on the last trading price prior to midnight of the appropriate time zone of the reporting entity; similarly, for crypto assets not subject to the ASU, the impairment assessment should consider transaction prices up to midnight.

See Section 4.5.4.1 of PwC's *Fair value measurements* guide for additional information on the impact of post-market close events.

If a reporting entity holds a crypto asset that has restrictions on its sale, transferability, or use, the impact of the restriction on fair value depends on whether the restriction is a characteristic of that crypto asset or is a restriction specific to the holder.

- If the restriction is entity-specific and does not transfer in an assumed sale, the restriction would not be considered part of the unit of account, and therefore a market participant would not include the restriction in the fair value measurement of the crypto asset.

- If a restriction transfers with the crypto asset in an assumed sale, the restriction would generally be considered a characteristic of the crypto asset and therefore would be included by a market participant in determining the fair value measurement of the crypto asset.

See Section 4.1.2 of PwC's *Crypto assets* guide for additional information.

Presentation

Balance sheet

Under the new ASU, an entity that holds in-scope crypto assets is required to present those crypto assets separately from other intangible assets on the balance sheet. However, the ASU does not address the presentation of crypto assets as current or noncurrent in a classified balance sheet. In accordance with ASC 210-10-45, *Balance Sheet–Overall*, we believe in-scope crypto assets may be presented as noncurrent assets because they meet the definition of intangible assets. Nevertheless, a reporting entity could classify crypto assets as current assets when the investment time horizon at acquisition is less than one year. Reporting entities should evaluate their specific facts and circumstances.

Income statement

In accordance with ASC 350-60-45-2, the gain or loss associated with remeasurement of crypto assets is reported in net income separately from changes in the carrying amount of other intangible assets each reporting period. However, the ASU does not address whether the gain or loss related to the remeasurement of the crypto assets should be presented as operating or non-operating income in the income statement. We believe the gain or loss related to the remeasurement of in-scope crypto assets should generally be presented within operating income based on the guidance in ASC 350-30-45-2. Reporting entities should evaluate their specific facts and circumstances.

Statement of cash flows

The cash flow presentation of in-scope crypto assets will generally follow the existing guidance in ASC 230, *Statement of Cash Flows*. However, if crypto assets are received as noncash consideration in the ordinary course of business (e.g., settlement of receivables) and then “nearly immediately” converted into cash, the new ASU specifically requires that the cash received be classified as an operating activity in the statement of cash flows. The ASU defines “nearly immediately” as a short period of time that is expected to be within hours or a few days, rather than weeks.

Reporting entities may acquire crypto assets for trading purposes. Although the new ASU does not specifically address the presentation of these trading activities in the statement of cash flows, we believe the cash receipts and cash payments from purchases and sales should generally be presented as operating cash flows in accordance with ASC 230-10-45-20.

Disclosure

For in-scope crypto assets, the new ASU requires the specific disclosures noted below. Reporting entities should also evaluate other relevant areas of GAAP that require additional disclosure. For example, because the in-scope crypto assets are subsequently measured at fair value, they are subject to the fair value disclosure requirements in ASC 820.

Interim and annual periods

A reporting entity is required to disclose significant holdings of crypto assets and restrictions on the sale of crypto assets at both interim and annual reporting periods.

For holdings in crypto assets that are determined to be “significant” (based on fair value), a reporting entity is required to disclose the following:

- Name of the crypto asset,
- Cost basis,
- Fair value, and
- Number of units held.

The reporting entity is also required to disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant.

If an entity holds crypto assets that are subject to contractual sales restrictions, the entity will need to disclose the fair value of the crypto assets that are subject to contractual sale restrictions, the nature of the restriction, the remaining duration of the restriction, and circumstances that could cause the restriction to lapse. Sometimes an entity will hold multiple crypto assets with contractual sales restrictions. In that case, the reporting entity will need to evaluate the level of detail necessary to satisfy the required disclosures, including considering the level of aggregation/disaggregation and whether additional information is needed to assess the quantitative information disclosed.

Annual periods only

For annual reporting periods, the new ASU requires entities to disclose the cost basis method (e.g., FIFO, specific identification) used to compute gains and losses as well as a reconciliation of the activity of its holdings in crypto assets. For the annual reconciliation, the following activities are required to be separately disclosed to reconcile the beginning and ending balances:

- Additions,
- Dispositions,

- Recognized gains in net income, determined on an individual crypto-asset-by-crypto-asset basis (for each individual crypto asset holding with a net gain in the annual period), and
- Recognized losses in net income, determined on an individual crypto-asset-by-crypto-asset basis (for each individual crypto asset holding with a net loss in the annual period).

In addition to the reconciliation, entities will be required to describe the nature of activities that result in additions (e.g., purchases, receipts from customers, or mining activities) and dispositions (e.g., sales, payments for services); the total amount of cumulative realized gains and cumulative realized losses from dispositions during the period; and, if not presented separately, the line item in which the gains/losses are presented.

Effective date and transition

The new ASU applies to all entities, including private companies, not-for-profit entities, and employee benefit plans. Entities with holdings of in-scope crypto assets should apply the new guidance using a modified retrospective method with a cumulative-effect adjustment recorded to the opening balance of retained earnings as of the beginning of the year of adoption.

All entities that hold in-scope crypto assets are required to adopt the new standard in fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted in any interim or annual period for which the financial statements have not been issued (or made available for issuance).

In accordance with ASC 250-10-50-2, if a reporting entity adopts the new ASU in an interim period, the annual financial statement disclosures should also be included in each interim report in the year of the adoption.

See Section 30.9.2 of PwC's *Financial statement presentation* guide for further information

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