June 5, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2023-ED200

Dear Ms. Salo,

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): *Accounting for and Disclosure of Crypto Assets*.

We believe the proposed amendments will result in more decision-useful information relating to the accounting for and disclosure of crypto assets and better reflect the underlying economics of those crypto assets. We believe, however, that the proposed scope should be expanded to include crypto assets that provide the asset holder with the right to other crypto assets that would otherwise be in scope of the proposed Accounting Standards Update as these assets are similar to those included in the proposed scope. Refer to our response to Question 2 in the appendix for additional detail.

The appendix contains our detailed responses to the Questions for Respondents as well as additional suggestions for clarification on certain issues for the Board's consideration.

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If you have any questions regarding our comments, please contact Beth Paul at elizabeth.paul@pwc.com, Reto Micheluzzi at reto.micheluzzi@pwc.com or Thomas Barbieri at thomas.barbieri@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

APPENDIX

Scope

Question 1: Are the proposed scope criteria understandable and operable? Please explain why or why not and, if not, what changes you would make.

We generally believe the proposed scope criteria are understandable and operable. However, we believe scoping out all related party transactions is too broad. Specifically, we believe the proposed guidance should apply to crypto assets issued by an equity method investee. We recommend that the Board narrow the scope of ASC 350-60-15-1(f) as follows:

> Are not created or issued by the reporting entity or a party controlled by, controlling, or under common control with the reporting entity. ~~its related parties.~~

Question 2: Is the population of crypto assets identified by the proposed scope criteria appropriate? Please explain why or why not.

We generally believe that the population of crypto assets identified by the proposed scope criteria is appropriate. However, we believe crypto assets that provide the asset holder with the right to other crypto assets that would otherwise be in scope of the proposed Accounting Standards Update (the "Update") should also be in scope. Such crypto assets are typically held for similar purposes and trade at a price similar to that of the underlying crypto asset. This is especially important given the prevalence of crypto assets that provide rights to other crypto assets (e.g., wrapped Bitcoin is the 18th largest cryptocurrency by market cap ($4.2 billion[1])).

We recommend that the Board revise ASC 350-60-15-1(b) as follows:

> Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets, except if such other assets would be in the scope of ASC 350-60

We believe the reference to "wrapped tokens" in paragraph 17 of the Basis for Conclusions is a broader term than crypto assets that provide the asset holder with the right to other crypto assets that would otherwise be in scope of the proposed Update. We agree that crypto assets that provide the asset holder with a right to an underlying asset that is not a crypto asset in scope of the proposed Update, or whose characteristics differ in a material way from an underlying crypto asset, should not be in scope. We also would observe that while the term "wrapped Bitcoin" is widely used, it does not have a consistent definition. For example, many holders of wrapped Bitcoin are not afforded contractual rights to require delivery of the underlying Bitcoin token and therefore would be in scope of the proposed Update. Accordingly, we recommend amending paragraph 17 of the Basis for Conclusions to clarify or remove reference to "wrapped tokens."

In addition, while most distributed ledgers use blockchain technology, there are other forms of distributed ledger technology used by crypto assets (e.g., hashgraph used by Hedera). We believe these crypto assets would otherwise be in scope of the proposed Update except that ASC 350-60-15-1(c) requires crypto assets to reside on a distributed ledger "based on blockchain technology." Therefore, we recommend the Board revise ASC 350-60-15-1(c) (and the corresponding discussion in paragraph 18 of the Basis for Conclusions) to consider these similar distributed ledger technologies as follows:

> Are created or reside on a distributed ledger based on blockchain or other similar technology

[1] Per CoinMarketCap.com as of June 1, 2023.

Question 3: The amendments in this proposed Update would apply to all entities, including private companies, not-for-profit entities, and employee benefit plans. Do you agree with that proposal? Please explain why or why not.

We agree that the amendments in the proposed Update should apply to all entities, including private companies, not-for-profit entities, and employee benefit plans. The proposed amendments will result in more decision-useful information relating to the accounting for and disclosure of crypto assets and better reflect the underlying economics of those crypto assets.

Measurement

Question 4: The proposed amendments would require that an entity subsequently measure certain crypto assets at fair value in accordance with Topic 820, Fair Value Measurement. Do you agree with that proposed requirement? Please explain why or why not.

We agree with the provision in the proposed Update that would require an entity to subsequently measure crypto assets at fair value in accordance with ASC 820, *Fair value Measurement*, as it best represents the underlying economics of the crypto assets. However, ASC 350-60-05-2 indicates that the proposed guidance does not address initial measurement other than the accounting for transaction costs to acquire crypto assets; rather, the proposed Update references accounting for initial measurement in accordance with other GAAP. As a result, we believe the existing guidance could create diversity in practice for initial measurement. For example, using a cost accumulation model (ASC 350-30), crypto assets acquired with a group of other assets may be accounted for differently when the cost of the acquisition exceeds (or is less than) the fair value of the assets acquired. One interpretation of the guidance is that the difference between the consideration transferred and the fair value of the assets acquired and liabilities assumed would be allocated to the assets acquired based on their relative fair values at the acquisition date. To illustrate: Assume a company acquires a building with a fair value of $80 and crypto assets with a fair value of $20 in a single transaction for $105 cash consideration. Based on a relative fair value allocation, the company would recognize the building at $84 ($105 x $80/$100) and the crypto assets at $21 ($105 x $20/$100). The company would have an immediate loss of $1 as soon as the crypto assets are remeasured to fair value. An alternative interpretation is that any assets acquired for which the subsequent accounting under US GAAP would result in an immediate impairment loss (or gain) should be recognized at fair value. Therefore, in the prior example, the company would instead recognize the building at $85 and the crypto assets at $20 (fair value of the crypto assets) with no immediate loss. Transactions subject to ASC 606 may also result in initial recognition at other than fair value. Accordingly, we recommend that the proposed Update provide explicit guidance that would require crypto assets to be initially measured at fair value.

Question 5: The Board rejected an alternative that would have prohibited an entity from recognizing an unrealized gain but would still require recognition of losses for a crypto asset measured at fair value in an inactive market and would have required that the entity disclose the current fair value. Would this approach provide more decision-useful information than requiring that an entity recognize those unrealized gains in net income? Please explain why or why not. How would you define an inactive market for this asset class?

We do not believe that the alternative that would have prohibited an entity from recognizing an unrealized gain and would have required recognition of losses for a crypto asset measured at fair value in an inactive market would have provided more decision-useful information than the proposed model. This alternative would have resulted in a lack of comparability, as the accounting would have differed depending on the type of reporting entity (e.g., investment companies). Additionally, judgment would be required to determine the existence of an active market, and there would be additional complexity in the accounting of crypto assets that were previously determined to be in an active market but are determined to be in an inactive market in the current reporting period, or vice versa.

Question 6: The proposed amendments would require that transaction costs to acquire crypto assets, such as commissions and other related transaction fees, be expensed as incurred unless an entity capitalizes those costs in accordance with industry-specific guidance (for example, investment companies within the scope of Topic 946, Financial Services—Investment Companies). Do you agree with that proposed requirement? Please explain why or why not.

We agree that transactions costs to acquire crypto assets should be expensed as incurred unless an entity capitalizes those costs in accordance with industry-specific guidance. However, the proposed Update does not provide guidance on initial measurement. Therefore, a reporting entity will follow other GAAP (e.g., ASC 350-30 for crypto assets acquired individually or in a group, ASC 805 for crypto assets acquired in a business combination) to initially recognize and measure the crypto assets. If the reporting entity acquires crypto assets individually or in a group and accounts for those assets in accordance with ASC 350-30 using a cost accumulation model, the reporting entity would have included the transaction costs as part of the asset but is prohibited from doing so based on the proposed Update. Therefore, as recommended in our response to Question 4, we believe the Board should consider adding a new paragraph to ASC 350-60-30 to explicitly require initial measurement of crypto assets at fair value to eliminate the potential contradiction with other standards.

Presentation

Question 7: The proposed amendments would require that an entity separately present crypto assets from other intangible assets in the balance sheet and, similarly, separately present changes in the fair value of those crypto assets from amortization or impairment of other intangible assets in the income statement. Do you agree with the proposed presentation requirements? Please explain why or why not.

We agree with the proposal to require an entity to separately present crypto assets from other intangible assets in the balance sheet. However, we recommend that the Board provide guidance in ASC 350-60-45-1 as to whether crypto assets should be presented as current or noncurrent assets on a classified balance sheet. By their nature as intangible assets, crypto assets are long-term; however, in the absence of explicit guidance, a reporting entity could classify crypto assets as current assets when the investment time horizon is less than one year, which could reduce comparability between reporting entities.

Additionally, we agree that a reporting entity should separately present changes in the fair value of crypto assets from amortization or impairment of other intangibles assets in the income statement. However, we recommend that the Board include clarifying language about the presentation of gains/losses as operating or non-operating income in the statement of operations. In the absence of explicit guidance, there could be inconsistency on how gain and losses (realized and unrealized) are presented in the financial statements. For example, while we would generally expect the gain/loss to be presented within operating income (ASC 350-30-45-2), BC39 states: "*most stakeholders favor aligning the accounting for crypto assets with the accounting for investments in equity securities*." One interpretation could be to present the gain/loss in non-operating income in accordance with Regulation S-X 5-03, as profits on securities (net of losses) are to be presented in non-operating income.

Question 8: The proposed amendments would require that for crypto assets received as noncash consideration in the ordinary course of business and converted nearly immediately into cash, an entity would classify the cash received as an operating activity in the statement of cash flows. Do you agree with that proposed requirement? Please explain why or why not.

We agree that when crypto assets received as noncash consideration in the ordinary course of business are converted nearly immediately into cash, the cash received should be classified as an operating activity in the statement of cash flows. This better reflects the economics of the cash flow activity, as the nearly immediate exchange into cash indicates that the crypto assets are not being held for investment purposes. We also recommend that the Board provide explicit classification guidance for circumstances when a reporting entity acquires crypto assets in exchange for cash and nearly immediately uses those crypto assets to settle accounts payable or other short-term liabilities. We believe the cash used to acquire the crypto assets in these circumstances should be classified as operating cash outflows.

We acknowledge that entities may be able to determine the appropriate classification of cash receipts and cash payments from purchases and sales of crypto assets by applying ASC 230, *Statement of Cash Flows*, without additional guidance. ASC 230-10-45-20 states (**bold** emphasis added), "Cash receipts and cash payments resulting from purchases and sales of other securities **and other assets** shall be classified as operating cash flows if those assets **are acquired specifically for resale and are carried at fair value** in a trading account." We believe reference to the trading of other assets includes crypto assets; however, we believe an explicit requirement would alleviate doubt. Therefore, we recommend that the Board add a cross reference to ASC 230-10-45-20 in proposed ASC 230-10-45-27A as follows:

> If crypto assets accounted for in accordance with Subtopic 350-60 that 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 shall be classified as operating activities in the statement of cash flows. 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. <u>Additionally, cash receipts and cash payments resulting from purchases and sales of crypto assets shall be classified as operating cash flows if those assets are acquired specifically for resale in accordance with ASC 230-10-45-20.</u>

Alternatively, if the Board does not intend for crypto assets acquired for trading purposes to be presented as an operating cash flow, the Board should provide an explanation with its rationale and clarify that crypto assets are specifically excluded from the scope of ASC 230-10-45-20.

Disclosure

Question 9: The proposed amendments would require that an entity disclose the cost basis of crypto assets separately for each significant crypto asset holding. The Board decided not to provide specific guidance on how an entity should determine the cost basis of its crypto assets, including its determination of the basis used to calculate and disclose realized gains and losses. Do you agree with this aspect of that proposed requirement? Please explain why or why not.

We agree that specific guidance on how an entity should determine the cost basis of its crypto assets is not needed. Reporting entities have already adopted a method (e.g., FIFO, LIFO) to calculate the cost basis of crypto assets and we are not aware of any related concerns raised by stakeholders.

Question 10: Are the proposed disclosure requirements operable in terms of systems, internal controls, or other similar considerations related to the required information? Please explain why or why not.

While this is a question best answered by preparers, we believe the proposed disclosure requirements are operable in terms of systems, internal controls, and other similar considerations related to the required information. In practice, we understand this information is already tracked by reporting entities and often shared with investors.

Question 11: Should additional disclosures, such as those described in paragraph BC60 in the basis for conclusions, be required? If so, what additional information should be disclosed? How would that information influence investment and capital allocation decisions?

We do not believe additional disclosures should be required. We believe the disclosures included in the proposed Update are sufficient to provide decision-useful information to users of financial statements and would provide a level of detail comparable to that currently required by existing GAAP for similar assets.

Question 12: The proposed amendments would require that an entity annually disclose a reconciliation of the opening and closing balances of crypto assets, which would include additions, dispositions, gains, and losses during the reporting period. Would this proposed disclosure provide decision-useful information? Please explain how and for what purpose that information would be used or why it would not be useful. Should that information also be required on an interim basis? Please explain your response.

This question is best addressed by investors.

Implementation Guidance and Illustrations

Question 13: The Board concluded that Topic 820 and Topic 850, Related Party Disclosures, provide sufficient guidance for an entity to measure the fair value of crypto assets and evaluate and disclose related party transactions that involve crypto assets. Is that guidance operable and sufficient as it relates to crypto assets? Please explain why or why not.

We believe that the guidance in ASC 820 and ASC 850 is operable and sufficient as it relates to crypto assets.

Transition and Effective Date

Question 14: The proposed amendments would require that an entity apply the amendments as of the beginning of the fiscal year of adoption through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets). Do you agree with the proposed transition guidance? Please explain why or why not.

We support the proposed transition guidance. In addition, based on recent precedent in other Accounting Standards Updates (e.g., ASC 606-10-65-1(d) from ASU 2014-09), we would also not object to permitting an entity to alternatively elect to apply full retrospective application, which would improve the comparability between reporting periods.

Question 15: How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Should early adoption be permitted? Please explain your response.

We believe the Board should consider the views of preparers regarding the time needed to implement the proposed amendments. We believe that early adoption should be permitted.

Benefits

Question 16: Would the proposed requirement to subsequently measure crypto assets at fair value and the accompanying disclosures benefit investors by providing them with more decision-useful information? If so, how would that information influence investment and capital allocation decisions? If not, please explain why.

This question is best addressed by investors.

Costs and Auditability

Question 17: To the extent not previously discussed in response to the proposed amendments above, what effect would the proposed amendments have on costs? If those proposed amendments are expected to impose significant incremental costs, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs. If those proposed amendments are expected to reduce costs, please explain why.

This question is best addressed by preparers.

Question 18: Would the financial reporting and disclosure requirements included in the proposed amendments be auditable? Please explain why or why not.

We believe that the financial reporting and disclosure requirements in the proposed Update would be auditable. Under existing GAAP, crypto assets accounted for as indefinite-lived intangible assets use a cost less impairment model. Auditors are already required to perform audit procedures on the fair value of crypto assets when evaluating those assets for impairment. We do not foresee any auditing concerns related to the proposed disclosure requirements.

Other comments

The following suggested editorial revisions are provided for your consideration.

- As currently proposed, the initial recognition would not be at fair value in all acquisitions, and therefore the change in the carrying amount during the initial period after acquisition would not be accurately described as a "change in fair value." Accordingly, we recommend the following edits to ASC 350-60-35-1 and ASC 350-60-45-2:

  > 350-60-35-1 An entity shall measure crypto assets at fair value in the statement of financial position. Gains and losses from the remeasurement~~changes in the fair value~~ of crypto assets shall be included in net income.
  >
  > 350-60-45-2 Gains and losses from the remeasurement~~changes in the fair value~~ of crypto assets shall be included in net income and presented separately from changes in the carrying amount of other intangible assets.

- The scope defines which crypto assets are subject to the proposed Update. We recommend the following edit to ASC 350-60-45-1 as no other sections make reference to only those "crypto assets accounted for under this Subtopic:"

  > 350-60-45-1 ~~All c~~Crypto assets~~ accounted for under this Subtopic~~ 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).