

SAB 121: Accounting for obligations to safeguard crypto-assets

At a glance

Based on new guidance from the SEC staff, companies that perform certain custodial type activities and maintain the cryptographic key information will be required to include a crypto-asset safeguarding liability and a related asset on their balance sheet at fair value.

What happened?

On March 31, the SEC staff released [Staff Accounting Bulletin No. 121 \(SAB 121\)](#), which provides interpretive guidance for a reporting entity that operates a platform that allows its users to transact in crypto-assets and that engages in activities in which it has an obligation to safeguard customers' crypto-assets. The guidance is applicable to reporting entities that apply US GAAP or IFRS.

The SEC staff is issuing this guidance because it has observed that the custodial risks related to crypto-assets are different than those of other custodial relationships. This is due to increased regulatory risks as a result of a limited regulatory environment over holding these assets, technological risks (e.g., safeguarding the crypto-assets), and the lack of legal precedent due to the unique characteristics of these assets.

Currently, custodians may conclude that they do not control the asset they safeguard and therefore do not record a liability to return the asset. In effect, the custodian accounts for such assets off-balance sheet. See [Section 3.1.2](#) in PwC's *Crypto assets* guide for additional information.

However, as indicated in today's release, the SEC staff believes that stakeholders would benefit from the inclusion of a crypto-asset safeguarding liability, recognized and remeasured at fair value, and a related asset. The SEC staff believes the asset is similar in nature to an indemnification asset (as described in ASC 805, *Business Combinations*) and would be measured on the same basis as the crypto-asset safeguarding liability, subject to adjustments due to potential loss exposure. The asset recognized by the reporting entity is separate and distinct from the crypto-asset itself.

Why is this important?

Crypto-assets may be held by a custodian for safe keeping on behalf of its customers. Arrangements for holding the crypto-assets can vary, but generally a contract, or terms and conditions, sets out the nature of the arrangement.

The new interpretive guidance requires a reporting entity that operates a platform that allows its users to transact in crypto-assets and that also performs custodial activities, whether directly or through an agent acting on its behalf, to record a liability with a corresponding asset, regardless of its assessment as to who controls the crypto-asset. The crypto-asset safeguarding liability and related asset will need to be marked to fair value each reporting period.

This new guidance may result in a significant change in practice. Historically, the determination as to whether the custodian should record an asset and a related liability for crypto-assets it holds on behalf of its customers was



dependent on an assessment of control over such assets and required the use of significant judgment based on the facts and circumstances.

SAB 121 also requires disclosures in the footnotes and elsewhere in the filing to address the nature and amount of crypto-assets the reporting entity is responsible for safeguarding for its platform users. The SEC staff believes the reporting entity should consider disclosure of who is responsible for recordkeeping and safeguarding the crypto-assets, as well as the entity who holds the cryptographic key information. Additionally, with the recognition of the crypto-asset safeguarding liability and related asset measured at fair value, reporting entities will need to include the disclosures required by ASC 820, *Fair Value Measurements*.

What's next?

The SEC has provided transition guidance when applying the interpretive guidance in SAB 121. SEC registrants are expected to comply with the guidance in the first interim or annual financial statements ending after June 15, 2022 (i.e., Q2 2022 for calendar year-end public companies). Such guidance is required to be applied retrospectively to the beginning of the fiscal year in which the interim or annual period relates (i.e., January 1, 2022 for calendar year-end public companies).

SAB 121 also applies to other entities, including but not limited to entities conducting an initial public offering and private operating companies entering into a business combination transaction with a shell company, including a special purpose acquisition company (SPAC). Such guidance is required beginning with these entities' next submission or filing with the SEC with retrospective application, at a minimum, as of the beginning of the most recent annual period ending before June 15, 2022.

Stay tuned for our *In depth* with more details on the new interpretive guidance.

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