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Ms. Hillary H. Salo
Technical Director
File Reference No. 2023-ED200
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
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1 June 2023

Re: Proposed Accounting Standards Update, *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets* (File Reference No. 2023-ED200)

Dear Ms. Salo:

We appreciate 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*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's objective to improve the accounting for and disclosure of certain crypto assets. We believe that the proposal to subsequently measure certain crypto assets at fair value would provide investors with more decision-useful information and reduce the complexity associated with applying the current cost-less-impairment accounting model. However, we suggest certain clarifications to improve the operability of the proposed guidance for preparers and reduce potential diversity in implementation.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst & Young LLP

Appendix — Responses to questions raised in the proposal

We are not responding to Questions 1, 3, 5, 8, 10, 11, 12, 13, 16 and 17 because we agree with the proposed guidance and the Board's reasoning as outlined in the Background Information and Basis for Conclusions.

Scope

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

We agree that the scope of this project should be relatively narrow. However, we believe that the proposed guidance should apply to certain wrapped tokens. Consistent with the FASB staff's original recommendation to the Board, we believe that Accounting Standards Codification (ASC) 360-60-15-1b should be revised as follows (*addition italicized*):

> Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets*, unless the other asset would otherwise be within the scope of the guidance in ASC 350-60*.

The use of certain wrapped tokens has become common in practice, resulting in the availability of quoted prices for them in active markets. We believe the proposal should apply to a wrapped token that only grants the holder the same rights as holding an underlying asset that otherwise would be in the scope of the proposal.

We believe that without the revision to the scope criteria there could be diversity in practice in how entities would apply the proposed guidance to wrapped tokens. The only reference to wrapped tokens in the proposal is in paragraph BC17 of the Basis for Conclusions. It is unclear from that reference if the proposed guidance would apply to a wrapped token that only grants the holder the same rights as holding an underlying asset that otherwise would be in the scope of the proposal because there is diversity in practice around whether an entity would account for the exchange of its crypto assets for a wrapped token as a separate unit of account.

For example, if an entity concludes that a wrapped token represents the same underlying crypto asset, it may conclude that it should not derecognize the underlying crypto asset that was wrapped and, therefore, should continue to subsequently measure the crypto asset in accordance with the proposed guidance. However, if an entity decides that a wrapped token is an asset that is separate from the underlying crypto asset, it may derecognize the underlying asset and conclude based on the current proposed scoping criteria that the proposed guidance would not apply to the separate asset recognized since it provides a claim on another asset.

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 that crypto assets in the scope of the proposal should be subsequently measured at fair value in accordance with ASC 820, Fair Value Measurement. However, we believe the Board should clarify how entities should consider contractual sale restrictions on such crypto assets when measuring fair value.

The proposed guidance in ASC 350-60-50-5 and 50-6 would require disclosures for interim and annual reporting periods for crypto assets subject to contractual sales restrictions. The disclosures would include information on the fair value of the restricted crypto assets, the nature and remaining duration of the restrictions, and the circumstances that would cause the restriction to lapse.

Paragraph BC53 of the Basis for Conclusions notes that these disclosures would be consistent with those required for equity securities subject to contractual sale restrictions under Accounting Standards Update (ASU) 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. However, the proposal is not clear about whether contractual sales restrictions on crypto assets should be factored into the fair value measurement of those assets.

We believe the proposed amendments should explicitly state that a contractual restriction on the sale of a crypto asset would not be considered part of the unit of account of the crypto asset, and, therefore, it would not be considered in measuring fair value. This would be consistent with the guidance for equity securities under ASU 2022-03.

> **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 believe that direct transaction costs incurred by an entity to acquire crypto assets, such as commissions and other transaction fees, should be capitalized. Accordingly, any direct transaction costs capitalized as a component of the cost of the crypto asset acquired would form part of the net gain or loss from changes in the fair value of the crypto assets in the period of acquisition. We encourage the Board to consider feedback from preparers about the potential cost and complexity of implementing guidance that would require entities to separately expense transaction costs to acquire crypto assets.

We observe that the proposed guidance in ASC 350-60-30-1 requiring such transaction costs to be expensed would conflict with the existing guidance in ASC 350-30, *Intangibles — Goodwill and Other: General Intangibles Other than Goodwill*. ASC 350-30-30-1 states that an "intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4."

When considering the guidance on the acquisition of assets rather than a business in ASC 805-50, *Business Combinations: Related Issues*, we note that the guidance on initial measurement in ASC 805-50-30-1 states that "assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition." Accordingly, the proposed amendment would not align with the treatment of transaction costs in accounting for the initial measurement of intangible assets.

Our recommendation to require entities to capitalize transaction costs to acquire crypto assets would also align with the industry accounting guidance for investment companies that apply ASC 946, *Financial Services — Investment Companies*. ASC 946-325-30-1 states that an investment company is required to capitalize "commissions and other changes that are part of the purchase transaction" as part of its initial measurement of its other investments.

ASC 946 also provides guidance on the accounting for transaction costs to sell or derecognize assets. ASC 946-220-45-6(a)(1) clarifies that "[n]et realized gains or losses resulting from sales or other disposals of investments shall be reported net of brokerage commissions." We believe it would be helpful to clarify the appropriate accounting for transaction costs to sell or derecognize crypto assets when calculating gains and losses.

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 proposed presentation requirements and suggest the Board explicitly state that gains and losses from crypto assets in the scope of the proposal should be classified as operating income on the income statement.

The guidance in ASC 350-10-40-1 explicitly states that entities should apply the guidance in ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets*, to account for the derecognition of nonfinancial assets (and in-substance nonfinancial assets), unless a scope exception applies.

The guidance in ASC 610-20-45-1 refers to ASC 360-10-45-5, which addresses "the presentation of a gain or loss recognized on the sale of a long-lived asset." We believe entities should follow the guidance in ASC 360-10-45-5 on the presentation of gains and losses upon derecognition for all nonfinancial assets in the scope of ASC 610-20, even if the assets were not accounted for under ASC 360 before disposal. The guidance in ASC 360 requires that a gain or loss recognized on the sale of a nonfinancial asset (or an in-substance nonfinancial asset) that does not qualify as a discontinued operation be presented in income from continuing operations before income taxes in the income statement, as well as in income from operations if such a subtotal is presented.

The proposal does not specify how to classify gains and losses from crypto assets in scope on the income statement. Further, paragraph BC39 refers to outreach results that indicated most stakeholders favored aligning the accounting for crypto assets with that for investments in equity securities. Reporting entities are required to present gains and losses from equity securities as nonoperating income (loss) separately in the income statement or in a footnote in accordance with Rule 5-03 of Regulation S-X. Without explicit guidance on how to classify gains and losses in the income statement, there may be diversity in practice in determining whether to classify gains and losses from crypto assets as operating income (loss) or nonoperating income (loss).

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 are supportive of the Board's proposal to improve disclosures related to crypto assets. However, we believe that the disclosure of gains and losses should be consistent with the disclosure required for equity securities under ASC 321-10-50-4. The guidance in ASC 321-10-50-4 states that "an entity shall disclose the portion of unrealized gains and losses for the period that relates to equity securities still held at the reporting date." We also observe that ASC 321 does not have a similar requirement for an entity to disclose the cost basis and the method used to determine its cost basis for equity securities.

We believe that requiring entities to disclose the portion of unrealized gains and losses for the period that relates to crypto assets still held at the reporting date would provide financial statement users with decision-useful information about the quality of earnings for the period.

We encourage the Board to consider feedback from investors on the proposed disclosures, as well as feedback from preparers on the cost burden of tracking historical costs to calculate realized gains or losses from dispositions as would be required under the proposal.

If the Board decides to finalize the proposed disclosure requirements, we believe it should clarify the appropriate method, or methods, to determine the cost basis of crypto assets, including whether the use of weighted average would be an acceptable method.

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 believe the Board's decision to require a cumulative-effect adjustment, including the direct effects of that adjustment such as tax consequences, to the opening balance of retained earnings (or other appropriate components of equity or net assets) as of the beginning of the annual period in which an entity adopts the proposed amendments is a reasonable approach.

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 preparers are better positioned to address the amount of time needed to implement the proposed amendments.

We believe that the effective date should be the same for all entities because both public and nonpublic business entities should have experience in determining the fair value of crypto assets since it is required under the current cost-less-impairment model. In addition, requiring the same effective date for all entities would provide financial statement users with comparable information.

We believe that early adoption should be permitted because it would give entities the flexibility to adopt the guidance on a timeline that would best allow them to achieve their financial reporting objectives and provide information that is most meaningful to financial statement users.

Costs and Auditability

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

We believe the proposed amendments would be auditable. We have experience auditing investment companies in the scope of ASC 946 that account for their investments in crypto assets at fair value, like their other investments. Additionally, we are currently required to design and perform audit procedures related to the fair value of crypto assets under the current cost-less-impairment model, because determining fair value is required to evaluate crypto assets for impairment. Auditing the current cost-less-impairment accounting model also requires performing procedures related to certain proposed amendments, such as tracking the historical cost basis of crypto assets.