

To the Point

FASB – final guidance

FASB requires fair value accounting and enhanced disclosures for certain crypto assets

The final standard addresses stakeholder feedback that the current cost-less-impairment accounting model does not provide decision-useful information.

What you need to know

- ▶ The FASB issued final guidance requiring all entities to measure certain crypto assets at fair value each reporting period and to reflect changes from remeasurement in net income.
- ▶ Entities are required to present crypto assets measured at fair value separately from other intangible assets on the balance sheet and present changes from the remeasurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement.
- ▶ An entity that receives crypto assets as noncash consideration in the ordinary course of business and converts them nearly immediately into cash is required to classify those cash receipts as cash flows from operating activities.
- ▶ Entities are required to provide interim and annual disclosures about the types of crypto assets they hold and any changes in their holdings of crypto assets.
- ▶ The guidance is effective for fiscal years beginning after 15 December 2024, including interim periods within those fiscal years. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued an **Accounting Standards Update** (ASU)¹ that requires all entities to measure certain crypto assets they hold at fair value and to reflect changes from the remeasurement of those assets in net income each reporting period.

The guidance addresses stakeholder feedback that the current accounting for crypto assets as indefinite-lived intangible assets under the cost-less-impairment model in Accounting Standards Codification (ASC) 350 does not provide investors with relevant information because it only reflects decreases in the value of the assets until they are sold. Stakeholders had said that measuring crypto assets at fair value would better reflect the economics of the assets and reduce the cost and complexity of applying the cost-less-impairment model.

The guidance, which is contained in a new subtopic of ASC 350, *Intangibles – Goodwill and Other*, also responds to investors' calls for more information about the types of crypto assets entities hold and any changes in those holdings.

Key considerations

The Board said that requiring fair value accounting for certain crypto assets will provide investors with transparent information about the performance of crypto assets and an entity's ability to manage them. The guidance also aligns a holder's accounting for crypto assets with that of entities that apply fair value accounting following industry-specific guidance (e.g., investment companies that apply ASC 946).²

The Board also said a fair value model would reduce the complexity associated with the current model that requires entities to test for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. Under the current model, entities need to develop a process to monitor pricing information and declines in crypto asset prices throughout the reporting period to assess whether impairment indicators exist.

Scope

The ASU applies to all entities that hold certain crypto assets (i.e., public business entities, private companies, not-for-profit entities and employee benefit plans).

Entities that already account for crypto assets at fair value under industry-specific guidance (e.g., investment companies that apply ASC 946) are required to make enhanced disclosures upon adoption of the ASU.

The ASU applies to holdings of assets that meet all of the following criteria:

- ▶ Meet the definition of intangible assets in the Codification
- ▶ Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services or other assets
- ▶ Are created or reside on a distributed ledger based on blockchain or similar technology
- ▶ Are secured through cryptography
- ▶ Are fungible
- ▶ Are not created or issued by the reporting entity or its related parties

The Board acknowledged in the Background Information and Basis for Conclusions that application of these criteria will result in a relatively narrow scope. The guidance does not apply to (1) financial assets such as securities as defined in the ASC Master Glossary; (2) arrangements such as contracts with customers, guarantees and insurance contracts that may be in digital form; (3) crypto assets that provide the holder with rights to other crypto assets; (4) digital intangible assets such as software and media; or (5) non-fungible tokens (NFTs). Certain aspects of ASC 350, such as the derecognition guidance, would continue to apply to crypto assets.

Measurement

The guidance requires entities to subsequently measure crypto assets that meet the scoping criteria at fair value with changes from remeasurement recognized in net income each reporting period. The Board said this approach will provide investors with more decision-useful information about the value at which crypto assets can be sold and changes in that value. Fair value measurement also eliminates the requirement to test these assets for impairment, reducing the cost and complexity of the accounting for crypto assets while also aligning the accounting with certain existing industry-specific guidance.

The guidance requires entities to apply the fair value measurement guidance in ASC 820³ to crypto assets. The Board considered measurement alternatives (e.g., historical cost with modified impairment, net realizable value) but rejected them, saying they would provide information that is less relevant and be more costly and complex to apply than the fair value measurement model in ASC 820.

The Board decided not to provide guidance beyond what is already included in other US GAAP on how to recognize transaction costs incurred to acquire crypto assets. The Board said that, regardless of whether transaction costs are capitalized or expensed, the effect on comprehensive income would be the same because crypto assets are subsequently measured at fair value.

The guidance says entities should initially measure and recognize crypto assets by applying other US GAAP.

How we see it

A company will need to evaluate the nature of the transaction through which it obtains crypto assets to determine the initial accounting for these assets. For example, crypto assets received as noncash consideration in exchange for providing goods or services to a customer would be initially accounted for under ASC 606. Judgment may be required.

Presentation

The guidance requires entities to present crypto assets measured at fair value separately from other intangible assets on the balance sheet. Similarly, gains and losses on crypto assets are required to be presented separately from amortization expense and impairment losses related to other intangible assets on the income statement (or statement of activities for not-for-profit organizations). The Board said that gains or losses arising from the remeasurement of crypto assets should be presented in operating or nonoperating income, depending on the entity's facts and circumstances.

The Board said separate presentation will provide investors with relevant information about how management is generating value from its crypto asset holdings.

The guidance also requires an entity to classify cash receipts from the sale of crypto assets that it receives as noncash consideration in the ordinary course of business and converts nearly immediately into cash as cash flows from operating activities. 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.⁴ Entities should apply the guidance in ASC 230 to determine the appropriate classification of cash flows related to other crypto asset transactions, based on an entity's facts and circumstances.

Disclosure

The guidance requires entities to make disclosures about the types of crypto assets they hold and any changes in their holdings of crypto assets.

The guidance requires entities to apply the fair value measurement guidance in ASC 820 to crypto assets that meet certain criteria.

For annual and interim reporting periods, entities are required to disclose all of the following information:

- ▶ The name, cost basis, fair value and number of units for each significant crypto asset holding (as determined based on the fair value) and the aggregate cost basis and fair value of holdings that are not individually significant
- ▶ The fair value of crypto assets that are subject to contractual sale restrictions, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restriction(s) to lapse

For annual reporting periods, entities are required to disclose all of the following information:

- ▶ The method used for determining the cost basis of crypto assets (e.g., first-in, first-out (FIFO); specific identification; average cost)
- ▶ A reconciliation, in the aggregate, of crypto asset activity from the beginning to the end of the reporting period that separately displays additions and dispositions (and a description of the nature of activities that resulted in the additions or dispositions) and gains and losses reflected in net income (including the income statement line in which gains and losses are presented, if not presented separately)
- ▶ For dispositions of crypto assets that occur during the reporting period, the difference between the disposal price and the cost basis (i.e., the total amount of cumulative realized gains and cumulative realized losses)

The fair value disclosure requirements in ASC 820 would also apply for crypto assets.

Effective date and transition

The ASU is effective for all entities for fiscal years beginning after 15 December 2024, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period after the issuance of the ASU. An entity that elects to early adopt in an interim period should apply the guidance as of the beginning of the annual period that includes that interim period.

The ASU requires a cumulative-effect adjustment 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 ASU. This adjustment is calculated as the difference between the carrying amount of crypto assets at the end of the prior annual period and their fair value at the beginning of the annual period in which the entity adopted the ASU.

Endnotes:

- ¹ ASU 2023-08, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*.
- ² ASC 946, *Financial Services – Investment Companies*.
- ³ ASC 820, *Fair Value Measurement*.
- ⁴ BC53 explains that for NFPs, the term “nearly immediately” in the context of the liquidation of donated crypto assets may be interpreted to mean days, not months, consistent with the classification of cash flows related to the sale of donated financial assets. The Board acknowledged that this interpretation is similar, but not identical, to the meaning of the term as it is expected to be applied by all other entities (i.e., hours or a few days).

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